

Corpsec Hotline

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RESERVE BANK OF INDIA RELAXES "KNOW YOUR CUSTOMER" AND MONEY-CHANGING NORMS

The Reserve Bank of India ("RBI") has relaxed the Anti-Money Laundering Guidelines ("Guidelines"), issued on December 2, 2005. The recent amendments pertain to the identification of customers (also known as "Know Your Customer" norms) and the purchase of foreign exchange.

Pursuant to the enactment of the Prevention of Money Laundering Act, 2002, the RBI had issued the Guidelines for banks, financial institutions and Authorized Money Changers ("AMCs"). The Guidelines intended to give the financial intermediaries a framework within which they could formulate their own policies and systems for identification and scrutiny of clients, and to report suspicious money-changing transactions. To ease the operational difficulties in implementation faced by the AMCs, the RBI partly amended the Guidelines through a Circular dated June 26, 2006 ("Circular")

Identification of customers

Existing Norms – Under the existing norms, all transactions were to be undertaken by AMCs only after obtaining the photocopies of proof of identification of the customers and after verifying the documents in the original. If a transaction was being undertaken on behalf of another person, identification evidence of all the persons concerned was required to be obtained and kept on record.

Amended Norms – Under the amended norms for the purchase of foreign exchange of less than US\$ 200 or its equivalent, documents pertaining to proof of identification need not be kept on record. However, full details of the identification document should be maintained.

For purchase of foreign exchange between US\$ 200 and US\$ 2,000 or its equivalent, the photocopies of the identification document should be maintained for one year and till the date of completion of statutory audit.

For purchase of foreign exchange in excess of US\$ 2,000 or its equivalent, photocopies of identification documents should be maintained for a minimum period of five years.

Purchase of foreign exchange

Existing Norms – Under the existing norms, requests for payment of sale proceeds in cash may be acceded to, to the extent of US\$ 1,000 or its equivalent per transaction.

Amended Norms – Under the amended norms, requests for payment in cash to foreign visitors/non-resident Indians may be acceded to, to the extent of US\$ 2,000 or its equivalent.

In addition to the above changes, the Circular now obligates Authorized Dealers in Categories I and II who are engaged in money-changing transactions to comply with the Guidelines.

These amendments will result in swifter processing of small purchases of foreign exchange, particularly by foreign visitors and non-resident Indians. Easing the administrative burden of maintaining the identification documents for small purchases of foreign exchange is also good news for the AMCs and Authorized Dealers.

- Kinnari Bhatia & Suneet Barve

You can direct your queries or comments to the authors

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- A.P. (DIR Series) Circular No – 39(A.P. (FL Series) Circular No – 2

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