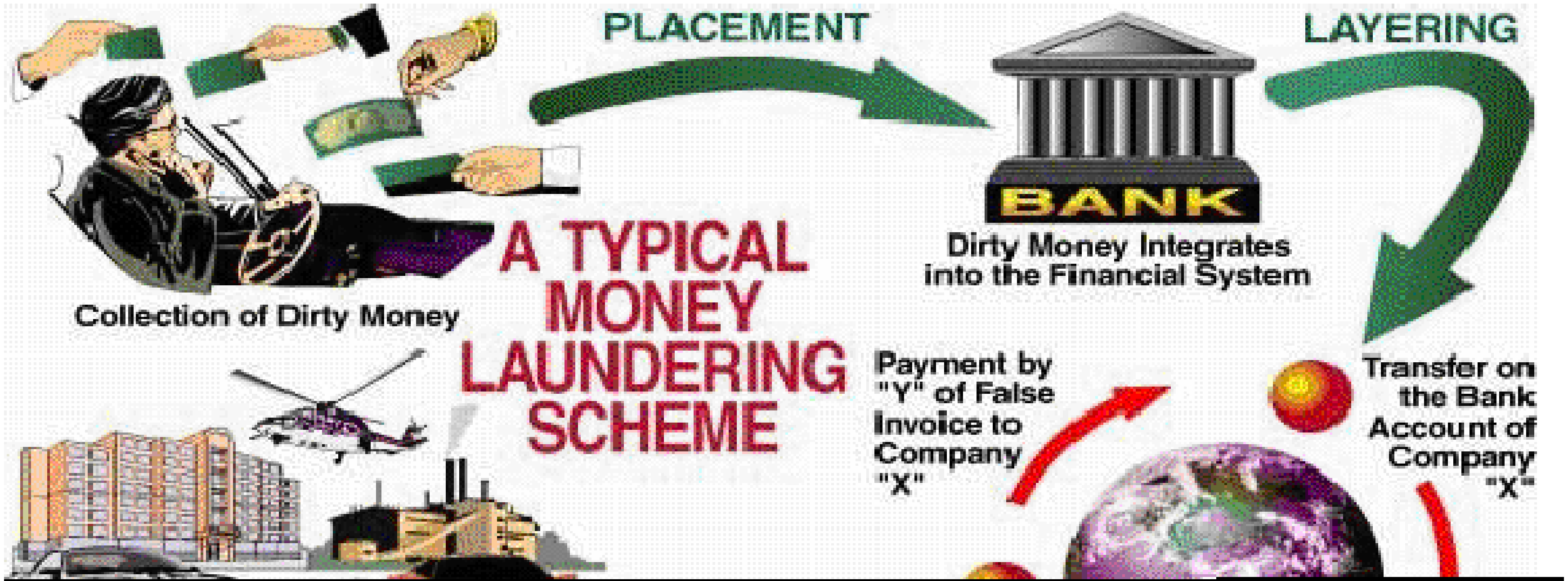
Anti Money Laundering and Combating Financing of Terrorism

Definitions

- Money laundering involves disguising financial assets so that they can be used without detection of the illegal activity that produced them. Through money laundering, the launderer transforms the monetary proceeds derived from illegal sources such as drug trafficking, fraud, terrorism, organized crime in to funds with an apparently legal source.

- Terrorist Financing can be defined as the financial support, in any form, of terrorism or of those who encourage, plan or engage in terrorism.

A typical Money Laundering Scheme



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Steps in which money is laundered

Money laundering involves the following three steps:

- Placement: This refers to physical disposal of cash derived from illegal activities.
- Layering: This refers to separation of illicit proceeds derived from their source by creating complex layers of financial transactions in order to provide anonymity and to prevent audit trail.
- Integration: This refers to re-injection of laundered proceeds back in to economy in such a way that they re-enter the financial system as normal business funds.

Consequences

- Damages the integrity of the financial system
- Leads to economic distortions and instability in the form of reduced control and revenue
- Aiding and abetting corruption and crime
- Poses national and International security threats
- Affects macro economy of the country

Regulatory Framework on AML/CFT

- Prevention of Money Laundering Act, 2002 came into force with effect from July 01, 2005.
- SEBI Guidelines on AML and CFT vide Master circular issued in February 2010.
- Exchanges have also issued Guidelines on PMLA from time to time.

Objectives of AML and CFT Program

- To preserve the integrity of the Financial system
- To prevent the financial intermediaries from being used as a tool for the purpose of Money Laundering and terrorist financing.
- To work closely with Indian regulators to meet the country's commitment on stringent controls on AML and CFT.

The Rules

- Rule 2(g) of the Rules made under Prevention of Money laundering Act defines ‘suspicious transaction’ to mean a transaction whether or not made in cash which, to a person acting in good faith –

  - gives rise to a reasonable ground of suspicion that it may involve the proceeds of crime; or
  - appears to be made in circumstances of unusual or unjustified complexity; or
  - appears to have no economic rationale or bona fide purpose

- Rule 2(b) defines "client" to mean a person that engages in a financial transaction or activity with a banking company or financial institution or intermediary and includes a person on whose behalf the person that engages in the transaction or activity is acting

A Relationship

- It is a group activity, in that it is carried out often by more than one person,
- It is a criminal activity which is long term and continuing,
- Carried out irrespective of national boundaries,
- Proceeds which are often made available for illicit use and also generated out of illegitimate activity

Obligations of a Customer

- To provide Know Your Client (“KYC”) documents at the time of opening of account.
- To provide the updated information /documents as and when requested .
- To ensure that transactions undertaken are commensurate with disclosed Income details.
- To keep the intermediary informed whenever there is a change in the personal information like Address, Occupation, Income and Net worth, Contact details, etc.

Steps Taken by Axis

- Appointment of Principal officer
- Framing of internal AML policy
- Training of the staff
- Reporting mechanism in place
- Retention of records

Reference to Website regarding AML

- http://fiuindia.gov.in
- www.sebi.gov.in
- www.nseindia.com
- www.bseindia.com

Thank You!