

## VOLUNTARY DOCUMENT - 3

### **BASIC INFORMATION ABOUT AML MEASURES FOR GENERAL GUIDANCE OF CLIENTS :**

#### **Background:**

In response to mounting concern over money laundering world wide, G-7 summit as held in Paris in the year 1989, a policy making body having Secretariat Organisation for Economic Co-operation and Development (OECD) was established, to work for generating necessary political will / willingness to bring about national legislative and regulatory reforms to combat money laundering and terrorist financing.

World Bank and International Monetary Fund (IMF) have also established a collaborative framework in with Financial Action Task Force (FATF) in this regard. Our country (India) is also one of the member and has been accorded "Observer" status.

#### **Objectives;**

The brief objectives of these provisions is to establish general framework for the fight against money laundering, terrorism, financial crimes and corruption.

- ⊆ Ensuring that financial institutions are not vulnerable to infiltration or abuse by organized crime groups.
- ⊆ Building capacity to fight terrorism and trace terrorist money.
- ⊆ Meeting binding international obligations and avoiding the risk of sanctions or other actions by the international community.
- ⊆ Avoid becoming heaven for criminals.
- ⊆ Securing a more transparent and stable financial system that is attractive to foreign investors.

#### **What is Money Laundering ?**

- ⊆ To concealing or hiding financial assets with a view to use it without detection of its source that is illegal activity which produced it.
- ⊆ Through money laundering, the launder transforms the monetary proceeds derived from criminal activity into funds with an apparent legal source.
- ⊆ It is the process by which criminals try to hide and disguise the true source / origin and ownership of proceeds of their illegal/criminal activities.
- ⊆ It may be conversion of illegally earned income in to another form so that it appears as a legitimate income.
- ⊆ The term "Money Laundering" is also used in relation to financing of terrorist activity (where funds may/may not originate from crime).
- ⊆ It is a medium through which dirty money insert in the financial system and make such money look clean.
- ⊆ Money is circulated around the financial system in such a way that its ancestry gets hidden.

#### **Activities that can be considered as illegal/Criminal Activity:**

- |              |               |                              |
|--------------|---------------|------------------------------|
| ⊆ Corruption | ⊆ Bribery     | ⊆ Counterfeiting and Forgery |
| ⊆ Smuggling  | ⊆ Extortion,  | ⊆ Prostitution               |
| ⊆ Gambling   | ⊆ Robbery     | ⊆ Fraud                      |
| ⊆ Kidnaping  | ⊆ Tax Evasion | ⊆ Drug Trafficking           |

#### **Various stages of Money Laundering:**

**I. Placement:** It is a initial stage in which money from criminal activities is placed in financial institution. It may be through various methods viz. arranging or breaking up currency transactions in to portion which falls below reporting threshold for specific purpose to avoid reporting requirements.

**II. Layering :** It is a process of conducting a complex series of financial transactions with a purpose of hiding origin of money and hindering any attempt to trace the funds. It may include multiple trades for security, Purchase of financial product such as Life Insurance or purchase of legitimate businesses.

**iii. Integration:** Last and final stage in the re-injection of the laundered proceeds back in to the economy in such a way that they re-enter the financial system as normal business funds.

#### **Consequences of Money Laundering:**

- |   |  |
|---|--|
| ⊆ Finances terrorism                            | ⊆ Encourage crime                                |
| ⊆ Endangers society at large                    | ⊆ Weakening of macro economic factors of country |
| ⊆ Affects the integrity of the financial system | ⊆ Government control on economy reduces          |
| ⊆ Weakening of Law & Order                      |  |

#### **Indian Framework:**

India has also framed, "The Prevention of Money Laundering Act, 2002" (PMLA) which came into effect w.e.f. 01.07.2005. A separate Foreign Intelligence Unit (FIU) is also established as a central monitoring agency/central repository to combat Money Laundering. Necessary notifications / rules / guidelines/circulars/recommendations etc. are also issued and being issued by

various regulatory authorities including SEBI from time to time.

**Applicability of PMLA:**

The provisions of the Act are applicable to Banking Company, Financial Institution and Intermediary (which includes, stock broker, sub-broker, share transfer agents, portfolio manager and other intermediaries associated with Securities Market and registered under section 12 of SEBI Act, 1992.)

All the aforesaid entities have to maintain a record of all the transactions, its nature and value involved. Such transactions shall include:

- (a) All cash transactions > Rs. 10.00 lacs or its equivalent in foreign currency
- (b) All integrally connected series of cash transactions < Rs. 10.00 lacs or its equivalent in foreign currency within one calendar month
- (c) All suspicious transactions

**Suspicious Transactions:** Means a transaction, whether or not, made in cash which, to a person acting in good faith.

- (a) Gives a rise to a reasonable ground of suspicion that it may involve the proceeds of crime
- (b) Identity verification or address seems difficult or found to be forged/false
- (c) Gives rise to a reasonable ground of suspicion that it may involve financing of the activities relating to terrorism.
- (d) Unusual and unexplained large value of transaction
- (e) Unusual and unexplained activity in dormant accounts\
- (f) Transfer of large sums of money to /from overseas locations.
- (g) Appears to be made in circumstances of unusual or unjustified complexity
- (h) Appears to have no economic rationale or bonafide purpose.
- (i) Asset Management services where the source of the funds is not clear or not in keeping with apparent standing/business activity.

**Obligation of the Customer/Clients :**

**Always provide complete and correct details during account opening process like:**

- ✓ Address Proof
- ✓ Identity Proof
- ✓ PAN
- ✓ Income Details

**Periodically update your :**

- ✓ Contact details
- ✓ Financial details
- ✓ Occupational details

The transactions executed should be commensurate with the disclosed income details.

Provide requested explanations/details for suspicious transactions.

**Ramifications /Consequences /Implications:**

- (a) Money Launderer faces steep fines of double the amount of financial transaction, along with forfeiture of assets associated with laundered funds.
- (b) Whoever commits the offence of money laundering shall be punishable with rigorous imprisonment for a minimum term of 3 years extendable to 7 or 10 years and shall also be liable to fine which may extend to 5.00 lacs rupees.
- (c) Any kind of association with a criminal element can severely damage the reputation. It is in the best interests to keep names free of any criminal association.
- (d) Protect reputation by being informed about anti-money laundering rules and regulations,
- (e) If anybody sees activity that may indicate money laundering, report it to the Director, FIU India, 6<sup>th</sup> Floor, Hotel Samrat, Chanakyapuri, New Delhi -110021.

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I / We have read and understood the aforesaid AML literature and in token of acceptance of the same, do hereunto put our signature.

Client's Signature \_\_\_\_\_

Date : \_\_\_\_\_  
(dd/mm/yyyy)