

## **Anti Money Laundering & Combating Financing of Terrorism ( CFT )**

The Financial Intelligence Unit-INDIA (FIU-IND) along with SEBI has come out with Prevention of Money Laundering Act, 2002 in INDIA to put a legal framework to identify and control financing of terror activity through money laundering and other illegal activities.

Money laundering has now become one of the major concerns of international financial community. Money Laundering is not just an attempt to disguise money derived from illegal activities. Rather, money laundering is involvement in any transaction or series of transactions that seek to conceal or disguise the nature or source of proceeds derived from illegal activities, including drug trafficking, terrorism, organized crime, fraud and many other crimes.

The objective is to have a system in place for preventing any money laundering financial transactions through stock brokers and also to identify, monitor and report any such transaction to appropriate authorities.

With a view to instill greater transparency and discipline in the dealings between the clients and the stock brokers, it has been decided, in consultation with Investor Associations, Secondary Market Advisory Committee of SEBI (SMAC), market participants and major stock exchanges, that the stock brokers shall comply with the requirements and derive a policy encompassing Customer Acceptance/Client Identification Program and Risk Categorization.

SEBI has issued a Master Circular No. ISD/AML/CIR-1/2010 dated 12th February, 2010 which consolidates all the requirements/obligations issued with regard to AML/CFT. Khambatta Securities Ltd. Being a Stock Broker and a Depository Participant needs to adhere to the same.

[<http://www.sebi.gov.in/circulars/2010/mastercircular/MasterCircular.pdf> ; <http://www.sebi.gov.in>] \

The objective is to have in place adequate policies, practices and procedures that promote high ethical and professional standards and prevent the Company from being used, intentionally or unintentionally, by criminal elements. KYC Standards and Anti Money Laundering Measures would enable the Company to know/understand the financial dealings of its customers, the beneficial owners, the principals behind customers who may be acting as agents which in turn will help the Company to manage its risks prudently. The management of the company is fully committed to establish appropriate policies and procedures for ensuring effectiveness and compliance with respect to all relevant legal requirements.

In view to spread awareness amongst the clients we have tried and highlighted some important points herein below. We expect the co-operation of our clients in this regard and update their KYC details submit financial details from time to time/as and when required by law.

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

- Money Laundering can be defined as engaging in financial transaction that involve income derived from criminal activity, transactions designed to conceal the true origin of criminally derived proceeds and appears to have been received through legitimate sources/origin.
- Mode to insert dirty money in the financial system.
- This is done in three phases
- Placement: Initial stage in which cash proceeds from criminal activities is placed in financial institutions.
- Layering: Process of conducting a complex series of financial transactions, with the purpose of hiding the origin of the money from the criminal activities.
- Integration: Final stage in the re-injection of the laundered proceeds back into the economy in such a way that they re-enter the financial system as normal business funds.

### **Prevention of Money Laundering Act, 2002 [<http://fiuindia.gov.in/pmla2002.html>]**

- Prevention of Money Laundering Act, 2002 (PMLA) came into force with effect July 01 , 2005.
- PMLA forms the core of the legal framework put In place by India to combat money laundering.
- PMLA defines money laundering offence and provides for the freezing, seizure and confiscation of the proceeds of crime.
- Financial Intelligence Unit-India(FIU-IND) established in 2004 by the Government of India.
- FIU-IND acts as a central repository for maintaining national database of reports submitted by reporting entities & has power to investigate.

### **Consequences of Money Laundering**

- Finances terrorism.
- Encourages crime.
- Endangers society at large.
- Weakening of macro economic factors of country.
- Affecting the integrity of the financial system.
- Reduction of government control on economy.
- Weakening of law & order.

### **Objectives of AML/ CFT Programme**

- 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.

### **Obligation of the Customer**

- Provide complete details during KYC process viz., address proof, identity proof, PAN, Income/Financial Details, etc.
- Periodically update contact details.
- Periodically update financial details.
- To submit relevant documents as requested from time to time.

*A Khambatta Securities Ltd's Investor Awareness Initiative...*