

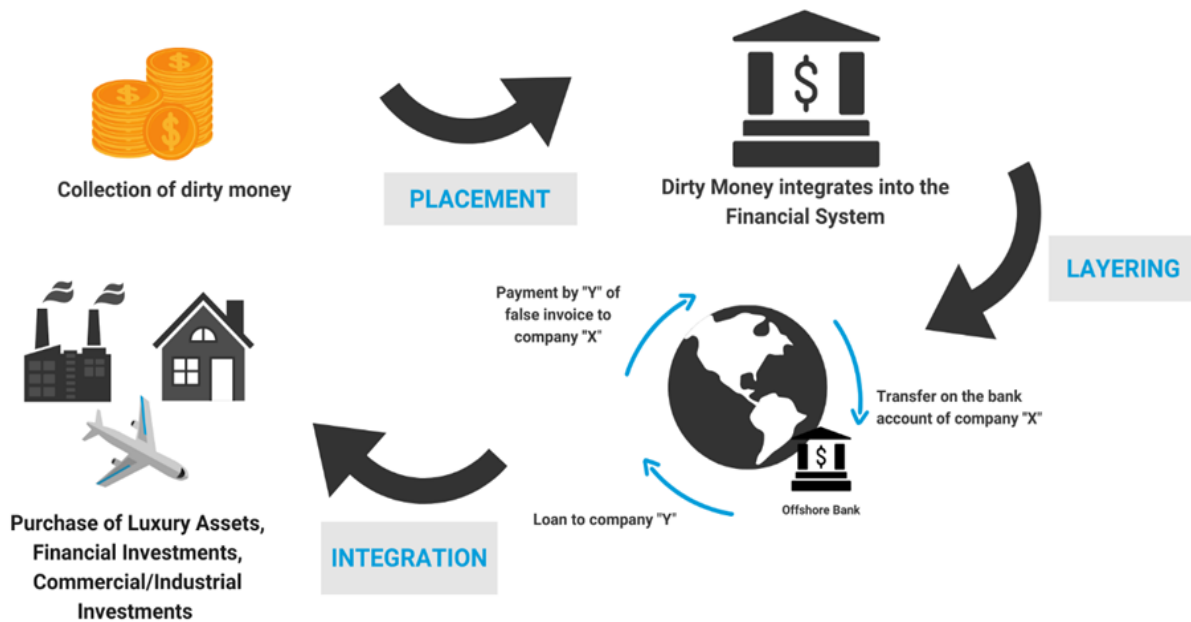
JAIIB PPB Module A (Unit 2-AML KYC Guidelines)

MONEY LAUNDERING & FINANCING OF TERRORISM RISKS



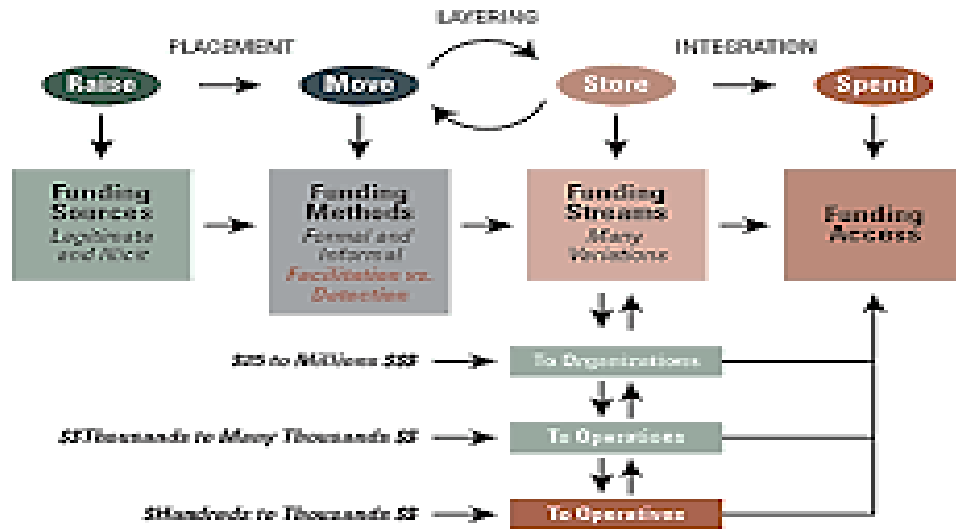
Stages of Money Laundering

Money Laundering Cycle



Stages of Financing of Terrorism

Figure 1: Funding: Sources / Methods / Access



Objectives of Prevention of Money Laundering

The main objectives of measures for prevention of money laundering are:

- (a) To prevent criminal elements from using the financial system for money laundering activities.
- (b) To prevent spread of criminal activities in society.
- (c) To safeguard the economy from financial crimes.
- (d) To prevent terrorists from gaining access to financial resources.

AML FRAMEWORK IN INDIA

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|---|--|
| Financial Intelligence Unit-India (FIU-Ind) has been set up | <ul style="list-style-type: none"> For receiving information about various financial transactions from certain businesses, including banks and financial institutions. |
| Enforcement Directorate (ED) | <ul style="list-style-type: none"> is the investigation and prosecuting authority for money laundering crime. |
| Special Courts | <ul style="list-style-type: none"> for adjudication of cases pertaining to money laundering crime. The adjudicating authority has powers to freeze the assets and even confiscate the assets proved to be related to money laundering |
| Regulators of various business activities | <ul style="list-style-type: none"> issue operating instructions and guidelines for the businesses regulated by them |

Money Laundering Offence

- The offence of money laundering has been defined in Sec. 3 of the PMLA
- Sec. 45 of PMLA stipulates that all offences under the PMLA are to be deemed to be cognizable and non-bailable offences
- Sec. 4 of PMLA stipulates the punishment for money laundering offence, which is rigorous imprisonment for not less than 3 years but up to 7 years and fine as per the gravity of the offence
- In cases connected with offences under the Narcotics Drugs and Psychotropic Substances Act the imprisonment may extend up to maximum 10 year



RISK MANAGEMENT

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|--|---|
| <u>Risk Based Approach</u> | Banks shall apply a Risk Based Approach (RBA) for mitigation and management of the identified risk and should have Board approved policies |
| <u>Risk Assessment</u> | Banks should undertake assessment of and take effective measures to mitigate the ML/TF risks |
| <u>Customer Risk Categorisation</u> | Customers are classified into three risk categories namely high, medium and low, based on the risk perception of the bank. |
| <u>Role of Other Functions</u> | Concurrent/ internal auditors shall specifically check and verify the application of KYC/AML procedures at the branches |
| <u>Introduction of New Technologies</u> | Banks should build in appropriate KYC procedures before introducing new products/services/technologies |
| <u>Staff Hiring and Training</u> | Banks should also carry out due diligence and KYC in respect of third parties used for business activities, like Business Correspondents, Direct Sales Agents, Recovery Agents,, etc. |

Q1. Which of the following is not true?

- I. Money laundering (ML) is a process whereby the origin of funds generated from criminal activities.
 - II. Corruption, tax evasion, Ponzi schemes, other financial crimes, cybercrimes are closely connected with money laundering
 - III. CFT a global organization, was set up for evolving measures to be taken by financial sector businesses.
 - IV. Money laundering and terrorism financing are considered as criminal activities across the world.
- A. All are true except I
 - B. All are true except III
 - C. I & III
 - D. II & IV

Ans: B. All are true except III (Financial Action Task Force (FATF) is a global organization)

Q2. Choose the correct sequence of stages of financing of terrorism?

- I. **Moving** : Contributors to the terrorist organisations can be located anywhere and these funds are therefore required to be moved to the places of their establishments of the terrorist organisations
 - II. **Raising**: Terrorist organisations source funds from their sympathisers both individuals and organisations
 - III. **Using**: The raised funds are used for the purposes of carrying out the terrorism act or for various organisational related activities
 - IV. **Storing**: Funds are parked in the interim in bank accounts or any other financial investment.
- A. I, II, III & IV
 - B. II, IV, III & I
 - C. III, IV, I & II
 - D. II, I, IV & III

Ans: D. II, I, IV & III

Q3. Which of the following is not a stage of Money Laundering?

- A. Placement
- B. Layering
- C. Raising
- D. Integration

Ans: C. Raising

Q4. Match the following and choose the correct sequence?

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| I. Placement | a. The funds lying in multiple accounts in one or few accounts that are then deployed for investing in some legal business activity or for acquiring some asset in legitimate manner. |
| II. Layering | b. In this stage the funds from criminal activity are introduced into the financial system |
| III. Integration | c. Funds are passed through numerous financial transactions in these accounts creating several layers of funds transfers |

- A. I-c, II-a, III-b
- B. I- b, II- c, III- a
- C. I- a, II- c, III- b
- D. None of these

Ans: B. I- b, II- c, III- a

Q5. Choose the correct answer in respect to AML framework in India?

- I. Financial Intelligence Unit-India (FIU-Ind) has been set up for receiving information about various financial transactions from certain businesses, including banks and financial institutions
 - II. ED also has supervisory powers over the business entities that are subject to PMLA
 - III. Enforcement Directorate (ED) is the investigation and prosecuting authority for money laundering crime.
 - IV. High Court are for adjudication of cases pertaining to money laundering crime
 - V. The Regulators of various business activities, covered under PMLA, issue operating instructions and guidelines for the businesses regulated by them for discharging their obligations under the PMLA and PMLR
- A. All are correct except II & V
 - B. I, II, III & V
 - C. I, III, IV & V
 - D. All are correct except II & IV

Ans: D. All are correct except II & IV

Q6. Which of the following is not correct in respect to Money laundering offence?

- I. The offence of money laundering has been defined in Sec. 5 of the PMLA
 - II. Sec. 45 of PMLA stipulates that all offences under the PMLA are to be deemed to be cognizable and non-bailable offences
 - III. Sec. 4 of PMLA stipulates the punishment for money laundering offence, which is rigorous imprisonment for not less than 3 years but up to 7 years
 - IV. In cases connected with offences under the Narcotics Drugs and Psychotropic Substances Act the imprisonment may extend up to maximum 15 years.
- A. All are correct except I & IV
 - B. I, II & III
 - C. I, III, IV
 - D. D. All are correct except II & IV

Ans: A. All are correct except I & IV

