

TRAINING PROGRAM ON FINANCIAL & BANKING FRAUD DETECTION

Organized by

**Committee on Financial Markets and Investors'
Protection (CFMIP) of The Institute of
Chartered Accountants of India**

**Jointly with
Central Bureau of Investigation**



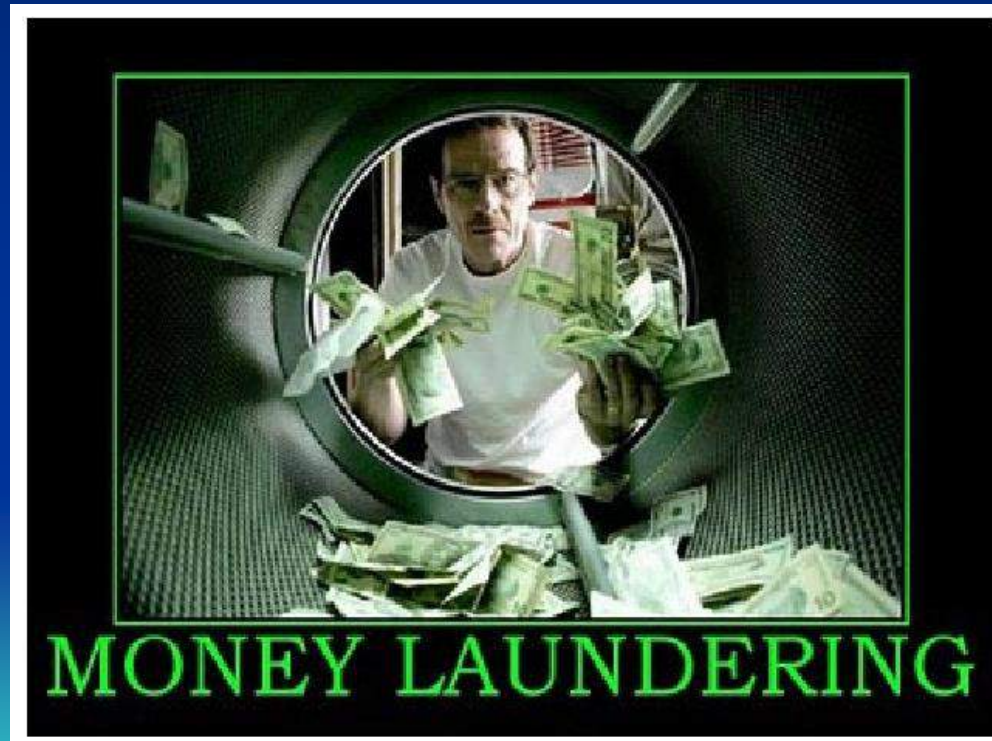
Introduction & Overview of Prevention of Money Laundering Act (PMLA 2002)

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Introduction & Overview of Prevention of Money Laundering Act



Introduction

- Bill was introduced in 1998 and Act was passed in 2002 Act Notified from 1-07-2005 Act amended w.e.f. 1-6-2009
- PMLA amended in 2012.
- It extends to whole of India including Jammu and Kashmir
- Preamble is to prevent money-laundering and provide for confiscation of property derived from, or involved in money-laundering and to punish those who commit the offence



How money laundering works

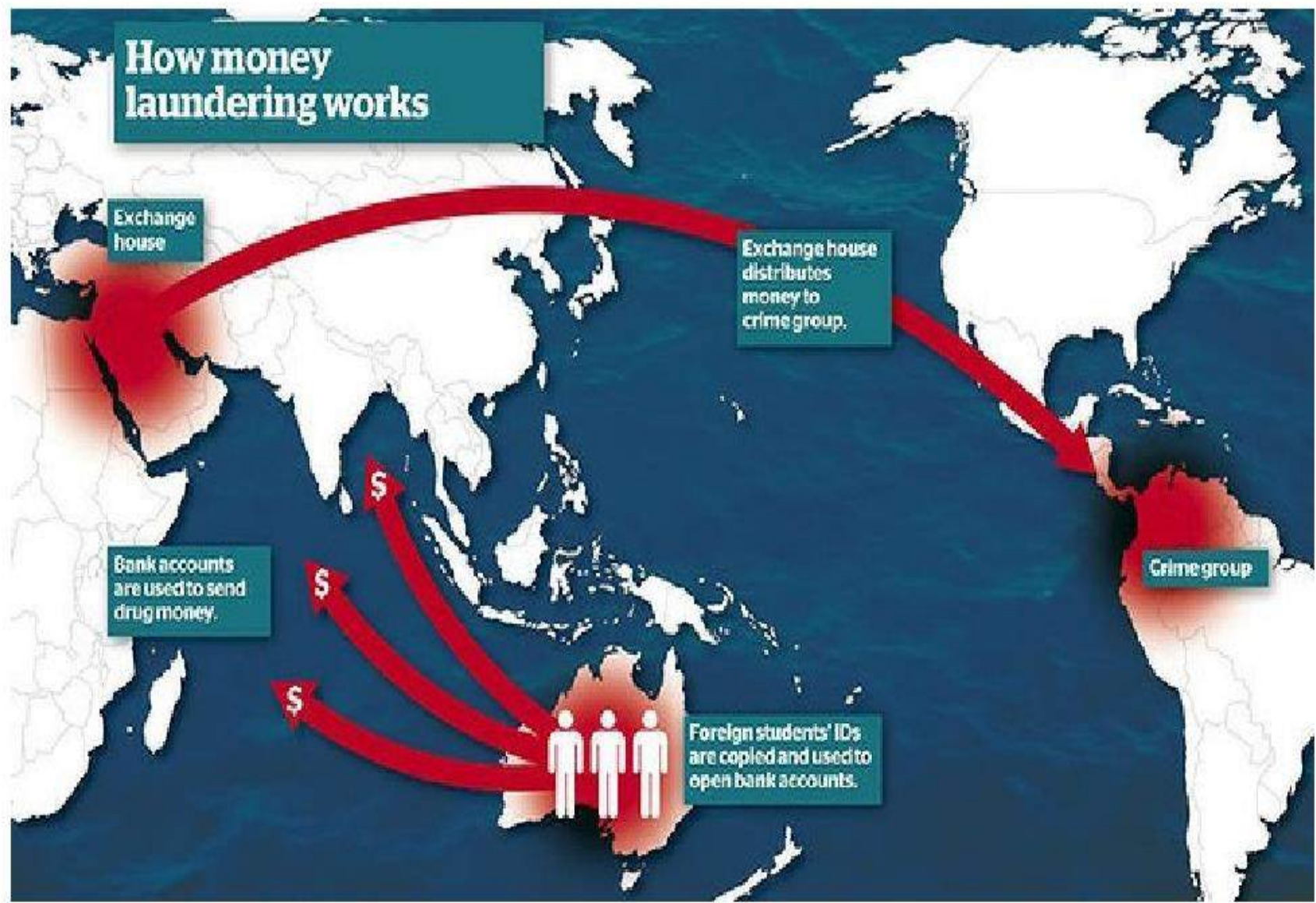
Exchange house

Exchange house distributes money to crime group.

Bank accounts are used to send drug money.

Crime group

Foreign students' IDs are copied and used to open bank accounts.



SONG CHEN / CHINA DAILY



Introduction

- Money laundering has fairly benign origins in the hawala and hundi systems of South Asia, which were informal financial systems which allowed people to execute financial transactions in confidence and secrecy.
- These systems were perfectly legitimate to begin with, and merely reflected institutional underdevelopment or unfamiliarity or lack of confidence in the formal banking system.



Introduction

- However, these systems soon attracted criminal organizations, which began to use them along with other means in order to launder money to remove the taint of illegality.
- In the past century, money laundering has become an international problem.



Introduction

- The term "money laundering" is said to originate from Mafia ownership of Laundromats in the United States.
- Gangsters there were earning huge sums in cash from extortion, prostitution, gambling and bootleg liquor.
- They needed to show a legitimate source for these monies.
- One of the ways in which they were able to do this was by purchasing outwardly legitimate businesses and to mix their illicit earnings with the legitimate earnings they received from these businesses.



Introduction

- Laundromats were chosen by these gangsters because they were cash businesses and this was an undoubted advantage to people like Al Capone who purchased them.
- Al Capone, however, was prosecuted and convicted in October, 1931 for tax evasion.
- It was this that he was sent to prison for rather than the predicate crimes which generated his illicit income.



BLACK MONEY AND CRIMINAL MONEY

- Money that is not fully legitimate in the hands of the owner is generally referred to as Black money.
- The source of money may be illegitimate activities not permissible under the law, like crime, drug trade, terrorism, and corruption, or any activity punishable under the legal framework of the state.
- Money may have been generated and accumulated by failing to pay the tax +
- In this case, the activities undertaken by the perpetrator could be legitimate and otherwise permissible under the law of the land but s/he has failed to report the income so generated, comply with the tax requirements, or pay the dues to the public exchequer, leading to the generation of this wealth.



CATATLYSTS FOR BLACK MONEY

- The term black money includes income derived from legal sources that is concealed from public authorities:
- Ignorance of law, Reluctance to deal with public authorities, perceived complexity of laws and administrative procedures;
- To evade payment of taxes (income tax, excise duty, sales tax, stamp duty, etc);
- To evade compliance with the provisions of laws relating to Industrial Disputes, Payment of Bonus , Factories Act 1948, and Contract Labour (Regulation and Abolition) Act 1970; and / or to evade compliance with other laws and.



SBI, LIC also involved in money laundering: Cobrapost

NEWS YAPS
THIS IS ME



Process of Money Laundering

- Placement

Dirty money being inserted in financial system

- Layering

Separates the proceeds from their criminal origin by moving them through a series of financial transactions

- Integration

Creating a legitimate explanation for their sources of funds, allowing them to be retained, invested or used, to acquire goods or assets





Collection of Dirty Money

Placement



BANK

Dirty money Integrates into the financial system

Layering

Transfer into bank account of company 'X'.



Purchase of luxury Assets
Financial Investments

Payment by 'Y'
of false invoice
to company 'X'.



Wire
Transfer



Offshore Bank



Loan to
Company 'Y'

Integration

How Money Laundering Works Stages



Money laundering demystified

Placement

Stage 1: Dirty money being inserted into the financial system

Layering

Stage 2: Separates the proceeds from their criminal origin by moving them through a series of financial transactions. This makes it harder to establish a connection between them.

Integration

Stage 3: Creating a legitimate explanation for the source of funds, allowing them to be retained, invested or used to acquire goods or assets.

Introduction

- In India money laundering is popularly known as Hawala transactions. It gained popularity during early 90's when many of the politicians were caught in its net. Hawala is an alternative or parallel remittance system.
- The Hawala Mechanism facilitated the conversion of money from black into white. "Hawala" is an Arabic word meaning the transfer of money or information between two persons using a third person.
- The system dates to the Arabic traders as a means of avoiding robbery. It predates western banking by several centuries.





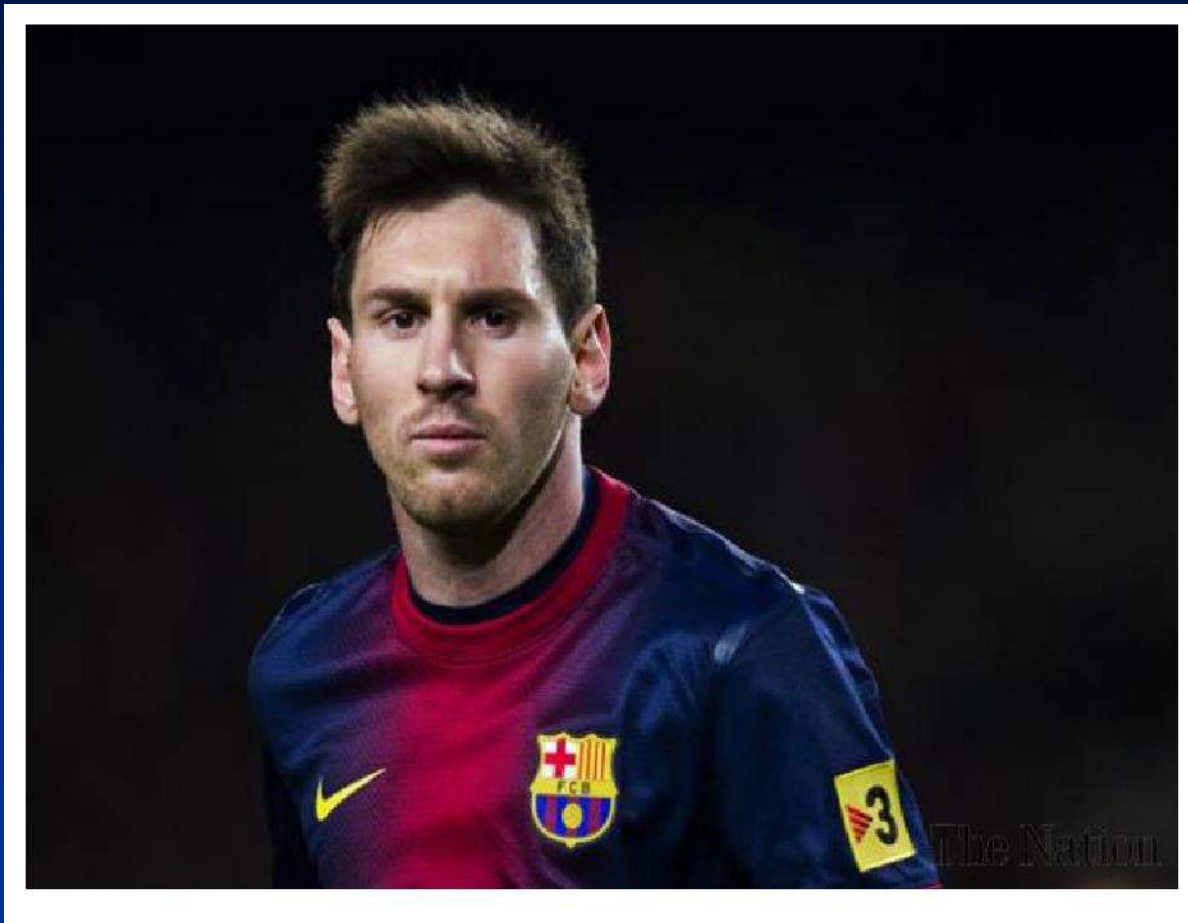
Slot Machines in Britain

- Recent phenomena in Britain amongst the young and old
- Large Undisclosed Cash Money is being involved
- Currently under Government investigation

Placement

- The first stage is the physical disposal of cash. • The launderer introduces his illegal profits into the financial system.
- This placement is accomplished by depositing the cash in domestic banks or in other types of formal or informal financial institutions.
- This is done by breaking up large amounts of cash into less conspicuous smaller sums that are then deposited directly into a bank account, or by purchasing a series of monetary instruments (cheques, money orders, etc.).





Jorge Messi, & Barcelona star Lionel Messi

- Recently being cleared of charges of money laundering
- Both were involved with the alleged money laundering surrounding fundraising matches for Messi and Friends for charity

Placement

- The cash is usually siphoned off across borders
- for deposit in foreign financial institutions, or
- used to buy high-value goods, such as
- artwork, aeroplanes, and precious metals and stones, that can then be resold for payment by cheque or bank transfer.





Digital Crime & Money laundering

- Digital crime is on the raise
- Increasing number of web fraudsters
- Every action you do on the Computer leaves a trail

STEP 1

Website
Online Chat
Spam Email
Advertisements



WWW
WEB USER

Initial communication between the fraudster and web user via fraudulent job emails, online chat rooms, recruitment sites and/or press advertisements.

STEP 2

Pty Ltd
FAKE COMPANY



WWW
WEB USER

The fraudster convinces the victim to work for their fake "company". Some fraudsters may even ask mules to sign fraudulent contracts of employment.

STEP 3

www.bank.com
STOLEN FUNDS



WWW
MULE

Once recruited, money mules will receive funds into their accounts. These funds have been stolen by the fraudster from another account.

STEP 4

WWW
FRAUDSTER



WWW
MULE

Mules are then asked to transfer funds out of their account and into an overseas account (minus a commission payment). This is usually done electronically.



It is illegal to act as a mule. When caught, money mules often have their entire bank account(s) suspended, and may face criminal prosecution.

Layering

- The Second stage in money laundering is layering.
- The launderer engages in a series of conversions or movements of the funds to distance them from their source.
- The funds might be channelled through the purchase and sale of investment instruments such as bonds, stocks, and traveler's cheques or the launderer might simply wire the funds through a series of accounts at various banks across the globe, particularly to those jurisdictions that do not cooperate in anti-money laundering investigations.
- In some instances, the launderer might disguise the transfer as payments for goods or services, thus giving them a legitimate appearance.



Cobrapost Expose



MONEY LAUNDERING BY BANKS?

Magazine Cobrapost's expose on private banks

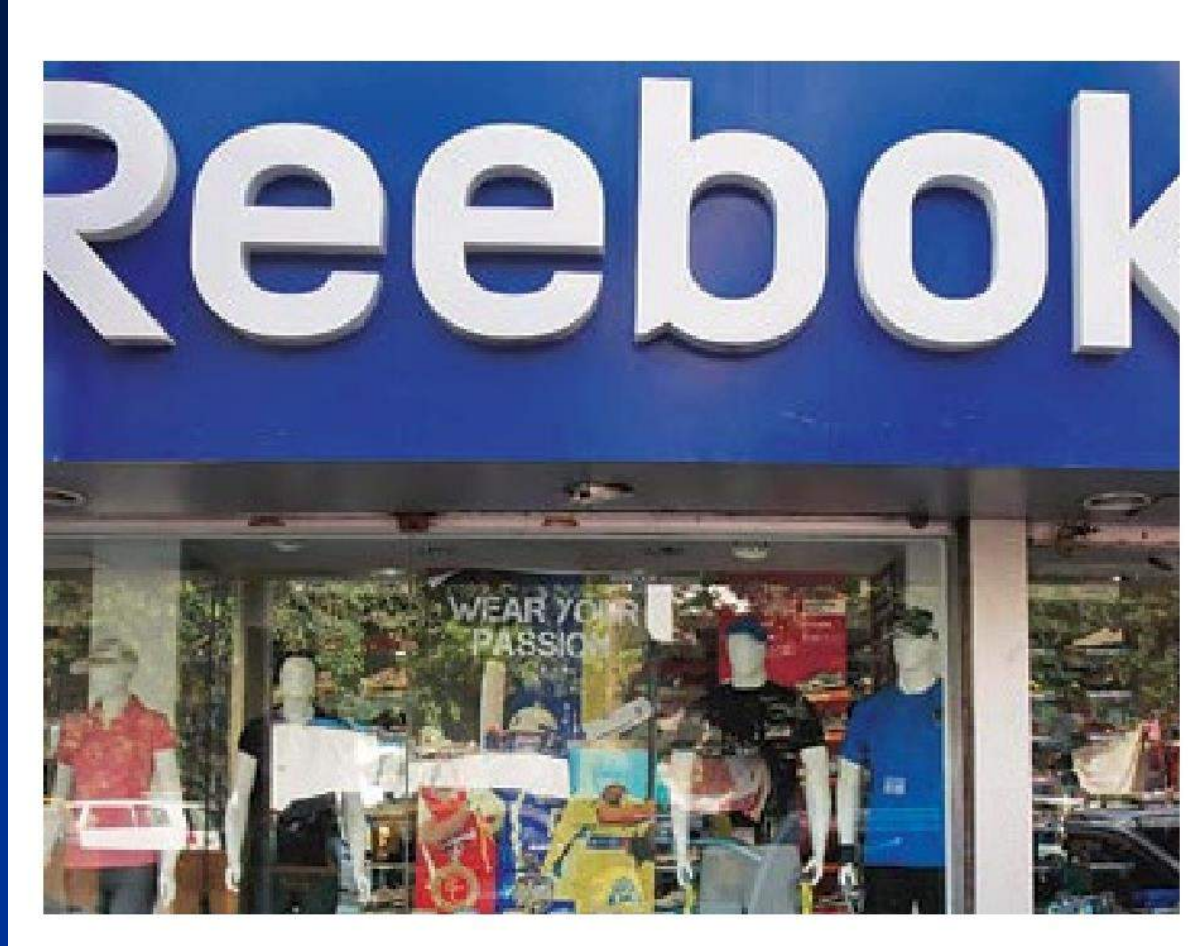
IBN Live

CNN
IBN

Layering

- A number of rotations to slush funds are given through banks and this complex layer of financial transactions are carried out to divorce the illicit proceeds from their source and mislead the investigating agencies.
- The high-value goods and monetary instruments are resold and the proceeds are invested in real estate and legitimate businesses, particularly in the leisure and tourism industries.
- Shell companies i.e. paper companies/bogus companies) serve as front and are registered in offshore havens.
- They are a common tool in the layering phase.





Reebok & Money laundering

- The Enforcement Directorate has begun a money laundering probe into the alleged Rs 870 crore corporate fraud in sports apparel company Reebok India

Integration

- This is the stage where the funds are returned to the legitimate economy for later extraction.
- Examples include investing in a company, purchasing real estate, luxury goods, etc.



Integration

- This is the final stage in the process.
- The launderer makes it appear to have been legally earned and accomplishes integration of the "cleaned" money into the economy.
- By this stage, it is exceedingly difficult to distinguish legal and illegal wealth.
- It involves making the wealth derived from crime appear legitimate.



Cars and Cocaine

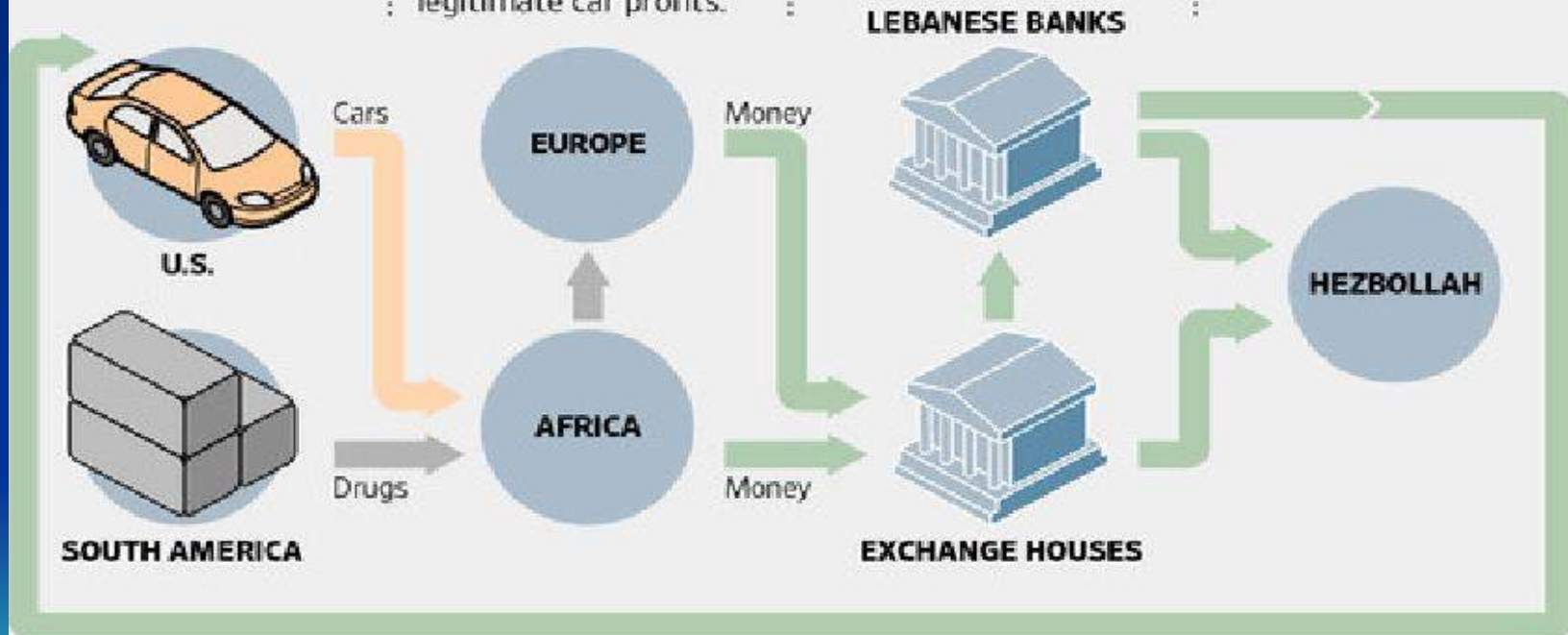
The U.S. alleges that Lebanese money-exchange houses used car sales to launder cash from drug proceeds and funneled the profits to the militant group Hezbollah.

1. Used cars from the U.S. and cocaine from South America are shipped to Africa.

2. Cars are sold in Africa and drugs are sent to Europe for sale. Proceeds from drug sales are mixed with legitimate car profits.

3. Profits are sent to Lebanese banks via exchange houses.

4. Some money is diverted to Hezbollah, and some is returned to the U.S. to purchase more used cars.





How a Bitcoin transaction works

Bob, an online merchant, decides to begin accepting bitcoins as payment. Alice, a buyer, has bitcoins and wants to purchase merchandise from Bob.

WALLETS AND ADDRESSES



Bob and Alice both have Bitcoin "wallets" on their computers.



Wallets are files that provide access to multiple Bitcoin addresses.



An address is a string of letters and numbers, such as 1HULMwZEPkJEPeCh43BeKJLlybLCWfDpN.



Bob creates a new Bitcoin address for Alice to send her payment to.

CREATING A NEW ADDRESS



Each address has its own balance of bitcoins.

SUBMITTING A PAYMENT



Alice tells her Bitcoin client that she'd like to transfer the purchase amount to Bob's address.



Public Key Cryptography 101

When Bob creates a new address, what he's really doing is generating a "cryptographic key pair," composed of a private key and a public key. If you sign a message with a private key (which only you know), it can be verified by using the matching public key (which is known to anyone). Bob's new Bitcoin address represents a unique public key, and the corresponding private key is stored in his wallet. The public key allows anyone to verify that a message signed with the private key is valid.

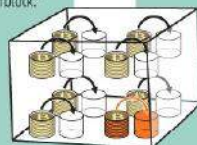
It's tempting to think of addresses as bank accounts, but they work a bit differently. Bitcoin users can create as many addresses as they wish and in fact are encouraged to create a new one for every new transaction to increase privacy. So long as no one knows which addresses are Alice's, her anonymity is protected.



Gary, Garth, and Glenn are Bitcoin miners.

VERIFYING THE TRANSACTION

Their computers bundle the transactions of the past 10 minutes into a new "transaction block."



The miners' computers are set up to calculate cryptographic hash functions.

Private key

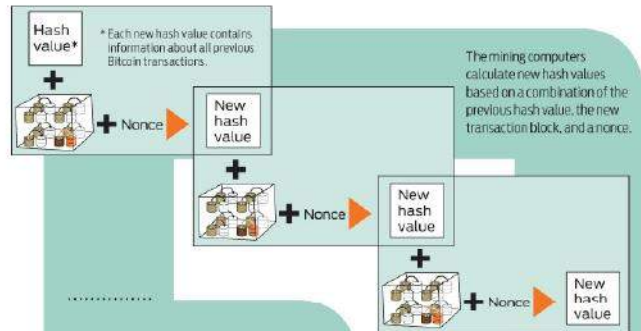


Alice's wallet holds the private key for each of her addresses. The Bitcoin client signs her transaction request with the private key of the address she's transferring bitcoins from.

Public key



Anyone on the network can now use the public key to verify that the transaction request is actually coming from the legitimate account owner.



Cryptographic Hashes

Cryptographic hash functions transform a collection of data into an alphanumeric string with a fixed length, called a hash value. Even tiny changes in the original data drastically change the resulting hash value. And it's essentially impossible to predict which initial data set will create a specific hash value.

The root of all evil → 6d0a1899 086a... (56 more characters)

The root of all evil → 486c 6be4 6dde...

The root of all evil → b8db 7ee9 8392...

Nonces

To create different hash values from the same data, Bitcoin uses "nonces." A nonce is just a random number that's added to data prior to hashing. Changing the nonce results in a wildly different hash value.

The root of all evil ??? → 0000 0000 0000 ...

Creating hashes is computationally trivial, but the Bitcoin system requires that the new hash value have a particular form—specifically, it must start with a certain number of zeros.

The miners have no way to predict which nonce will produce a hash



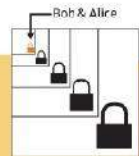
value with the required number of leading zeros. So they're forced to generate many hashes with different nonces until they happen upon one that works.

Each block includes a "coinbase" transaction that pays out 50 bitcoins to the winning miner—in this case, Gary. A new address is created in Gary's wallet with a balance of newly minted bitcoins.



TRANSACTION VERIFIED

As time goes on, Alice's transfer to Bob gets buried beneath other, more recent transactions. For anyone to modify the details, he would have to redo the work that Gary did—because any changes require a completely different winning nonce—and then redo the work of all the subsequent miners. Such a feat is nearly impossible.



Bitcoin

- It is an invisible (virtual) currency that lets people do business with each other.
- Bitcoins are anonymous and are not traceable by anyone. They are the perfect way for people to do business with each other without revealing identities. They don't leave any digital footprints like credit card records, bank transactions, etc.
- The Reserve Bank of India's advisory on Dec. 24, 2013 prompted some Indian bitcoin traders to suspend their operations, even as regulators seek clarity on digital currencies and ways to regulate them. The RBI's worries include taxation, security risks, losses due to the volatility and money laundering.
- Recently Mt Gox world's biggest bitcoin exchange, which collapsed in Feb, 2014 after losing nearly half a billion dollars worth of customers' digital currency, it had likely lost all 750,000 customer bitcoins it was holding, as well as 100,000 of its own and 2.8 billion yen in cash. That represents \$567 million of vanished assets at current market prices, as well as about 7% of the bitcoins in circulation.



Bitcoin

- Japan's government said it has yet to decide whether to regulate Bitcoin, while highlighting that banks must report any suspicions of money laundering stemming from trades of the digital currency.
- Bankruptcy of Mt. Gox Co., an online Bitcoin exchange based in Tokyo, brought the issue of regulating the virtual currency into focus in Japan. Bitcoin has attracted attention from authorities around the world who are concerned that the anonymity of transactions may attract money launderers.
- Singapore plans to regulate virtual-currency intermediaries including operators of Bitcoin exchanges and vending machines to address potential money-laundering and terrorist-financing risks.
- Digital currencies have come under scrutiny in markets from China to Russia and the U.S., with some regulators calling for bans or limits on their use. Charlie Shrem, the founder of exchange company BitInstant, was charged in Manhattan with conspiring to launder \$1 million of Bitcoins

Biggest money-laundering settlements with US authorities

Bank	Settlement, \$m	Date	Countries involved in allegation
HSBC	1,921	December 2012	Cuba, Iran, Libya, Mexico, Myanmar and Sudan
Standard Chartered	667	August/December 2012	Iran, Libya, Myanmar and Sudan
ING	619	June 2012	Cuba and Iran
Credit Suisse	536	December 2009	Cuba, Iran, Libya, Myanmar and Sudan
RBS (<i>ABN AMRO</i>)	500	May 2010	Iran and Libya
Lloyds Banking Group	350	January 2009	Iran and Sudan
Barclays	298	August 2010	Cuba, Iran, Myanmar and Sudan

Sources: Company reports; national sources



Jewellery & Money Laundering

- Traditional area of saving
- Large amount of liquid cash involved
- Safe parking Zone

Methods of Money Laundering

- Structuring ("Smurfing"): Smurfing is possibly the most commonly used money laundering method. It involves many individuals who deposit cash into bank accounts or buy bank drafts in amounts in small amounts to avoid the reporting threshold.
- Bank Complicity: Bank complicity occurs when a bank employee is involved in facilitating part of the money laundering process



How Money Laundering Works Smurfing

\$30,000 DRUG MONEY



Below deposit amount banks must report



Account Balance = \$30,000

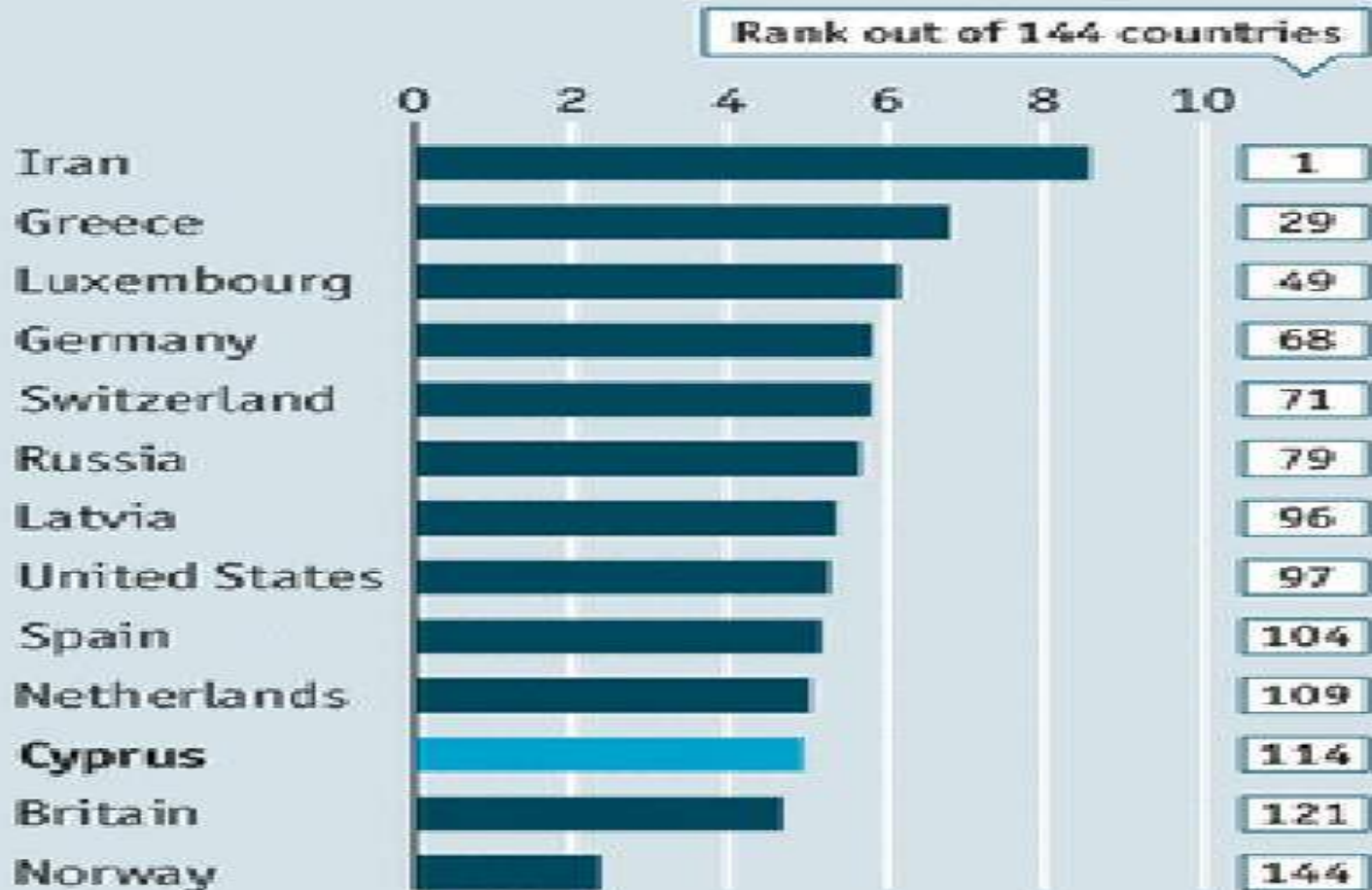
Methods

- Money Services and Currency Exchanges:
- Money services and currency exchanges provide a service that enables individuals to exchange foreign currency that can then be transported out of the country
- Asset Purchases with Bulk Cash
- Electronic Funds Transfer
- Postal Money Orders



Who are you calling dodgy?

10-highest risk of money laundering/
terrorist financing



Source: Basel AML index 2012

Methods

- Credit Cards
- Casinos
- Refining: This money laundering method involves the exchange of small denomination bills for larger ones and can be carried out by an individual who converts the bills at a number of different banks in order not to raise suspicion. This serves to decrease the bulk of large quantities of cash.





Casinos & Money laundering

- Large Cash Transactions
- Wire Transfer / Hawala transfer
- Online gambling
- Mafia Connections

Methods

- Legitimate Business / Co-mingling of Funds
- Value Tampering: Money launderers may look for property owners who agree to sell their property, on paper, at a price below its actual value and then accept the difference of the purchase price "under the table". In this way, the launderer can, for example, purchase a 2 million rupee property for 1 million rupee, while secretly passing the balance to the seller. After holding the property for a period of time, the launderer then sells it for its true value of 2 million rupees



Methods

- **Loan Back:** Using this method, a criminal provides an associate with a sum of illegitimate money and the associate creates the paperwork for a loan or mortgage back to the criminal for the same amount, including all of the necessary documentation.
- This creates an illusion that the criminal's funds are legitimate. The scheme's legitimacy is further reinforced through regularly scheduled loan payments made by the criminal, and providing another means to transfer money.



Chart 1

Counting for more

Offshore financial centers are holding increasingly large amounts of global assets and liabilities.

(trillion dollars)



Sources: Bank for International Settlements; and IMF staff calculations.



Money Laundering

- ED investigated top mobile phone carrier Bharti Airtel under its money laundering and foreign exchange rules in what a company source said was a probe related to the grant of airwaves a decade ago.



BLACK AND WHITE

3 private sector banks, HDFC, ICICI & Axis, accused of money laundering. Sting ops show number of bank execs offering to turn black money into white by using the banking system

10 SHARP PRACTICES

- 1** Put huge amounts of cash in insurance products, gold
- 2** Open fake account in order to route cash into investment schemes
- 3** Split money into tranches to evade detection
- 4** Use 'benami' accounts to convert black money
- 5** Use accounts of other clients to channelize black money into system for a fee
- 6** Make demand drafts to facilitate investment
- 7** without it showing up in the client's account
- 7** Open multiple accounts and close them to facilitate investment of black money
- 8** Invest black money in multiple instruments in different names
- 9** Allot large lockers for safekeeping of cash
- 10** Help transfer black money abroad through non-resident external/ non-resident ordinary account

BANKS DENY

ICICI BANK: "We have constituted a high level inquiry committee to investigate and submit its findings in 2 weeks."

HDFC BANK: "The matter is being investigated on top priority."

AXIS BANK: "We will examine whatever information is brought to our notice and investigate thoroughly."



HSBC CRIMES

- LAUNDERED **\$880 BILLION** FOR MEXICAN DRUG CARTELS
- CONDUCTED **25,000** WITH IRAN TOTALING OVER **\$19 BILLION**
- CONDUCTED BUSINESS WITH CUBA, SUDAN, ETC.
- PARTNERED WITH AL RAJHI BANK UNTIL **2010**
- ACCUSED OF PREDATORY/ DISCRIMINATORY LENDING SCHEMES AGAINST MINORITIES

RT

HSBC BACK IN COURT












CET

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BAHRAINI POLICE USE TEAR GAS AGAINST ANTI-GOVT PROTESTERS

Money Laundering Charges

For the week ending March 23, 2013 we highlight 11 cases. A total of **\$231.8mm** was laundered. **Fraud** accounted for **\$205mm** while **drug trafficking** accounted for **\$25.9mm**.

Country	Cases	Laundered
United States 		\$230.5mm 
Nigeria 		Unknown
Haiti 		\$0.4mm 
India 		\$1 mm 

Methods of Money laundering

- Receipt of large number of Gift Cheques into the accounts of associates of the Crime Syndicate. This Money was used to purchase property.
- Receipt of Cheques from a large number of people who lent their names/bank accounts to convert cash. This money was directly deposited into the account of the Construction Companies.



Out of Book Transactions

- Most widely adopted methods of tax evasion and generation of black money;
- Concealment of receipts or income are from the books of account by the taxpayer;
- Maintaining two sets or records;
- Avoiding complete disclosure of receipts and income.
- Prevalent among the small shops, unskilled or semiskilled service providers, etc.



Parallel Books of Accounts

- Intended to evade reporting activities or the income, resort to maintaining two sets of books of account – one for their own use and the other one for the regulatory and tax authorities
- The second set of books of account for the purpose of satisfying the legal and regulatory obligations of reporting to authorities.
- Accounts manipulated by omitting receipts or falsely inflating expenses, for the purpose of evading taxes or other regulatory requirements.
- Used by those who are obliged under the law or due to business needs to maintain books of account.



Manipulative Accounting

- Manipulation of Books of Account/Sales/Receipts
- Use of a dummy / associated entity
- Manipulation of Expenses
- Manipulation by Way of International Transactions through Associate Enterprises
- Manipulation of Capital
- Manipulation of Capital Expenses



TRADE BASED MONEY LAUNDERING



Definition of TBML

- The term trade-based money laundering and *terrorist financing* (TBML/FT) refers to the process of disguising the proceeds of crime and moving value through the use of trade transactions in an attempt to legitimise their illegal origins or finance their activities.



IMPORTANCE OF TBML STUDY

- TBML study is important to understand misuse of the trade system as one of the main methods by which criminal organisations and terrorist financiers move money for the purpose of disguising its origins and integrating it into the formal economy.
- To improve the ability of competent authorities to collect and effectively utilise trade data, both domestically and internationally, for the purpose of detecting in a risk-based manner and investigating money laundering and terrorist financing through the trade system.



BASIC TBML SCHEMES

- Fraudulent trade practices such as:
- over- and under-invoicing of goods and services,
- multiple invoicing of goods and services,
- over- and under-shipments of goods and services,
- falsely describing goods and services.
- More complicated schemes integrate these fraudulent practices into a complex web of transactions and movements of goods.



Preamble to the PMLA 2002

- An Act to prevent money laundering and to provide for confiscation of property **derived from, or involved in** money laundering and for matters connected or incidental thereto



Money Laundering

- 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 criminal activity into funds with an apparently legal source.
- Section 3 of the PMLA



Money Laundering

- According to Section 3 of Prevention of Money Laundering Act - "whosoever directly or indirectly attempts to indulge or knowingly assists or knowingly is a party or is actually involved in any process or activity connected with the proceeds of crime including its concealment, possession, acquisition or use and projecting or claiming it as untainted property shall be guilty of offence of money- laundering.



Money Laundering

- The PMLA, 2012 (w.e.f 15.02.2013) enlarges the definition of offence of money laundering
- To include therein the activities like concealment, acquisition, possession and use of the proceeds of crime as criminal activities
- Remove the existing limit of Rs 5 lacs fine under the Act



Money Laundering

- Financial Action Task Force on Money Laundering (FATF) defines money laundering as "the processing of criminal proceeds to disguise their illegal origin in order to legitimize the ill-gotten gains of crime."



Essential elements of the offence of money laundering

- The conversion or transfer of property;
- The concealment or disguise of the true nature, source, location, disposition, movement, right with respect to, or ownership of property;
- The acquisition, possession, or use of property;
- The participation in, association to or conspiracy to commit, attempts to commit, and aid, abet and facilitate.

Punishment

- Section 4
- *Whoever commits the offence of money-laundering shall be punishable with rigorous imprisonment for a term which shall not be less than three years but which may extend to seven years and shall also be liable to fine.*

**[which may extend to five lakh rupees
(deleted)]**



Proceed of Crime

- Proceeds of Crime : Section 2
(u)“proceeds of crime” means any property derived or obtained, directly or indirectly, by any person as a result of criminal activity relating to a scheduled offence or the value of any such property.



What is a Scheduled Offence?

- Scheduled offence means an offence specified under Part A of the Schedule,
- Earlier limit of Rs 30 lacs as mentioned in Part B of the Schedule is now removed
- Offences in Part B moved to Part A
- Part B now contains no offence
- All offences brought at par



Offences Under Part A Schedule to PMLA

- Indian Penal code
- NDPS Act
- Explosive Substances Act
- Unlawful Activities (Prevention) Act, 1967



Acts Under Part A of the Schedule

- Arms Act, 1959
- Wild Life (Protection) Act, 1972
- Immoral Traffic (Prevention) Act, 1956
- Prevention of Corruption Act, 1988
- Explosives Act, 1884
- Antiquities and Arts Treasures Act, 1972
- Securities and Exchange Board of India Act, 1992
- Customs Act, 1962

Contd.



Acts Under Part A of the Schedule

- Bonded Labour System (Abolition) Act, 1976
- Child Labour (Prohibition and Regulation) Act, 1986
- Transplantation of Human Organs Act, 1994
- Juvenile Children (Care and Protection of Children) Act 2000
- Emigration Act, 1983
- Passports Act, 1967
- Foreigners Act, 1946
- Copyright Act, 1957

Contd.



Acts Under Part A of the Schedule

- Trade Marks Act 1999
- Information Act, 2000
- Biological Diversity Act, 2002
- Protection of Plant Varieties and Farmers' Rights Act, 2001
- Environment Protection Act, 1986
- Water(Prevention and Control of Pollution) Act 1974
- Air(Prevention and Control of Pollution) Act 1974
- Suppression of Unlawful Acts against Safety of maritime
- Navigation and Fixed Platforms on Continental Shelf Act, 2002



Offences Under Schedules to PMLA

PART - B

Offences Under Schedules to PMLA

PART - C

PART C

- An offence which is the offence of cross border implications and is specified in Part A ;

OR

- The offences against property under Chapter XVII of the Indian Penal Code.



PMLA 2002 : Salient Features

- PMLA Act enacted to fulfil National/International obligations to fight financing of Terror and Organized Crime
- Offences related to Terror Financing added to Part A of the Schedule – IPC, Unlawful Activities (Prevention) Act, 1967, Explosive Substances Act
- Offences related to Cross Border Implications added in Part C to the Schedule
- Reporting of Suspicious Transactions by Banking companies and financial institutions to FIU – S/12-15 of PMLA



PMLA 2002 : Salient Features

- Confer power upon the Director to call for records of transactions or any additional information that may be required for the purposes of the Prevention of money-laundering and also to make inquiries for non-compliance of reporting obligations cast upon them;
- Make the reporting entity, its designated directors on the Board and employees responsible for omissions or commissions in relation to the reporting obligations under Chapter IV of the Act;



PMLA 2002 : Salient Features

- International Cooperation - Reciprocal Arrangement for assistance and procedure for attachment and confiscation of property - Chapter IX (S.55-61)
- • Institutions like FIMCs and Money Transfer Service Providers (like Western Union) in the reporting regime to target wire transfers and nonbanking remittances



PREVENTION OF MONEY LAUNDERING

(AMENDMENT) Act 2012. (w.e.f 15.02.2013)

- Introduced the concept of " corresponding law" to link the provisions of Indian law with the laws of foreign countries and provide for the transfer of the proceeds of the foreign predicate offence in any manner in India
- Introduced the concept of "reporting entity" to include therein a banking company, financial institution, intermediary or a person carrying on a designated business or profession

PREVENTION OF MONEY LAUNDERING (AMENDMENT) Act 2012. (w.e.f 15.02.2013)

- Introduced the provision for attachment and confiscation of the proceeds of crime even if there is no conviction so long as it is proved that offence of money-laundering has taken place and property in question is involved in money-laundering;
- Provide that in any proceedings relating to proceeds of crime under the aforesaid Act, unless the contrary is proved, it shall be presumed that such proceeds of crime is involved in money-laundering; Presumption clause, as to records or property in certain cases; Presumption Clause as to Interconnected Connections S/22-23
- The Burden of Proof on the accused – S/24



PREVENTION OF MONEY LAUNDERING (AMENDMENT) Act 2012. (w.e.f 15.02.2013)

- Provide for appeal against the orders of the Appellate Tribunal directly to the Supreme Court;
- Provide for the process of transfer of the cases of Scheduled offence pending in a court which had taken cognizance of the offence to the Special Court for trial of offence of money-laundering and also provide that the Special Court shall, on receipt of such case proceed to deal with it from the stage at which it is committed;



Pre-requisites for taking action under PMLA

- Consequent to the amendment, Search of premises and seizure of records/ property involved in money laundering in terms of Sec.17 of the Act can be done just after filing of the FIR and forwarding of report under Section 157 of CrPc to the Magistrate.
- Such search /seizure operations under section 17 of PMLA can be made after filing of complaint before a court by other law enforcing agencies (other than police officers) in respect of the Scheduled Offences.

AUTHORITIES : FIU-IND

- Financial Intelligence Unit (FIU) , India, FIU-IND has been entrusted with the responsibilities of securing compliance with the requirements of reporting of financial transactions by the Banking companies, financial institutions and intermediaries and to levy penalties for non compliance.



AUTHORITIES : ENFORCEMENT DIRECTORATE

The main functions of the Directorate are as under

- To enforce Foreign Exchange Management Act 1999 and Prevention of money Laundering Act 2002.
- To collect and develop intelligence relating to violation of the provisions of Foreign Exchange Management Act and Prevention of money Laundering Act 2002. (Section 48 & 49 of PMLA)
- To conduct searches of suspected persons, conveyances and premises and seize incriminating materials (including Indian and foreign currencies involved).



AUTHORITIES : ENFORCEMENT DIRECTORATE

- To enquire into and investigate suspected violations of provisions of Foreign Exchange Management Act and Prevention of money Laundering Act 2002.
- To adjudicate cases of violations of Foreign Exchange Management Act penalties departmentally and also for confiscating the amounts involved in violations.
- To realize the penalties imposed in departmental adjudication.
- To attach and confiscate properties involved in the act of Money laundering.
- To arrest the person suspected to be involved in the act of money laundering.
- To prosecute the person involved in the act of money laundering.



Authorities under PMLA *(Contd)*

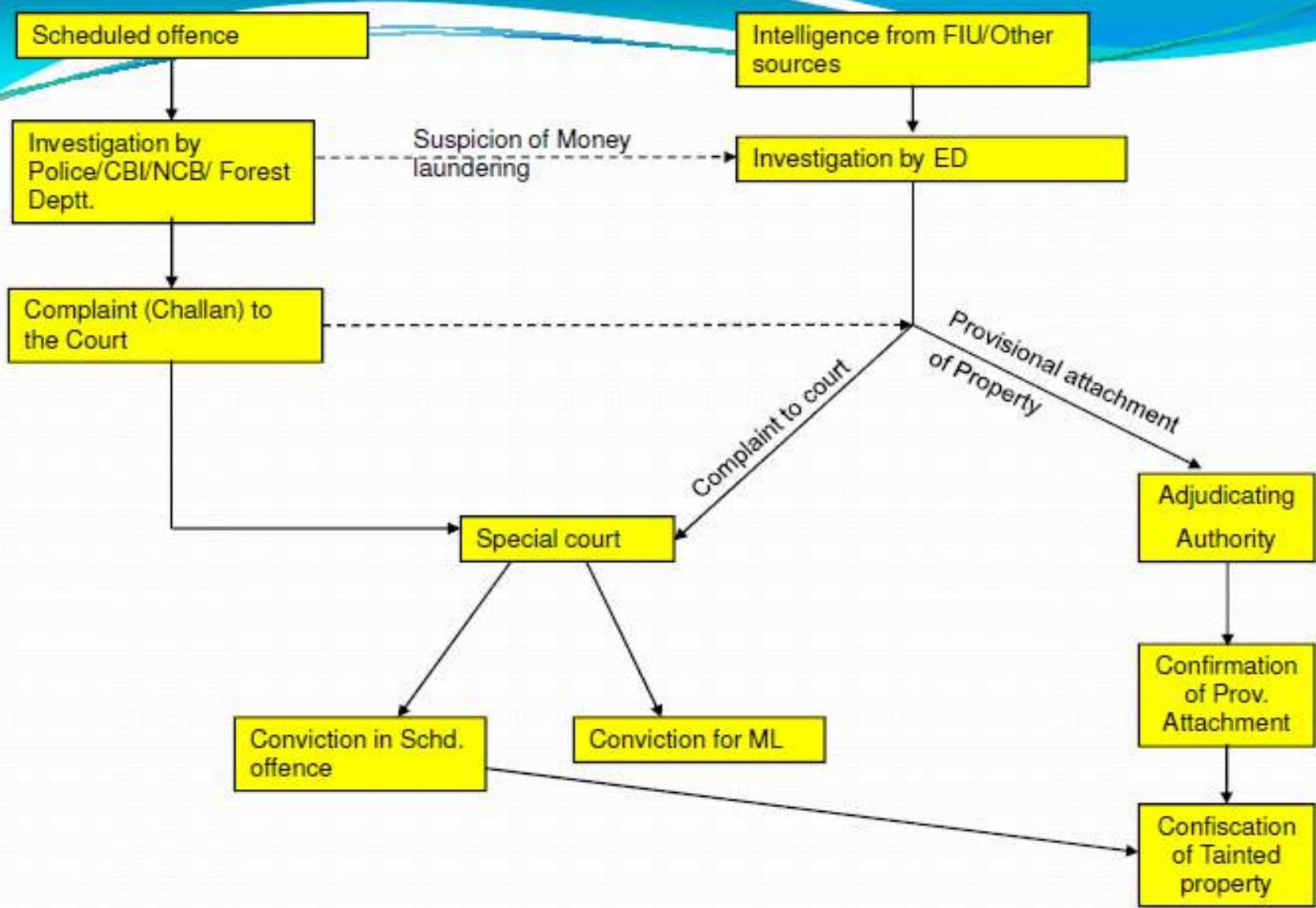
- Adjudicating Authority : New Delhi Bench of the Adjudicating Authority has jurisdiction, powers and authority under the PMLA all over India.
- Appellate Tribunal : The Central Government has established an Appellate Tribunal at New Delhi to hear appeals against the orders of the Adjudicating Authority and the Authorities under the PMLA.



Authorities under PMLA *(Contd)*

- Special Court: The Central Government has designated the Court (s) of Sessions as Special Court(s) for the specified areas, for trial of offences punishable under section 4 of the PMLA.
- In Greater Mumbai, the Court of the Principal Judge of the Sessions Court has been designated as the Special Court
- In other Judicial Districts, the Court of Principal District and Sessions Judge has been designated as the Special Court





Key Concepts

- Beneficial Ownership
- Designated business or profession
- Reporting Entity
- Suspicious Transaction
- Offence of cross border Implications



Beneficial Ownership

- ‘(fa) “beneficial owner” means an individual who ultimately owns or controls a client of a reporting entity or the person on whose behalf a transaction is being conducted and includes a person who exercises ultimate effective control over a juridical person;



Identifying the Beneficial Owner

- To identify the de facto control over a corporate vehicle—and not a purely legal definition.
- To be effective and meaningful, beneficial ownership must not be reduced to a legally defined position, such as a director of a company or foundation or a trust or shareholder who owns more than a certain percentage of shares or legal entitlement/benefit of a trust.
- Focus on the control exercised and the benefit derived



Designated business or profession

- ‘(sa) “person carrying on designated business or profession” means,—
 - (i) a person carrying on activities for playing games of chance for cash or kind, and includes such activities associated with casino;
 - (ii) a Registrar or Sub-Registrar appointed under section 6 of the Registration Act, 1908, as may be notified by the Central Government;
 - (iii) real estate agent, as may be notified by the Central Government;
 - (iv) dealer in precious metals, precious stones and other high value goods, as may be notified by the Central Government;
 - (v) person engaged in safekeeping and administration of cash and liquid securities on behalf of other persons, as may be notified by the Central Government; or
 - (vi) person carrying on such other activities as the Central Government may, by notification, so designate, from time to time;

Reporting Entity

- Concept of 'reporting entity' to include therein a banking company, financial institution, intermediary or a person carrying on a designated business or profession



Suspicious Transaction

- Suspicious transaction means 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; or
- gives rise to a reasonable ground of suspicion that it may involve financing of the activities relating to terrorism.



Offence of cross border implications

- 2(ra) “offence of cross border implications”, means –
- (i) any conduct by a person at a place outside India which constitutes an offence at that place and which would have constituted an offence specified in Part A, Part B or Part C of the Schedule, had it been committed in India and if such person remits the proceeds of such conduct or part thereof to India; or
- (ii) any offence specified in Part A , Part B or Part C of the Schedule which has been committed in India and the proceeds of crime, or part thereof have been transferred to a place outside India or any attempt has been made to transfer the proceeds of crime, or part thereof from India to a place outside India.





Political Lobbying

- Large Companies
- Domestic & International laws (proposed changes & new laws)
- Competition



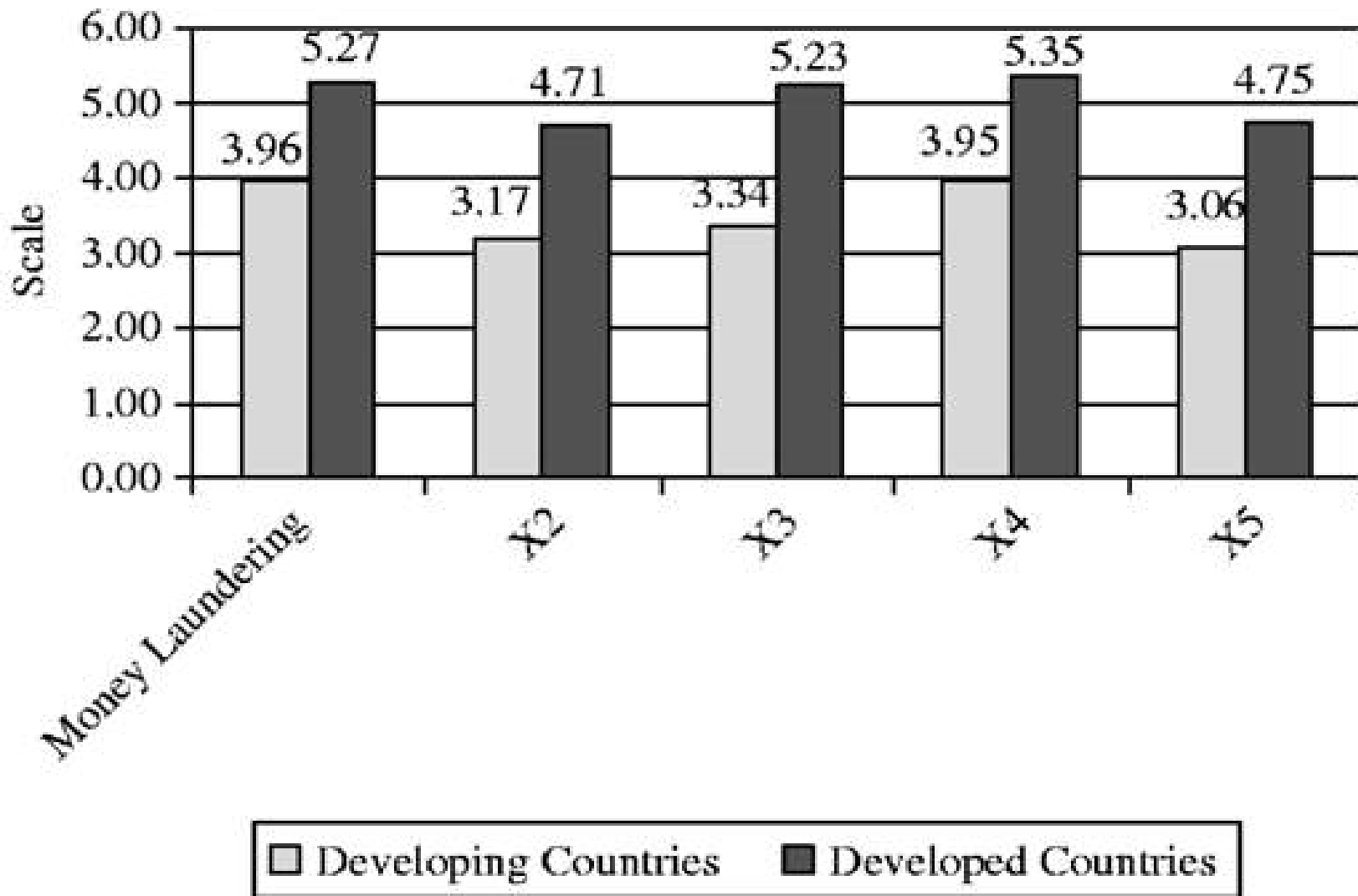
German Bakery Case & Money laundering

- High Taxes in Germany
- Local people used to hide hard cash in breads
- Transfer Money to Switzerland and outside Tax heavens

Global Developments

- U.S. Foreign Account Tax Compliance Act (FATCA) due to take effect during 2013 and 2014
- EU Fourth Money Laundering Directive currently under development
- The UK Bribery Act 2010





Global Developments

- The importance of Anti Money Laundering (AML) to European senior management is falling faster than the other regions, with only around half of respondents stating that AML was a high profile issue in which the main board of directors took an active interest
- Most of respondents working in the American continent stated AML as being a high profile issue in which senior management took an active interest.



Global Developments

- This could be because of new money laundering cases in the region relating to narcotics trafficking and political corruption;
- More stringent requirements imposed on financial institutions in the region by banks in the U.S.;
- Number of countries in the region being singled out recently by the Financial Action Task Force (FATF) for deficiencies in their approach to AML and counterterrorist financing.





J P Morgan & Money laundering Charges in USA

- JPMorgan Chase agreed to pay \$1.7 billion to settle charges with US government's case and overhaul its anti-money-laundering controls in Jan, 2014

OBLIGATIONS OF BANKING COMPANIES, FINANCIAL INSTITUTIONS AND INTERMEDIARIES

- Every banking company, financial institution and intermediary should –
- maintain a record of all transactions, the nature and value of which may be prescribed, whether such transactions comprise of a single transaction or a series of transactions integrally connected to each other, and where such series of transactions take place within a month;
- furnish information of such transactions to the Director; verify and maintain the records of the identity of all its clients.



The Forms of Money Laundering

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graph LR; A[The Forms of Money Laundering] --- B[Acquiring using or possessing criminal property]; A --- C[Handling the proceeds of crime, such as theft, fraud and tax evasion]; A --- D[Investing the proceeds of crimes into other financial products]; A --- E[Being knowingly involved in any way with criminal or terrorist property]; A --- F[Transferring criminal property]; A --- G[Entering into arrangements to facilitate laundering criminal or terrorist property]; A --- H[Investing the proceeds of crimes into the acquisition of property / assets];
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Acquiring using or possessing criminal property

Handling the proceeds of crime, such as theft, fraud and tax evasion

Investing the proceeds of crimes into other financial products

Being knowingly involved in any way with criminal or terrorist property

Transferring criminal property

Entering into arrangements to facilitate laundering criminal or terrorist property

Investing the proceeds of crimes into the acquisition of property / assets

Risk – Political Persons

- The focus on Political Persons has increased with recent events in the Middle East and North Africa; financial institutions find themselves in a key role regarding international financial crime initiatives.
- Firstly, momentum has been gathering in relation to global bribery and corruption programs, and Libya, Egypt, Syria, other uprisings have increased Money Laundering.





Jagamohan Reddy

The Enforcement Directorate (ED) on March 5, 2014 attached assets worth Rs 863 crore of YSR Congress leader Jagamohan Reddy and his associates in connection with its probe into alleged corruption in an infrastructure project in Andhra Pradesh.

The ED slapped separate notices against Jagamohan and Nimragada Prasad whose companies were allegedly favoured by the then AP government (when Jagamohan's father Y S Rajasekhara Reddy was Chief Minister) in the Madarevu and Nizampatnam Industrial Corridor (WANPIC) project whose aim was to develop sea ports and a green field airport in coastal areas of the southern state and industrial corridors in Prakasam and Guntur districts.

MAINTENANCE OF RECORDS

- "Records" include the records maintained in the form of books or stored in a computer or such other form as may be prescribed. (Sec 2(1)(w) of PMLA, 2002)
- Section 12 (1) (a) of the Act makes it mandatory for every banking company, financial institution and intermediary to maintain a record of all transactions, the nature and value of which may be prescribed, whether such transactions comprise of a single transaction or a series of transactions integrally connected to each other, and where such series of transactions take place within a month.

FURNISHING OF INFORMATION

- Section 12 (1) (b) of the Prevention of Money Laundering Act, 2002, makes it mandatory for every banking company, financial institution and intermediary to furnish information of transactions to the Director within such time as may be prescribed.
- However, if the principal officer of a banking company or financial institution or intermediary, as the case may be, has reason to believe that a single transaction or series of transactions integrally connected to each other have been valued below the prescribed value; such officer shall furnish information in respect of such transactions to the Director within the prescribed time.

FURNISHING OF INFORMATION

- Reports prescribed under PMLA, 2002
- The Prevention of Money laundering Act, 2002 and the Rules there under requires every reporting entity (banking company, financial institution and intermediaries) to furnish the following reports:
 - Cash Transaction reports (CTRs)
 - Suspicious Transaction Reports (STRs)
 - Counterfeit Currency Reports (CCRs)
 - Non Profit Organisation reports (NPRs)



CARBON TRADING in BELGIUM

Belgian prosecutors highlighted the massive losses faced by EU governments from VAT fraud after they charged three Britons and a Dutchman with money-laundering following an investigation into a multimillion-pound scam involving carbon emissions permits.

The three Britons, who were arrested in Belgium, were accused of failing to pay VAT worth €3m (£2.7m) on a series of carbon credit transactions.

CDBT & ED

- The finance ministry has roped in Enforcement Directorate, Financial Intelligence Unit and Directorate of Revenue Intelligence besides the I-T department to investigate the list of 600 who have allegedly stashed funds in tax havens
- ED has begun investigation of foreign exchange violations, and possible money laundering against these 600 entities. The database of 600 was first brought out by the International Consortium of Investigative Journalists (ICIJ) in the summer of 2013.





Punjab Kabbadi

First it was a dubious link to an international synthetic drugs racket and now another accusation has come - money laundering.

The Central Bureau of Investigation (CBI) has in March, 2014 asked the Punjab government to furnish records of the World Kabaddi Cup organised by it in recent years.

The CBI, which recently booked owners and directors of realty company Peeris Group in an alleged Rs. 45,000-crore agricultural land scam, had turned its focus on the World Kabaddi Cup, an event of the Punjab government.

IDENTITY OF CLIENTS

- It is mandatory for every banking company, financial institution and intermediary, at the time of opening an account or executing any transaction with it, to verify the record of identity and current address or addresses including permanent address or addresses of the client, the nature of business of the client and his financial status.
- If it is not possible to verify the identity of the client at the time of opening an account or executing any transaction, the banking company, financial institution and intermediary are required to verify the identity of the client within a reasonable time after the account has been opened or the transaction has been executed.



Identity of Clients

- Every banking company, financial institution and intermediary, as the case may be, should exercise ongoing due diligence with respect to the business relationship with every client and closely examine the transactions in order to ensure that they are consistent with their knowledge of the customer, his business and risk profile.
- No banking company, financial institution or intermediary, as the case may be, should keep any anonymous account or account in fictitious names.





Speak Asia

- More than 210 bank accounts containing over Rs 142 crore has been frozen.
- 150 bank accounts are under investigation over suspicion of funds being transferred in the scam
- Over Rs 750 crore was being laundered across various countries.
- The money was sent from India to banks in Singapore and from there to Dubai, Italy and UK. Interestingly, the money came back from UK again to UAE (Dubai)

HSBC to pay up \$1.9bn fine for money-laundering

HSBC has agreed to pay a record \$1.92 billion fine to settle a multi-year probe by US prosecutors, who accused Europe's biggest bank of failing to enforce rules designed to prevent the laundering of criminal cash. They also charged the bank with violating sanctions laws by doing business with Iran, Libya, Sudan, Myanmar and Cuba. HSBC admitted to a "breakdown of controls" and promptly apologized. **P 25**

...pected to be on the lines of an investi

Indians Abroad

- Twelve Indians, arrested in Bahrain in connection with a major money laundering operation, will go on trial from 1st march, 2014. The Indians, working for an exchange company, were arrested in December, 2013 following a major investigation spanning Bahrain, Saudi and the UAE. They along with three others are facing trial for allegedly being part of the money-laundering ring that transferred up to 350 million dinar. They have been charged with hiding data, failing to provide registers documenting the company's transactions and providing Central Bank of Bahrain (CBB) with false information, in addition to money-laundering, illegal transferring and forging documents.



Trusts / NGOs

- Charitable trusts, whether temples, churches or mosques, nongovernment organisations (NGOs), educational institutions or societies, if registered as non-profit organisations (NPOs), will not only have to disclose the source of their funds, but also be scrutinised for large monetary transactions.
- The change has been done by an amendment to the Prevention of Money Laundering Act (PMLA) 2002, notified in the Official Gazette to bring NPOs under the purview of the law. Earlier, the entities that fell under the ambit of the law included only chit fund companies, banking companies, financial institutions and housing finance companies.
- The amendment now says any company registered under section 25 of the Indian Companies Act, 1956, and/or as a trust or society under the Societies Act, 1860, or any similar state legislation, will be brought under the purview of PMLA.



NGOs

- The foreign donations to the Indian Non Governmental Organisations registered a significant spurt, with 22,702 associations reporting to have jointly received Rs 11,546 crore in 2011-12.
- A total of Rs 10,334 crore was received in 2010-2011 by over 22,000 Non Governmental Organizations across the country. According to a latest report of March 2014 of the Ministry of Home Affairs, Delhi received the highest amount of contributions (Rs 2,285 crore), followed by Tamil Nadu (Rs 1,704 crore) and Andhra Pradesh (Rs 1,258 crore). The US was the biggest donor, pumping in Rs 3,838 crore followed by the UK (Rs 1,219 crore) and Germany (Rs 1,096 crore).
- Raising concern over foreign donations, the Ministry of Home Affairs said: “While it is not proper to make sweeping generalizations, it is necessary to note that the Non Governmental Organisations sector in India is vulnerable to the risks of money laundering and terrorist financing.” The Ministry said it would continue to coordinate with other countries and state Police organisations to crackdown on suspicious donations.



RBI penalises 22 Banks

for violation of its instructions, among other things,
on Know Your Customer/Anti Money Laundering



Monetary Penalty (in ₹ Crores)

Andhra Bank	2.50	Kotak Mahindra Bank Ltd.	1.501
Bank of Baroda	3.00	Oriental Bank of Commerce	2.00
Bank of India	3.00	Punjab and Sind Bank	2.50
Canara Bank	3.001	Punjab National Bank	2.50
Central Bank of India	3.00	State Bank of India	3.00
Deutsche Bank A.G.	1.00	The Federal Bank Ltd.	3.00
Development Credit Bank Ltd.	1.00	The Lakshmi Vilas Bank Ltd.	2.50
Dhanlaxmi Bank Ltd.	2.00	The Ratnakar Bank Ltd.	0.50
Indian Overseas Bank	3.002	United Bank of India	2.50
ING Vysya Bank Ltd.	1.50	Yes Bank Ltd.	2.00
Jammu & Kashmir Bank Ltd.	2.501	Vijaya Bank	2.00

Cautionary Letter

Barclays Bank PLC	Standard Chartered Bank
BNP Paribas	State Bank of Patiala
Citibank N.A.	The Bank of Tokyo
Royal Bank of Scotland	Mitsubishi UFJ Ltd.



Know Your Client (KYC)

- Quality is Important
- Beneficial Owner - KYC
- No alternative & to be fully complied with
- Program to refresh KYC on an ongoing basis
- Rule & Risk based approach
- Concurrent KYC
- Country specific rules are to be adopted

PROVE YOURSELF ONCE MORE

Finish the paperwork soon to avoid hiccups later

WHAT ARE KYC NORMS?

KYC stands for know your customer. Compliance with KYC norms is mandatory in case of investments in mutual funds, direct equities, opening of a bank account, taking a gas connection and others

WHAT IS THE RATIONALE?

To prevent money laundering (by infusing unaccounted money into banking system)

WHAT BANKS ARE ASKING FOR

- Self attested copy of Permanent Account Number (PAN).
- Self attested proof of address
- Passport size photograph
- KYC form sent by the bank duly signed.



C

- Constitution

I

- Identity of Entity

A

- Address of Entity

A

- Authorization for the account

P

- Photograph of authorized signatories

I

- Identity of the authorized signatories

A

- Address of the authorized signatories

O

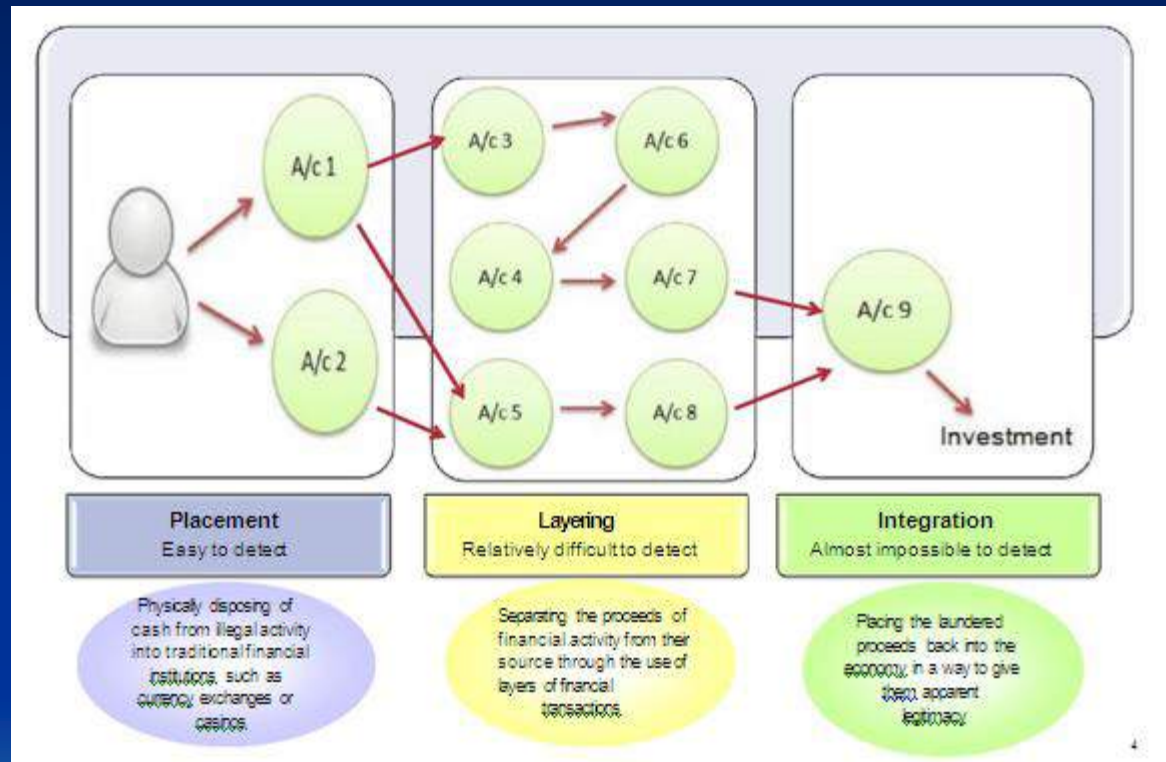
- Ownership and Control Structure

Regulatory Issues & Importance of KYC

- Risk-based Due Diligence & Program Quality
- Gaps between the Customer information required to achieve satisfactory KYC and the information available within the system
- Technology Based Solutions
- Changing Dynamics
- Innovation In KYC



Program Quality and Approach



Customer Acceptance Policy

- No anonymous accounts
- Customer risk categorization
- Name screening against negative lists

Customer Identification Procedure

- Identification & verification of customer
- Periodic updation of customer identification data

Transaction Monitoring

- Threshold based monitoring
- Large cash transactions inconsistent with the normal and expected activity of the customer
- Periodic review of AML risk categorization

Risk Management

- Board approved KYC Policy
- Management oversight on policy implementation
- Independent internal audit & compliance function

KYC – Steps in information capturing

- Know your customer' means that the true identity of customer is known before a banking relationship is established.
- KYC needs to be done by asking additional customer information and obtaining documents as approved under the KYC policy
- Critical Steps :
 - Need to verify the Identity of all applicants
 - Verify originals of all Documents being provided
 - Knowing the place of Existence
 - Rationale for Starting the relationship and History
 - Where and How information is Captured & Mapped

KYC – Steps in information capturing

- Customer Information:
- All customers should be met in person
- Understand why customer wants to buy our product ?
- Know your customer and his business
- Check if he/ she is: -a public figure?
-b close relatives?
- Know the source of funds
- Know the legitimacy of transactions
- Know the pattern of account activity

Emerging Typologies

- **Multi Level Marketing (MLM) firms: MLM Companies** are misused for defrauding public by luring them into depositing their money with the MLM company by promising a high return. Such depositors are assured of high returns and issued post-dated cheques for interest and repayment of principal. This results in fraud on the public and is a reputational risk for bank concerned. MLM firms fall under the restricted segment.
- **Money Mules: “Money Mules”** could be used to **launder the** proceeds of fraud schemes (e.g., phishing and identity theft) by criminals who gain illegal access to deposit accounts by recruiting third parties to act as “money mules”. In some cases these third parties may be innocent while in others they may be having complicity with the criminals.

Innovation in KYC

- Few big steps
- Unique Customer Identification Code
- E-KYC
- Centralized Repository
- Innovation in KYC
- Standardization across the country across financial
- Institutions



Red Flags relating to Financial & Banking Products



Use of Letter of Credit

- Use of **letters of credit** to move money between those countries, where such trade would not normally occur and / or **is not consistent with the customer's usual business activity.**
- A Letter of credit is generally resorted to so as to accord more legitimacy to the transaction in order to conceal the real facts



Method of Payment

- The method of payment requested by the client appears inconsistent with the risk characteristics of the transaction. For example receipt of an advance payment, for a shipment, from a new seller in a high risk jurisdiction



Third Party Payments

- The transaction involves the receipt of cash (or by other payment methods) **from third party** entities that have no apparent connection with the transaction or which involve front or shell companies or wire instructions / payment from parties which were not identified in the original letter of credit or other documentation. The transactions that involve payments for goods through cheques, bank drafts, or money orders not drawn on the account of the entity that purchased the items also need further verification.

Amendments to LCs

- The transaction involves the use of **repeatedly amended or frequently extended letters of credit** without reasonable justification or that includes changes in regard to the beneficiary or location of payment without any apparent reason.



Unusual Deposits

- Unusual deposits i.e. use of cash or negotiable instruments (such as traveller's cheques, cashier's cheques and money orders) in round denominations (to keep below reporting threshold limit) to fund bank accounts and to pay for goods and services.
- The negotiable instruments may be sequentially numbered or purchased at multiple locations and may frequently lack payee information.
- Further, cash payments for high-value orders are also indication of TBML activity.



Multiple Account Payments

- Inward remittances in multiple accounts and payments made from multiple accounts for trade transaction of same business entity are indicators for TBML.
- In this regard the study of foreign exchange remittances may help detect the offence.



Shipment of Goods Inconsistent With Normal Geographic Trade Transaction

- **Shipment of goods Non consistent with normal geographic trade patterns** of the jurisdiction i.e. trade in goods other than goods which are normally exported/ imported by a jurisdiction or which does not make any economic sense e.g. Semi-conductor manufacturing equipment being shipped to a jurisdiction that has no electronics industry.



Circuitous route of shipment

- Circuitous route of shipment and/or circuitous route of financial transaction or Order for the goods is placed by firms or individuals from foreign countries other than the jurisdiction of the stated end user.



RED FLAGS WITH REGARD TO JURISDICTIONS

- a) The commodity is shipped to or from a jurisdiction designated as 'high risk' for ML activities or sensitive / non co-operative jurisdictions.
- b) The commodity is transhipped through one or more such high risk / sensitive jurisdictions for no apparent economic reason.
- c) Presence of Free Trade Zones / Special Economic Zones also affects the sensitiveness of a jurisdiction.

RED FLAGS WITH REGARD TO GOODS

- Significant discrepancies between the description, quality and quantity of the goods on the documents such as bills of lading, invoices etc and the actual goods shipped.
- The misrepresentation in relation to or type / grade of goods.

For example, a relatively inexpensive good invoiced as being more expensive, of different quality or even as an entirely different item so the documentation does not accurately record what is actually supplied. Cheap cloth items / waste thereof are declared as premium quality garments to launder the criminal money.

- Significant discrepancies between the value of the commodity reported on the invoice and the commodity's fair market value. This is done either in conjunction with mis-declaration of the description / quality / grade of goods or without it. This is also often associated with mis-declaration of the jurisdiction of origin.

Inconsistent Consignment size or Quantity

- Consignment size or type of commodity being shipped appears inconsistent with the scale or capacity of the exporter or importer having regard to their regular business activities or the shipment does not make economic sense i.e. there is no reasonable explanation for the client's financial investment into the shipment.



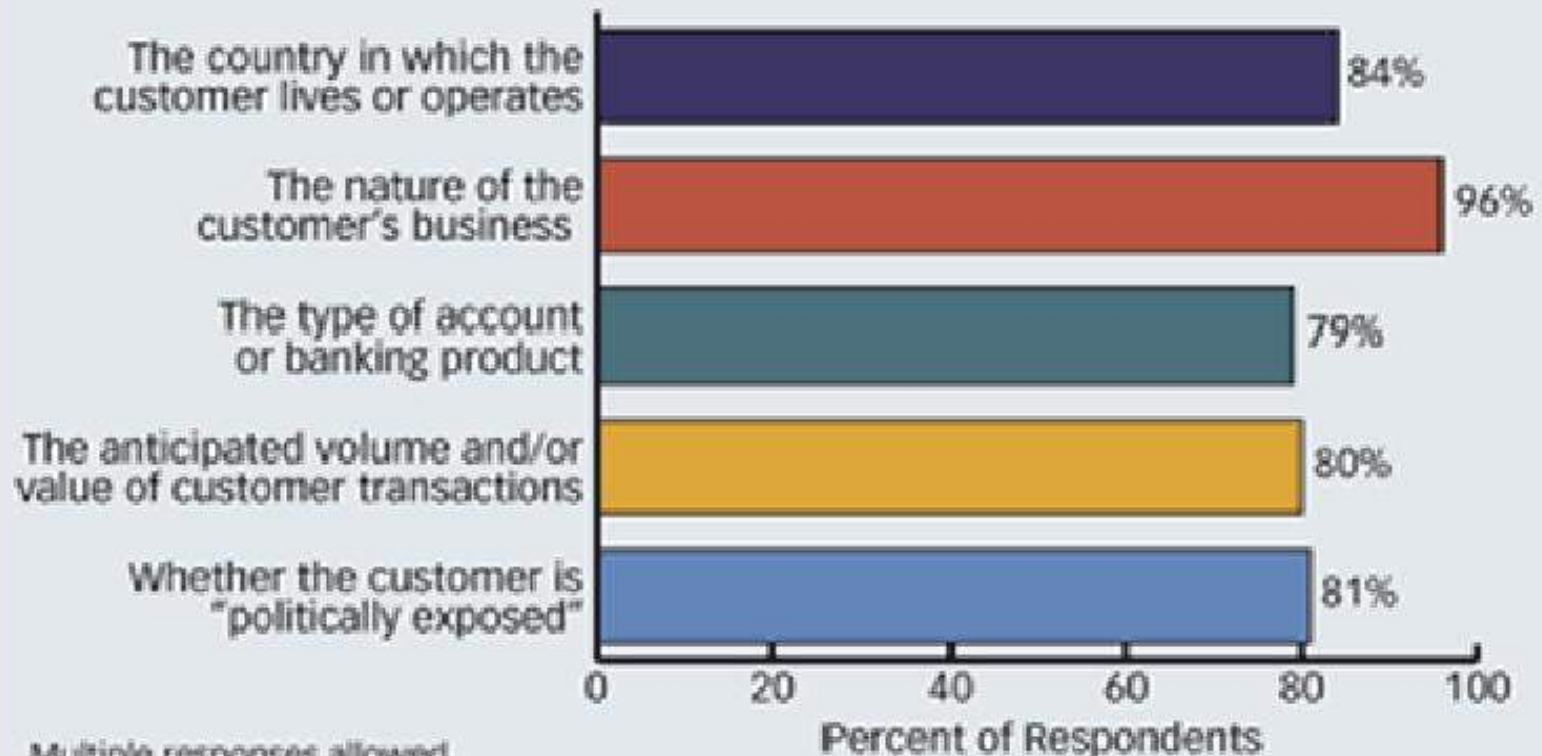
RED FLAGS WITH REGARD TO CORPORATE STRUCTURES

- Use of shell companies
- Use of front companies
- Sole proprietorship businesses/private limited companies set up by proxies.
- Related party transactions



Red Flags

Factors considered by financial institutions when using a risk-based approach at the account-opening stage:



Multiple responses allowed.

Source: KPMG's Global Anti-Money Laundering Survey, 2007

SEBI & PMLA

- The Securities and Exchange Board of India has tweaked its anti-money laundering/countering the financing of terrorism norms, reducing the time intermediaries have to maintain client records and allowing them to depend on third parties for carrying out due diligence of its clients.
- According to a circular issued on March 12, 2014, the changes were made following amendments made to the Prevention of Money Laundering Act and the Prevention of Money Laundering Rules.

SEBI & PMLA

- In the circular, stock exchanges have been asked to monitor compliance of the new norms through half-yearly audits and inspections, and inform SEBI. The regulator has reportedly been increasing its vigilance of money laundering activity in the light of the general elections. “Registered intermediaries may rely on a third party for the purpose of (a) identification and verification of the identity of a client and (b) determination of whether the client is acting on behalf of a beneficial owner, identification of the beneficial owner and verification of the identity of the beneficial owner,” said the circular.



THANK YOU

