



Anti Money Laundering and Combating Terrorist Financing

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Why to Monitor Money Laundering.

- Huge amount of funds are generated from illegal activities. These funds are mostly in the form of cash. Money laundering is the processing of these criminal proceeds to disguise their illegal origin.
- The groups or individuals (criminals) who generate these cash funds need to be brought into the legitimate financial system.
- All intermediaries in the financial market are therefore required to monitor the money laundering activities to identify entry of these illegal funds into the legitimate financial system.

Consequences of Money Laundering.

- Finances Terrorism: Money laundering provides terrorists with funds for financing their activities.
- Undermines rules of law and governance: The use of illegal money increases anti social activities and leads to undermining of rules of law and governance.
- Affects macro economy: Money laundering if not checked would lead to unusual changes in money demand, risk to bank soundness, corruption, crime, undermining of democracy and rule of the law.
- Hinders integrity of banking and financial system: The processing of illegal funds through an institution would result in the institution becoming a part of the criminal network which would have damaging effect on the integrity of the system as a whole.
- Reduces Revenue and Control: Money laundering reduces government tax revenue and weakens government control over the economy.

Steps in which money is laundered.

Money laundering basically involves three independent steps.

A: Placement: This refers to movement of cash from its source. This is done by placing funds into circulation through financial institutions, businesses, etc.

B: Layering: This stage aims at creating complex layers of financial transactions thereby making it more difficult to trace the source of these illegal funds.

C: Integration: This is the movement of previously laundered money into the economy mainly through the banking system and thus such monies appear to be normal business earnings. This is dissimilar to layering, for in the integration process detection and identification of laundered funds is provided through informants.

Global Framework – Financial Action Task Force.

- Financial Action Task Force was established by the G-7 summit in Paris in 1989 in response to mounting concern over money laundering.
- The Task Force was given the responsibility of examining money laundering techniques and trends, reviewing the action which had already been taken at a national or international level, and setting out the measures that still needed to be taken to combat money laundering.
- Works to generate the necessary political will to bring about national legislative and regulatory reforms to combat money laundering and terrorist financing.
- FATF comprises of 34 member jurisdictions including India and 2 regional organizations.

Indian Scenario.

- The Prevention of Money Laundering Act, 2002 (PMLA) forms the core of the legal framework put in place by India to combat money laundering. PMLA and the Rules notified there under came into force with effect from July 1, 2005 .
- Financial Intelligence Unit – India (FIU-IND) was set by the Government of India vide O.M. dated 18th November, 2004 as the central national agency responsible for receiving, processing, analyzing and disseminating information relating to suspect financial transactions.
- The PMLA and rules notified there under impose obligation on banking companies, financial institutions and intermediaries to verify identity of clients, maintain records and furnish information to FIU-IND. PMLA defines money laundering offence and provides for the freezing, seizure and confiscation of the proceeds of crime.

Obligation of the clients.

- The clients need to provide complete details like Address Proof, PAN, Income details etc. in order to help establish the identity and thereby help in tracing source of funds.
- Periodically update the financial details.
- The transaction executed need to commensurate with the disclosed income details.
- Client acceptance policy
Following procedure shall be followed by KYC department while accepting new Clients.
 - Concerned employee/person will carry out due diligence i.e. their whereabouts, experience in capital market and shall make the client aware of risk factor in dealing in capital market.
 - All the documents like Identification proof, residence proof, bank account proof, demat account proof etc. have to be self certified by the client and will be verified.
 - PAN details of the clients shall be verified with Income tax website and then account will be opened as per the records of income tax website.
 - Concerned employee/person who has carried out in-person verification will put his signature on KYC form.
 - On collection of requisite documents and after carrying out in-person verification and account is opened, copy of the complete KYC to be handed over and acknowledgement is obtained and preserved.
 - This policy will be applicable for all segments including DP

Thanking you.

For any queries, please contact at compliance@marwadionline.net.

Reference of websites

1. www.fiuindia.gov.in
2. www.sebi.gov.in
3. www.nseindia.com
4. www.bseindia.com