

March 7 , 2006

All Non-Banking Financial Companies,
Miscellaneous Non-Banking Companies,
and Residuary Non-Banking Companies

Dear Sir,

Know Your Customer Guidelines- Anti-Money Laundering Standards

Please refer to our circular DNBS.(PD). CC.48/10.42/2004-05 dated February 21, 2005 on the above subject. In terms of the above circular, NBFCs were advised to formulate a customer acceptance policy and customer identification procedure to be followed while opening an account on the lines of instructions issued to banks by Department of Banking Operations and Development (DBOD). NBFCs were also advised to categorize the customers into low, medium and high risk, according to risk perceived. The 'Know Your Customer' guidelines also require NBFCs to verify the identity and address of the customer through documents listed in Annexure II to the DBOD circular enclosed with our circular dated February 21, 2005.

2. Although flexibility in the requirement of documents of identity and proof of address has been provided in the circular mentioned above yet there may be instances where certain persons, especially, those belonging to low income group both in urban and rural areas may not be able to produce such documents to satisfy the NBFC about their identity and address. Hence, it has been decided to further simplify the KYC procedure for opening accounts by NBFCs for those persons who intend to keep balances not exceeding rupees fifty thousand (Rs. 50,000/-) in all their accounts taken together and the total credit in all the accounts taken together is not expected to exceed rupees one lakh (Rs. 1,00,000/-) in a year.

3. Accordingly, in case a person who wants to open an account is not able to produce documents mentioned in Annexure II of DBOD circular

enclosed with our circular dated February 21, 2005, NBFCs may open accounts as described in paragraph 2 above, subject to

a) introduction from another account holder who has been subjected to full KYC procedure. The introducer's account with the NBFC should be at least six month old and should show satisfactory transactions. Photograph of the customer who proposes to open the account and also his address needs to be certified by the introducer.

or

b) any other evidence as to the identity and address of the customer to the satisfaction of the NBFC.

4. While opening accounts as described above, the customer should be made aware that if at any point of time, the balances in all his/her accounts with the NBFC (taken together) exceeds rupees fifty thousand (Rs. 50,000/-) or total credit in the account exceeds rupees one lakh (Rs. 1,00,000/-), no further transactions will be permitted until the full KYC procedure is completed. In order not to inconvenience the customer, the NBFC must notify the customer when the balance reaches rupees forty thousand (Rs. 40,000/-) or the total credit in a year reaches rupees eighty thousand (Rs. 80,000/-) that appropriate documents for conducting the KYC must be submitted otherwise the operations in the account will be stopped when the total balance in all the accounts taken together exceeds rupees fifty thousand (Rs. 50,000/-) or the total credit in the accounts exceeds rupees one lakh (Rs. 1,00,000/-) in a year.

5. NBFCs are advised to issue suitable instructions to their branches for implementation in this regard.

Yours faithfully,

Sd/-

(P. Krishnamurthy)
Chief General Manager In-Charge