



## FINANCIAL INTELLIGENCE UNIT - INDIA



## ANNUAL REPORT 2006-07

Department of Revenue, Ministry of Finance  
Government of India

## THE GOLDEN MOMENT



Finance Minister Shri P. Chidambaram inaugurating the office of the Financial Intelligence Unit - India on 16<sup>th</sup> March 2006



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वित्त मंत्री  
भारत  
नई दिल्ली – 110001  
FINANCE MINISTER  
INDIA  
NEW DELHI - 110001

19<sup>th</sup> JUNE 2007



#### MESSAGE

I am happy to learn that Financial Intelligence Unit-India (FIU-IND) is bringing out its first Annual Report.

FIU-IND has been set up to play a crucial role in India's fight against the menace of money laundering and terrorism financing. Further, as a repository of information relating to suspicious financial transactions, it is also assisting different law enforcement and intelligence agencies by providing useful information to them.

FIU-IND has also become a member of the Egmont Group in May, 2007 which is a major step forward in India joining the international community in its fight against money laundering and in combating financing of terrorism. It is expected that as an Egmont member, exchange of information with counterpart Financial Intelligence Units will increase significantly.

I hope that the Annual Report will be found useful by the readers.

  
(P. Chidambaram)





सत्यमेव जयते

राजस्व सचिव

**REVENUE SECRETARY**

भारत सरकार  
वित्त मंत्रालय  
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### MESSAGE

Annual Report of any organization is a useful medium to provide relevant information to persons who are willing to, or need to, be informed about it. As Financial Intelligence Unit-India (FIU-IND) is a relatively new organization, its Annual Report should be of interest to many.

I am happy to learn that FIU-IND is bringing out its first Annual Report and expect that the 'Annual Report 2006-07' of FIU-IND would not only provide information about its functions, but also about the role it plays in the global war against money laundering and financing of terrorism. I hope the Annual Report also helps charter the way forward for FIU-IND in the future.

(P.V. BHIDE)

## DIRECTOR'S REPORT

## ***DIRECTOR'S REPORT***



'Annual Report 2006-07' is the first annual report of Financial Intelligence Unit-India (FIU-IND) and coincides with my first year as its director.

After the Prevention of Money Laundering Act, 2002 (PMLA) was brought into force from 1st July, 2005, the formats for reporting transactions to FIU-IND were notified by March, 2006. Thereafter, reporting to FIU-IND started in early part of 2006-07. As such the year 2006-07 was a very significant year for FIU-IND, being virtually the first year of its operation. We had a number of tasks at hand. On the one hand, we had to educate a large number of reporting entities about their obligation to report under the PMLA and ensure that reports were submitted by them and submitted correctly, on the other we had to analyse these reports and, in appropriate cases disseminate information to the relevant Law Enforcement and Intelligence agencies. We also had to ensure that maximum reports were received in electronic format as handling large number of manual reports was neither desirable nor practical in the long run. What gives us satisfaction, however, is that we were successful in receiving more than 2.1 million cash transaction reports and 817 suspicious transaction reports in the year 2006-07. It is also a matter of satisfaction that 96.2% of the cash transaction reports were received in electronic format as a result of technical support and regular feed-back to reporting entities on quality of reports received.

The year 2006-07 was also very significant for FIU-IND as it had to establish relationship with its domestic partners i.e. enforcement agencies, intelligence agencies and regulatory authorities. This was necessary for improving compliance as well as ensuring that the disseminated information was put to intended use. We had regular interaction with various domestic partner agencies to further enhance co-operation with them.

On the international front, FIU-IND started receiving requests and exchanging information with counterpart Financial Intelligence Units. It also actively participated in the activities of international organizations engaged in the fight against money laundering and terrorism financing including FATF and APG. It started the process of becoming member of the Egmont Group soon after it was set up and the first director was appointed in March, 2005. The Outreach Working Group of the Egmont visited FIU-IND in April, 2006 and verified its operational status. On being satisfied with FIU-IND's operational status and the legal framework within which it operates, FIU-IND was admitted as a member of the Egmont Group in the Plenary session at Hamilton, Bermuda in May, 2007. We hope that as a member of the Egmont, we will have a larger role to play in international arena in the years to come.

FIU-IND is identifying suitable system and processes to operate in electronic environment. With the objective to adopt industry best practices and appropriate technology, FIU-IND has initiated project FINnet - Financial Intelligence Network. The project commenced in March, 2007 with the appointment of the consultant and we expect to have an effective system to receive, analyse and disseminate information in not too distant future.



The major thrust in the year 2006-07 was to make the reporting system under the PMLA operational and we have been largely successful in getting things started. However, the road ahead is very long. Role of FIU-IND is expected to increase significantly in future as better compliance should result in much larger number of reports in the years to come. The recent amendment in the PMLA rules specifically provides for reporting of suspect transactions relating to terrorism financing which would also increase the role of FIU-IND in combating financing of terrorism. Use of appropriate processes and technology is going to be vital for our success. We are confident of meeting the challenge.

The Annual Report being presented gives operational status of FIU-IND as on 31.3.2007 and its achievements in various areas. I hope this will be found useful by the readers to understand the role of FIU-India, both in domestic and global context.



(Arun Goyal)  
Director

Financial Intelligence Unit - India

## CONTENTS

<i>Highlights</i> .....	10
<i>Overview</i> .....	11
Global Scenario .....	12
Anti Money Laundering (AML) Measures in India .....	14
Obligations of the Reporting Entities .....	15
Financial Intelligence Unit-India .....	16
<i>Operational Status</i> .....	17
Improving Compliance .....	18
<i>Increasing Awareness and Training</i> .....	18
Collection of Information .....	20
<i>Cash Transactions</i> .....	20
<i>Suspicious Transactions</i> .....	21
Analysis and Dissemination of Information .....	23
<i>Analysis</i> .....	23
<i>Dissemination</i> .....	23
<i>Feedback</i> .....	23
Relationship with Domestic Partners .....	24
<i>Intelligence and Law Enforcement Agencies</i> .....	24
<i>Regulatory Authorities</i> .....	24
<i>Other Authorities</i> .....	24
International Relationship .....	25
<i>Egmont Group</i> .....	25
<i>Foreign FIUs</i> .....	25
<i>International Organizations dealing with AML/CFT issues</i> .....	25
<i>Joint Working Groups</i> .....	25
Capacity Building .....	26
<i>Setting up of office</i> .....	26
<i>Improving skills of personnel</i> .....	26
Information Technology .....	27
<i>Implementation during the year</i> .....	27
<i>Project FINnet</i> .....	28
<i>Appendices</i> .....	29
Appendix A: Staff Strength .....	30
Appendix B: Chronology of Events .....	31
<i>Glossary</i> .....	32

### *Boxes*

Box 1: Definition of FIU .....	13
Box 2: Scheduled Offences Under the PMLA .....	14
Box 3: Reporting Entities .....	15
Box 4: Functions of FIU-IND .....	16
Box 5: Partners in Training and Increasing Awareness .....	18
Box 6: Examples of Suspicious Transactions Reported .....	22
Box 7: Recipients of Information .....	23
Box 8: Combating Financing of Terrorism .....	23
Box 9: FIU-IND Website .....	27
Box 10: Project FINnet Timeline .....	28
Box 11: Proposed Functionalities in Project FINnet .....	28

### *Tables*

Table 1: Awareness and Training Programmes .....	19
Table 2: Receipt of CTRs .....	20
Table 3: Receipt of STRs .....	21
Table 4: Types of Suspicion .....	21
Table 5: Dissemination of STRs .....	23
Table 6: Participation in Joint Working Groups .....	25
Table 7: Improving skills at FIU-IND .....	26

### *Pie-Charts*

Pie-Chart 1: Distribution of STRs Received .....	21
Pie-Chart 2: Distribution of Types of Suspicion .....	21

## HIGHLIGHTS

### Collection of Information

- 21,40,768 CTRs received upto 31.03.07
- 96.2 % of CTRs received in electronic format
- 817 Suspicious Transactions Reports received upto 31.03.07
- Data quality validations of all electronic reports

### Analysis and Dissemination of Information

- 646 STRs processed upto 31.03.2007
- 391 STRs disseminated upto 31.03.2007
- Establishment of feedback mechanism

### Improving Compliance

- Participated in 29 seminars, conferences and meetings covering more than 1600 participants
- Participated in 29 workshops in 15 cities covering more than 1100 participants
- Held 6 meetings with principal officers at FIU-IND

### Information Technology

- Development of report preparation utilities and data validations programs
- Creation of databases of reported individuals, entities, accounts and transactions
- Finalization of scope of work for Project FINnet
- Commencement of Project FINnet in March 2007

### Relationship with Domestic Partners

- Regular interaction with nodal officers of agencies
- Sharing information with enforcement / intelligence agencies
- Regular interaction with regulatory authorities

### International Relationship

- Observer status in Egmont group
- Sharing of information with foreign FIUs
- Interaction with international organisations dealing in AML / CFT issues
- Participation in Joint Working Groups

### Capacity Building

- Setting up of FIU-IND
- Visit to four established foreign FIUs
- Participation in three training programmes on AML / CFT issues

## OVERVIEW



## GLOBAL SCENARIO

### Background

In today's globalised economy, organized crime groups generate huge sums of money by drug trafficking, arms smuggling, financial crimes and other illegal activities. "Dirty money", however, is of little use to them because it raises the suspicion of law enforcement and leaves a trail of incriminating evidence. Criminals wanting to enjoy the benefit from the proceeds of crime, therefore, attempt to disguise their illegal profits by projecting them as legal money. This process is known as 'money laundering'.

Every criminal needs to launder the proceeds of crime, but the consequences of money laundering are bad for business, development, government and the rule of law. Money laundering undermines financial system, expands crime, criminalizes society, diminishes government's tax revenues and ultimately weakens government's control.

The seriousness of the problem of money laundering can be gauged from the fact that the International Monetary Fund had stated in 1996 that the aggregate size of money laundering in the world could be somewhere between two and five percent of the world's gross domestic product.

Need for a modern anti money laundering strategy became widely accepted globally in mid-1980s due to increasing trend of drugs related offences. The 1988 United Nations Convention against Illicit Traffic in Narcotic Drugs and Psychotropic Substances was the first international instrument which realized the need to deprive criminal elements of the proceeds of their crimes.

### Financial Action Task Force

Financial Action Task Force (FATF) was set up in 1989 by the G-7 Summit in Paris to generate necessary political will to bring about

national legislative and regulatory reforms to combat money laundering. The four essential objectives of the FATF under its current mandate (September 2004 to December 2012) are to: **Establish** global standards and measures for countering money laundering and terrorist financing; **Foster** and monitor countries' implementation of the standards; **Identify** money laundering and terrorist financing threats; and **Ensure** the importance of countering money laundering and terrorist financing is understood throughout the world.

In 1990, FATF issued 40 recommendations (revised in 1996 and 2003 to ensure relevance) providing comprehensive plan of action to prevent abuse of financial system for money laundering. In 2001, development of standards in the fight against terrorist financing was added to the mission of FATF and consequently, 8 special recommendations (revised to 9 in 2004) were issued to set out the basic framework to detect, prevent and suppress the financing of terrorism and terrorist acts.

### Asia-Pacific Group on Money Laundering

FATF has certain FATF-Style Regional Bodies (FSRBs) having similar form and functions as those of the FATF. In 1997, Asia-Pacific Group on Money Laundering (APG) was set up as a FSRB for the Asia-Pacific Region. The purpose of APG is to facilitate the adoption, effective implementation and enforcement of internationally accepted standards against money laundering and financing of terrorism, in particular the recommendations of the FATF. The APG assists jurisdictions in the region to enact laws to deal with the problem of money laundering and financing of terrorism, to effectively implement comprehensive preventive measures for the financial sector as well as certain other businesses and professions and

to establish coordinated systems for reporting and investigating suspicious transaction reports. It also assists in developing effective capacities to investigate and prosecute money laundering and the financing of terrorism offences.

### Financial Intelligence Units

As countries started developing anti money laundering strategy, it was found that law enforcement agencies had limited access to relevant financial information and it was felt necessary to engage the financial system directly in the efforts to combat money laundering. Need to set up a national central agency for reporting suspicious financial transactions by entities in financial sector led to setting up of specialised government agencies known as Financial Intelligence Units (FIUs) by various countries.

### Egmont Group

Recognising the benefits inherent in the development of a network of the FIUs, in 1995, a group of FIUs met at the Egmont Arenberg Palace in Brussels and decided to establish an informal group for stimulation of international co-operation, now known as the Egmont Group. As of 31st March 2007, the Egmont Group had 101 member countries with operational FIUs. Many other countries

have FIUs at various stages of development.

### BOX 1: DEFINITION OF FIU

*A central, national agency responsible for receiving, (and as permitted, requesting), analysing and disseminating to the competent authorities, disclosures of financial information:*

*(i) concerning suspected proceeds of crime and potential financing of terrorism, or*

*(ii) required by national legislation or regulation, in order to combat money laundering and terrorism financing.*

*\*Formalised by Egmont Group*

### Challenges

Rapid developments in financial markets, technology and communication pose serious challenges to the government authorities dealing with the problems of money laundering and financing of terrorism. Criminals are now taking advantage of the globalization of the world economy by transferring funds quickly across international borders. Need of a modern anti money laundering (AML) and combating financing of terrorism (CFT) strategy is therefore becoming more important than ever.



## ANTI MONEY LAUNDERING (AML) MEASURES IN INDIA

India joined the global war against money laundering by enacting the Prevention of Money Laundering Act, 2002 (PMLA) in early 2003. Objective of the PMLA is to prevent money laundering and to provide for confiscation of property derived from or involved in money laundering. The Act was brought into force from 1st July, 2005 after various rules framed under the PMLA were notified.

Section 3 of the PMLA defines an offence of money laundering as under:

“Whoever, 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 and projecting it as untainted property shall be guilty of offence of money laundering.”

“Proceeds of crime” has been defined in section 2 of the PMLA as the 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 such property.

“Scheduled Offences”, as per section 2 of the PMLA, are specified in two parts of the schedule to the PMLA. The value involved in offences specified in Part B should be Rs. 30 lakh<sup>1</sup> or more.

Under the PMLA, punishment for an offence of money laundering is rigorous imprisonment for a term not less than 3 years which may extend to 7 years (10 years in case of offences of drug trafficking) and fine which may extend to Rs. 5 lakh.

### BOX 2: SCHEDULED OFFENCES UNDER THE PMLA

#### Part A of the Schedule

- Offences relating to waging war against the State
- Offences relating to narcotic drugs and psychotropic substances

#### Part B of the Schedule

- Offences under the Indian Penal Code pertaining to murder, extortion, robbery, kidnapping for ransom and counterfeiting currency notes
- Offences under the Arms Act, 1959 pertaining to illegal manufacture, trading and possession of fire arms etc.
- Offences under the Wild Life (Protection) Act, 1972 pertaining to Illegal trade in flora and fauna etc.
- Offences under the Immoral Traffic (Prevention) Act, 1956 pertaining to Prostitution etc.
- Offences under the Prevention of Corruption Act, 1988 pertaining to Corruption by public servants etc.

<sup>1</sup> Lakh = Hundred thousand = 0.1 Million

## OBLIGATIONS OF THE REPORTING ENTITIES

Section 12 of the Prevention of Money Laundering Act, 2002 (PMLA) and relevant Rules<sup>2</sup> cast following obligations on reporting entities i.e. banking companies, financial institutions and intermediaries:

- (a) Maintain record of prescribed transactions
- (b) Furnish information of transactions referred to in clause (a) to the Director, FIU-IND in prescribed manner, and
- (c) Verify and maintain the records of the identity of all its clients, in prescribed manner.

Every reporting entity is required to appoint a Principal Officer to ensure compliance of obligations under the PMLA.

Regulatory authorities i.e. Reserve Bank of India (RBI), Securities and Exchange Board of India (SEBI) and Insurance Regulatory and Development Authority (IRDA) have issued circulars/notifications specifying the manner and procedure for complying with the obligations under the PMLA.

Director, FIU-IND is empowered to levy fine of not less than Rs. Ten thousand which may extend to Rs. One lakh for each failure on reporting entities.

### BOX 3: REPORTING ENTITIES

#### Banking Companies

- Public sector banks
- Private Indian banks
- Private foreign banks
- Co-operative banks
- Regional rural banks

#### Financial Institutions

- Financial Institutions as defined in Section 45-I of the RBI Act
- Insurance companies
- Hire Purchase companies
- Chit fund companies
- Housing finance institutions
- Non-banking financial companies

#### Intermediaries

All entities registered under section 12 of the SEBI Act including:

- Stock brokers
- Sub-brokers
- Share transfer agents
- Bankers to an issue
- Trustees to trust deed
- Registrars to issue
- Merchant bankers
- Underwriters
- Portfolio managers
- Investment advisers
- Depositories and depository participants
- Custodian of securities
- Foreign institutional investors
- Credit rating agencies
- Venture capital funds
- Collective investment schemes including mutual funds

<sup>2</sup> The Prevention of Money-laundering (Maintenance of Records of the Nature and Value of Transactions, the Procedure and Manner of Maintaining and Time for Furnishing Information and Verification and Maintenance of Records of the Identity of the Clients of the Banking Companies, Financial Institutions and Intermediaries) Rules, 2005.



## FINANCIAL INTELLIGENCE UNIT-INDIA

The fight against money laundering has been an essential part of the overall struggle to combat illegal narcotics trafficking, the activities of organised crime, and more recently the financing of terrorism. It became apparent over the years that banks and other financial institutions were an important source for information about money laundering and other financial crimes investigated by law enforcement agencies. Governments around the world also began to recognise the dangers that unchecked financial crimes posed to their economic and political systems. This resulted in setting up of specialised governmental agencies commonly referred to as “Financial Intelligence Units” (FIUs) all over the world.

Consequent to the enactment of the Prevention of Money Laundering Act, 2002 (PMLA), Financial Intelligence Unit-India (FIU-IND) was set up by the Government of India in the Department of Revenue, Ministry of Finance vide Office Memorandum dated 18th November, 2004. FIU-IND is the central national agency for receiving, processing, analyzing and disseminating information relating to suspect financial transactions. FIU-IND is also responsible for coordinating and strengthening efforts of national and international intelligence, investigation and enforcement agencies in pursuing the global efforts against money laundering and related crimes. FIU-IND is an independent body reporting to the Economic Intelligence Council headed by the Finance Minister.

FIU-IND is a lean organization headed by a Director who is of the rank of Joint Secretary to the Government of India. It is a technology intensive organization having total strength of

forty three personnel. Details of sanctioned manpower in FIU-IND are given in Appendix A.

The main function of FIU-IND is to receive cash/suspicious transaction reports, analyse them and, as appropriate, disseminate information to intelligence/ enforcement and regulatory agencies

### BOX 4: FUNCTIONS OF FIU-IND

#### Collection of Information

Act as the central reception point for receiving Cash Transaction Reports (CTRs) and Suspicious Transaction Reports (STRs) from various reporting entities.

#### Analysis of Information

Analyze received information to uncover patterns of transactions suggesting suspicion of money laundering and related crimes.

#### Sharing of Information

Share information with national intelligence/ law enforcement agencies, regulatory authorities and foreign Financial Intelligence Units.

#### Act as Central Repository

Establish and maintain national data base on cash transactions and suspicious transactions on the basis of reports received from reporting entities.

#### Coordination

Coordinate and strengthen collection and sharing of financial intelligence through an effective national, regional and global network.

#### Research and Analysis

Monitor and identify strategic key areas on money laundering trends, typologies and developments.



## OPERATIONAL STATUS

## IMPROVING COMPLIANCE

### *Increasing Awareness and Training*

As the PMLA was brought into force from 1st July 2005, emphasis was laid on increasing awareness of reporting entities during the year so as to make it effectively operational.

#### **FIU-IND website**

The website (<http://fiuindia.gov.in>) was launched by the Hon'ble Finance Minister on 16th March 2006. The section on Frequently Asked Questions (FAQs) was regularly updated and various utilities to assist reporting entities were made available on the website.

#### **Seminars, Conferences and Meetings**

Officers of FIU-IND participated as resource persons in seminars, conferences and meetings organised by regulatory authorities, industry associations, professional bodies and reporting entities to increase awareness about obligations under the PMLA and the role of FIU-IND. During the year, twenty nine such seminars, conferences and meetings were held covering more than sixteen hundred participants (*Table 1*).

#### **Workshops**

Officers of FIU-IND participated in various workshops organised by regulatory authorities and their training institutions all over the country to address implementation issues. The participants in these workshops were principal officers as well as technical and operational staff of commercial banks. Similar workshops were also conducted specifically for the management and principal officers of Regional Rural Banks, Urban Cooperative Banks, District Central

Cooperative Banks, State Cooperative Banks and Local Area Banks. In these workshops, software developed by FIU-IND to prepare electronic reports were also explained. Twenty nine such workshops were held in 15 cities during the year covering more than 1100 participants.

#### **Furthering awareness and compliance**

Many training programs were also attended by staff of the training institutes as well as audit and compliance staff of commercial banks. This is expected to further improve awareness and compliance in commercial banks.

### **BOX 5: PARTNERS IN TRAINING AND INCREASING AWARENESS**

#### **Regulatory Authorities**

- Reserve Bank of India (RBI)
- Securities and Exchange Board of India (SEBI)
- Insurance Regulatory Development Authority (IRDA)
- National Housing Bank (NHB)

#### **Training Institutions of Regulators**

- Bankers Training College, RBI, Mumbai (BTC)
- College of Agricultural Banking, RBI, Pune (CAB)
- Reserve Bank Staff College, Chennai (RBSC)

#### **Professional Bodies**

- Institute of Chartered Accountants of India (ICAI)

#### **Reporting Entities**

- Public Sector Banks
- National Securities Depository Limited
- Central Depository Services Limited

## Monitoring Compliance

### Regular monitoring of reporting obligations

The reports received from reporting entities were regularly monitored to improve compliance as well as quality of reports received. Regular interaction with the principal officers of reporting entities was maintained for this purpose.

### Meetings with Principal Officers and IT Heads of Banks

In order to improve compliance and quality of reports, six meetings were held with the principal officers and IT heads of public and private sector banks at FIU-IND premises during the year. In these meetings, Director, FIU-IND emphasized on submission of reports in electronic format as also to set up appropriate processes and systems to detect and report suspicious transactions.

Table 1: Awareness and Training Programmes

Organised By	Participants	Interactions	Participants
<b>Seminars, conferences &amp; meetings</b>			
Industry Associations	General	3	310
Industry Associations	Banks	5	592
Industry Associations	Intermediaries	5	210
Professional Bodies	Financial Institutions	1	60
Reporting Entities	Banks	6	193
Reporting Entities	Intermediaries	6	167
Regulators	Financial Institutions	3	100
		<b>29</b>	<b>1632</b>
<b>Workshops</b>			
Regulators	Cooperative Banks	22	755
Training Colleges	General	2	120
Training Colleges	Banks	4	242
Training Colleges	RBI Officers	1	30
		<b>29</b>	<b>1147</b>
<b>Meetings at FIU-IND</b>			
FIU-IND	Private Sector Banks	2	80
FIU-IND	Public Sector Banks	4	136
		<b>6</b>	<b>216</b>
	<b>Total</b>	<b>64</b>	<b>2995</b>

## COLLECTION OF INFORMATION

Under Section 12 of the PMLA and rules framed thereunder, all reporting entities are required to send information relating to large cash transactions, transactions involving forged or counterfeit currency notes and suspicious transactions to FIU-IND.

### **Cash Transactions**

Under the PMLA, every reporting entity is required to furnish to FIU-IND information relating to-

- a) All cash transactions of the value of more than rupees ten lakhs or its equivalent in foreign currency, and
- b) All series of cash transactions integrally connected to each other which have been valued below rupees ten lakhs or its equivalent in foreign currency where such series of transactions have taken place within a month.

Cash transactions are required to be reported on a monthly basis by the 15th day of the succeeding month.

### **Receipt of Cash Transaction Report**

Emphasis was laid on submission of CTRs in electronic format. 21,40,768 CTRs were submitted by various entities upto 31.03.07, out of which 20,59,400 CTRs (96.2 %) were submitted in electronic format (*Table 2*).

### **Ensuring data quality**

All electronic CTRs received in FIU-IND were processed and Data Quality Reports listing fatal and non-fatal errors were sent to the principal officers. In case of fatal errors, the reporting entity was required to resubmit the reports after rectification of errors. This resulted in gradual and steady improvement in the quality of data submitted by reporting entities.

**Table 2: Receipt of CTRs**

Category	CTRs submitted		
	Electronic	Manual	Total
Public Sector Banks	8,61,960	59,637	92,1597
Private Indian Banks	11,25,050	8,088	11,33,138
Private Foreign Banks	59,206	1,298	60,504
Cooperative Banks	13,184	12,345	25,529
Total	20,59,400	81,368	21,40,768



### Suspicious Transactions

Under the PMLA, every reporting entity is required to report suspicious transactions to FIU-IND. Rule 2(1)(g) of the relevant rules defines suspicious transaction as a transaction whether or not made in cash which, to a person acting in good faith -

(a) gives rise to a reasonable ground of suspicion that it may involve the proceeds of crime; or

(b) appears to be made in circumstances of unusual or unjustified complexity; or

(c) appears to have no economic rationale or bonafide purpose; or

(d) gives rise to a reasonable ground of suspicion that it may involve financing of the activities relating to terrorism.<sup>3</sup>

Suspicious transactions have to be reported within 7 days on being satisfied that the transaction is suspicious. 817 Suspicious Transactions Reports (STRs) were received upto 31st March 2007 (*Table 3 and Table 4*).

**Table 3: Receipt of STRs**

Type of reporting entity	STRs
Banking Companies	437
Financial Institutions	88
Intermediaries	292
<b>Total</b>	<b>817</b>

**Table 4: Types of Suspicion**

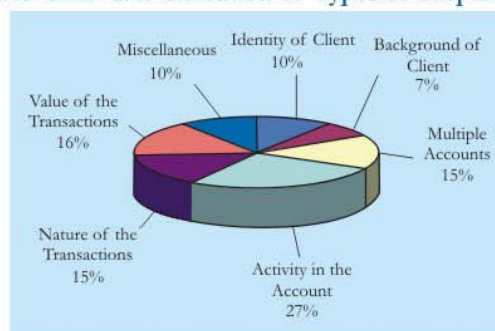
Type of Suspicion	STRs*
Identity of Client	107
Background of Client	79
Multiple Accounts	164
Activity in the Account	287
Nature of the transactions	159
Value of the transactions	176
Miscellaneous	112

\*One STR can have more than one type of suspicion

**Pie-Chart 1: Distribution of STRs Received**



**Pie-Chart 2: Distribution of Types of Suspicion**



<sup>3</sup> Modified vide Notification No. 4/2007 dated 24<sup>th</sup> May 2007



### Developing common understanding of suspicious transactions

The guidelines issued by the regulators contained examples of suspicious transactions as a guidance for regulated entities. Trends in suspicious transactions reported to FIU-IND were shared with reporting entities in various interactions to develop a common understanding of suspicious transactions. In some cases, FIU-IND also collaborated with the regulators and industry associations to develop uniform industry standards for detection of suspicious transactions.

### Monitoring effectiveness of reporting entities' AML Systems

The number and quality of STRs received in FIU-IND were analysed to determine the effectiveness of reporting entities' AML systems. During interaction with reporting entities, the information gathered during analyses was used to assist them in improving effectiveness of their AML systems.

#### BOX 6: EXAMPLES OF SUSPICIOUS TRANSACTIONS REPORTED

Type	Examples of Suspicion Transactions
Identity of Client	<ul style="list-style-type: none"> <li>• Identification documents were found to be forged</li> <li>• Address details given by the account holder were found to be false</li> <li>• Doubt over the real beneficiary of the account</li> </ul>
Suspicious Background	<ul style="list-style-type: none"> <li>• Positive match of name and date of birth with a person on the Interpol Watch List</li> <li>• Account of publicly known criminals</li> </ul>
Multiple Accounts	<ul style="list-style-type: none"> <li>• Doubtful large number of accounts having a common account holder, introducer or authorized signatory with no rationale</li> <li>• Unexplained transfers between multiple accounts with no rationale</li> </ul>
Activity in Accounts	<ul style="list-style-type: none"> <li>• Unexplained activity in dormant accounts</li> <li>• Unexplained activity in account inconsistent with what would be expected from declared business</li> </ul>
Nature of Transactions	<ul style="list-style-type: none"> <li>• Doubtful source of funds</li> <li>• Doubtful overseas fund transfer</li> <li>• Doubtful foreign remittance to non relatives</li> <li>• Cash deposits in a bank account at multiple locations</li> <li>• Suspicious use of ATM/Credit card</li> <li>• Doubtful foreclosure of loan account in cash</li> <li>• Suspicious off market transactions in demat accounts</li> </ul>
Value of Transactions	<ul style="list-style-type: none"> <li>• Multiple transactions of value just under the reporting threshold amount in an apparent attempt to avoid reporting</li> <li>• Unexplained large value transaction inconsistent with the clients apparent financial standing</li> </ul>

## ANALYSIS AND DISSEMINATION OF INFORMATION

The main function of FIU-IND is to receive cash/suspicious transaction reports, analyse them and, as appropriate, disseminate information to relevant intelligence/enforcement and regulatory agencies.

### *Analysis*

During analysis, search engine prototype is used to search and link additional information such as related addresses, individuals, entities and accounts in respect of the reported person. Facts reported in STR and other linked information are analysed and interpreted with a view to identify information relevant to any intelligence/enforcement agency. During the year 646 STRs were processed and in 391 cases information was disseminated to relevant agencies.

### *Dissemination*

Regular meetings are conducted to discuss analyzed reports and decide in which cases the information needs to be disseminated to any enforcement / intelligence agency for further action (Table 5). Information on regulatory issues is also shared with the concerned regulator.

**Table 5: Dissemination of STRs\***

Category of Agency	STRs
Law enforcement agencies	338
Intelligence agencies	60
Regulatory authorities	30

\* One STR can be disseminated to more than one agency

### *Feedback*

Mechanism was evolved for receiving feedback from enforcement / intelligence agency about the usefulness of disseminated information as well as the outcome thereof. The information contained in the feedback form is used to improve quality of analysis.

### BOX 7: RECIPIENTS OF INFORMATION

#### **Enforcement /Investigation Agencies**

- Central Board of Direct Taxes (CBDT)
- Central Board of Excise & Customs (CBEC)
- Directorate of Enforcement (ED)
- Narcotics Control Bureau (NCB)
- Central Bureau of Investigation (CBI)

#### **Intelligence Agencies**

- Ministry of Home Affairs (MHA)
- Intelligence Bureau (IB)
- National Security Council Secretariat (NSCS)
- Research & Analysis Wing (R&AW)

#### **Regulatory Authorities**

- Reserve Bank of India (RBI)
- Securities and Exchange Board of India (SEBI)
- Insurance Regulatory Development Authority (IRDA)

### BOX 8: COMBATING FINANCING OF TERRORISM

During the year 2006-07, FIU-IND also received STRs relating to suspect financing of activities relating to terrorism. These STRs were processed and, in appropriate cases, information was disseminated to law enforcement and intelligence agencies engaged in combating financing of terrorism. FIU-IND also provided information on the basis of specific requests to these agencies. Suspect transactions relating to financing of activities relating to terrorism have been specifically included in the definition of "suspicious transaction" under the PMLA rules recently. This should result in increased sensitization of reporting entities on CFT issues and improve reporting of such transactions to FIU-IND.



## RELATIONSHIP WITH DOMESTIC PARTNERS

As FIU-IND is a new organisation, emphasis was laid on establishing operational relationships with various domestic intelligence/ law enforcement agencies, regulatory authorities and other concerned authorities.

### ***Intelligence and Law Enforcement Agencies***

FIU-IND organized meetings with Enforcement Directorate (ED), Ministry of External Affairs (MEA), Intelligence Bureau (IB), National Security Council Secretariat (NSCS) and the Research and Analysis Wing (R&AW) to apprise them about its role and operational status. All intelligence/ law enforcement agencies nominated a nodal officer for interaction and maintaining liaison with FIU-IND.

Apart from disseminating information based on analysis of reports received in FIU-IND, information was also provided on the basis of specific requests from intelligence/ law enforcement agencies. Officers of FIU-IND also participated in various meetings of Regional Economic Intelligence Committees (REICs) to familiarize members of REIC about the role and functions of FIU-IND. Issues of common interest were also discussed in these meetings.

### ***Regulatory Authorities***

The regulators have issued circulars / notifications specifying the manner and procedure for complying with the obligations under the PMLA. FIU-IND actively collaborated with them for effective implementation of these guidelines. FIU-IND interacted with regulators to identify legal provisions requiring amendment. On the basis of analysis of reports, information on various systemic issues was shared with concerned regulators for taking corrective action.

### ***Other Authorities***

FIU-IND participated in inter-agency meetings on various AML/CFT related policy issues. FIU-IND also participated in the meetings with state governments of Karnataka, Tamilnadu and Rajasthan organized by the Central Government to enhance coordination in implementation of the PMLA.

## INTERNATIONAL RELATIONSHIP

### *Egmont Group*

In April 2006, the operational status verification visit was undertaken by the Outreach Working Group of the Egmont. In June 2006, Director, FIU-IND attended the annual Plenary session of the Egmont Group at Cyprus as an observer<sup>4</sup> FIU.

### *Foreign FIUs*

FIU-IND received 14 references from foreign FIUs out of which information has been provided in 12 cases by 31.03.2007. FIU-IND sent references for information in two cases which was received. Officers of FIU-IND visited FIUs of Australia, Canada, Thailand and USA during the year to learn from the working of established FIUs.

### *International Organizations dealing with AML / CFT issues*

FIU-IND participated in the activities of international organizations dealing with money laundering and financing of terrorism such as FATF, APG etc. Director, FIU-IND attended Plenary session of FATF at Strasbourg, France in Feb, 2007 as a part of the Indian delegation. An officer from FIU-IND attended the APG Typology workshop at Indonesia in November 2006.

### *Joint Working Groups*

FIU-IND regularly participated in Joint Working Groups (JWGs) on Counter Terrorism set up by the Government of India.

During the year, officers from FIU-IND interacted in nine such meetings (*Table 6*).

Director, FIU-IND led the Indian delegation at the meeting of the sub-group on Combating Financing of Terrorism (CFT) constituted under Joint Working Group on Counter Terrorism and Transnational Crime (JWG-CTTC) set up by the Bay of Bengal Initiative for Multi Sectoral Technical and Economic Cooperation (BIMSTEC) at Chiang Mai, Thailand in May, 2006.

An officer from FIU-IND also participated in the meeting of JWG-CTTC at Myanmar in January 2007.

**Table 6: Participation in Joint Working Groups**

Month	Country	Subject of JWG	Venue
Apr 2006	Germany	Counter Terrorism	Delhi
Apr 2006	Singapore	Intelligence Cooperation on Combating Terrorism and Transnational Organised Crime	Delhi
Aug 2006	Mauritius	Combating International Terrorism and related matters	Delhi
Oct 2006	Russia	Counter Terrorism	Delhi
Oct 2006	China	Cooperation on Counter Terrorism and Organised Crime	Delhi
Feb 2007	Turkey	Counter Terrorism	Delhi
Feb 2007	USA	Counter Terrorism	Delhi
Mar 2007	Israel	Counter Terrorism	Delhi
Mar 2007	Canada	Counter Terrorism	Ottawa

<sup>4</sup> FIU-IND has been admitted as a member of the Egmont Group by the Heads of FIUs at the Bermuda Plenary Session held in May 2007

## CAPACITY BUILDING

### *Setting up of office*

FIU-IND has set up a modern and well equipped office covering space of 7127 sq. ft. It provides adequate space for office chambers, staff workstations, server room, conference room, library and visitors' room. Fire fighting system, air conditioning system and access control system has been installed to meet the operational and safety standards.

### *Improving skills of personnel*

Anti money laundering and combating financing of terrorism are new areas of work and the financial intelligence unit is a new organization in India. It was critical to train the officers posted to FIU-IND not only about the basic functions of a financial intelligence unit but also to expose them to the international best practices followed by established financial intelligence units.

### *Visits to foreign FIUs*

As FIU-IND had to be made operational, it was imperative to study and understand the processes and systems followed by other established FIUs. Officers of FIU-IND visited FIUs of Australia, Canada, Thailand and USA during the year to learn from their working system (*Table 7*). The interaction with subject matter experts in well established FIUs was found very valuable in designing the processes at FIU-IND.

### *Training on AML / CFT issues*

During the year, the officers in FIU-IND were nominated to attend three training programmes/ workshops on AML / CFT issues to enhance their skills in various areas of work relating to FIU (*Table 7*).

**Table 7: Improving skills at FIU-IND**

Month	Programme	Country	Officers
May 2006	Visit to AMLO (FIU)	Thailand	1
July 2006	IMF workshop on AML & CFT	Singapore	3
Aug 2006	Visit to FinCEN (FIU)	USA	2
Nov 2006	APG Typology Workshop	Indonesia	1
Jan 2007	Financial Investigation Training	Sri Lanka	2
Jan 2007	Visit to AUSTRAC (FIU)	Australia	2
Feb 2007	Visit to FINTRAC (FIU)	Canada	2



## INFORMATION TECHNOLOGY

### *Implementation during the year*

#### Report Preparation Utilities

Report Preparation Utilities for preparation of CTRs and STRs in electronic form were developed to assist the reporting entities who do not have technical capability to generate reports in electronic form. The utilities were made available on the FIU-IND website and are widely used. This has resulted in high percentage of electronic CTRs.

#### Data Quality Validations

Data Validation Utilities were developed to validate the data structure, mandatory field requirements, data integrity, data sufficiency and control file integrity. Data Quality Report for all electronic CTRs listing details of all fatal and non-fatal errors was regularly sent to the principal officer. In case of fatal errors, the reporting entity is required to resubmit the reports after rectification of error. This has resulted in gradual and steady improvement in the quality of data reported by reporting entities.

#### Creation of the Databases

Reports received in electronic form were imported into relevant databases of individuals, entities, accounts and transactions. In case of reports received in manual form, all information in STRs and key information in CTRs are captured.

#### Search Engine Prototype

A search engine prototype was developed which enables ranked search of the databases on the basis of details of any subject matter of interest. The application also presents a unified view of all related addresses, individuals, legal entities and accounts to enable linking of additional information during the analysis process.

#### FIU-IND website

The website (<http://fiuindia.gov.in>) is regularly updated and it has become a reference site on all matters related to money laundering.

### BOX 9: FIU-IND WEBSITE



## PROJECT FINnet

FIU-IND has initiated Project FINnet-Financial Intelligence Network, with the objective to “adopt industry best practices and appropriate technology to collect, analyze and disseminate valuable financial information for combating money laundering and related crimes”. The Project would cover key processes of intelligence management, relationship management, strategic management, resource management and technology management.

### Project Phases

The Project FINnet consists of two phases i.e. Preparation of the Consultancy Report (Phase I) and Implementation of the Consultancy Report (Phase II). In the first phase, the consultant would be responsible for preparing a detailed consultancy report and in the second phase, the consultant would act as a project manager to ensure its implementation.

### Selection of Consultant

M/s Ernst & Young Pvt. Ltd. were selected for providing Consultancy services and Project FINnet commenced on 29<sup>th</sup> March 2007. The consultant is expected to bring competencies in design of Anti Money Laundering / Risk Assessment Systems, Process Design, Information Systems Design, Information Security Planning and Project Management.

### BOX 10: PROJECT TIMELINE

Jun 2006	Issue of Invitation for EOI
Sep 2006	Shortlist of Consultants
Oct 2006	Issue of Request for Proposal (RFP)
Nov 2006	Submission of Bids
Dec 2006	Technical Evaluation of bids
Jan 2007	Commercial Evaluation of bids
Feb 2007	Selection of the Consultant
Mar 2007	Commencement of Project FINnet

### BOX 11: PROPOSED FUNCTIONALITIES IN PROJECT FINnet

Area	Present	Proposed functionalities in FINnet
Training	<ul style="list-style-type: none"> <li>• Workshops</li> <li>• Emails, Telephone</li> </ul>	<ul style="list-style-type: none"> <li>• Learning Management System</li> <li>• Helpdesk</li> </ul>
Ensuring Compliance of Reporting Entities	<ul style="list-style-type: none"> <li>• Case based Monitoring</li> </ul>	<ul style="list-style-type: none"> <li>• Risk based Compliance Model</li> </ul>
Receipt of Reports	<ul style="list-style-type: none"> <li>• Data files on CD</li> </ul>	<ul style="list-style-type: none"> <li>• Submission over Secure Gateway</li> </ul>
Validation of Data Quality	<ul style="list-style-type: none"> <li>• Offline Validation</li> </ul>	<ul style="list-style-type: none"> <li>• Online Validation</li> </ul>
Value Addition to Reports	<ul style="list-style-type: none"> <li>• Ranked Search</li> <li>• Unified Profile</li> <li>• Interpretation</li> </ul>	<ul style="list-style-type: none"> <li>• Alert Generation</li> <li>• Risk Assessment</li> <li>• Link Analysis</li> <li>• Knowledge Updation</li> </ul>
Sharing Information	<ul style="list-style-type: none"> <li>• References/Letters</li> </ul>	<ul style="list-style-type: none"> <li>• Role based access</li> </ul>

## APPENDICES

## APPENDIX A: STAFF STRENGTH

FIU-IND is a technology intensive organization with a sanctioned strength of 43 personnel. It is a multi disciplinary unit and officers having relevant experience are drawn from various government organizations. The distribution of sanctioned strength is as under:

Post	Sanctioned Strength
Director (Group A)	1
Additional Director (Group A)	7
Technical Director (Group A)	1
Principal System Analyst (Group A)	2
Senior Technical Officer (Group A)	10
System Analyst/ Programmer (Group A)	3
Section Officer (Group B Gazetted)	1
PS to Director (Group B Gazetted)	1
PA to Addl. Directors (Group B Non-Gazetted)	8
Assistant (Group C)	2
Data Entry Operator (Group C)	2
Lower Division Clerk (Group C)	1
Peon (Group D)	4
<b>Total</b>	<b>43</b>



## APPENDIX B: CHRONOLOGY OF EVENTS

### Prior to 1<sup>st</sup> April 2006

18 <sup>th</sup> Jan, 2003	<i>Enactment of the Prevention of Money Laundering Act, 2002 (PMLA)</i>
18 <sup>th</sup> Nov, 2004	<i>Setting up of Financial Intelligence Unit- India (FIU-IND)</i>
29 <sup>th</sup> Nov, 2004	<i>Issue of KYC / AML Guidelines by The Reserve Bank of India (RBI)</i>
16 <sup>th</sup> Mar, 2005	<i>Appointment of First Director and FIU-IND becomes operational</i>
1 <sup>st</sup> Jul, 2005	<i>PMLA and Rules thereunder brought into force</i>
15 <sup>th</sup> Feb, 2006	<i>Issue of guidelines by RBI to commercial banks for compliance under the PMLA</i>
20 <sup>th</sup> Feb, 2006	<i>Issue of guidelines by the Securities and Exchange Board of India (SEBI) to intermediaries for compliance under the PMLA</i>
16 <sup>th</sup> Mar, 2006	<i>Launching of FIU-IND's website by the Hon'ble Finance Minister</i>
31 <sup>st</sup> Mar, 2006	<i>Issue of guidelines by Insurance Regulatory Development Authority (IRDA) to insurance companies for compliance under the PMLA</i>

### During 2006-07

3 <sup>rd</sup> - 5 <sup>th</sup> Apr, 2006	<i>On site visit of the Operational Working Group (OWG) of the Egmont Group</i>
13 <sup>th</sup> Apr, 2006	<i>Visit of the high level/EATF delegation to FIU-IND</i>
10 <sup>th</sup> Apr, 2006	<i>Issue of KYC guidelines by the National Housing Bank (NHB) to home finance companies</i>
25 <sup>th</sup> July, 2006	<i>Issue of reporting formats by NHB for home finance companies</i>
12 <sup>th</sup> - 16 <sup>th</sup> Jun, 2006	<i>Director, FIU-IND attends meeting of 14<sup>th</sup> Plenary session of the Egmont Group at Cyprus as an observer FIU</i>
6 <sup>th</sup> Nov, 2006	<i>Visit of high level delegation of the Counter Terrorism Executive Directorate (CTED) to FIU-IND</i>
29 <sup>th</sup> Mar 2007	<i>Commencement of Project FINnet</i>

## GLOSSARY

AMFI	<i>Association of Mutual Funds in India</i>
AML	<i>Anti Money Laundering</i>
AMLO	<i>Anti Money Laundering Office, Thailand</i>
ANMI	<i>Association of NSE Members of India</i>
APG	<i>Asia Pacific Group on Money Laundering</i>
AUSTRAC	<i>Australian Transaction Reports and Analysis Centre</i>
BTC	<i>Bankers Training College, RBI, Mumbai</i>
CAB	<i>College of Agricultural Banking, RBI, Pune</i>
CBDT	<i>Central Board of Direct Taxes</i>
CBEC	<i>Central Board of Excise &amp; Customs</i>
CBI	<i>Central Bureau of Investigation</i>
CFT	<i>Combating Financing of Terrorism</i>
CTR	<i>Cash Transaction Report</i>
ED	<i>Directorate of Enforcement</i>
EOI	<i>Expression of Interest</i>
FATF	<i>Financial Action Task Force</i>
FinCEN	<i>Financial Crime Enforcement Network, USA</i>
FINnet	<i>Financial Intelligence Network</i>
FINTRAC	<i>Financial Transaction Analysis Centre, Canada</i>
FIU-IND	<i>Financial Intelligence Unit, India</i>
IB	<i>Intelligence Bureau</i>
IBA	<i>Indian Banks Associations</i>
ICAI	<i>Institute of Chartered Accountants of India</i>
IRDA	<i>Insurance Regulatory and Development Authority</i>
MHA	<i>Ministry of Home Affairs</i>
NCB	<i>Narcotics Control Bureau</i>
NHB	<i>National Housing Bank</i>
NSCS	<i>National Security Council Secretariat</i>
PMLA	<i>Prevention of Money Laundering Act, 2002</i>
R&AW	<i>Research &amp; Analysis Wing</i>
RBI	<i>Reserve Bank of India</i>
RBSC	<i>Reserve Bank Staff College, Chennai</i>
REIC	<i>Regional Economic Intelligence Committee</i>
RFP	<i>Request for Proposal</i>
SEBI	<i>Securities and Exchange Board of India</i>
STR	<i>Suspicious Transaction Report</i>

## THE ROAD AHEAD



Commencement of Project FINnet on 29<sup>th</sup> March 2007

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