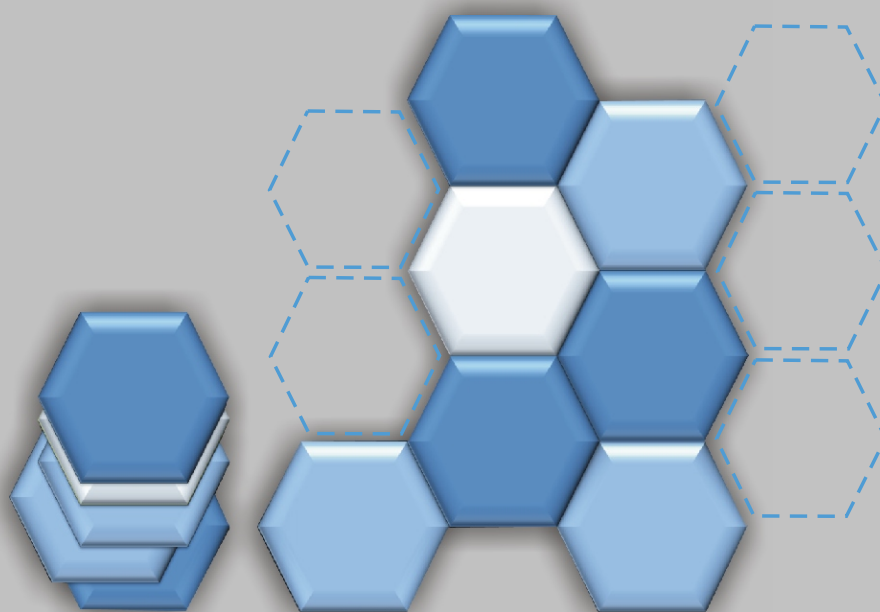




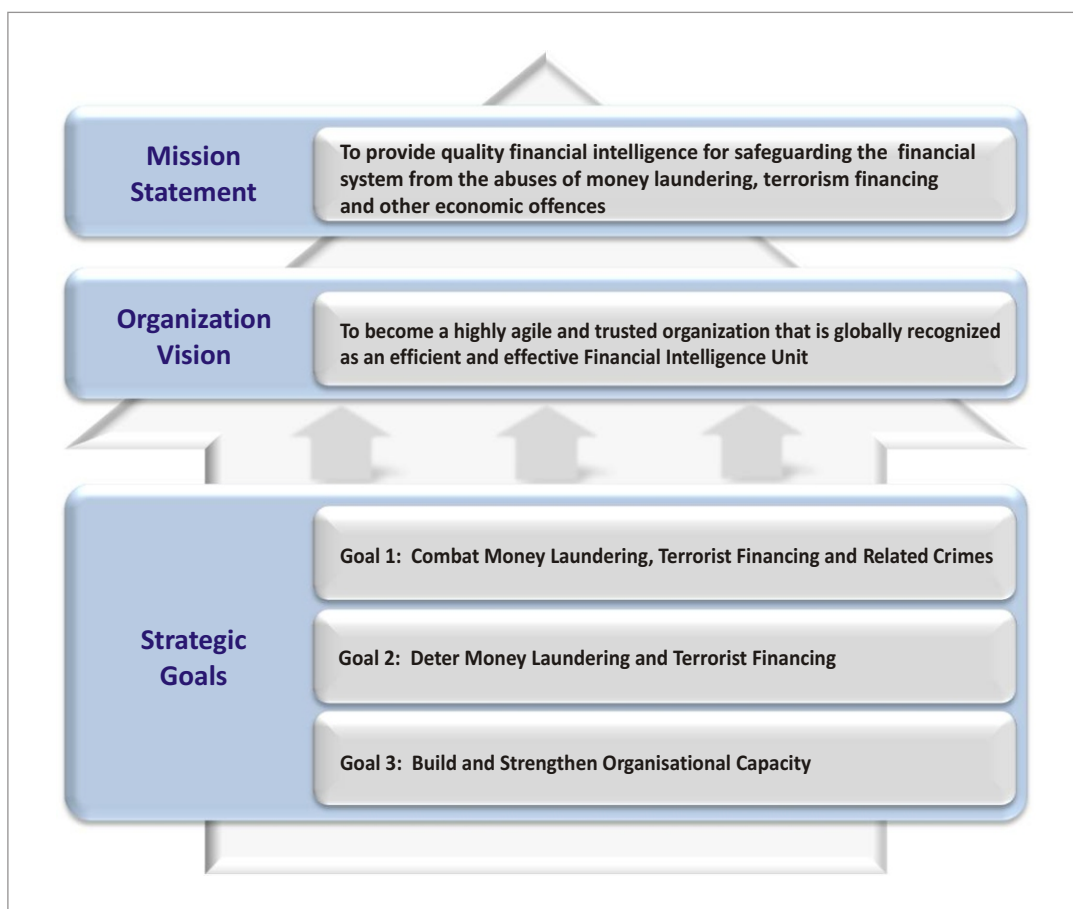
Financial Intelligence Unit – India

Annual Report
2007-08



Department of Revenue
Ministry of Finance, Government of India

Mission, Vision and Strategic Goals





Financial Intelligence Unit - India
Annual Report 2007-08

Department of Revenue
Ministry of Finance, Government of India



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भारत
नई दिल्ली - 110001
FINANCE MINISTER
INDIA
NEW DELHI-110001



MESSAGE

As the national agency for receiving, analyzing and disseminating information relating to suspect financial transactions, Financial Intelligence Unit-India (FIU-IND) is playing an important role by providing useful information to law enforcement and intelligence agencies. FIU-IND also exchanges information with its counterpart FIUs to fight money laundering and terrorist financing at the global level.

As steps are being taken to further strengthen anti Money Laundering/Combating Financing of Terrorism (AML/CFT) regime in India, FIU-IND is likely to play an increasingly important role in the years to come. It is expected that FIU-IND will use appropriate systems and technologies to meet the challenges.

I am happy to learn that FIU-IND is bringing its 'Annual Report 2007-08'. I hope that the annual report is found useful by all the stakeholders, particularly those who provide information to FIU-IND and receive information from it.


(P Chidambaram)



राजस्व सचिव
REVENUE SECRETARY

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वित्त मंत्रालय
नॉर्थ ब्लॉक, नई दिल्ली-११०००१
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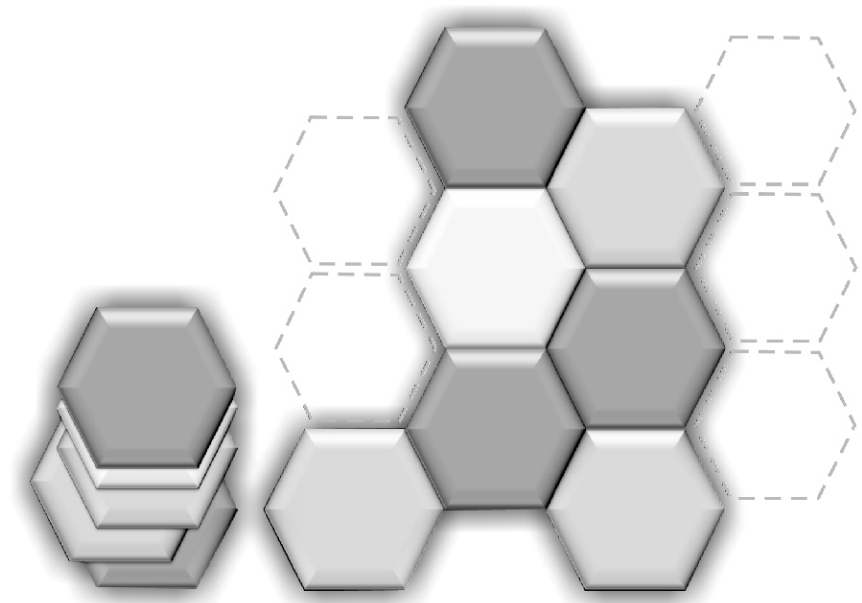
MESSAGE

Financial Intelligence Unit-India (FIU-IND) is providing useful support to various law enforcement and intelligence agencies of the country in combating money laundering, terrorist financing and other economic crimes. It is also playing an important role in further improving AML/CFT environment in India.

In the short period of its existence, FIU-IND has built capabilities to receive, process and analyse large information from various reporting entities in the financial sector. The analysed information is being disseminated to various domestic agencies and foreign FIUs. FIU-IND has also embarked upon an information technology intensive project, which will reduce compliance cost of reporting entities and improve the operational efficiency of the system as a whole.

I expect that the 'Annual Report 2007-08' will provide useful information about the work done by FIU-IND during the year. The report will be of interest not only to other international FIUs but also to the regulators, revenue/tax authorities and authorities under the Prevention of Money Laundering Act in the country.

(P.V. BHIDE)



Director's Report

DIRECTOR'S REPORT



Financial Year 2007-08 was a significant year for Financial Intelligence Unit - India (FIU-IND) in many ways. In May 2007, FIU-IND was admitted to the Egmont Group in the plenary session at Hamilton, Bermuda. It was a matter of immense satisfaction for us as we were able to become member of the Egmont Group within a short period of FIU-IND's establishment. As a result of access to Egmont Secure Web (ESW), there was a major fillip to exchange of information with counterpart Financial Intelligence Units. During the year, the definition of 'suspicious transaction' in the PMLA Rules was amended to specifically provide for reporting of suspect transactions relating to terrorist financing. This would further facilitate and enhance role of FIU-IND in combating financing of terrorism (CFT).

The year 2007-08 was FIU-IND's second complete year of operation in true sense. During the year, FIU-IND saw quantum jump in reporting of both Cash Transaction Reports (CTRs) and Suspicious Transaction Reports (STRs). Considering the large number of reporting entities and their varied technical capabilities, we further enhanced our efforts to educate reporting entities about their obligations under the PMLA. As a result of these efforts, we were able to bring cash transaction reporting by banking companies, including co-operative banks, to satisfactory level. More than 3.9 million CTRs were received during the year as compared to 2.1 million during the previous year - an increase of more than 85%. What gives us satisfaction is that 99.6% of the CTRs received during the year were in electronic format. Similarly, 1916 STRs were received during the year, which were more than twice the number of STRs received during the last year. Our searchable CTR database was put to regular use for analysis of STRs and adding value to them. We were able to process most of the suspicious transaction reports received during the year and disseminate information in appropriate cases to intelligence and law enforcement agencies.

During the year we had a very close interaction with different regulators in the financial sector for strengthening AML/ CFT regime in the country and improving compliance of the reporting entities. Several meetings were held with the principal officers of the reporting entities to review compliance. We also maintained excellent working relationship with domestic law enforcement and intelligence agencies to assess their needs and to assist them in making use of the disseminated information.

On the international front, we initiated the process to negotiate MOUs with our counterparts and signed MOUs with FIUs of Mauritius and Philippines. MOUs are under negotiation with many more FIUs. FIU-IND regularly participated in the Egmont Group meetings and played an active role in the Operational Working Group. FIU-IND delegate was also part of the Indian delegations to various Financial Action Task Force (FATF) plenary meetings held during the year. We also actively participated in the activities of other relevant international organizations engaged in fight against money laundering and financing of terrorism as well as Joint Working Groups on Counter Terrorism set up by the Government of India.

With the objective to adopt industry best practices and appropriate technology, FIU-IND had initiated project FINnet (Financial Intelligence Network), which commenced in March, 2007 with the appointment of the consultants. During the year, the design phase of the Project FINnet was completed and all strategy, process and technical documents were finalized by the Consultants in active consultation with FIU-IND officials. The consultants have also submitted 'Request for Proposal' document for inviting bids for appointment of System Integrator. We expect to have the system integrator soon for putting in place an effective system on the latest technology platform to receive, analyze and disseminate information.

The major thrust during the year, as in the first year of operation, was to make the reporting system under the PMLA operational and we have been largely successful. However, we do expect a significant increase in reporting of suspicious transactions in near future. Role of FIU-IND in combating money laundering and financing of terrorism is expected to increase significantly in the coming years. FIU-IND is also expected to play an important role in fighting various other economic crimes by providing useful information to relevant intelligence and law enforcement agencies. Use of appropriate technology is going to be key to our success. We are aware of the challenges and confident of success.



(Arun Goyal)

Director

Financial Intelligence Unit - India

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Performance at a Glance: 2007-08

Goal 1: Combat Money Laundering, Terrorist Financing and Related Crimes

Collection of Information

- 3.9 million Cash Transaction Reports (CTRs) received
- 1916 Suspicious Transaction Reports (STRs) received

Analysis and Dissemination of Information

- 2001 STRs processed
- 935 STRs disseminated

Collaboration with domestic Law Enforcement and Intelligence Agencies

- Regular interaction and exchange of information

Regional and global AML/CFT efforts

- 39 requests received from foreign FIUs
- 13 requests sent to foreign FIUs
- 2 MOUs signed with foreign FIUs

Goal 2: Deter Money Laundering and Terrorist Financing

Increasing awareness about money laundering and terrorist financing

- 93 seminars and training workshops covering 5479 participants
- Train the trainer programme for AML/CFT capacity building

Improving compliance to the PMLA

- 12 review meetings with Principal officers
- Training imparted to 40 supervisors of the RBI

Strengthening of legislative and regulatory framework

- Regular interaction with the Department of Revenue and the Regulators

Goal 3: Build and Strengthen Organizational Capacity

Information Technology Implementation

- Percentage of electronic CTRs increased to 99.6% from 96.2%
- Regular data quality monitoring and feedback
- Full text search engine with relevance ranking

Project FINnet

- Preparation of detailed business process flows, roles & key performance measures
- Preparation of strategy and business plans for FIU-IND
- Preparation of technical specifications and Request for Proposal (RFP) document

Knowledge Organization

- Training of employees
- Repository on AML/CFT issues

Ensuring information security

- Information security awareness workshops for employees

AML/CFT Regime

Money laundering is the process by which criminals disguise the illegal origin of their wealth so as to avoid suspicion of the law enforcement authorities and to prevent trail of incriminating evidence. Terrorists and terrorist organizations also need funds to carry out their activities. While they may not be always keen to disguise the origin of money used, but they are concerned with concealing its destination and the purpose for which it is collected. Terrorists and terrorist organizations also, therefore, employ techniques not dissimilar to criminal money launderers to hide and disguise money.

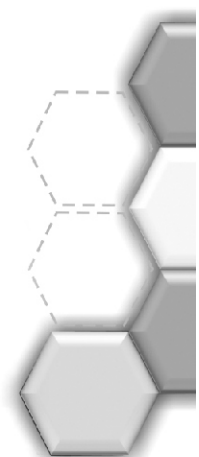
Money laundering has serious impact on a nation's economy as 'dirty money' moves rapidly across the borders to obscure the audit trail and can affect the interest and exchange rates. Moreover, money launderers generally invest money in less productive activities as their prime focus is to avoid detection rather than return on investment. Money laundering also has political dimensions as it weakens the social fabric and collective ethical standards. Therefore, governments around the world recognize the corrosive dangers that unchecked money laundering and financial crimes pose to their economic and political systems.

Need for a modern anti money laundering strategy became widely accepted globally in mid-1980s due to the increasing trend of drugs related offences. The 1988 United Nations Convention against Illicit Traffic in Narcotic Drugs and Psychotropic Substances was the first international forum which realized the need to deprive criminal elements of their proceeds of crime derived from drug related offences. Developing capabilities to prevent and detect money laundering became high on agenda of most of the countries. It was also realized that banks and other financial institutions can be

important sources of information to tackle money laundering and other financial crimes.

The Financial Action Task Force (FATF) was established at the G-7 Summit in Paris in 1989 to develop a coordinated international response to Money Laundering. On the basis of the recommendations of the FATF, governments all over the world started establishing comprehensive anti money laundering regimes which included making the act of money laundering a criminal offence and giving authority to investigating agencies to trace, seize & ultimately confiscate criminally derived assets. A number of specialized government agencies known as Financial Intelligence units or FIUs were also created to act as an interface between financial sector and law enforcement agencies for identification of suspicious money laundering activities requiring investigation. FIUs also became an important platform for information exchange on money laundering at both global and national level. In 1995, some of the FIUs decided to establish an informal group, known as the Egmont Group, for promoting international cooperation amongst FIUs. Since 2001, fight against terrorist financing has also become an integral function of the authorities dealing with the battle against money laundering.

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 globalization and improved technology to instantaneously transfer funds across international borders. Therefore, need for an effective Anti Money Laundering (AML) and Combating Financing of Terrorism (CFT) strategy is becoming more important than ever.



Prevention of Money Laundering Act

India's anti-money laundering regime is centred around the Prevention of Money Laundering Act, 2002 (PMLA). The PMLA was brought into force with effect from July 1, 2005 after various rules framed under PMLA were notified. The objective of the Act is to prevent money laundering and to provide for confiscation of property derived from or involved in money laundering.

Offence of Money Laundering

Section 3 of the PMLA defines the offence of money laundering. The offence section reads as follows:

“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.”

Section 2 of the PMLA defines “Proceeds of crime” 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” are specified in two parts (Part A and Part B) in the schedule to the PMLA. The value of the proceeds of crime for the offences specified in Part B should be Rs. 30 lakh¹ or more to attract the offence of money laundering. There is no threshold for the offences listed in Part A of the Schedule.

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 five lakh rupees. Further, the property derived from or involved in money laundering is also liable for confiscation under the PMLA. Important Rules/ Notifications in relation to the PMLA have been listed at *Appendix A*. The List of important circulars/ instructions issued by the Regulators on AML/CFT issues has been compiled in *Appendix B*. The salient features of some of the rules/circulars notified during 2007-08 are at *Appendix C*.

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.

¹ Lakh = Hundred thousand = 0.1 Million

Obligations of the Reporting Entities

The Prevention of Money Laundering Act, 2002 and the Rules notified thereunder impose various obligations on the banking companies, financial institutions and intermediaries.

OBLIGATIONS OF THE REPORTING ENTITIES UNDER PMLA		
Obligation	Details	When
Communicate details of Principal Officer	Communicate the name, designation and address of the Principal Officer to FIU-IND.	At the time of appointment/ change of Principal Officer
Verify identity of clients	Verify identity, current address including permanent address, nature of business and financial status of the client.	At the time of opening an account as well as executing any transaction
Implement a Client Identification Programme	Formulate and implement a Client Identification Programme (CIP) to determine true identity of clients and forward a copy of the same to FIU-IND.	At the time of formulation/ modification of CIP
Evolve internal mechanism for maintaining and furnishing information	Details of the internal mechanism have been prescribed by the respective regulators.	Ongoing
Furnish information of cash transactions	Furnish Cash Transaction Report (CTR) to FIU-IND containing details of: <ul style="list-style-type: none"> • All cash transactions of the value of more than rupees ten lakhs or its equivalent in foreign currency. • 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. 	Within 15 th day of the succeeding month (Monthly Reporting)
Furnish information of counterfeit currency transactions	Furnish Counterfeit Currency Report (CCR) to FIU-IND containing details of all cash transactions where forged or counterfeit currency notes or bank notes have been used as genuine or where any forgery of a valuable security or a document has taken place facilitating the transactions.	Within 7 working days from the date of transaction
Furnish information of suspicious transactions	Furnish Suspicious Transaction Report (STR) to FIU-IND containing details of all suspicious transactions whether or not made in cash.	Within 7 working days on being satisfied that the transaction is suspicious
Maintain and retain records	Maintain records of identity of clients and records of all transactions reported to FIU-IND.	For a period of 10 years after cessation of relationship with the client

Note: Director, FIU-IND is empowered to levy fine on reporting entities of not less than Rs. ten thousand which may extend to Rs. one lakh (Rs. 100,000/-) for each failure.

About FIU-IND

Financial Intelligence Unit-India (FIU-IND) was set up by the Government of India 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, terrorist financing and related crimes. FIU-IND is an independent body reporting to the Economic Intelligence Council headed by the Finance Minister.

FIU-IND is entrusted with the function of securing compliance by various entities to their obligations under the Prevention of Money Laundering Act, 2002 (PMLA). Director, FIU-IND has the power to levy penalty on the Reporting Entities for non compliance to the provisions of the PMLA.

FIU-IND is a lean organization headed by Director, who is of the rank of Joint Secretary to the Government of India. It is an officer oriented, technology intensive organization having total strength of 43 personnel. Details of manpower in FIU-IND are given in *Appendix D*. The Chronology of significant events for FIU-IND is at *Appendix E*.

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.

REPORTING ENTITIES UNDER PMLA**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 and sub-brokers
- Share transfer agents
- Bankers to an issue
- Trustees to trust deed
- Registrars to issue
- Merchant bankers and Underwriters
- Portfolio managers and Investment advisers
- Depositories and depository participants
- Custodians of securities
- Foreign institutional investors
- Credit rating agencies
- Venture capital funds
- Collective investment schemes

RELATIONSHIPS**Law Enforcement Agencies**

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

Intelligence Agencies

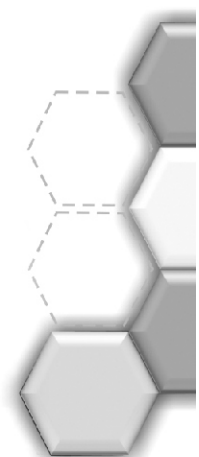
- Ministry of Home Affairs (MHA)
- Intelligence Bureau (IB)
- National Security Council Secretariat (NSCS)
- Research & Analysis Wing (R&AW)

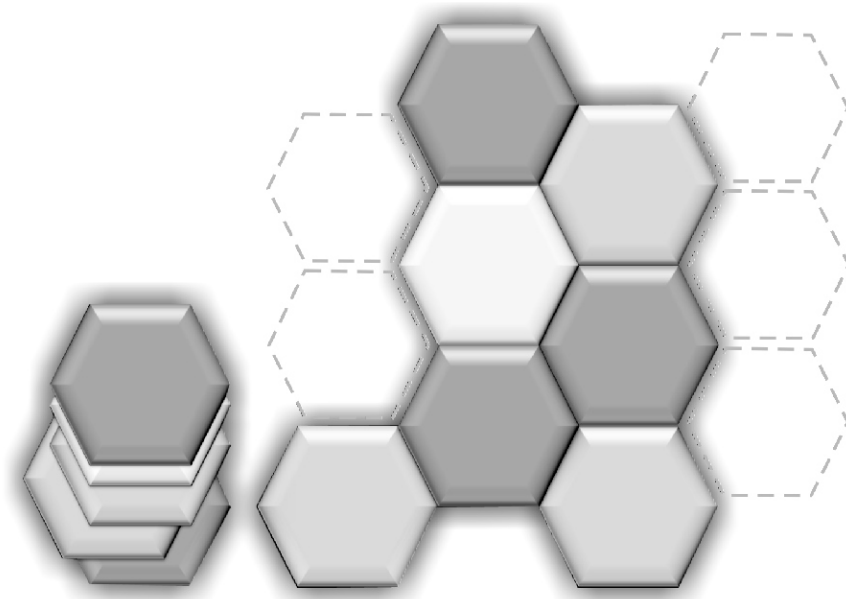
Regulatory Authorities

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

International

- Foreign Financial Intelligence Units (FIUs)
- The Egmont Group
- Other international organizations dealing with AML/CFT issues such as FATF, APG



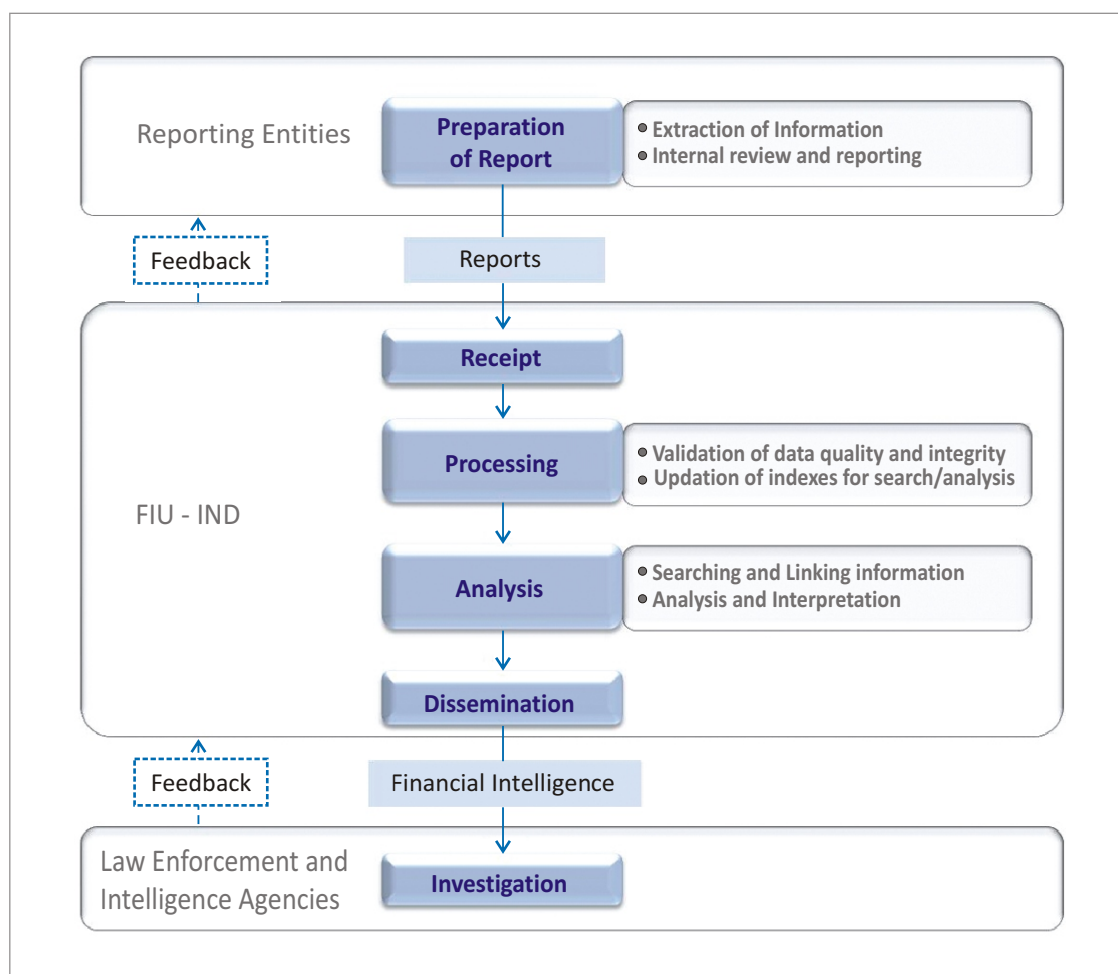


Goal 1: Combating Money Laundering, Terrorist Financing and Related Crimes

The success of AML/CFT regime is critically dependent on the capability of the Reporting Entities in identifying and reporting suspicious and other prescribed transactions. The role of FIU-IND is to analyse the submitted reports and provide financial information and intelligence to Law Enforcement Agencies (LEAs), Intelligence Agencies (IAs) and Regulators. Following objectives were identified for combating money laundering, terrorist financing and related crimes:

- Effective collection of information.
- Effective analysis and dissemination of information.
- Increased collaboration with domestic Law Enforcement/Intelligence Agencies and Regulatory Authorities.
- Strengthening regional and global efforts in combating money laundering, financing of terrorism and related crimes.

Figure 1: Receipt, analysis and dissemination of financial intelligence



It [FIU-IND] will be the central national agency responsible for receiving, processing, analyzing and disseminating information relating to suspect financial transactions to these agencies [national and international intelligence, investigation and enforcement agencies]...

- Government of India's O.M. dated 18th November 2004

Collection of Information

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

Cash Transactions

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

- All cash transactions of the value of more than rupees ten lakhs or its equivalent in foreign currency, and
- 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 to FIU-IND on a monthly basis by the 15th day of the succeeding month.

Following strategies were adopted for enhancing effectiveness in collection of cash transactions:

- Encourage all Reporting Entities to file reports in electronic form.
- Provide technical assistance to Reporting Entities for submitting reports in electronic form.
- Monitor quality of reports received and provide feedback to the Reporting Entities for improving data quality.

During the year, around 3.96 million CTRs were received from the banking companies. In addition to the CTRs submitted by the banking companies, financial institutions such as housing finance companies, life insurance companies and non banking financial companies submitted 280 CTRs during the year. As no cash transactions are permitted in the securities market, no CTRs were received from the reporting entities under the intermediary category.

Table 1: Submission of Cash Transaction Reports by Banking Companies

Type of Bank	2006 - 07	2007 - 08	Total
Public Sector Banks	9,21,597	20,62,742	29,84,339
Indian Private Banks	11,33,138	16,54,749	27,87,887
Private Foreign Banks	60,504	84,407	1,44,911
Co-operative Banks and Others	25,529	1,58,015	1,83,544
Total	21,40,768	39,59,913	61,00,681
% of Electronic Reports	96.2%	99.6%	98.4%

This table shows number of Cash Transaction Reports (CTRs) submitted by various categories of banks. One CTR covers details of account, related persons and transactions for the month in a bank account. 'Cooperative Banks and Others' include urban co-operative banks, district co-operative banks, state co-operative banks and regional rural banks.

- 3.96 million CTRs were received as compared to 2.14 million CTRs in 2006-07
- 99.6% of CTRs have been received in electronic format as compared to 96.2% in 2006-07
- CTRs from Cooperative Banks and others have increased by more than five times

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 -

- gives rise to a reasonable ground of suspicion that it may involve the proceeds of crime; or
- appears to be made in circumstances of unusual or unjustified complexity; or
- appears to have no economic rationale or bonafide purpose; or
- gives rise to a reasonable ground of suspicion that it may involve financing of the activities relating to terrorism.

Suspicious transactions are required to be reported within 7 working days on being satisfied that the transaction is suspicious.

Following strategies were adopted for effective detection of suspicious transactions and collection of STRs during the year:

- Collaborate with the Regulators and professional associations to develop common understanding of suspicious transactions in different industries.
- Provide training to Reporting Entities in detection of suspicious transactions and submission of STRs in electronic format.
- Share sanitized cases reported to FIU-IND and feedback received from agencies.
- Monitor the implementation of AML/CFT system of Reporting Entities.
- Monitor the quality of STRs and provide feedback to Reporting Entities for improving quality of STRs.

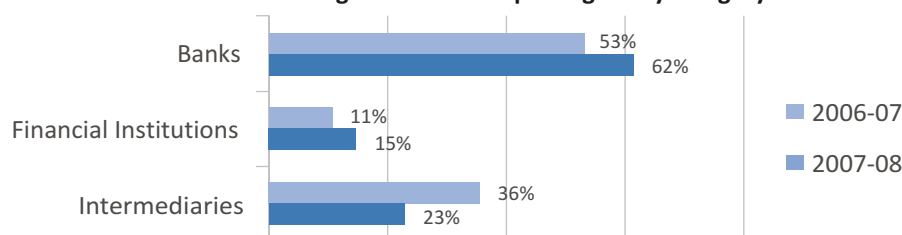
During the year, 1916 STRs were received as compared to 817 STRs in the previous year. A compilation of various grounds of suspicion reported in STRs is at *Appendix F*.

Table 2: Submission of Suspicious Transaction Reports

Type of Bank	2006 - 07	2007 - 08	Total
Banks	437	1183	1620
Financial Institutions	88	288	376
Intermediaries	292	445	737
Total	817	1916	2733

This table shows number of Suspicious Transaction Reports (STRs) submitted by various categories of reporting entities. One STR includes details of all accounts, transactions, individuals and legal persons/entities related to the suspicion. In the current year, 1916 STRs were received as compared to 817 STRs in 2006-07.

Chart 1: Percentage of STRs for reporting entity category



Reporting Entities were asked to indicate the type of suspicion while submitting suspicious transaction reports. Different types of suspicion for which STRs were submitted are as under:

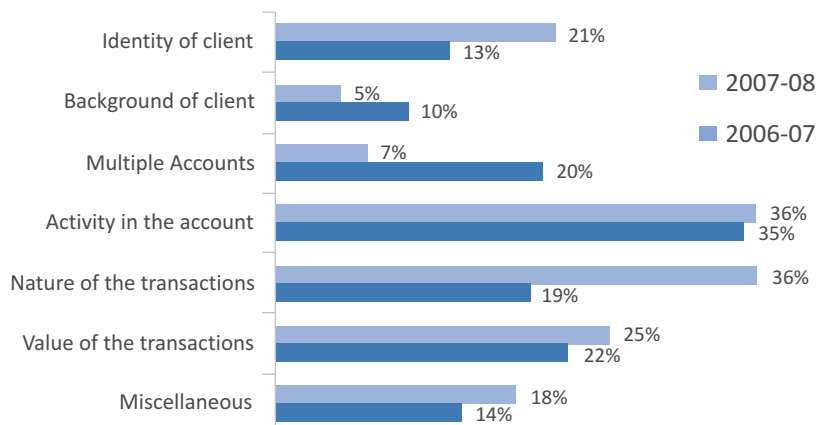
TYPES OF SUSPICION	
Identity of client	False identification documents; identification documents which could not be verified within reasonable time; accounts opened with names very close to other established business entities.
Background of client	Suspicious background or links with known criminals.
Multiple accounts	Large number of accounts having a common account holder, introducer or authorized signatory with no rationale; unexplained transfers between multiple accounts with no rationale.
Activity in accounts	Unusual activity compared with past transactions; sudden activity in dormant accounts; activity inconsistent with what would be expected from declared business.
Nature of transactions	Unusual or unjustified complexity; no economic rationale or bona fide purpose; frequent purchases of drafts or other negotiable instruments with cash; nature of transactions inconsistent with what would be expected from declared business.
Value of transactions	Value just under the reporting threshold amount in an apparent attempt to avoid reporting; value inconsistent with the client's apparent financial standing.
Miscellaneous	Unexplained sources of investment/expenditure

Table 3: Types of suspicion reported in STRs

Type of Suspicion	2006 - 07	2007 - 08
Identity of client	107	395
Background of client	79	97
Multiple Accounts	164	129
Activity in the account	287	695
Nature of the transactions	159	682
Value of the transactions	176	488
Miscellaneous	112	338
Total*	817	1916

*One STR can have more than one type of suspicion

Chart 2: Percentage of type of suspicion



Analysis and Dissemination of Information

Analysis

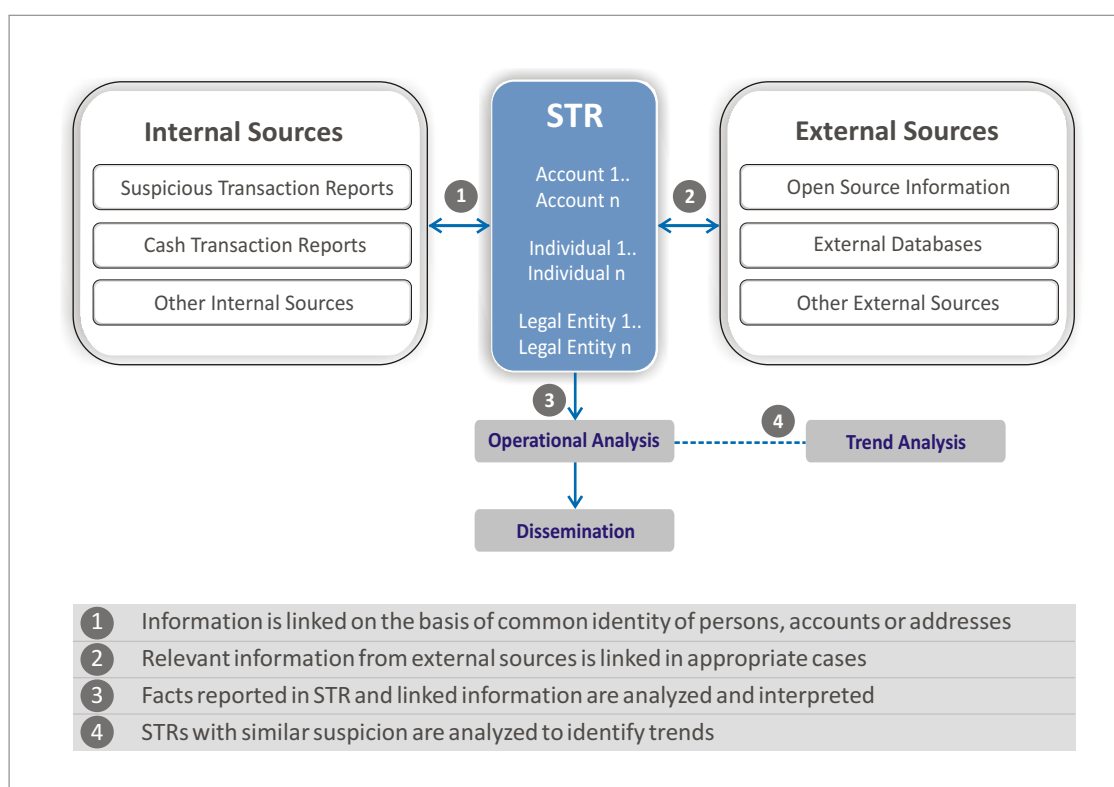
One of the main functions of FIU-IND is to analyse reports received and disseminate information to relevant intelligence, law enforcement or regulatory agencies, in appropriate cases. Following strategies were adopted during the year to increase the effectiveness of operational analysis:

- Adopt appropriate methodologies and technology to link and analyze information received.
- Access external information sources to enhance the quality of analysis.
- Analyze and interpret cases to create composite intelligence product.
- Review and assimilate the knowledge gained to continuously improve the quality of analysis.

FIU-IND has developed capability to link additional relevant information from internal and external sources. During analysis, the 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 internal/external information sources are analysed and interpreted with a view to identify information relevant to an intelligence/ law enforcement agency.

During the year under report, 2001 STRs were processed and in 935 cases information was disseminated to relevant agencies.

Figure 2: Value addition during Analysis



Dissemination

Through dissemination of financial intelligence, FIU-IND was able to support the work of Law Enforcement Agencies, Intelligence Agencies, Regulators and counterpart FIUs. Regular meetings were conducted within FIU-IND to discuss analyzed reports and decide in which cases the information was required to be disseminated to enforcement / intelligence agency for further action. Information on regulatory issues was also shared with the concerned Regulator. As some STRs were disseminated to more than one agency, during the

year, 968 disseminations were made in respect of 935 STRs which were considered fit for dissemination.

Feedback

Mechanism was evolved for receiving feedback from agencies to whom information is disseminated, to ascertain usefulness of disseminated information as well as outcome thereof. The information contained in the feedback form was also used to improve quality of analysis.

Table 4: Analysis of STRs

Category	2006 - 07	2007 - 08	Total
STRs Received	817	1916	2733
STRs Brought forward from Previous Year	-	171	
STRs Processed	646	2001	2647
STRs Disseminated	391	935	1326

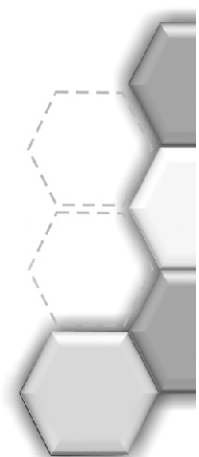
This table shows number of STRs received, processed and disseminated after analysis.

- Number of STRs processed increased more than threefold to 2001
- 47% of STRs processed were disseminated as compared to 61% in 2006-07

Table 5: Dissemination of STRs

Type of Agency	2006 - 07	2007 - 08	Total
Law Enforcement Agencies	338	885	1223
Intelligence Agencies	60	49	109
Regulators	30	34	64
Total	428	968	1396

This table shows number of disseminations to various type of agencies. Percentage of disseminations to Law Enforcement Agencies increased from 79% to 91 %.



COMBATING FINANCING OF TERRORISM - ROLE OF FIU-IND

During the year, the definition of 'suspicious transaction' in the PMLA Rules was amended to specifically provide for reporting of suspect transactions relating to terrorist financing. The reporting entities are now legally required to send STRs on suspect terrorist financing cases. The efforts in CFT with reporting entities and domestic agencies initiated during the last year i.e. 2006-07 were continued during the year 2007-08 with more vigour. These efforts included thrust on sensitizing financial institutions for filing STRs related to suspect terrorist financing cases. During the year 2007-08, FIU-IND received 133 STRs related to suspected financing of the activities related to terrorism. It was observed that many of them were incomplete matches with suspects lists such as UNSCR 1267 list. Enhanced due diligence was conducted by FIU-IND before any such STR was disseminated. The guidance issued by the FATF for Financial Institutions in detecting terrorist financing is at *Appendix G*. FIU-IND also supported the efforts of domestic intelligence and law enforcement agencies against terror financing by providing information specifically requested by them.

DISSEMINATION LEADING TO MONEY LAUNDERING CASE

An STR was filed by a bank on suspected involvement of bank officials in a case of corruption and subsequent money laundering. The bank officials were involved in defrauding the bank of millions of rupees. Funds were diverted by them to a money lender/commission agent, who in turn returned the funds back to these officials after routing them through his bank accounts. The money lender was arrested by the local authorities. FIU-IND also identified another account of the money lender existing in a different bank account on search of CTR database. The account reflected cash transactions of millions of rupees. Information was disseminated to the Enforcement Directorate who have registered a case for investigation of suspected Money Laundering.

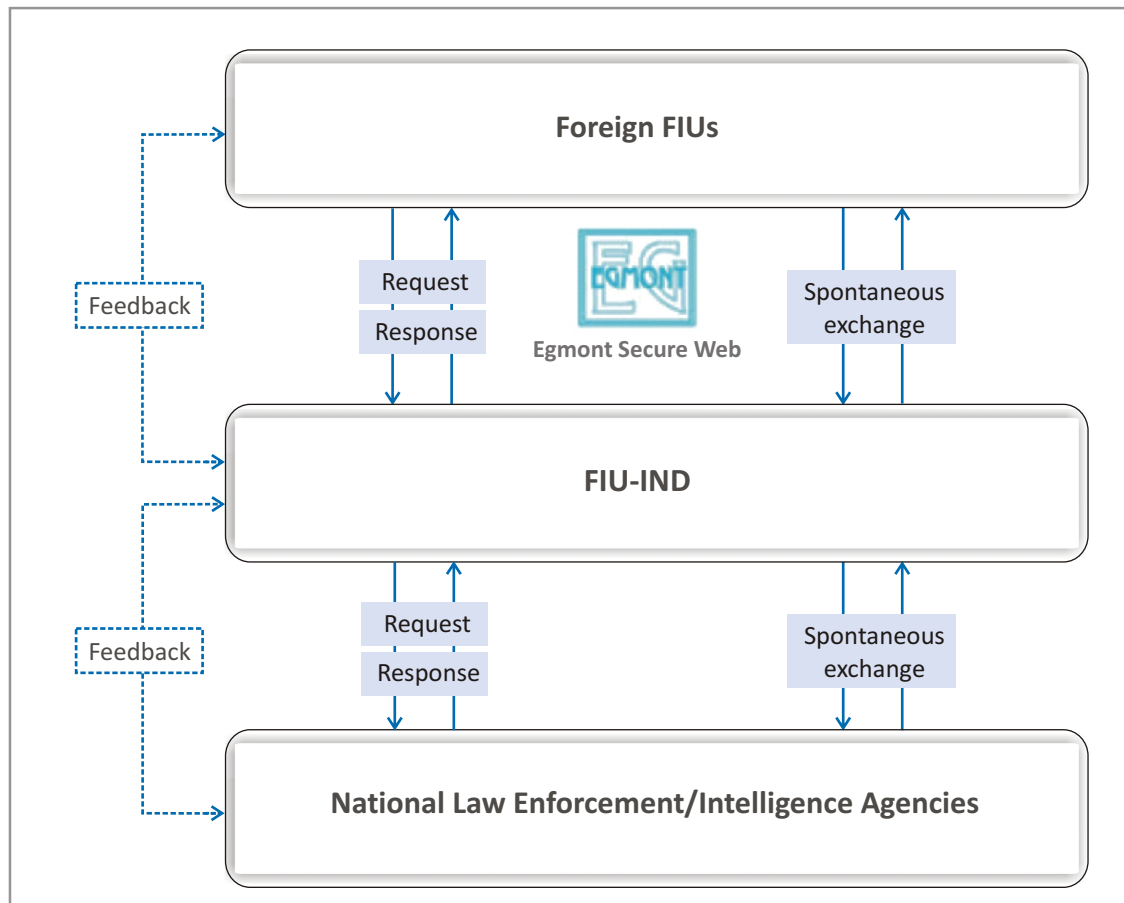
Collaboration with Law Enforcement Agencies, Intelligence Agencies and Regulatory Authorities

As FIU-IND is a relatively new organisation, emphasis was laid on maintaining and improving operational relationship with various domestic law enforcement/intelligence agencies and regulatory authorities. The scope of FIU-IND's collaboration with domestic LEAs and Intelligence Agencies, however, goes beyond regular information exchange.

Following strategies were adopted during the year:

- Maintain close professional relationship with LEAs and Intelligence Agencies based on mutual trust and understanding.
- Enhance FIU-IND's ability to respond faster to the requirements of the agencies.
- Maintain close relationship with regulators for stabilising and improving AML/CFT regime in India.

Figure 3: Coordinating and supporting global efforts against money laundering and terrorist financing



It [FIU-IND] will also coordinate and support efforts of national and international intelligence, investigation and enforcement agencies in pursuing the global efforts against money laundering and related crimes.

- Government of India's O.M. dated 18th November 2004

Law Enforcement and Intelligence Agencies

During the year under report, FIU-IND further consolidated the foundation of its working relationship with various domestic law enforcement and intelligence agencies. FIU-IND supported their efforts through dissemination of information based on analysis of reports received as well as by providing additional financial information required by them for intelligence/investigation purposes. During the year, FIU-IND provided information in response to 95 references received from law enforcement and intelligence agencies for cases relating to money laundering, terrorist financing, corporate frauds, organized crimes, tax evasion etc.

FIU-IND maintained regular contact with organizations to whom information is disseminated, including Central Board of Direct Taxes (CBDT), Central Board of Excise and Customs (CBEC), Enforcement Directorate (ED), Narcotics Control Bureau (NCB) and the Intelligence Agencies to understand their requirements. Officers of FIU-IND also participated in various meetings of the Central Economic Intelligence Bureau (CEIB) and Regional Economic Intelligence Councils (REICs) to discuss issues of common interest.

FIU-IND also encouraged domestic agencies to search its databases and perform query functions. Many of these agencies have started using FIU-IND databases to search for additional financial details for conducting investigation in respect of identified suspects. This reflects increasing confidence in FIU-IND on the part of domestic agencies. Through FIU-IND, the reporting entities are in true sense becoming partners in AML/CFT efforts. The mechanism of nodal officers in each of the domestic agencies is working well. The details of various interactions with law enforcement and

intelligence agencies during the year have been given in *Appendix H*.

Regulatory Authorities

FIU-IND is having an ongoing partnership with the regulatory authorities in stabilising the AML/CFT regime in the country. After the PMLA was brought into force, different financial sector regulators namely Reserve Bank of India (RBI), Securities and Exchange Board of India (SEBI), Insurance Regulatory and Development Authority (IRDA) and National Housing Bank (NHB) had issued circulars specifying the manner and procedure for complying with the obligations under the PMLA by their regulated entities. During the year under report, wherever necessary, clarifications were issued by Regulators in relation to these circulars. In certain cases, additional instructions were also issued to further strengthen AML/CFT regime in India.

FIU-IND actively collaborated with all Regulators of financial sector for effective implementation of provisions of the PMLA. FIU-IND interacted with Regulators to identify legal provisions requiring amendments. FIU-IND had regular interaction with Regulators alongwith industry associations and Self Regulatory Organisations to develop common understanding of obligations under the PMLA, industry specific suspicious transactions and filing of STRs.

On the basis of analysis of reports, information on various systemic issues was shared with concerned Regulators for taking corrective action.

FIU-IND actively participated in training the human resources of Regulators for conducting AML/CFT related inspection of the reporting entities.

Regional and global AML/CFT efforts

The global concern for money laundering and terrorist financing has brought the international community together to establish various organizations dealing with AML/CFT issues. Following strategies were adopted in this area during the year:

- Maintain healthy reciprocal relationship with foreign FIUs based on foundation of mutual trust.
- Share information with foreign FIUs to coordinate the efforts against money laundering, terrorist financing and related crimes and enter into Memoranda of Understanding with foreign FIUs, if required.

- Participate in and contribute to the activities of regional and international organizations dealing with AML/CFT issues.

Sharing of information with foreign FIUs

FIU-IND received requests for information from foreign FIUs in 39 cases in 2007-08. FIU-IND also requested information from foreign FIUs in 13 cases during the year.

MOUs with foreign FIUs

FIU-IND initiated the process to enter into MOUs with various FIUs during the year. MOUs with the FIUs of Mauritius and Philippines were signed during the year.

Table 6: Request based exchange of information with foreign FIUs

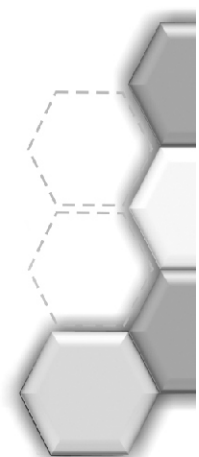
Status of action taken	2006 - 07	2007 - 08	Total
Requests received from foreign FIUs	14	39	53
Requests sent to foreign FIUs	2	13	15

This table shows number of requests for information received and sent to foreign FIUs. After June 2007, all such requests were made and received using the Egmont Secure Web. Number of requests increased to 52 from 16 in 2006-07.

Table 7: Signing of MOUs with foreign FIUs

Status of action taken	2006 - 07	2007 - 08
MOUs signed	-	2
MOUs under process		19

This table shows number of countries with whom MOUs have been signed or are under process. MOUs were signed with FIUs of Mauritius and Philippines during the year.



Egmont Group

FIU-IND was admitted as a member of the Egmont Group in the Bermuda Plenary session in May, 2007, which was attended by Director, FIU-IND. During the month of June 2007, the Egmont Secure Web (ESW) was made operational to facilitate exchange of information over a secure platform. Officers of FIU-IND participated in the Egmont Working Group meetings at Kiev, Ukraine in September, 2007 and Santiago, Chile in March, 2008.

Financial Action Task Force

FIU-IND participated in the activities of the Financial Action Task Force (FATF). Officers from FIU-IND attended plenary sessions of FATF at Paris in June 2007, October 2007 and February 2008 as a part of the Indian delegation. Sir James Sassoon, President, FATF visited FIU-IND in February 2008.



President FATF visits FIU-IND

Joint Working Groups on Counter Terrorism

FIU-IND regularly participated in the meetings of Joint Working Groups (JWGs) on Counter Terrorism set up by the Ministry of External Affairs/Home Affairs, Government of India with various countries. These JWGs have been instrumental in exchange of useful information and discussing various operational issues relating to terrorism and other serious crimes including money laundering and drug trafficking, between concerned authorities of respective countries. During the year, officers from FIU-IND participated in 6 such meetings as members of Indian delegations. Through the mechanism of JWGs on Counter terrorism, FIU-IND has been able to establish one-to-one relationship with the counterpart FIU and other relevant agencies in other countries. The initiative taken last year through JWG has resulted in finalization of MOU between the FIU, Mauritius and FIU-IND during the year.

FIU-IND participated in 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 Phuket, Thailand in May 2007.

Participation in Joint Working Groups on Counter Terrorism		
Month	Country	Venue
May 2007	Uzbekistan	Tashkent
May 2007	UAE	Delhi
Aug 2007	Australia	Canberra
Dec 2007	Japan	Delhi
Feb 2008	Canada	Delhi
Feb 2008	Mauritius	Port Louis

Egmont Group - Background

In 1995 a number of financial intelligence units (FIUs) began working together in an informal organization known as the Egmont Group. Named after the location of the first meeting at the Egmont-Arenberg Palace in Brussels, the goal of the Egmont Group is to provide a forum for FIUs to improve support to their respective national anti-money laundering and anti-terrorist financing programs. The place of FIUs is now well established in the arsenal of measures to combat serious crimes. To ensure the effectiveness of these measures, each FIU must adhere to the Egmont Group principles.

Egmont Group Principles

All members foster the widest possible co-operation and exchange of information with other Egmont Group FIUs on the basis of reciprocity or mutual agreement and following the basic rules established in the Principles for Information Exchange:

- free exchange of information for purposes of analysis at FIU level;
- no dissemination or use of the information for any other purpose without prior consent of the providing FIU; and
- protection of the confidentiality of the information.

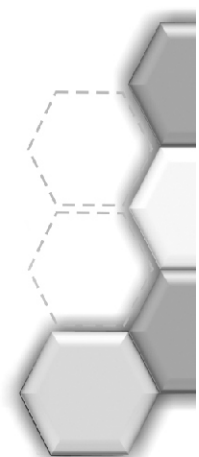
Objectives of the Egmont Group

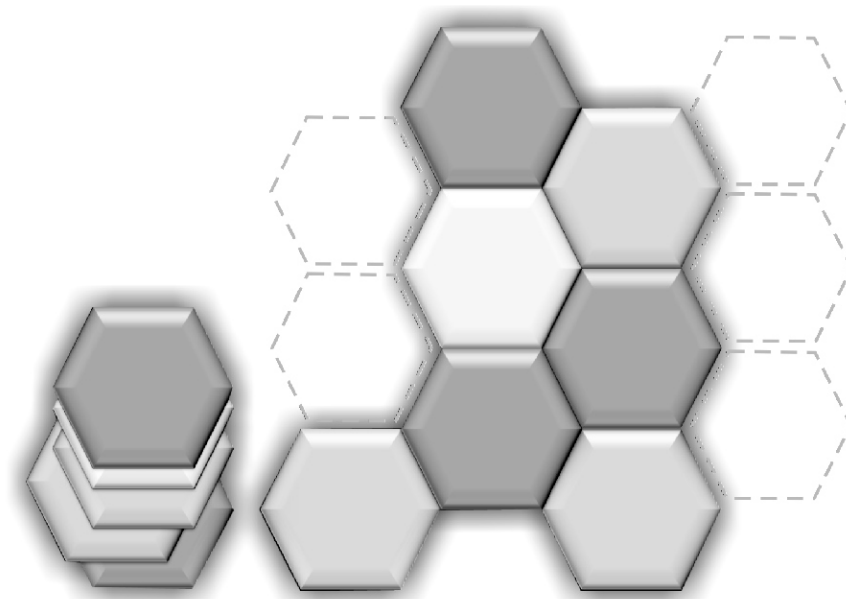
The goal of the Egmont Group is to provide a forum for FIUs around the world to improve co-operation in the fight against money laundering and financing of terrorism and to foster the implementation of domestic programs in this field. This support includes:

- expanding and systematizing international co-operation in the reciprocal exchange of information;
- increasing the effectiveness of FIUs by offering training and promoting personnel exchanges to improve the expertise and capabilities of personnel employed by FIUs;
- fostering better and secure communication among FIUs through the application of technology, such as the Egmont Secure Web (ESW);
- fostering increased coordination and support among the operational divisions of member FIUs;
- promoting the operational autonomy of FIUs; and
- promoting the establishment of FIUs in conjunction with jurisdictions with an AML/CFT program in place, or in areas with a program in the early stages of development.

Egmont Working Groups

Legal Working Group (LWG)	Reviews the candidacy of potential members and handles all legal aspects and matters of principle within Egmont, including cooperation between FIUs.
Outreach Working Group (OWG)	Works to create a global network of FIUs by identifying candidates for membership and working with those countries to ensure that they meet international standards.
Training Working Group (TWG)	Identifies training needs and opportunities for FIU personnel, and conducts training seminars for Egmont members as well as for non-Egmont jurisdictions.
Operational Working Group (OpWG)	Seeks to bring FIUs together on typologies development and long-term strategic analytical projects.
IT Working Group (ITWG)	Provides advice and technical assistance to new and existing FIUs to develop, enhance, or redesign their IT systems.





Goal 2: Deterring Money Laundering and Terrorist Financing

Reporting Entities and general public are often the front-line defense and can contribute significantly towards increasing vigilance against the abuse of the financial system. FIU-IND's success depends on the complementary efforts of the financial sector entities. Rigorous implementation of AML/CFT guidelines by them will prove to be a strong deterrence to those who attempt to launder funds through legitimate channels. Deterrence factor can be further improved by monitoring compliance of financial institutions to the PMLA obligations. The following thrust areas were identified to deter money laundering and terrorist financing:

- Increase awareness about money laundering and terrorist financing.
- Improve compliance to the PMLA.
- Contribute towards strengthening of legislative and regulatory framework.

Increasing awareness about money laundering and terrorist financing

First and the foremost method of deterrence is increasing awareness of the reporting entities and other related persons about their role in strengthening the efforts being made under the PMLA to prevent ML/FT. Following strategies were adopted in this regard during the year:

- Build FIU-IND's presence on the internet as an important source of information and learning
- Collaborate with Regulators, industry associations and professional bodies to conduct seminars and workshops on AML/CFT issues
- Train the trainers and provide expertise for workshops on AML/CFT issues
- Prepare education material to increase awareness on AML/CFT issues

FIU-IND website

The FIU-IND website (<http://fiuindia.gov.in>) provides information on various AML/CFT issues including legal requirements under the PMLA and reporting formats. The website was regularly updated and various utilities to assist reporting entities were made available on the website.

Seminars and Training workshops

Officers of FIU-IND participated as resource persons in seminars and training workshops organised by regulatory authorities, industry associations, professional bodies and reporting entities to increase awareness about role of FIU-IND and obligations of reporting entities under the PMLA.

Workshops were organised by the Reserve Bank of India, the banking sector regulator for the Principal Officers as well as technical and operational staff of commercial banks to clarify legal and operational issues. Officers from

FIU-IND made presentations at these workshops to emphasize the need to put in place systems to identify and report suspicious transactions under the PMLA. A number of training programs were 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.

Considering the geographical spread, workshops were conducted for the Urban Cooperative Banks and Regional Rural Banks all over the country. In these workshops, the software utility developed by FIU-IND to prepare electronic reports was explained so as to enable a large number of banks to submit reports electronically.

Seminars were organised by the Depositories and Stock Exchanges at the regional level to make Depository Participants and Share brokers aware of their legal obligations under the PMLA.

During the year, officers of FIU-IND participated in 93 interactions with reporting entities, which were attended by 5479 participants. The details of outreach activities conducted during the year are at *Appendix I*.

'Train the Trainers' Programme

In order to train trainers of major commercial banks engaged in imparting AML/CFT training in their organizations, a 'Train the Trainers' workshop was organized by FIU-IND in Oct 2007 at New Delhi. This was attended by trainers from 55 public and private sector banks. The workshop was inaugurated by Shri P.V. Bhide, Revenue Secretary, Government of India.

Improving compliance to the PMLA

Promoting and facilitating compliance by the reporting entities have strong deterrence effect on money laundering and terrorist financing. During the year, FIU-IND worked in partnership with the industry and Regulators for improving compliance to the PMLA. Following strategies were adopted during the year for this purpose:

- Provide feedback on reports submitted by Reporting Entities to improve quality of their reports.
- Provide information to Reporting Entities about risk indicators to enhance their AML/CFT capabilities.
- Monitor effectiveness of Reporting Entities' AML/ CFT Systems by reviewing reporting by them.
- Share compliance information with regulators for further follow up action by them to improve compliance to the PMLA.

Review Meetings with Principal Officers

The number and quality of STRs received in FIU-IND were analysed to determine the effectiveness of AML/CFT systems of the reporting entities. In order to review compliance to the PMLA by reporting entities, meetings with different categories of reporting entities were convened in the office of FIU-IND. The

representatives of regulators and industry associations were also invited to attend these meetings. In these meetings, apart from reviewing compliance, following activities also took place:

- Providing feedback on examples of sanitized cases reported to FIU.
- Sharing of experience relating to detection of suspicious transactions.
- Presentation by selected banks on their AML/CFT systems.

Review Meetings with Principal Officers	
Apr 2007	• Registrars and Transfer Agents
May 2007	• Mutual Funds (AMCs)
Jul 2007	• Depositories and Depository Participants • Insurance Companies
Aug 2007	• Urban Cooperative Banks • Custodians
Sep 2007	• Public Sector Banks • Indian Private Sector Banks • Non-Banking Financial Companies (NBFCs)
Jan 2008	• State Cooperative Banks
Mar 2008	• Public Sector Banks • Indian Private Sector Banks

Training the supervisors of the Regulators

FIU-IND collaborated with the Reserve Bank of India in providing training to their supervisory staff in order to ensure that they verify key aspects of the effectiveness of AML/CFT system of the financial institutions during the course of their inspections.

Table 8: Outreach Activities

Outreach Activity	Number of Interactions		Number of Participants	
	2006 - 07	2007 - 08	2006 - 07	2007 - 08
Seminars and Training workshops	57	93	2749	5479
Train the Trainer Programme	0	1	0	55
Review Meetings with Principal Officers	6	12	216	379
Others	1	1	30	40
Total	64	107	2995	5953

This table shows details of outreach activities in which FIU-IND was actively involved. During the year, 93 seminars and training workshops were conducted covering 5479 participants.

Strengthening legislative and regulatory framework

FIU-IND's efforts on regulatory and legislative front focused on suggesting modifications and enhancements to the PMLA to improve legal framework, extend its scope to cover prospective entities and adapt with the dynamics of ML/FT environment. Following strategies were adopted during the year:

- Assist regulatory authorities in reviewing Know Your Customer procedures, AML/CFT guidelines, reporting formats and examination procedures.
- Suggest legal amendments to overcome implementation difficulties and to address changing scenario of money laundering, financing of terrorism and other related crimes.

Changes made in rules, regulations and guidelines

As a result of the initiatives taken by FIU-IND, necessary changes were made in the relevant Rules under the PMLA and the definition of “suspicious transaction” was amended to include transactions suspected to be involving financing of the activities relating to terrorism. This made the legal obligation of the Reporting Entities to report suspected cases of terrorist financing to FIU- IND more explicit. Rules were also amended to remove some operational difficulties of the Reporting Entities and streamline certain procedures.

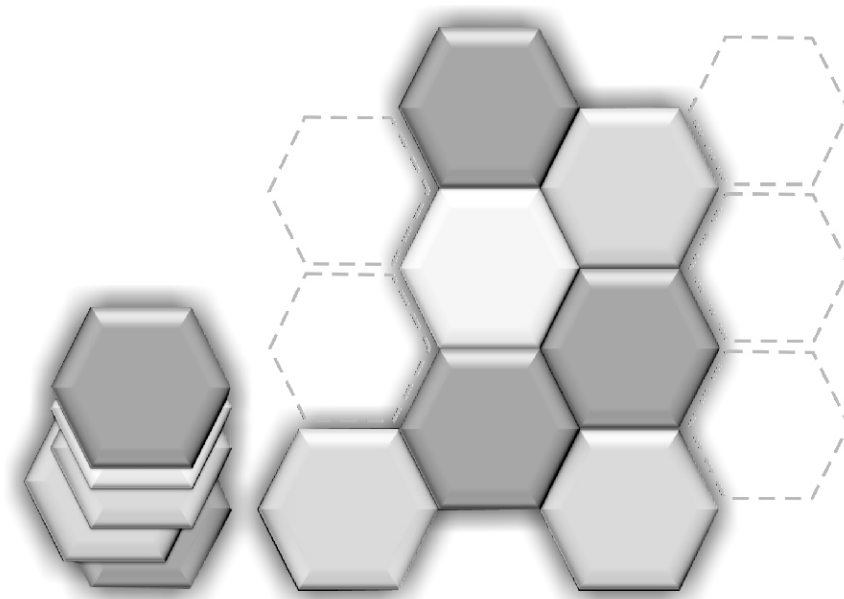
During the year, steps were taken by the financial sector Regulators to further strengthen AML/CFT

regime in the country. FIU-IND maintained regular interaction with the Regulators by providing relevant inputs from time to time. The Reserve Bank of India (RBI), regulator for banking sector issued fresh AML/CFT guidelines for certain sectors like wire transfers and safe deposit lockers. This was in addition to further strengthening their existing guidelines for sectors like authorized money changers. RBI periodically reviewed their AML/CFT guidelines and continuously exhorted banks to improve their compliance.

The Securities and Exchange Board of India (SEBI), regulator for the capital markets, made submission of Permanent Account Number (PAN) compulsory for transactions in the securities market through Depository Participants and Mutual Funds to have better trail of such transactions. The salient features of some of the amendment to the Rules and circulars issued during 2007-08 are at *Appendix C*.



Revenue Secretary inaugurates 'Train the Trainers' Programme



Goal 3: Building and Strengthening Organizational Capacity

FIU-IND faces the unique challenge of dealing with the uncharted areas; new economic and technological changes; new methodologies being adopted by the money launderers; new techniques and developments to fight money laundering, financing of terrorism and other crimes; new legislative or executive mandates; and other unforeseen events. To prepare for these challenges, FIU-IND has to build adequate internal capacity in terms of processes, technology, people and information security.

Working environment for efficient and effective functioning

To serve to its nature of 'skill based, technology intensive' organization, FIU-IND strived to adopt efficient work practices and use technology to institutionalize them. Following initiatives were taken during 2007-08 in this regard:

- Rationalization of processes to improve productivity and for effective monitoring.
- Build highly secure, scalable and flexible technical infrastructure.

IT Implementation during 2007-08

During the year 2007-08, Information Technology played an important role in increasing the efficiency and effectiveness of FIU-IND. The key areas supported by Information Technology in the year under report are:

- Assisting reporting entities in preparation of electronic reports.
- Monitoring data quality and providing feedback to reporting entities.
- Monitoring compliance of reporting entities.
- Linking additional information during analysis of STRs and references.

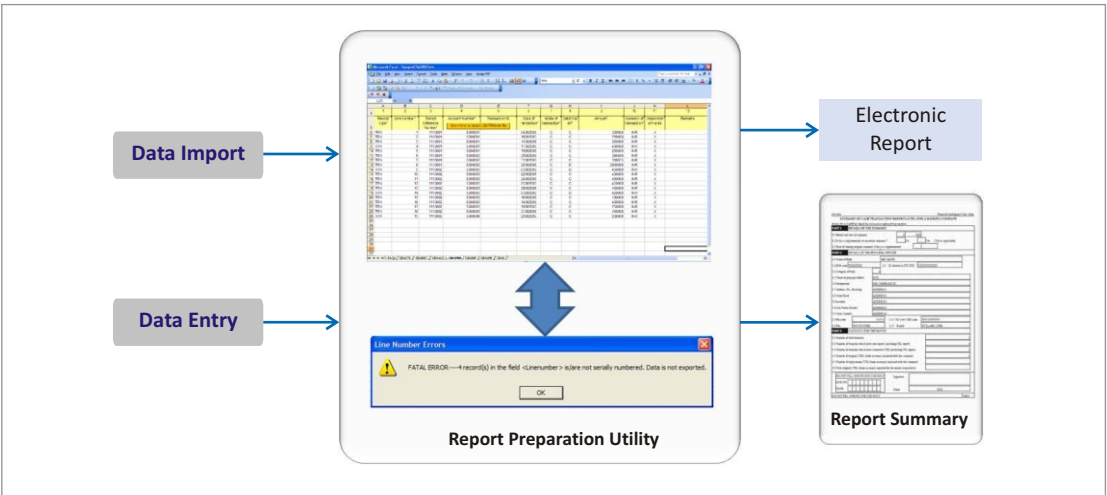
Assisting preparation of electronic reports

During the year 2007-08, one of the priority areas was to reduce number of CTRs received in manual format. Majority of the smaller banks and cooperative banks which did not have centralised databases faced difficulties in preparing CTR in electronic form. An in-house developed Report Preparation Utility (RPU) was provided to such reporting entities to assist them in generation of electronic reports. The utility had features to enter data, validate data structure and export data into the prescribed data structure. The utility also generated a report summary to be signed by the Principal Officer.

The Report Preparation Utility and Frequently Asked Questions (FAQs) were made available on FIU-IND Website (<http://fiuindia.gov.in>). Seminars and workshops were conducted all over the country to explain the usage of utility.

The availability of the report preparation utility and the outreach activity reduced the number of manual reports from 81,368 in the previous year to 15,470 in the current year. As a result, the percentage of electronic reports increased from 96.2% in the previous year to 99.6% this year (refer Table 1).

Figure 4: Use of Report Preparation Utility to generate Electronic Report and Report Summary



Monitoring data quality and providing feedback

Data quality of the electronic reports is of vital importance for linking, searching and mining data during analysis. The challenge was not only to identify the data quality defects in the report but also to give a detailed explanation to the reporting entity to assist them in improving the data quality. A Data Validation Utility was developed which had the following features:

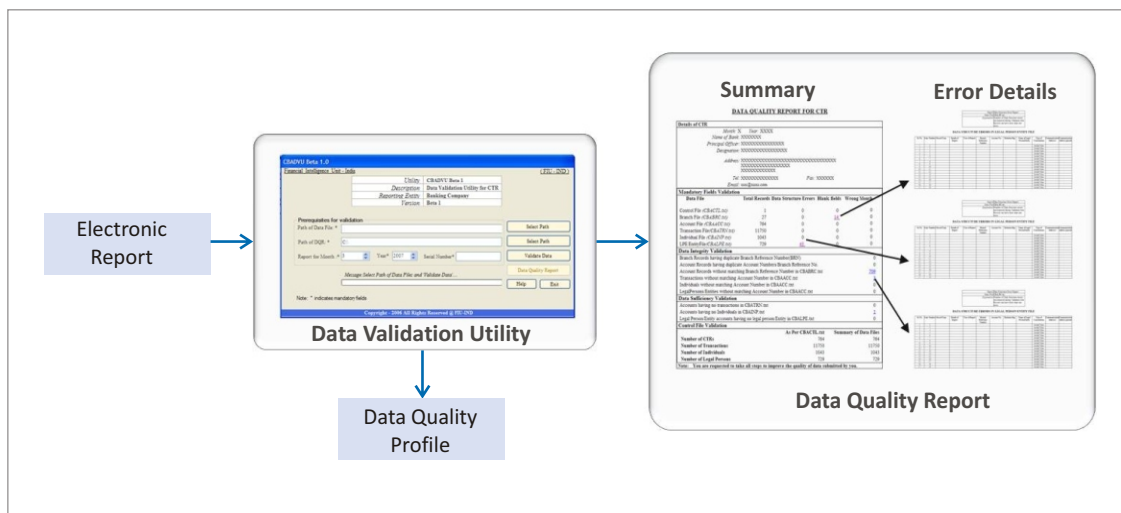
- Analyse all types of data defects on the basis of data validation rules.
- Generate a data quality summary report of the types of defects.
- Generate a data quality detail sheet giving the particular file, record number and field in which the defect was detected along with the explanation for the same.
- Create a data quality profile which could be imported into the data quality history database.

Following steps were taken for effective monitoring of data quality:

- The data quality reports were sent to the reporting entities regularly.
- In case of fatal errors, the reporting entities were expected to re-submit the report after removing the data defects.
- A data quality score was computed to quantify the data quality for each report submitted.
- The changes in the data quality score of the reporting entity were used to monitor the steps taken by the reporting entity to improve data quality.

As a result of data quality monitoring, the data quality of the electronic CTRs improved substantially.

Figure 5: Use of Data Validation Utility to identify and report data quality issues



Monitoring compliance of reporting entities

During the year, the compliance module was further strengthened to assist officers in monitoring the compliance of reporting entities. The features of the upgraded compliance module are as under:

- Facility to view list of reporting entities selected for closer monitoring.
- Facility to search for a reporting entity on the basis of a name or part name. The search result displays matching records in relevance based ranking along with relevant details to assist selection of the desired reporting entity.
- Facility to present a unified view of the reporting entity showing details of Principal Officer(s) and submitted reports.
- Facility to view data quality report for reports submitted by the reporting entity containing information on all errors/warning related to data structure, data integrity and data sufficiency.

Compliance module has been very effective in monitoring the compliance of reporting obligations under the PMLA.

Relevance ranking of search results

As the number of records in the national databases increased, text based searches displayed a large number of matching records. To improve the efficiency of identifying relevant person, a search engine using relevance ranking value was developed with ability to compare a search string

with information in a database and generate a rank on the basis of degree of match. The search results were arranged in the descending order of relevance ranking value such that the best quality match was always displayed at the top of the list.

The Search Engine not only enables analysts at FIU-IND in adding value during analysis of suspicious transaction reports but also provides relevant information on the basis of specific request from law enforcement and intelligence agencies.

Linking additional information during analysis

The electronic reports submitted by the reporting entities were further processed and enhanced to create multiple unified view for each account, individual, legal person and address. The unified view displayed all relevant details such as IDs, related addresses, related persons and related accounts at one place. The unified view facility was integrated with the full text search engine such that once a subject matter of interest was identified using the search engine, the unified view facility was used to view all related information on a single page to assist analysis.

Use of Link analysis not only reduced time taken for multiple searches but also substantially improved quality of case management as all relevant information was extracted on a single page.

Project FINnet

FIU-IND initiated Project FINnet in 2006 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”. Project FINnet consisted of two main phases i.e. Design Phase (Phase I) and Implementation Phase (Phase II). After selection of M/s Ernst & Young India Pvt. Ltd. as the Consultants, the design phase commenced on 29th March 2007.

Design phase

During 2007-08, the design phase of the Project FINnet was completed and all strategies, processes

and technical documents were finalized in active consultation with FIU-IND officials and other stakeholders.

Project FINnet Timeline

Selection of Consultant (8 months)	
Jun 2006	Invitation for EOI from Consultants
Oct 2006	Issue of RFP to shortlisted consultants
Feb 2007	M/s Ernst & Young India Pvt. Ltd. selected
Design Phase - Phase I (8 months)	
Mar 2007	Commencement of Design Phase (Phase I)
Jun 2007	Submission of Strategy Documents
Nov 2007	Submission of Process/Technical Documents

Project FINnet Deliverables finalized in 2007-08

As is Study Report	Current processes and practices, organisation structure and Information Technology at FIU-IND.
Stakeholders' Expectations Report	Possible areas for exchange of information with reporting entities, enforcement agencies, intelligence agencies and other stakeholders.
Strategy Report	Mission, vision, strategic goals, objectives and strategies for FIU-IND.
Business Architecture Report	Business framework for execution of various functions of FIU-IND.
'To - be' Process Report	Detailed business process flows, roles, key performance measures of more than 50 processes of FIU-IND.
Information Technology Plan	Five year plan (2008-12) which governs FIU's information technology objectives, programmes and broad implementation road map.
Technical Architecture Report	Proposed IT architecture (Data architecture layer, Application layer, Security architecture layer etc.) for FIU-IND.
Information Security Plan	Information Security Policies & Procedures, Incident Management Framework and Information System Management System (ISMS) Definition.
Technical Evaluation Report	Comparison of technologies and products covering the technical capabilities, degree of integration, size, viability and implementation experience.
RFP for System Integrator	Request for Proposal for appointment of System Integrator to set up the IT systems and related infrastructure.

Implementation phase

After completion of the design phase of Project FINnet, FIU-IND finalised Request for Proposal (RFP) document for “Appointment of a System Integrator to set up IT & other systems and provide related services”.

In the implementation phase, the System Integrator would set up the IT systems and related infrastructure. During this phase, the Consultant would provide project management services. The System Integrator is expected to be appointed during 2008-09.

The selected System Integrator ('SI') would undertake following tasks:

- i) Development, Integration and Maintenance of software applications.
- ii) Supply, Installation, Integration, Commissioning, Management and Maintenance of enabling infrastructure.
- iii) Provide SI Services, External Users' Help Desk Services and Facility Management Services.

Proposed Functionalities in Project FINnet

Area of work	Present	Proposed
Implementation Roll Out Phase I (Collection Systems)		
Preparation of electronic report by reporting entity	In- house developed Excel based utility to prepare electronic reports	Advanced utilities to prepare, validate and encrypt reports in XML format
Receipt of electronic reports	Data received on CD by post	Online secure gateway to receive reports from reporting entities
Data capture from manual reports	Data entry of only critical fields	Scanning and extraction of data using predesigned forms
Validation of data quality	Offline validation of data quality in batch mode	Streamlined process for advanced validation and feedback
Communication with the Principal Officer	Through letters	Through a secure messaging system
Implementation Roll Out Phase II (Analysis and Dissemination Systems)		
Linkage of reports pertaining to same person	Basic de-duplication	Advanced de-duplication to handle name/address variations
Identification of relationships between persons	Identification of only explicit relationships	Identification of both explicit and implicit relationships
Risk assessment and prioritization of cases	Manual decision making	Rules based systems to assign risk and prioritize alerts
Search for additional information during analysis	Search using manual input by analyst	Automated advanced search and resolution
Access to external information sources	Manual input	Automated application level access
Exchange of information with domestic agencies	Through letters	Secure role based access
Implementation Roll Out Phase III (Risk Management and Advanced Systems)		
Generation of alert from CTRs	CTR's used for adding value during processing of STR or references	Generation of alerts from analysis of CTRs for further processing
Identification of suspicious transaction patterns in reports	Manual interpretation	Automated detection of suspicious patterns using data mining tools
Analysis of trends in reports	Basic trend analysis	Advanced trend analysis using Business Intelligence tools

Building a knowledge driven organisation

FIU-IND has taken initiatives to build it as a knowledge organization by upgrading the skills of its employees and making it a repository on AML/CFT issues.

Training

Anti money laundering and combating financing of terrorism are new areas of work and Financial Intelligence Unit is a new organization in India. It was therefore 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 in AML/CFT.

Repository on AML/CFT issues

FIU-IND has developed itself into a resource centre on AML/CFT issues. It has a library of published material on anti money laundering and related issues. FIU-IND was actively involved in compilation of response to the Mutual Evaluation Questionnaire (MEQ) for the ensuing FATF/APG mutual evaluation.

Ensuring security of information

FIU-IND adopted a layered security approach to address all areas, from the physical environment

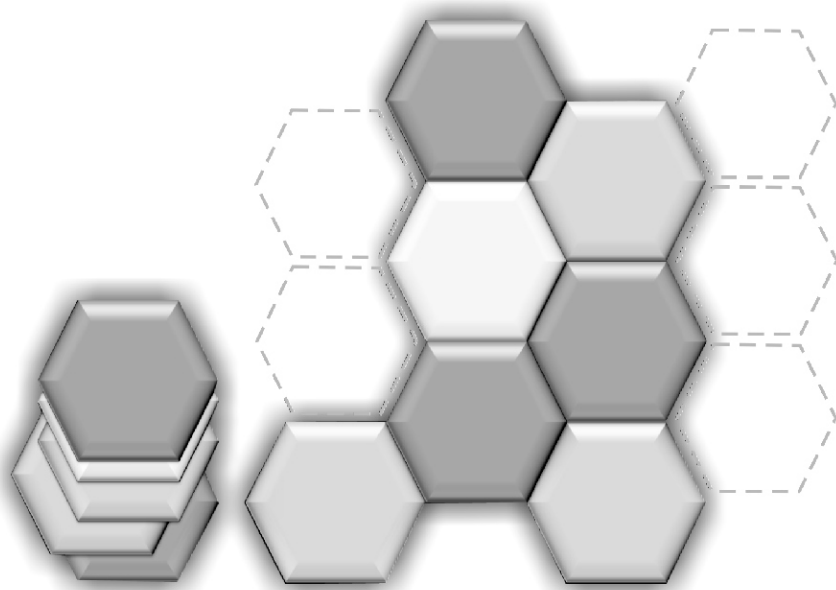
to personnel, to areas specifically related to safeguarding information.

FIU-IND implemented information security instructions covering the areas of information classification, Internet usage, Minimum Baseline Security Standards (MBSS), password protection, operational security, media security, virus management and incident reporting. During the year, three workshops on information security were conducted by the Consultants to increase awareness and train employee on information security issues.

As part of Project FINnet, the Consultants developed a comprehensive Information Security Policies and Procedures (ISPP) based on ISO/IEC 27002:2005 code of practice for establishing, implementing, operating, monitoring, reviewing maintaining and improving information security. Implementation of Project FINnet will greatly enhance the security architecture by deploying Firewalls, Intrusion Prevention System, Authentication Servers, Host Intrusion Detection Systems, Security Information Management, OS Access control and End Point Security.

Training of employees

May 2007	Train the trainers programme at Colombo, Sri Lanka
Aug 2007	Training on Money-laundering at National Academy of Direct Taxes, Nagpur
Nov 2007	FATF Assessor Training at Bonn, Germany
Feb 2008	Workshop on Business Intelligence at New Delhi
Sep 2007 to Feb 2008	Training in .Net Application Development at New Delhi



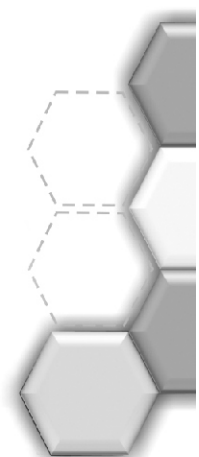
Appendices

Appendix A: Important Rules/Notifications

Date	Not. No.	Description
01.07.2005	1/2005	Appointed 1 st July 2005 as the date on which all the provisions of the Prevention of Money Laundering Act, 2002 shall come into force.
01.07.2005	2/2005	Appointed an Adjudicating Authority to exercise jurisdiction, powers and authority conferred by or under the Prevention of Money Laundering Act, 2002. The Adjudicating Authority shall consist of a Chairperson and two members and shall function within the Department of Revenue, Ministry of Finance of the Central Government with Headquarters at Delhi .
01.07.2005	3/2005	Specified that the New Delhi Bench of the Adjudicating Authority shall exercise jurisdiction, powers and authority conferred by or under the Prevention of Money Laundering Act, 2002 over the whole of India .
01.07.2005	4/2005	Established an Appellate Tribunal at New Delhi to hear appeals against the orders of the Adjudicating Authority and the authorities under the Prevention of Money Laundering Act, 2002.
01.07.2005	5/2005	Conferred certain exclusive and concurrent powers under the Prevention of Money Laundering Act, 2002 to the Director, Financial Intelligence Unit, India .
01.07.2005	6/2005	Conferred certain exclusive and concurrent powers under the Prevention of Money Laundering Act, 2002 to the Director of Enforcement.
01.07.2005	7/2005	Specified Rules relating to the manner of forwarding a copy of the order of provisional attachment of property along with the material, and the copy of the reasons along with the material in respect of survey, to the Adjudicating Authority and its period of retention by the Adjudicating Authority.
01.07.2005	8/2005	Specified Rules for receipt and management of confiscated properties.
01.07.2005	9/2005	Specified Rules for maintenance of records of the nature and value of transactions, the procedure and manner of maintaining and time for furnishing of information and verification of records of the identity of the clients of the banking companies, financial institutions and intermediaries of securities market.
01.07.2005	10/2005	Specified Rules relating to the Forms, search and seizure and the manner of forwarding a copy of the reasons and the material relating to search and seizure and search of person to the Adjudicating Authority, impounding and custody of records and the period of retention thereof.
01.07.2005	11/2005	Specified Rules relating to the Forms, the manner of forwarding a copy of the order of arrest of a person along with the material to the Adjudicating Authority and the period of retention there of by the Adjudicating Authority.
01.07.2005	12/2005	Specified Rules relating to the manner of forwarding a copy of the order of retention of seized property along with the material to the Adjudicating Authority and its period of retention by the Adjudicating Authority.
01.07.2005	13/2005	Specified Rules for the manner of receiving the records authenticated outside India .
01.07.2005	14/2005	Specified Rules for the purpose of appeals under the Prevention of Money Laundering Act, 2002.
13.12.2005	15/2005	Amended Rules 5, 7, 8 and 10 of the Rules notified by Notification No. 9/2005.
27.06.2006	6/2006	Specified the authorities to whom Director, FIU-IND can furnish information under Section 66 of the PMLA.
24.05.2007	4/2007	Amended definition of suspicious transaction (Rule 2), counterfeit currency transaction (Rule 3(1)(C)), due dates for furnishing reports (Rule 8) and requirement of verification of the records of the identity of clients (Rule 9) (See Appendix C for details).

Appendix B: Important Circulars/Instructions issued by the Regulators

Reserve Bank of India (RBI)	
29.11.2004	KYC Guidelines-AML Standards- Scheduled Commercial banks
15.12.2004	KYC Guidelines-AML Standards- Primary Urban Co-operative Banks
18.02.2005	KYC Guidelines-AML Standards- State Co-operative Banks and District Central Co-operative Banks
18.02.2005	KYC Guidelines-AML Standards - Regional Rural Banks
23.08.2005	KYC Guidelines-AML Standards - Scheduled Commercial Banks, Co-operative Banks and Regional Rural Banks
11.10.2005	KYC for persons authorised by NBFCs including brokers/agents etc. to collect public deposit on behalf of NBFCs
21.11.2005	Credit card operations of banks- Scheduled Commercial Banks/NBFCs
2.12.2005	Anti-Money Laundering Guidelines for Authorised Money Changers
15.02.2006	PMLA- Obligation of banks in terms of Rules notified thereunder - Scheduled Commercial Banks
3.03.2006	PMLA- Obligation of banks in terms of Rules notified thereunder - State Co-operative Banks and District Central Co-operative Banks
7.03.2006	KYC Guidelines-AML Standards-NBFCs, Miscellaneous Non-Banking Companies, Residuary Non-Banking Companies
9.03.2006	PMLA- Obligation of banks in terms of Rules notified thereunder - Regional Rural Banks
21.03.2006	PMLA- Obligation of banks in terms of Rules notified thereunder - Primary Urban Co-operative Banks
05.04.2006	PMLA- Obligation of NBFCs in terms of Rules notified thereunder - NBFCs, Miscellaneous Non-Banking Companies, Residuary Non-Banking Companies
26.06.2006	Anti-Money Laundering Guidelines for all authorised persons in Foreign Exchange
16.11.2006	Compliance function of Banks- Scheduled Commercial Banks
17.04.2007	Circular on Safe Deposit Lockers includes Customer Due Diligence for allotment of lockers
13.04.2007	KYC Norms/AML Standards/CFT - Wire Transfers - Scheduled Commercial Banks
20.04.2007	Compliance function of Banks- Scheduled Commercial Banks
18.05.2007	KYC Norms/AML Standards/CFT - Wire Transfers - State Co-operative Banks and District Central Co-operative Banks
21.05.2007	KYC Norms/AML Standards/CFT - Wire Transfers -Regional Rural Banks (RRBs)
25.05.2007	KYC Norms/AML Standards/CFT - Wire Transfers -Primary Urban Co-operative Banks
17.10.2007	Anti-Money Laundering Guidelines for all authorised persons in Foreign Exchange
18.02.2008	KYC Norms/AML Standards/CFT - Scheduled Commercial Banks
25.02.2008	KYC Norms/AML Standards/CFT - Primary Urban Co-operative Banks
27.02.2008	KYC Norms/AML Standards/CFT-Regional Rural Banks
28.02.2008	KYC Norms/AML Standards/CFT- State/District Central Co-operative Banks
Securities and Exchange Board of India (SEBI)	
18.01.2006	Guidelines for Anti Money Laundering Measures
20.03.2006	Obligations of Intermediaries under the PMLA
27.04.2007	Permanent Account Number (PAN) to be the sole identification number
Insurance Regulatory and Development Authority (IRDA)	
31.03.2006	Guidelines of AML Programme for Insurers - Obligations under PMLA
National Housing Bank (NHB)	
10.04.2006	KYC Guidelines - AML Standards for Housing Finance Companies
25.07.2006	Reporting System under PMLA for Housing Finance Companies



Appendix C: Salient features of Important Rules and Circulars issued during 2007-08

Amendments to Rules in Notification no. 4/2007 dated May 24, 2007

- Amended the definition of suspicious transaction (Rule 2(1)(g)) to include cases which gives rise to a reasonable ground of suspicion that it may involve financing of the activities relating to terrorism.
- Amended the description of specified transactions to be reported under Rule 3(1)(C) of the Rules to include all cash transactions where forged or counterfeit currency notes or bank notes have been used as genuine or where any forgery of a valuable security or a document has taken place facilitating the transactions.
- Amended the due dates for furnishing Cash Transaction Reports (Rule 8) to the 15th day of the succeeding month.
- Amended the due dates for furnishing Suspicious Transaction Reports (Rule 8) to seven working days on being satisfied that the transaction is suspicious.
- Amended the due dates for furnishing Counterfeit Currency Reports (Rule 8) to seven working days from the date of occurrence of such transaction.
- Amended the requirement of verification of the records of the identity of clients (Rule 9) by substituting “three certified copies” by “one certified copy”.

RBI's Circular dated February 18, 2008

- Review of risk categorisation of customers should be carried out by banks at a periodicity of **not less** than once in six months.
- Banks should also introduce a system of periodical updation of customer identification data (including photograph/s) after the account is opened. The periodicity of such updation should not be less than once in five years in case of low risk category customers and not less than once in two years in case of high and medium risk categories.
- In case there is a variance in KYC/ AML standards prescribed by the Reserve Bank and the host country regulators, branches/overseas subsidiaries of banks are required to adopt the more stringent regulation of the two.
- Banks are advised to develop suitable mechanism through appropriate policy framework for enhanced monitoring of accounts suspected of having terrorist links and swift identification of the transactions and making suitable reports to the Financial Intelligence Unit India (FIU-IND) on priority.
- Banks are advised that before opening any new account it should be ensured that the name/s of the proposed customer does not appear in the UNSCR list.
- Banks should scan all existing accounts to ensure that no account is held by or linked to any of the entities or individuals included in the list.
- Full details of accounts bearing resemblance with any of the individuals/entities in the list should immediately be intimated to RBI and FIU-IND.
- Adequate screening mechanism should be put in place by banks as an integral part of their recruitment/hiring process of personnel.

Appendix D: Staff Strength

FIU-IND is an officer oriented, 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.

Post	Sanctioned Strength	Working as on April 1, 2007	Net Additions during the year	Working as on March 31, 2008
Director (Group A)	1	1	0	1
Additional Director (Group A)	7	4	0	4
Technical Director (Group A)	1	0	0	0
Principal System Analyst (Group A)	2	0	1	1
Senior Technical Officer (Group A)	10	4	5	9
System Analyst/Programmer (Group A) *	3	2	0	2
Section Officer (Group B Gazetted)	1	1	0	1
PS to Director (Group B Gazetted)	1	1	0	1
PAs to Addl. Directors (Group B Non-Gazetted) *	8	4	0	4
Assistants (Group C)	2	2	0	2
Data Entry Operators (Group C)	2	2	0	2
Lower Division Clerk (Group C)	1	1	0	1
Peons (Group D) *	4	4	0	4
Total	43	26	6	32

*includes persons hired on contract basis

Appendix E: Chronology of Events

Nov 18, 2004	Setting up of Financial intelligence unit- India (FIU-IND).
Mar 16, 2005	Appointment of First Director and FIU-IND becomes operational.
Jul 1, 2005	PMLA and Rules thereunder brought into force.
Mar 16, 2006	Launch of FIU-IND's website by the Hon'ble Finance Minister.
2006-07	
Apr 3-5, 2006	On site visit of the Outreach Working Group (OWG) of the Egmont Group.
Apr 13, 2006	Visit of the high level FATF delegation to FIU-IND.
Jun 12-16, 2006	Attended 14 th Plenary session of the Egmont Group at Cyprus.
Nov 6, 2006	Visit of high level delegation of the Counter Terrorism Executive Directorate (CTED) to FIU-IND.
Feb 19-23, 2007	Attended meeting of FATF Plenary at Strasbourg, France.
Mar 29, 2007	Commencement of Project FINnet.
2007-08	
May 16-17, 2007	Attended meeting of the Joint Working Group (JWG-CT) with Uzbekistan at Tashkent.
May 28-Jun 1, 2007	Attended Egmont Plenary Session at Bermuda.
May 29, 2007	FIU-IND becomes member of Egmont Group.
May 29, 2007	Attended meeting of the Joint Working Group (JWG-CT) with UAE at Delhi.
Jun 25-29, 2007	Attended FATF Plenary at Paris.
Aug 28-31, 2007	Attended meeting of the Joint Working Group (JWG-CT) with Australia at Canberra.
Oct 8-12, 2007	Attended FATF Plenary at Paris.
Oct 16-18, 2007	Attended Egmont Working Group Meeting at Kiev.
Dec 7, 2007	Attended meeting of the Joint Working Group (JWG-CT) with Japan at Delhi.
Feb 08, 2008	Attended meeting of the Joint Working Group (JWG-CT) with Canada at Delhi.
Feb 11-12, 2008	Attended meeting of the Joint Working Group (JWG-CT) with Mauritius at Port Louis.
Feb 11, 2008	Exchange of MOU with FIU of Mauritius.
Feb 15, 2008	Visit of Sir James Sassoon, President FATF to FIU-IND.
Feb 25-29, 2008	Attended FATF Plenary at Paris.
Mar 11-13, 2008	Attended Egmont Working Group Meeting at Santiago, Chile.
Mar 11, 2008	Signing of MOU with FIU of Philippines.

Appendix F: Grounds of suspicion reported in STRs

Banking Companies

S. No.	Suspicion	Summary of detection and review
1.	False Identity	Identification documents were found to be forged during customer verification process. The account holder was not traceable.
2.	Wrong Address	Welcome pack was received back as the person was not staying at the given address or address details given by the account holder were found to be false. The account holder was not traceable.
3.	Doubt over the real beneficiary of the account	The customer not aware of transactions in the account. Transactions were inconsistent with customer's profile.
4.	Account of persons under investigation	The customer was reported in media for being under investigation.
5.	Account of wanted criminal	Name of the account holder and additional criteria (Date of birth/ Father's name/Nationality) were same as a person on the watch list of UN, Interpol etc.
6.	Account used for cyber crime	Complaints of cyber crime were received against a customer. No valid explanation for the transactions by account holder.
7.	Account used for lottery fraud	Complaints were received against a bank account used for receiving money from the victims. Deposits at multiple locations followed by immediate cash withdrawals using ATMs. No valid explanation provided by the account holder.
8.	Doubtful activity of a customer from high risk country	Cash deposited in a bank account at different cities on the same day. The account holder a citizen of a high risk country with known cases of drug trafficking.
9.	Doubtful investment in IPO	Large number of accounts involving common introducer or authorized signatory. Accounts used for multiple investments in IPOs of various companies.
10.	Unexplained transfers between multiple accounts	Large number of related accounts with substantial inter-account transactions without any economic rationale.
11.	Unexplained activity in dormant accounts	Sudden spurt in activity of dormant account. The customer could not provide satisfactory explanation for the transactions.
12.	Unexplained activity in account inconsistent with the declared business	Transactions in account inconsistent with what would be expected from declared business. The customer could not provide satisfactory explanation.
13.	Unexplained large value transactions inconsistent with client's apparent financial standing	Large value transactions in an account which usually has small value transactions. No valid explanation provided by the account holder.
14.	Doubtful source of payment for credit card purchases	Credit card topped up by substantial cash first and then used for incurring expenses. Cumulative payment during the year was beyond known sources of income.
15.	Suspicious use of ATM card	Frequent cash deposits in the account followed by ATM withdrawals at different locations. No valid explanation.
16.	Doubtful use of safe deposit locker	Safe deposit locker operated frequently though the financial status of client does not warrant such frequency. Large suitcase brought by customer.
17.	Doubtful source of cash deposited in bank account	Frequent cash transactions of value just under the reporting threshold. Cash transactions split across accounts to avoid reporting. No valid explanation provided.

Banking Companies (contd..)

S. No.	Suspicion	Summary of detection and review
18.	Suspicious cash withdrawals from bank account	Large value cheques deposited followed by immediate cash withdrawals.
19.	Doubtful source of foreign inward transfers in bank account	Deposit of series of demand drafts purchased from Exchange House abroad. Sudden deposits in dormant account immediately followed by withdrawals.
20.	Doubtful remitter of foreign remittances	Name and other details of the remitter matches with a person on watch list.
21.	Doubtful beneficiary of foreign remittances	Name and other details of the beneficiary matches with a person on watch list.
22.	Doubtful utilization of foreign remittances	Foreign remittance being withdrawn in cash immediately. No valid explanation.
23.	Misappropriation of funds	Reports of misappropriation of funds. Substantial cash withdrawals in account of a charitable organization.

Financial Institutions

S. No.	Suspicion	Summary of detection and review
24.	Doubtful source of insurance premium	<ul style="list-style-type: none"> Substantial premium paid by cash/demand draft in multiple insurance policies without valid explanation. Substantial premium paid by multiple demand drafts of amounts below Rs 50,000. Insurance premium much beyond declared sources of income.
25.	Doubtful source of loan foreclosure	Substantial amount paid in cash /demand draft for foreclosure of loan account. No valid explanation provided.
26.	Doubtful source of the inward foreign remittances	Inward foreign remittance received from a non relative. No valid explanation provided by the beneficiary.
27.	Suspicious inward foreign remittances	Splitting of inward foreign remittances to collect funds in cash in an apparent attempt to avoid fund trail.
28.	Doubtful beneficiary of foreign remittances	Doubtful credentials of the beneficiary. No valid explanation for the remittance provided.
29.	Doubtful purchase of foreign exchange by a customer	Substantial foreign exchange purchased in cash or demand draft. No valid explanation provided.
30.	Doubtful sale of foreign exchange	Substantial foreign exchange sold without any valid explanation.

Intermediaries

S. No.	Suspicion	Summary of detection and review
31.	Doubtful source of investment in mutual funds	Substantial investment in multiple folios in short span. Form 60/61 provided for substantial investment. No valid explanation provided.
32.	Doubtful ownership of investment in mutual funds	Large investment in mutual fund using third party cheques. No valid explanation provided.
33.	Suspicious off market transactions in demat accounts	<ul style="list-style-type: none"> Off-market transfer of shares from multiple demat accounts to one demat account. No valid explanation provided. Suspected share price manipulation by bulk off-market transactions.

Appendix G: Guidance for Financial Institutions in Detecting Terrorist Financing

A. Accounts

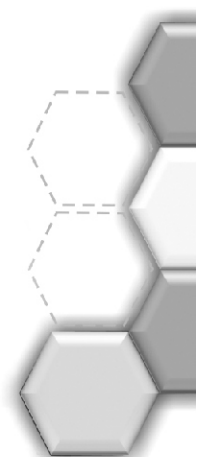
- (1) Accounts that receive relevant periodical deposits and are dormant at other periods. These accounts are then used in creating a legitimate appearing financial background through which additional fraudulent activities may be carried out.
- (2) A dormant account containing a minimal sum suddenly receives a deposit or series of deposits followed by daily cash withdrawals that continue until the transferred sum has been removed.
- (3) When opening an account, the customer refuses to provide information required by the financial institution, attempts to reduce the level of information provided to the minimum or provides information that is misleading or difficult to verify.
- (4) An account for which several persons have signature authority, yet these persons appear to have no relation among each other (either family ties or business relationship).
- (5) An account opened by a legal entity or an organisation that has the same address as other legal entities or organisations but for which the same person or persons have signature authority, when there is no apparent economic or legal reason for such an arrangement (for example, individuals serving as company directors for multiple companies headquartered at the same location, etc.).
- (6) An account opened in the name of a recently formed legal entity and in which a higher than expected level of deposits are made in comparison with the income of the founders of the entity.
- (7) The opening by the same person of multiple accounts into which numerous small deposits are made that in aggregate are not commensurate with the expected income of the customer.
- (8) An account opened in the name of a legal entity that is involved in the activities of an association or foundation whose aims are related to the claims or demands of a terrorist organisation.
- (9) An account opened in the name of a legal entity, a foundation or an association, which may be linked to a terrorist organisation and that shows movements of funds above the expected level of income.

B. Deposits and Withdrawals

- (1) Deposits for a business entity in combinations of monetary instruments that are atypical of the activity normally associated with such a business (for example, deposits that include a mix of business, payroll and social security cheques).
- (2) Large cash withdrawals made from a business account not normally associated with cash transactions.
- (3) Large cash deposits made to the account of an individual or legal entity when the apparent business activity of the individual or entity would normally be conducted in cheques or other payment instruments.
- (4) Mixing of cash deposits and monetary instruments in an account in which such transactions do not appear to have any relation to the normal use of the account.
- (5) Multiple transactions carried out on the same day at the same branch of a financial institution but with an apparent attempt to use different tellers.
- (6) The structuring of deposits through multiple branches of the same financial institution or by groups of individuals who enter a single branch at the same time.
- (7) The deposit or withdrawal of cash in amounts which fall consistently just below identification or reporting thresholds.
- (8) The presentation of uncounted funds for a transaction. Upon counting, the transaction is reduced to an amount just below that which would trigger reporting or identification requirements.
- (9) The deposit or withdrawal of multiple monetary instruments at amounts which fall consistently just below identification or reporting thresholds, particularly if the instruments are sequentially numbered.

C. Transfers

- (1) Wire transfers ordered in small amounts in an apparent effort to avoid triggering identification or reporting requirements.
- (2) Wire transfers to or for an individual where information on the originator, or the person on whose behalf the transaction is conducted, is not provided with the wire transfer, when the inclusion of such information would be expected.

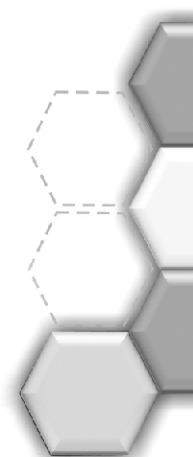


- (3) Use of multiple personal and business accounts or the accounts of non-profit organisations or charities to collect and then funnel funds immediately or after a short time to a small number of foreign beneficiaries.
 - (4) Foreign exchange transactions that are performed on behalf of a customer by a third party followed by wire transfers of the funds to locations having no apparent business connection with the customer or to countries of specific concern.
- D. Characteristics of the customer and his/her business activity**
- (1) Funds generated by a business owned by individuals of the same origin or involvement of multiple individuals of the same origin from countries of specific concern acting on behalf of similar business types.
 - (2) Shared address for individuals involved in cash transactions, particularly when the address is also a business location and/or does not seem to correspond to the stated occupation (for example student, unemployed, self-employed, etc.).
 - (3) Stated occupation of the transactor is not commensurate with the level or type of activity (for example, a student or an unemployed individual who receives or sends large numbers of wire transfers, or who makes daily maximum cash withdrawals at multiple locations over a wide geographic area).
 - (4) Regarding non-profit or charitable organisations, financial transactions for which there appears to be no logical economic purpose or in which there appears to be no link between the stated activity of the organisation and the other parties in the transaction.
 - (5) A safe deposit box is opened on behalf of a commercial entity when the business activity of the customer is unknown or such activity does not appear to justify the use of a safe deposit box.
 - (6) Unexplained inconsistencies arising from the process of identifying or verifying the customer (for example, regarding previous or current country of residence, country of issue of the passport, countries visited according to the passport, and documents furnished to confirm name, address and date of birth).
- E. Transactions linked to locations of concern**
- (1) Transactions involving foreign currency exchanges that are followed within a short time by wire transfers to locations of specific concern (for example, countries designated by national authorities, FATF non-cooperative countries and territories, etc.).
 - (2) Deposits are followed within a short time by wire transfers of funds, particularly to or through a location of specific concern (for example, countries designated by national authorities, FATF non-cooperative countries and territories, etc.).
 - (3) A business account through which a large number of incoming or outgoing wire transfers take place and for which there appears to be no logical business or other economic purpose, particularly when this activity is to, through or from locations of specific concern.
 - (4) The use of multiple accounts to collect and then funnel funds to a small number of foreign beneficiaries, both individuals and businesses, particularly when these are in locations of specific concern.
 - (5) A customer obtains a credit instrument or engages in commercial financial transactions involving movement of funds to or from locations of specific concern when there appears to be no logical business reasons for dealing with those locations.
 - (6) The opening of accounts of financial institutions from locations of specific concern.
 - (7) Sending or receiving funds by international transfers from and/or to locations of specific concern.

Source: Guidance for Financial Institutions in Detecting Terrorist Financing (FATF, 2002)

Appendix H: Interaction with Law Enforcement and Intelligence Agencies

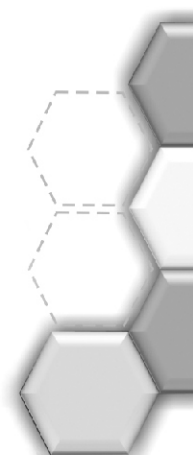
Apr 2007	<ul style="list-style-type: none"> • Presentation to the Indian Revenue Service (IRS) Probationers on 'Money Laundering & Tax Evasion' at the National Academy of Direct Taxes, Nagpur. • Presentation on 'Economic Offences - International Ramification of International Crimes' to the officers of Central Bureau of Investigation (CBI), State Anti Corruption Bureau (ACB) and Anti Corruption Commission, Royal Government of Bhutan at the CBI Academy, Ghaziabad. • Interaction with the officers of the Enforcement Directorate (ED) and the Reserve Bank of India (RBI) on the operational status of FIU-IND and Project FINnet.
May 2007	<ul style="list-style-type: none"> • Interaction with the officers of the Securities Exchange Board of India (SEBI), Central Bureau of Investigation (CBI) and Narcotics Control Bureau (NCB) on the operational status of FIU-IND and Project FINnet.
Jun 2007	<ul style="list-style-type: none"> • Meeting on the 'Prevention of Money Laundering Act 2002' with senior officers of the State Government of Manipur at Imphal, Manipur. • Presentation to the senior officers of the State Governments/Central Ministries during the workshop on 'Some Aspects of Threats to Economic Security and Response Mechanism' at the Indian Institute of Capital Market, Navi Mumbai. • Interaction with the officers of the Board of Excise and Customs (CBEC) and Intelligence Agencies on the operational status of FIU-IND and Project FINnet.
Jul 2007	<ul style="list-style-type: none"> • Interaction with the officers of the Serious Fraud Investigation Office (SFIO) and the Central Board of Direct Taxes (CBDT) on the operational status of FIU-IND and Project FINnet.
Aug 2007	<ul style="list-style-type: none"> • Presentation on 'Economic Offences' to the officers of Central Bureau of Investigation (CBI) & State Anti Corruption Bureau (ACB), Economic Offence Wing (EOW) at the CBI Academy, Ghaziabad. • Presentation on 'Financial Transactions Reporting Regime with respect to Money Laundering' for the officers from the level of Deputy Commissioner to Commissioner of Income-tax at the National Academy of Direct Taxes, Nagpur.
Nov 2007	<ul style="list-style-type: none"> • Presentation on 'Role of FIU-IND' to the senior officers of Central Government at the National Security Council Secretariat.
Dec 2007	<ul style="list-style-type: none"> • Presentation in the training programme on 'Strategies for Prevention of Frauds and Money Laundering in banks' for senior officers of Chennai Police, Central Bureau of Investigation (CBI) at the Indian Bank Management Academy for Growth & Excellence (IMAGE), Chennai.
Feb 2008	<ul style="list-style-type: none"> • Presentation in the training programme on 'Monitoring and Dealing with Economic Offences' for senior officers of the Home and Finance Departments of the Government of Gujarat at the Indian Institute of Financial Services, Ahmedabad. • Presentation on 'Anti Money Laundering/KYC in Banking' for the senior officers of the Income-Tax Department and Reserve Bank of India (RBI) at Chandigarh.
Mar 2008	<ul style="list-style-type: none"> • Presentation on 'Detection and Investigation of Economic Crimes' for the Indian Revenue Service (IRS) Probationers at the National Academy of Direct Taxes, Nagpur. • Presentation on 'Financial Transactions Reporting Regime with respect to Money Laundering' for the IRS Probationers at the National Academy of Direct Taxes, Nagpur.



Appendix I: Details of Outreach Activities

Apr 2007	<ul style="list-style-type: none"> • Presentation at Indian Overseas Bank Staff College, Chennai. • Workshop of Cooperative Banks & Regional Rural Banks at Jammu. • Presentation to Chief Executive Officers of Urban Cooperative Banks at College of Agricultural Banking, RBI, Pune. • Keynote address at Risk World India'07 Conference, Mumbai.
May 2007	<ul style="list-style-type: none"> • Workshop of Cooperative Banks & Regional Rural Banks at RBI, New Delhi. • Presentation at State Bank of Patiala Staff College, Patiala. • Workshop at Indian Bank Management Academy, Chennai. • Presentation at State Bank of Patiala Staff College, Gurgaon. • Workshop of Chief Executive Officers of Urban Cooperative Banks at RBI, Thane. • Presentation at State Bank of Hyderabad Staff College, Hyderabad.
Jun 2007	<ul style="list-style-type: none"> • Seminar at Association of NSE Members of India (ANMI) for brokers at New Delhi. • Presentation at State Bank of India Staff College, Hyderabad. • Workshop at Vijaya Bank Staff College, Bangalore. • Presentation at Workshop of Cooperative Banks & Regional Rural Banks at Bhopal. • Training Programme on Fraud Management at National Housing Bank, Chandigarh.
Jul 2007	<ul style="list-style-type: none"> • Presentation for compliance officers of Dena Bank at Mumbai. • Workshop for compliance staff at Bank of Maharashtra, Pune. • Presentation for training officers of Canara Bank at Bangalore. • Presentation during Workshop of Cooperative Banks and Regional Rural Banks organised by RBI at Nagpur. • Interaction with officers/staff of State Bank of Saurashtra at Rajkot, Bhavnagar & Ahmedabad. • Presentation during Workshop of Cooperative Banks & Regional Rural Banks organized by RBI at Chennai. • Workshop of Commercial Banks, Cooperative Banks & Regional Rural Banks at Srinagar.
Aug 2007	<ul style="list-style-type: none"> • Two Meetings with Principal Officers of Urban Cooperative Banks at FIU-IND, New Delhi. • Presentation during Workshop of Cooperative Banks & Regional Rural Banks organized by RBI at Jaipur. • Interaction with compliance officers of Punjab National Bank at New Delhi. • Interaction with members of the Institute of Chartered Accountants of India at Dehradun. • Presentation for compliance officers & faculty of State Bank of Bikaner & Jaipur Staff College at Jaipur. • Presentation during Workshop for Cooperative Banks & Regional Rural Banks of Karnataka Region organized by RBI at Belgaum. • Interaction with nodal officers of United Bank of India Staff Training College, Kolkata.
Sep 2007	<ul style="list-style-type: none"> • Workshop of Cooperative Banks of Pune, Satara, Sangli, Kolhapur & Solapur District at Pune Urban Cooperative Banks Association, Pune. • Presentation for the training faculty of State Bank of India(SBI) at SBI Academy, Gurgaon. • Address at Conference on 'Global Banking - Paradigm Shift' organized by FICCI-IBA at Mumbai. • Presentation for Regional Managers of Karur Vysya Bank at Chennai. • Presentation for senior officers & faculty members at State Bank of Indore Academy, Indore.
Oct 2007	<ul style="list-style-type: none"> • Presentation to faculty members at Union Bank of India Staff College, Bangalore. • Interaction with officers at Industrial Development Bank of India at New Delhi. • Presentation to Regional Managers & IT Heads of South Indian Bank at Trissur (Kerala). • Interaction with senior bank officials at RBI, Chandigarh.

Nov 2007	<ul style="list-style-type: none"> • Presentation to middle & senior level officers of different banks at Banker's Training College, RBI, Mumbai. • Presentation 'Financial Crimes and Market Intelligence' for middle & senior level officers at RBI Staff College, Chennai. • 'Train the Trainers' workshop for Public/Private/Foreign Banks at New Delhi. • Presentation for Regional Managers & compliance staff of Karnataka Bank Ltd. at Mangalore. • Interaction with Zonal Officers of Allahabad Bank at Bhubaneswar.
Dec 2007	<ul style="list-style-type: none"> • Presentation at 'Orientation Training Programme' for officers of Karnataka Bank Ltd. at Mangalore. • Interaction with compliance staff of Development Credit Bank Ltd. at Mumbai. • Presentation to officers of State Bank of Travancore at Cochin & Thiruvananthapuram. • Interaction with Principal Officers of Housing Finance Companies at Bangalore. • Presentation for senior officers of State Bank of Mysore at Mysore.
Jan 2008	<ul style="list-style-type: none"> • Presentation to officers of Bank of India at Management Development Institute, Mumbai. • Presentation for officers of Laxmi Vilas Bank at Karur, Tamil Nadu. • Presentation to Zonal Audit Officers of Punjab National Bank at New Delhi. • Interaction with senior & middle level officials during 'Fourth International Conference on Impact of AML on Payment Systems' at Mumbai. • Presentation to the Branch & Regional Heads of Dena Bank at Ahmadabad and Rajkot. • Meeting with Principal Officers of State Cooperative Banks at FIU-IND. • Presentation to senior officers of SBI at State Bank of India Learning Centre, Kolkata. • Workshop of Principal Officers of Cooperative Banks organized by RBI at Goregaon, Mumbai. • Interaction with Branch & Regional Heads of Bank of Maharashtra at Mumbai.
Feb 2008	<ul style="list-style-type: none"> • Presentation to senior officers of Central Bank of India at Mumbai. • Presentation to regional officers of Bank of Maharashtra at Aurangabad & Nasik. • Presentation to senior officers & faculty members of Oriental Bank of Commerce at Chandigarh. • Presentation to senior officers of Punjab National Bank at Staff Training College, Chandigarh. • Interface with senior officers of Income-tax Department, Reserve Bank of India and banks at Chandigarh. • Presentation to branch heads & senior officers of Andhra Bank at Hyderabad. • Presentation at 'Annual Risk & Compliance Summit, 2008' Mumbai. • Interaction with senior officers of ICICI Bank at Mumbai. • Presentation to the officers of Syndicate Bank at Mumbai.
Mar 2008	<ul style="list-style-type: none"> • Meeting with Principal Officers of Public Sector Banks at FIU-IND, New Delhi. • Meeting with Principal Officers of Indian Private Sector Banks at FIU-IND, New Delhi. • Presentation to the Brokers/Depository Participants of NSE/BSE/ NSDL/CDSL at New Delhi, Mumbai and Kolkata. • Presentation to senior officers of Corporation Bank at Bangalore. • Presentation to officers at Kotak Mahindra Bank at New Delhi. • Presentation to senior officers of Andhra Bank at Mumbai. • Workshop of Cooperative Banks & Regional Rural Banks by RBI at Varanasi. • Workshop of senior officers of Commercial Banks at RBI, Trivandrum. • Workshop for senior officers of Cooperative Banks at RBI, Trivandrum. • Presentation to the officers of Karnataka Bank at Bangalore. • Training for officers of BNP Paribas Bank at Mumbai. • Presentation to officers at UCO Bank at Kolkata. • Presentation to inspecting officers and senior officers of State Bank of Bikaner & Jaipur at Staff Training Centre, Jaipur.



ABBREVIATIONS USED

AMFI	Association of Mutual Funds in India
AML	Anti Money Laundering
ANMI	Association of NSE Members of India
APG	Asia Pacific Group on Money Laundering
BIMSTEC	Bay of Bengal Initiative for Multi Sectoral Technical and Economic Cooperation
CBDT	Central Board of Direct Taxes
CBEC	Central Board of Excise & Customs
CBI	Central Bureau of Investigation
CFT	Combating Financing of Terrorism
CIP	Client Identification Programme
CTR	Cash Transaction Report
ED	Enforcement Directorate
EOI	Expression of Interest
ESW	Egmont Secure Web
FATF	Financial Action Task Force
FINnet	Financial Intelligence Network
FIU-IND	Financial Intelligence Unit-India
FT	Financing of Terrorism
IA	Intelligence Agency
IB	Intelligence Bureau
IBA	Indian Banks Association
ICAI	Institute of Chartered Accountants of India
IRDA	Insurance Regulatory and Development Authority
KYC	Know Your Customer
LEA	Law Enforcement Agency
MHA	Ministry of Home Affairs
ML	Money Laundering
NCB	Narcotics Control Bureau
NHB	National Housing Bank
NSCS	National Security Council Secretariat
PMLA	Prevention of Money Laundering Act
R&AW	Research & Analysis Wing
RBI	Reserve Bank of India
RBSC	Reserve Bank Staff College, Chennai
REIC	Regional Economic Intelligence Council
RFP	Request For Proposal
RPU	Report Preparation Utility
SEBI	Securities and Exchange Board of India
SI	System Integrator
STR	Suspicious Transaction Report
TF	Terrorist Financing

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