



Financial Intelligence Unit – India
Annual Report 2008-09

Department of Revenue
Ministry of Finance, Government of India

प्रणब मुखर्जी
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MESSAGE

India is committed to fight against money laundering, financing of terrorism and other economic crimes. More recently, our Anti Money Laundering (AML) and Combating Financing of Terrorism (CFT) legislation have been amended to further strengthen AML/CFT regime in India.

Financial Intelligence Units play an important role in fight against money laundering, terrorist financing and other economic crimes. Financial Intelligence Unit-India (FIU-IND) has become fully operational and has been receiving, processing, analyzing and disseminating information. FIU-IND has also been assisting various intelligence and law enforcement agencies by providing them additional information.

I am glad to learn that FIU-IND has been bringing out its Annual Report since it became operational and the reports have been found to be very informative. I am sure that FIU-IND's 'Annual Report 2008-09' will also be found useful by various stakeholders.

(PRANAB MUKHERJEE)



राजस्व सचिव
REVENUE SECRETARY



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MESSAGE

India's Anti Money Laundering (AML) regime was put in place with the operationalisation of the Prevention of Money Laundering Act, 2002 (PMLA) on 1st July 2005. Financial Intelligence Unit-India (FIU-IND) was set up to receive information under PMLA from various players in the financial sector and disseminate analysed financial intelligence to relevant intelligence and law enforcement agencies. As a member of the Egmont Group of FIUs, FIU-IND is also sharing information with its counterpart FIUs and contributing to global war against money laundering and terrorist financing. PMLA has been amended recently and the role of FIU-IND is expected to increase significantly in the coming years.

In the short period of its existence, FIU-IND has demonstrated its utility and relevance not only in the fight against money laundering and terrorist financing but also in assisting various law enforcement agencies including tax authorities, in discharging their responsibilities.

Bringing out an Annual Report by any organization is a useful way of not only presenting an account of what has been done but also to introspect as to what remains to be done. I am happy to learn that FIU-IND has been bringing out its Annual Report every year. I hope that 'Annual Report 2008-09' is a useful source of information and also helps FIU-IND in chartering its way forward.

(P.V. BHIDE)



Director's Report

Director's Report



Financial Year 2008-09 was a year of consolidation for Financial Intelligence Unit - India (FIU-IND). After it was set up in November 2004 and its first Director appointed in March 2005, considerable work was required to make the reporting regime under the Prevention of Money Laundering Act, 2002 (PMLA) fully operational. PMLA was brought into force from 1st July 2005 and reporting formats prescribed towards the close of the financial year 2005-06. With a large number of reporting entities spread over a wide geographical area, it was not easy to get quality reports from them. A number of outreach activities were undertaken by FIU-IND in collaboration with regulators, industry associations and professional bodies to educate reporting entities about their obligations under PMLA. Reporting by the entities was closely monitored and review meetings organized at regular intervals to provide feedback and guidance to the reporting entities. In order to ensure that reports were submitted by reporting entities only in electronic format, FIU-IND also developed and provided a software utility for use by those who did not have the technical capability to do so. Data quality reports were sent to the reporting entities for each electronic report to improve data quality. With these efforts, the reporting regime has by and large stabilized.

During the year 2008-09, 5.51 million Cash Transaction Reports (CTRs) were received as compared to 3.96 million during the previous year. 4409 Suspicious Transaction Reports (STRs) were received during the year, which were more than twice the STRs received during the last year. More and more entities are installing Anti-Money-Laundering software, which will facilitate identification of suspicious transactions and increase the number of STRs reported. 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. PMLA has undergone amendments recently and the changes have become effective from 1st June 2009. With these amendments, payment system operators including money transfer service providers and authorized moneychangers have been included as reporting entities under PMLA. With increase in reporting entities, the number of reports to FIU-IND is likely to increase substantially in the coming years.

During the year, we had close interaction with different regulators in the financial sector for strengthening AML/ CFT regime in the country and improving compliance of the reporting entities. The regulators also participated in the review meetings with principal officers of reporting entities on a regular basis. We maintained good working relationship with domestic law enforcement and intelligence agencies to assess

their needs and to assist them in making better use of the disseminated information. A meeting was organized with nodal officers of the state governments/ union territories to make them aware of the role and functions of FIU-IND and to improve coordination with them.

On the international front, we initiated the process to negotiate MOUs with many of our counterparts. During the year, FIU-IND signed MOUs with FIUs of Brazil, Malaysia and Russia. MOUs are under negotiation with more than 30 FIUs and we hope to sign more MOUs in the coming years to strengthen our working relationship with our counterparts. FIU-IND regularly participated in Egmont Group meetings and played an active role in the Operational Working Group. FIU-IND delegate was part of the Indian delegations to Financial Action Task Force (FATF) plenary meetings held during the year. We actively participated in the activities of other relevant international organizations engaged in the fight against money laundering and financing of terrorism as well as in 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 has initiated project FINnet (Financial Intelligence Network). The design phase of the Project FINnet has been completed. Strategy, process and technical documents have been finalized by the Consultants in consultation with FIU-IND. During the year, the process to select the System Integrator for the project was completed and we expect to appoint the System Integrator soon for putting in place an effective system on the latest information technology platforms to receive, analyze and disseminate information.

Role of FIU-IND in combating money laundering, terrorism financing and other economic crimes is expected to increase significantly in the coming years. At FIU-IND, we are committed to adopt industry best practices and appropriate technology to meet these challenges.



(Arun Goyal)
Director

Financial Intelligence Unit - India

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Performance at a Glance: 2008-09

Combat Money Laundering, Financing of Terrorism and other economic offences

Collection of information

- 5.51 million Cash Transaction Reports (CTRs) received
- 99.8% CTRs received electronically
- 4,409 Suspicious Transaction Reports (STRs) received
- 35,730 Counterfeit Currency Reports (CCRs) received

Analysis and Dissemination of Information

- 4,019 STRs processed
- 2,270 STRs disseminated

Collaboration with domestic Law Enforcement and Intelligence Agencies

- Regular interaction and exchange of information
- Received 232 requests for information from agencies

Regional and global AML/CFT efforts

- 69 requests received from foreign FIUs
- 17 requests sent to foreign FIUs
- 3 MOUs signed with foreign FIUs

Deter Money Laundering and Financing of Terrorism

Increasing awareness about money laundering and terrorist financing

- 103 seminars and training workshops covering 3617 participants
- Train the trainer programme for AML/CFT capacity building

Improving compliance to the PMLA

- 14 review meetings with Principal Officers

Strengthening legislative and regulatory framework

- Regular interaction with the Department of Revenue and the regulators

AML/CFT Regime

Background

Money laundering is the process by which criminals disguise the illegal origin of their wealth. The need for a global anti money laundering strategy was highlighted in the mid-1980s due to increased drug trafficking. The 1988 United Nations Convention against Illicit Traffic in Narcotic Drugs and Psychotropic Substances was the first international forum to emphasize the need to deprive criminals of the proceeds of drug trafficking. Developing capabilities to prevent and detect money laundering became high on the agenda of most countries. It was also realized that banks and other financial institutions could be an important source of information to tackle money laundering.

The Financial Action Task Force (FATF) was established at the G-7 Summit at Paris in 1989 to develop a coordinated international response to Money Laundering. On the basis of FATF's recommendations, governments all over the world started establishing anti money laundering regimes. Action taken included making the act of money laundering a criminal offence and giving authority to investigating agencies to trace, seize & confiscate criminally derived assets.

Beginning in mid-1980s, a number of specialized government agencies known as Financial Intelligence units or FIUs were created to act as an interface between financial sector and law enforcement agencies for identification of suspicious financial transactions and suspected attempts of money laundering, requiring further investigation.

FIUs are central national authorities responsible for receiving, analyzing, and disseminating to competent authorities, disclosures received from the financial sectors. The ability of FIUs to analyze financial data and transform it into financial intelligence is a key element in the fight against money laundering and the financing of Terrorism. FIUs also provide an important platform for

About Money Laundering

Money laundering is the process by which criminals disguise the illegal origin of their wealth to avoid suspicion of law enforcement authorities and to wipe the trail of incriminating evidence.

Money laundering impacts a nation's economy as 'dirty money' moves rapidly across borders to obscure the audit trail and affects interest and exchange rates. Money launderers generally invest money in less productive activities, as their goal is to avoid detection and not return on investment. Money laundering has other dimensions as it weakens the social fabric and ethical standards. Therefore, governments around the world recognize the corrosive dangers that unchecked money laundering poses to their economic and political systems.

Terrorists and terrorist organizations also need funds to carry out their activities. While they may not be keen to disguise the origin of their money, they are interested in concealing the destination and the purpose for which the money was collected. Terrorists and terrorist organizations, therefore, employ techniques similar to money launderers to hide and disguise money.

Typical Stages in Money Laundering Process

Stage 1 - Placement

The first stage in money-laundering is separating the money sought to be laundered from the source and placing it in the financial system. For example, making small deposits of cash in a bank account or small deposits in a mutual fund.

Stage 2 - Layering

This stage involves creating layers of transactions to disguise the origin of the funds and to obscure the audit trail. For example, rapidly moving funds across different accounts.

Stage 3 - Integration

The final stage involves reintroducing the funds into legitimate financial system and projecting them as clean funds, to enable their further use. The purpose of integration of funds is to allow criminals to use the funds without raising suspicion. For example, setting up front companies and using false invoicing and fictitious transactions.



information exchange on money laundering at both global and national level.

Since 2001, combating terrorist financing has also become an integral function of authorities fighting money laundering. Rapid developments in financial markets, technology and communication pose serious challenges to government authorities dealing with money laundering and financing of terrorism. Criminals are now taking advantage of globalization and technology to instantaneously transfer funds across international borders. Therefore, the need for an effective Anti Money Laundering (AML) and Combating Financing of Terrorism (CFT) strategy is becoming more important than ever.

India's anti-money laundering regime is centered around the Prevention of Money Laundering Act, 2002 (PMLA), which was brought into force with effect from July 1, 2005. PMLA has been amended in March 2009 to further strengthen India's anti-money-laundering regime.

The Prevention of Money Laundering Act, 2002

The objective of PMLA is to criminalize money laundering and to provide for confiscation of property derived from or involved in money laundering. Section 3 of the PMLA defines the offence of money laundering as under:

"Whoever, directly or indirectly, attempts to indulge or knowingly assists or knowingly is a party or is actually involved in any process or activity connected with the proceeds of crime and projecting it as untainted property shall be guilty of offence of money laundering."

Section 2(1)(u) of the PMLA defines "Proceeds of crime" as "any 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 any such property".

"Scheduled offences" are specified in the Schedule to PMLA. For offences mentioned in Part B of the Schedule, the value of the proceeds of crime should be Rs. 30 lakh⁴.

or more to attract the offence of money laundering. There is no threshold for offences listed in Part A or the recently introduced Part C of the Schedule.

Under PMLA, punishment for the 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 PMLA.

Important Rules made under PMLA are listed at Appendix A. The List of important circulars/ instructions issued by Regulators on AML/CFT is at Appendix B.

Recent amendments to PMLA

PMLA has recently been amended vide the Prevention of Money Laundering (Amendment) Act, 2009, which received the assent of the President of India on 6th March, 2009⁵. The salient features of these amendments are:

- The list of offences in Part A (offences without threshold value) of the Schedule to PMLA has been expanded to include more offences under the Indian Penal Code, Narcotic Drugs and Psychotropic Substances Act, Explosives Substances Act, 1908 and Unlawful Activities (Prevention) Act, 1967.
- List of offences under Part B (offences with threshold value) has been significantly expanded to include more crimes as predicate offences.
- A new category of offences having cross border implications has been inserted as Part C of the Schedule, which covers all predicate offences without any monetary threshold.

⁴ Lakh = Hundred thousand = 0.1 Million

⁵ The amendment has come into force on 1st day of June, 2009

- The offence of cross border implications has been defined as:

"(ra) "offence of cross border implications", means –

(i) any conduct by a person at a place outside India which constitutes an offence at that place and which would have constituted an offence specified in Part A, Part B or Part C of the Schedule, had it been committed in India and if such person remits the proceeds of such conduct or part thereof to India; or

(ii) any offence specified in Part A, Part B or Part C of the Schedule which has been committed in India and the proceeds of crime, or part thereof have been transferred to a place outside India or any attempt has been made to transfer the proceeds of crime, or part thereof from India to a place outside India."

- The definition of scheduled offence has been expanded to include Part C of the Schedule.
- The definition of financial institution under PMLA has been expanded to include authorized persons (dealers in foreign exchange) and payment system operators. The amended definition of financial institution is:

"2(1)(i) "financial institution" means a financial institution as defined in clause (c) Section 45-I of the Reserve Bank of India Act, 1934 (2 of 1934) and includes a chit fund company, a cooperative bank, a housing finance institution and an authorized person, a payment system operator and a non-banking financial company;"

- Section 2(1)(dz) has been inserted to define "authorised person" as the authorised person defined in Clause (c) of Section 2 of the Foreign Exchange Management Act, 1999 (FEMA). This definition of authorised person under FEMA is:

"2(c) "authorized person" means an authorized dealer, money changer, off-shore banking unit or any other person for the time being authorized under sub-section (1) of Section 10 to deal in foreign exchange or foreign securities;"

Offences under PMLA after amendments in 2009

PMLA (Amendment) Act, 2009 expanded the list of schedule offences under PMLA. The expanded list (effective from 1st June 2009) is as under:

Part A of the Schedule: Offences relating to:

- Waging war or conspiring against the State
- Narcotic drugs and psychotropic substances
- Counterfeit currency or bank notes
- Causing explosions or possessing explosives
- Terrorism and financing of terrorism

Part B of the Schedule: Offences under:

- The Arms Act, 1959 or the Explosives Act, 1884
- The Wildlife (Protection) Act, 1972
- The Immoral Traffic (Prevention) Act, 1956
- The Prevention of Corruption Act, 1988
- The Indian Penal Code (specific offences like murder, extortion, robbery, kidnapping for ransom, criminal conspiracy, counterfeiting government stamps, dealing in stolen property, cheating etc.)
- The Antiquities and Art Treasures Act, 1972
- The SEBI Act, 1992
- The Customs Act, 1962
- The Bonded Labour System (Abolition) Act, 1976 or the Child Labour (Prohibition and Regulation) Act, 1986
- The Transplantation of Human Organs Act, 1994
- The Juvenile Justice (Care and Protection of Children) Act, 2000
- The Emigration Act, 1983 or the Passports Act, 1967 or the Foreigners Act, 1946
- The Copyright Act, 1957 or the Trade Marks Act, 1999
- The Information Technology Act, 2000
- The Biological Diversity Act, 2002 or the Protection of Plant Varieties and Farmer's Rights Act, 2001
- The Environment Protection Act, 1986 or the Water (Prevention and Control of Pollution) Act, 1974 or the Air (Prevention and Control of Pollution) Act, 1981

Part C of the Schedule: Cross border offences without any monetary threshold covering all offences specified in Part-A, or Part-B without any threshold, or offences against property under chapter XVII of the Indian Penal Code.

- The new reporting entity category of 'payment system operator' has been defined as under:

'(rc) "payment system operator" means a person who operates a payment system and such person includes his overseas principal.

'(b) "payment system" means a system that enables payment to be effected between a payer and a beneficiary, involving clearing, payment or settlement service or all of them.

Explanation:- For the purpose of this clause, "payment system" includes the systems enabling credit card operations, debit card operations, smart card operations, money transfer operations or similar operations;"

- The definition of 'non-banking financial company' (which is included in the definition of financial institution) has been expanded to include persons carrying on designated business or profession. The amended definition is:

"2(1)(a) "non-banking financial company" shall have the same meaning as assigned to it in clause (f) of section 45-I of the Reserve Bank of India Act, 1934 and includes a person carrying on designated business or profession;"

- Section 2(1) (ja) has been inserted to define "designated business or profession" as:

"2(1)(ja) "designated business or profession" means carrying on activities for playing games of chance for cash or kind, and includes such activities associated with casino or such other activities as the Central Government may, by notification, so designate, from time to time;"

- Property can be attached for 150 days as against the period of 90 days earlier. In addition, if it appears that if property is not attached immediately, and such non-attachment is likely to frustrate proceedings under PMLA, then property can be attached even if a complaint has not been filed before a magistrate or court.

The Unlawful Activities (Prevention) Act

The legislative measures for combating financing of terrorism in India are contained in the Unlawful Activities (Prevention) Act, 1967 (UAPA). By the recent amendments, offences under UAPA have been included as predicate offences under PMLA. UAPA makes terrorist acts and raising funds for terrorist acts liable for punishment. The punishment for such an offence is death or imprisonment for life if the terrorist act results in death of a person and imprisonment for not less than 5 years but may extend to imprisonment for life in other cases. UAPA also makes the act of raising funds for a terrorist organization an offence liable for punishment with imprisonment upto 14 years.

By the Unlawful Activities (Prevention) Amendment Act, 2008, UAPA has been amended. Some of the important changes for combating terrorist financing are mentioned below:

- The terms "Proceeds of terrorism" and "Property" have been redefined to widen their scope.
- The term "Terrorist act" has been expanded to cover more acts as terrorist acts.
- The scope of terrorist financing has been expanded to include the act of raising or collecting funds or providing funds to any person or attempting to provide funds to a person to commit / attempt to commit a terrorist act in line with SR II of FATF's Recommendations.
- The scope of forfeiture of proceeds of terrorism has been enlarged to include proceeds held by a terrorist organisation or by a terrorist gang.
- New provisions have been inserted to give effect to UNSCR 1267 and 1373, enabling freezing, seizing or attaching funds and other financial assets held by designated individuals or entities.

Financial Intelligence Unit-India

Financial Intelligence Units (FIUs) are specialized government agencies created to act as an interface between financial sector and law enforcement agencies for identification of suspicious money laundering activities requiring investigation.

Financial Intelligence Unit-India (FIU-IND) is the central national agency for receiving, processing, analyzing and disseminating information relating to suspect financial transactions. It was established by the Government of India vide Office Memorandum dated 18th November, 2004. FIU-IND coordinates and strengthens efforts of national and international intelligence, investigation and enforcement agencies in combating money laundering and terrorist financing. FIU-IND is an independent body reporting to the Economic Intelligence Council headed by the Finance Minister.

FIU-IND is a lean organization headed by Director, FIU who is of the rank of Joint Secretary to the Government of India. It is an officer-oriented and technology-intensive organization having a total strength of 43 personnel at various levels. Details of manpower in FIU-IND are given in Appendix C.

The main function of FIU-IND is to receive reports of financial transactions, analyze them, and disseminate analyzed information to enforcement, intelligence and regulatory agencies.

FIU-IND receives reports of cash transactions over Rs.10 lakh, suspicious transactions and counterfeit currency transaction from banks, financial institutions and capital market intermediaries. The reports are analyzed to identify patterns of money laundering, terrorist financing and related economic crimes. FIU-IND shares the information so analyzed with agencies specified in Section 66 of PMLA or notified thereunder. FIU-IND maintains a national database on financial transactions reported to it. On specific requests from enforcement and intelligence agencies, FIU-IND shares available information in its databases after searching them. FIU-IND monitors and identifies strategic key areas on money-laundering trends, typologies and developments.

Definition of FIU

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

- i) concerning suspected proceeds of crime and potential financing of terrorism, or
- ii) required by national legislation or regulation in order to combat money laundering and terrorism financing.

(formalized by EGMONT group)

Key Partners

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 Bank for Agriculture and Rural Development (NABARD)
- National Housing Bank (NHB)

International

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



FIU-IND is entrusted with securing compliance of various reporting entities to their obligations under the Prevention of Money Laundering Act, 2002 (PMLA). Director, FIU IND is empowered to levy fine of not less than Rs. ten thousand which may extend to Rs. one lakh (Rs.100,000/-) for each failure on reporting entities.

The Chronology of various significant events for FIU-IND is at Appendix D.

FIU-IND has developed a plan to provide strategic perspective for its activities and to provide a framework for an enterprise wide performance management. FIU-IND's mission is to provide quality financial intelligence for safeguarding the financial system from the abuses of money laundering, terrorist financing and other economic offences. Its strategic goals are:

- Combat Money Laundering, Financing of Terrorism and other economic offences
- Deter Money laundering and Financing of Terrorism
- Build and strengthen organizational capacity

Figure 1: Mission, vision and strategic goals for FIU-IND



*Each goal is further elaborated into multiple objectives and actionable strategies

Reporting entities and their obligations under PMLA

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

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 4(i) of the RBI Act
- Insurance companies
- Hire purchase companies
- Chit fund companies
- Housing finance institutions
- Non-banking financial companies
- Payment system operators*
- Authorised money changers*
- Casinos*

Intermediaries

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

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

* With effect from 1st June 2009

Obligations of Reporting Entities under PMLA

Obligation*	When
Communicate the name, designation and address of the Principal Officer to FIU-IND	At the time of appointment / change of Principal Officer
Verify identity, current address, including permanent address, nature of business and financial status of the client	At the time of opening an account or executing any transaction
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	Ongoing
Furnish Cash Transaction Report (CTR) to FIU-IND containing specified cash transactions	Within 15 th day of succeeding month (Monthly Reporting)
Furnish Counterfeit Currency Report (CCR) to FIU-IND	Within 7 working days from the date of transaction
Furnish Suspicious Transaction Report (STR) to FIU-IND containing details of all suspicious transactions whether or not made in cash, including attempted suspicious transactions	Within 7 working days on being satisfied that the transaction is suspicious
Maintain records of identity of clients	For a period of 10 years after cessation of relationship with the client
Maintain records of all transactions reported to FIU-IND	For a period of 10 years after the date of transaction

* Director, FIU-IND is empowered to levy fine of not less than ₹. ten thousand which may extend to ₹. one lakh for each failure on reporting entities



Combating Money Laundering, Terrorist Financing and related crimes

The ability of Reporting Entities to identify and report suspicious and other financial transactions is integral to effective collection of information. FIU-IND plays a key role in analyzing the received financial information and thereafter sharing the distilled information with law enforcement agencies (LEAs), intelligence agencies (IAs) and regulators.

The thrust areas for combating money laundering, terrorist financing and related crimes were:

- Collecting information effectively
- Analyzing and disseminating information in an effective manner
- Effective collaboration with domestic law enforcement and intelligence agencies
- Furthering regional and global efforts in combating money laundering, financing of terrorism and related crimes

Collecting 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 of forged or counterfeit currency notes to FIU-IND.

Cash Transactions

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

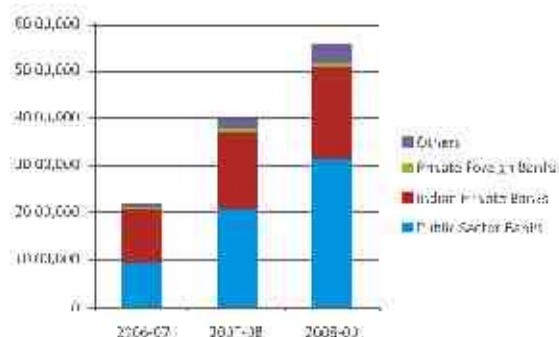
- All cash transactions of the value of more than rupees ten lakhs or its equivalent in foreign currency, and
- All series of cash transactions integrally connected to each other, which have been valued below rupees ten lakhs or its equivalent in foreign currency where such series of transactions have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

Collection of CTRs

- ✓ 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 5.51 million CTRs were received from banking companies (Table 1). In addition to CTRs submitted by banking companies, financial institutions such as housing finance companies, life insurance companies and non-banking financial companies also submitted CTRs during the year. As cash transactions are not permitted in the securities market, no CTRs were received from the reporting entities falling under the category of intermediaries.



Increase in number of CTRs over the years

Some of the significant trends in CTR reporting were:

- Number of cash transactions is increasing and 5.51 million CTRs were reported in 2008-09 as compared to 3.95 million CTRs in 2007-08 and 2.14 million in 2006-07.
- Filing of CTRs in electronic format is increasing and 99.8% of CTRs have been received in electronic format in 2008-09 as compared to 98.6% in 2007-08 and 96.2% in 2006-07.
- CTR's from Cooperative Banks and RRBs have increased to more than 3 lakh in 2008-09 as compared to approx. 25 thousand in 2006-07.

Table 1: Submission of Cash Transaction Reports by Banking Companies

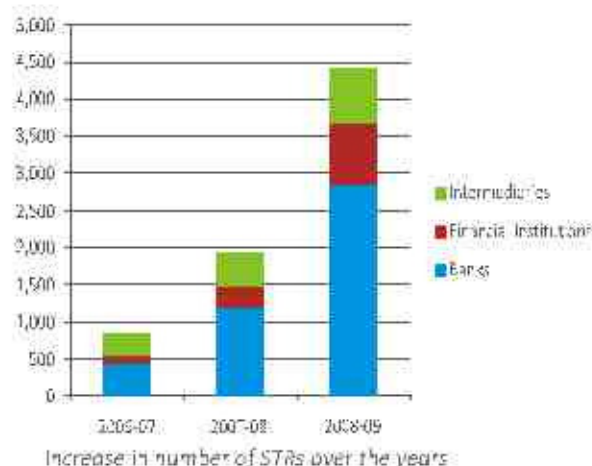
Type of Bank	2006-07	2007-08	2008-09	Total
Public Sector Banks	9,21,597	20,62,742	31,08,675	60,93,014
Indian Private Banks	11,33,138	16,34,749	19,80,045	47,67,932
Private Foreign Banks	60,504	84,407	88,239	2,33,150
Co-operative and other Banks	25,529	1,38,015	3,34,191	5,17,735
Total	21,40,768	39,59,913	55,11,150	1,16,11,831
% of Electronic Reports	96.2%	99.6%	99.8%	99.1%

This table shows the number of Cash Transaction Reports (CTR's) submitted by various categories of banks. One CTR covers details of account, related persons and transactions for a 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.

Suspicious Transactions

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

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



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

The number of STRs is increasing and in 2008-09, 4409 STRs were received as compared to 1916 STRs in 2007-08 and 817 in 2006-07 (Table 2). A compilation of indicators for detection of suspicious transactions is at Appendix E. Some of the examples of suspicions reported in STRs are at Appendix F.

Effective detection of and collection of STRs

- Collaborate with the regulators and industry 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
- 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
- Share sanitized cases reported to FIU-IND and feedback received from agencies

Table 2: Submission of Suspicious Transaction Reports

Category	2006 - 07	2007 - 08	2008 - 09	Total
Banks	437	1183	2826	4446
Financial Institutions	88	288	841	1217
Intermediaries	292	445	742	1479
Total	817	1916	4409	7142

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 a suspicious transaction.

Counterfeit Currency Transactions

The PMLA and Rules thereunder require reporting entities to report to FIU-IND 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.' The Reserve Bank of India vide its circular dated May 22, 2008 specified the reporting format and electronic data structure for submitting Counterfeit Currency Reports to FIU-IND.

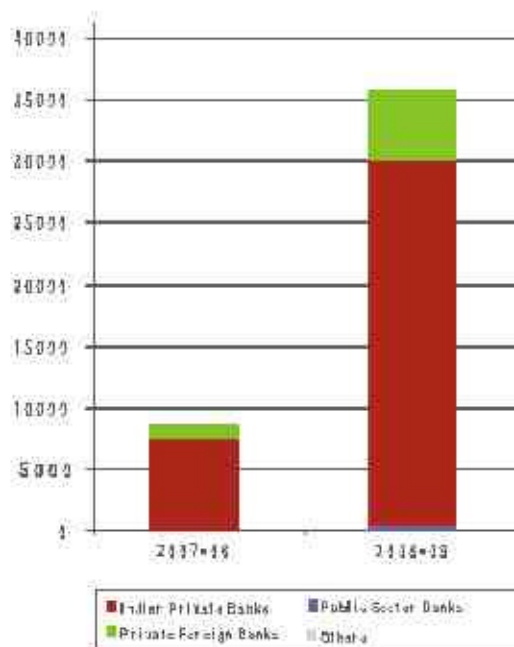
Collection of Counterfeit Currency Reports

- Increase awareness among Reporting Entities
- Encourage all Reporting Entities to report all incidents of detection of fake Indian currency notes (FICN)
- Encourage all Reporting Entities to file reports in electronic form

Workshops were held to train the banks in preparation and submission of reports in electronic form. The banks have initiated steps to put in a place a system to submit consolidated reports in electronic form to FIU-IND. As on March 2009, FIU-IND has received information about

44,310 incidents of detection of Fake Indian Currency Notes (FICN) with a face value of over Rs. Seven Crore. The number of CCRs is increasing. 35,730 CCRs were received in 2008-09 as compared to 8,580 CCRs in 2007-08 (Table 3).

All reports received were imported in a centralized database at FIU-IND. Details of significant cases and Quarterly Trend Analysis Reports containing denomination and geographic trends in FICN were shared with the law enforcement agencies.



Increase in CCRs over the years

Table 3: Number of Counterfeit Currency Reports (CCRs)

Reporting Entity Type	2007-08	2008-09	Total
Public Sector Banks	81	396	477
Indian Private Banks	7,388	29,846	37,234
Private Foreign Banks	1,111	5,422	6,533
Others	-	66	66
Total	8,580	35,730	44,310

This table shows number of Counterfeit Currency Reports (CCRs) submitted by various categories of banks. One CCR includes details of one instance of counterfeit currency detected by a bank.

Analysis, dissemination and feedback

Analysis

The main function of FIU-IND is to analyze the reports submitted by reporting entities and to disseminate this information to various intelligence, law enforcement or regulatory agencies, in appropriate cases.

Effective analysis and dissemination

- 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
- Encourage law enforcement /intelligence agencies to give feedback on information exchange
- Review and assimilate the knowledge gained to continuously improve the quality of analysis

During the year under report, 4019 STRs were processed and in 2270 cases information was disseminated to relevant agencies (Table 4). Some of the trends related to analysis of STRs were:

- Number of STRs processed increased more than six times to 4019 in 2008-09 as compared to 2006-07.
- 56% of STRs processed were disseminated as compared to 47% in 2007-08 and 61% in 2006-07.

FIU-IND used additional relevant information from external sources to add value to financial information that was disseminated. Facts reported in STR and other

internal/external information sources were analysed and interpreted with a view to identify information relevant to any intelligence/ law enforcement agency. During analysis, a search engine prototype was used to search and link additional information such as related addresses, individuals, entities and accounts in respect of the reported person. This search engine has been developed in-house.

Dissemination and feedback

Through dissemination of financial intelligence, FIU-IND assists and strengthens the work of law enforcement agencies, intelligence agencies, regulators and international counterparts. During the year 2008-09, 2450 disseminations were made in respect of 2270 STRs which were considered fit for dissemination (Table 5).

Some STRs were disseminated to more than one agency and hence, the number of dissemination reports is higher than the number of STRs disseminated.

Regular meetings were conducted within FIU-IND to discuss analyzed reports and decide in which cases the information was fit to be disseminated to enforcement / intelligence agencies for further action. Information on regulatory issues was also shared with the concerned regulator.

A feedback mechanism has been evolved for receiving feedback from agencies to whom information is disseminated. This helps in ascertaining the usefulness of information as well as the outcome of the disseminated information. The feedback mechanism also helps in improving the quality of analysis.

Table 4: Analysis of STRs

Category	06-07	07-08	08-09	Total
STRs received	817	1916	4-09	7142
STRs Brought forward from Previous Year	-	171	86	-
STRs Processed	646	2001	4019	6666
STRs Disseminated	321	985	2270	3576

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

Table 5: Dissemination of STRs

Type of Agency	06-07	07-08	08-09	Total
Law Enforcement Agencies	338	885	2319	3542
Intelligence Agencies	30	49	90	169
Regulators	30	34	41	105
Total	428	968	2450	3846

This table shows number of dissemination to various types of agencies. Law Enforcement Agencies has the highest share of total dissemination of STRs.

Collaboration with domestic Law Enforcement and Intelligence Agencies

During the year, FIU-IND continued its emphasis on maintaining and improving operational relationship with domestic law enforcement/intelligence agencies and regulatory authorities. FIU-IND's collaboration with domestic LEAs and Intelligence Agencies extended beyond mere information exchange.

Law Enforcement and Intelligence Agencies

During the year, FIU-IND supported the efforts of law enforcement and intelligence agencies through dissemination of information based on analysis of reports received as well as by providing additional financial information as required by them.

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. During the year, FIU-IND closely interacted with nodal officers appointed by the governments of states/union territories for dealing with FIU-IND. Two meetings were organized at Delhi with the nodal officers for better co-ordination with the state governments on AML/CFT issues.

Better collaboration with domestic agencies

- Maintain close professional relationship with law enforcement and intelligence agencies based on mutual trust and understanding
- Adopt best practices in information exchange to enhance FIU-IND's ability to respond faster to the requirements of the LEAs and IAs.
- Maintain close relationship with regulators for stabilising and improving AML/CFT regime in India.



Meeting with nodal officers of state governments

During the year, FIU-IND provided information in response to domestic references relating to money laundering, terrorist financing, corporate frauds, organized crimes, fake Indian currency, tax evasion etc. (Table 6).

FIU-IND also provided information to domestic agencies after searching the transactions available in its databases. Many of these agencies rely on FIU-IND databases for additional financial details for developing intelligence and for conducting investigation in respect of identified suspects. This reflects increasing confidence in FIU-IND on the part of domestic agencies.

An effort was also made for appointment of nodal officers in all domestic agencies and FIU-IND maintained close relationship with these nodal officers. The details of various interactions with law enforcement and intelligence agencies during the year are in Appendix G.

Table 6: Domestic references other than STRs

Category	06-07	07-08	08-09	Total
Requests received from intelligence agencies	40	87	190	317
Requests received from enforcement agencies	-	13	42	55

This table shows number of references received from domestic intelligence and enforcement agencies.

Regulatory Authorities

FIU-IND has an ongoing partnership with regulatory authorities in strengthening AML/CFT regime in the country. After PMLA was brought into force, different financial sector regulators namely Reserve Bank of India (RBI), National Bank for Agricultural and Rural Development (NABARD), Securities and Exchange Board of India (SEBI), Insurance Regulatory and Development Authority (IRDA) and National Housing Bank (NHB) issued instructions specifying measures for ensuring compliance of the reporting entities with their obligations under PMLA. During the year under report, wherever necessary, clarifications were issued by regulators for effective implementation of these instructions. In certain cases, additional instructions were also issued to further strengthen AML/CFT regime in India.

FIU-IND had regular interactions with regulators, industry associations and Self Regulatory Organisations to develop a common understanding of obligations under PMLA.

FIU-IND also actively collaborated with all regulators of the financial sector for effective implementation of PMLA. FIU-IND interacted with regulators to identify legal provisions requiring amendment and industry specific suspicious transactions. 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 human resources of regulators for conducting AML/CFT related audits/inspections of reporting entities.

Training the supervisors of the Regulators

FIU-IND assists regulatory authorities in training their staff to improve their understanding of AML/CFT issues, which, in turn, helps them in monitoring the effectiveness of AML systems of institutions inspected by them.



International efforts against money laundering and terrorist financing

The global impact of money laundering and terrorist financing has brought the international community together for exchange of information and development of expertise on AML/CFT issues.

Enhanced regional and global AML/CFT efforts

- 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

Financial Action Task Force

The Financial Action Task Force (FATF) is an international inter-governmental body that focuses on standard setting, ensuring effective compliance with the standards and identifying money laundering and terrorist financing threats



Mr. Antonio Gustavo Rodrigues, Incoming FATF President visits FIU-IND on 29th May, 2008

FIU-IND participated in the activities of the Financial Action Task Force (FATF). Officers from FIU-IND attended the plenary session of FATF at London (June 2008) as a part of the Indian delegation. FIU-IND has been actively

involved in the preparation of the response to the Mutual Evaluation Questionnaire (MEQ) for the FATF/APG mutual evaluation of India in late 2009.

Egmont Group

In 1995, some of the FIUs decided to establish an informal group, known as the Egmont Group, for international cooperation amongst FIUs. Named for 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 number of Egmont FIUs has increased to 116. One of the major principles of the Egmont Group is to enhance the potential for bilateral and multilateral collaboration in strategic analysis among the FIUs. To ensure the effectiveness of these measures, each FIU must adhere to all 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
- Protection of confidentiality of the information

FIU-IND was admitted as a member of the Egmont Group at the Bermuda Plenary session in May 2007. During the month of June 2007, Egmont Secure Web (ESW) was made operational for exchange of information over a secure and reliable platform.

Officers of FIU-IND participated in the Annual Plenary Session at Seoul, Korea in May 2008 apart from Egmont Working Group meetings at Toronto, Canada in September, 2008 and Guatemala City in March, 2009.

Exchange of information with foreign FIUs

FIU-IND received requests for information from foreign FIUs in 69 cases in 2008-09. FIU-IND also requested information from foreign FIUs in 17 cases during the year (Table 7).

Table 7: Exchange of information with foreign FIUs

Status of action Taken	06-07	07-08	08-09	Total
Request received from foreign FIU	14	39	69	122
Request sent to foreign FIU	2	13	17	32

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 Egmont Secure Web.

MOUs with foreign FIUs

FIU-IND initiated the process of entering into MOUs with various FIUs during the year. MOUs with the FIUs of Brazil, Malaysia and Russia were signed during the year. MOUs with more than 30 countries are under various stages of negotiation (Table 8).

Table 8: Signing of MOU with foreign FIUs

Status of action Taken	As on 31.03.08	As on 31.03.09
MOUs signed	2	5
MOUs under process	13	31

This table shows number of countries with whom MOUs have been signed or being negotiated/processed. MOUs have already been signed with FIUs of Mauritius, Philippines, Brazil, Malaysia and Russia.

Joint Working Groups on Counter Terrorism

Government of India has established the mechanism of Joint Working Groups (JWG) with a number of countries on various operational issues relating to terrorism and other crimes including money laundering and drug trafficking. These working groups are normally serviced by the Ministry of External Affairs. FIU-IND regularly participated in these Joint Working Groups as members of Indian delegations (Table 9).

Table 9: Participation in JWG's during 08-09

Month	Country	Venue
August 08	USA	New Delhi
October 08	Germany	Berlin
December 08	UK	New Delhi
January 09	Russia	New Delhi

Through the mechanism of JWG's on Counter Terrorism, FIU-IND has been able to establish one to one relationship with counterpart FIUs and other relevant law enforcement and intelligence agencies in many countries. This has helped in finalization of MOUs and exchange of information with foreign FIUs.



Role of FIU-IND in Combating Financing of Terrorism (CFT)

A. Preventing misuse of the financial system

Financial institutions (reporting entities) are often the front-line defense against financing of terrorism and can contribute significantly by increasing vigilance against the abuse of the financial system. The regulators have issued detailed KYC/AML/CFT guidelines covering the areas of customer acceptance, customer identification, monitoring of transactions and risk management. Rigorous implementation of these guidelines by the reporting entities creates deterrence to use of legitimate channels for financing of terrorism. FIU-IND contributes to this aspect by increasing awareness of the reporting entities about their obligations under PMLA and monitoring their compliance.

B. Detection and reporting of suspected cases of financing of terrorism

Under the PMLA, every reporting entity is required to submit suspicious transaction reports (STRs) to FIU-IND. The definition of 'suspicious transaction' in the PMLA Rules was amended in May 2007 to specifically provide for reporting of suspect transactions relating to terrorist financing. The reporting entities are thus legally required to send STRs on suspect terrorist financing cases to FIU-IND. The success of AML/CFT regime is critically dependent on the capability of the reporting entities in identifying and reporting suspicious transactions. FIU-IND has been actively involved in sensitizing reporting entities about their obligation to report STRs related to suspected cases of terrorist financing and providing guidance on detection and reporting of such transactions.

C. Information exchange with Domestic Agencies on suspected cases of financing of terrorism

One of the main functions of FIU-IND is to analyse and add value to the reports received from the reporting entities. Cases considered useful are disseminated to the law enforcement and intelligence agencies for appropriate action. As many STRs are found to be false positives due to partial matching of names, enhanced due diligence is conducted by FIU-IND. In addition, FIU-IND also supports the efforts of domestic intelligence and law enforcement agencies against terror financing by providing information specifically requested by them, either by searching its database or by calling specific information from the reporting entities.

D. Information exchange with foreign FIUs on terrorism financing cases

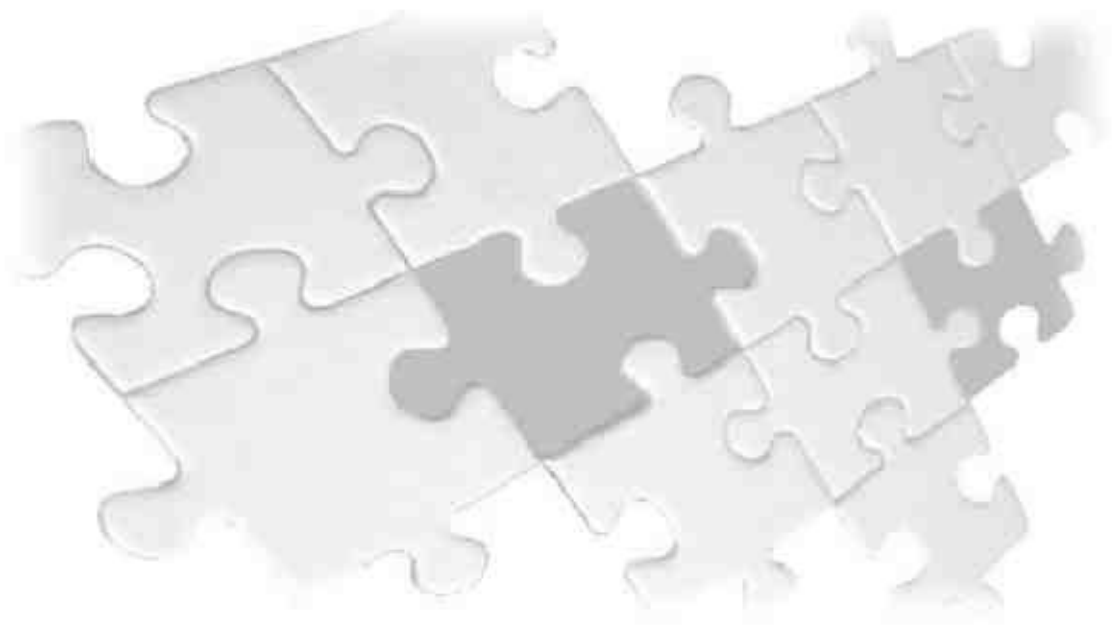
FIU-IND was admitted as a member of the Egmont Group of FIUs in May, 2007. FIU-IND is regularly sharing information with foreign FIUs over Egmont Secure Web on suspected money laundering and terrorist financing cases. FIU-IND has also initiated the process to enter into MOUs with foreign FIUs for furthering cooperation and exchange of information to combat money laundering and terrorist financing.

E. Contribution to global efforts to combat financing of terrorism

FIU-IND has been engaged through various fora to strengthen the international efforts to combat financing of terrorism. These include participation in various Working Groups of the Egmont Group, particularly Operational Working Group (OpWG) which seeks to bring FIUs together on typologies development and long term strategic analytical projects. FIU-IND also participates in the Joint Working Groups (JWGs) on Counter Terrorism set up by the Government of India with various countries.

F. Providing inputs to strengthen legal and operational framework to combat financing of terrorism

FIU-IND monitors latest trends and provides inputs for policy changes to strengthen the CFT regime in India. It also suggests mechanisms to increase effectiveness of the law enforcement agencies engaged in combating financing of terrorism.



Deterring Money Laundering and Financing of Terrorism

FIU-IND's success depends on the capacity of the financial sector entities in identifying and reporting suspicious transactions. Rigorous implementation of AML/CFT regimes by entities in the financial sector is deterrence to attempted money laundering. This deterrence factor can be improved through capacity building and close monitoring of compliance by reporting entities to their PMLA obligations.

The main thrust areas that have been identified to deter money laundering and related crimes are:

- Increasing awareness about money laundering and terrorist financing
- Improving compliance to PMLA
- Contributing towards strengthening of legislative, regulatory and operational framework

Increasing awareness of reporting entities

The first step towards effective deterrence is to increase awareness of reporting entities & other related persons about PMLA, their reporting obligations, and the role they can play in strengthening these efforts. FIU-IND has taken many steps to improve awareness about money laundering and terrorist financing.

Increasing awareness about money laundering and terrorist financing

- 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>) is a repository of information on AML/CFT issues including PMLA and reporting formats for use by reporting entities. The website is user-friendly and is regularly updated. Software utilities for submission of reports in electronic format are also available for free download on the website.

Seminars and Training workshops

A number of seminars, training workshops and outreach programmes were organized by regulatory authorities, industry associations, professional bodies and reporting entities to increase awareness about obligations under PMLA and the role of FIU-IND. FIU-IND actively participated in these programmes by providing resource persons.

Reserve Bank of India organized training workshops for the principal officers, technical and operational staff of banks for a better understanding of AML/CFT issues.

During the year, particular stress was laid on increasing AML/CFT awareness amongst urban co-operative banks (UCBs) and regional rural banks (RRBs). FIU-IND officers participated in these seminars and emphasized the need to put in place systems to identify and report suspicious transactions. Onsite workshops were conducted at various places for top management and principal officers of the reporting entities. In these workshops, the use of software utilities developed in-house by FIU-IND for preparation of reports in electronic format was also demonstrated to increase submission of reports in electronic format, particularly by smaller entities that lack in-house technical expertise. Seminars were also organised by Depositories and Stock Exchanges at various places across the country to increase awareness among stock market intermediaries.

During the year, officers of FIU-IND participated in 103 interactions attended by 3617 participants. The details of outreach activities conducted during the year are at *Appendix H*.

Table 12: Outreach Activities

Outreach Activity	Number of Interactions		
	2006-07	2007-08	2008-09
Seminars and Training workshops	57	93	133
Number of Participants	1749	5479	3617

'Train the Trainers' workshop

'Train the Trainers' workshop was organized by FIU-IND in November 2008 at India Habitat Center, New Delhi. The workshop was inaugurated by the Revenue Secretary Shri P.V. Bhide. The objective of the workshop was to increase the expertise of master trainers of major commercial banks engaged in imparting in-house AML/CFT training in their organizations. This program was attended by 48 key resource persons from the banking sector. The workshop received a very positive feedback from the participants and similar workshops covering more reporting entities and resource persons are planned for the coming years.

Improving compliance to PMLA

Initially, FIU-IND focussed on improving awareness of reporting entities and assisting them in submitting reports in order to improve compliance. During the year, FIU-IND increased its focus to ensure compliance of reporting entities to their obligations under PMLA. FIU-IND continued to work closely with the industry associations and regulators for improving compliance to PMLA. Respective nodal officers at FIU-IND interacted with the principal officers of the reporting entities on a regular basis to assess the effectiveness of their AML/CFT systems and provide feedback and guidance.

Improving compliance to PMLA

- 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

FIU-IND undertook periodic sector-wise reviews to examine the performance of reporting entities (Table 11). Review meetings were held with the regulators and the principal officers of reporting entities. Meetings were organized sector-wise for different categories of reporting entities to focus on industry-specific issues, and also to have a comparative view of performance within and across sectors.

Table 11: Review Meetings with Principal Officers

Apr-08	<ul style="list-style-type: none"> • Life insurance companies • Foreign banks • Mutual funds (AMCs)
Jun-08	<ul style="list-style-type: none"> • Depositories and IDRs
Jul-08	<ul style="list-style-type: none"> • Brokers & stock exchanges
Aug-08	<ul style="list-style-type: none"> • Regional rural banks
Sep-08	<ul style="list-style-type: none"> • Regional rural banks
Dec-08	<ul style="list-style-type: none"> • Indian private sector banks • Foreign banks
Jan-09	<ul style="list-style-type: none"> • Public sector banks • Urban co-operative banks
Feb-09	<ul style="list-style-type: none"> • Housing finance companies

During these reviews, number and quality of reports submitted by reporting entities was analyzed to assess the shortcomings and possible areas of improvement were suggested. In these meetings, apart from reviewing compliance, examples of sanitized cases and feedback received by FIU were shared and discussed. Various reporting entities also made presentations on their AML/CFT systems and their experiences.

Setting up of Compliance section

During the year, a compliance section was created in FIU-IND to act as the nodal point for work relating to compliance and initiating penal action under PMLA. The compliance section took following steps to improve compliance:

- Compilation of information related to AML policies, submission of reports, data quality in reports, status of computerization and installation of AML software
- Identifying non compliance in reporting obligations
- Issue of advisory to reporting entities if it appeared that they had not taken adequate measures to comply with their obligations
- Selection of reporting entities for prima facie review
- Monitoring of the improvement in compliance by the reporting entities under review
- Levy of fine for non compliance under section 13 of PMLA

Better compliance by reporting entities resulted in receipt of increased number of CTRs, STRs and CCRs in FIU-IND and in turn had an effective deterrence on money laundering.

During the year, 214 advisories were issued to reporting entities to improve their compliance under PMLA (Table 12). Fine was imposed on one bank for its failure to comply with its reporting obligations, particularly CTRs.

Table 12: Ensuring Compliance

Advisories issued	214
Reporting entities selected for prima facie review	8
Show Cause Notice issued	1
Fine imposed	1

Strengthening legislative and regulatory framework

FIU-IND played an active role in suggesting modifications to PMLA to improve the legal and regulatory framework, extend its scope to cover other entities and adapt with the ever-changing dynamics of ML/FT environment. As a result, more entities in the financial system were included as reporting entities under PMLA. The details of amendments made to PMLA, 2002 through the PML (Amendment) Act 2009 during the year have already been elaborated earlier in this report.

FIU-IND also had regular interaction with regulators and provided inputs for updating their AML/CFT/KYC guidelines. During the year master circulars were issued by three regulators namely, RBI, SEBI and IRDA consolidating all instructions on KYC/AML/CFT matters at one place for the guidance of industry.

Salient features of the circulars issued by RBI

- The background including all documents/office records/memorandum pertaining to transactions (complex, unusual, large transactions, which have no apparent economic or visible lawful purpose) and purpose thereof should, as far as possible, be examined and the findings recorded at the branch level as well as the Principal Officer level, and should be preserved for ten years. These records should be made available to auditors for scrutiny of transactions.
- Banks should also report all attempted transactions in STRs, irrespective of the amount - i.e. transactions which are abandoned/aborted by customers on being asked to give more details or provide documents.
- Banks should report STRs if they have reasonable ground to believe that the transaction involves proceeds of crime generally, irrespective of the amount or threshold.
- Obligations to submit Counterfeit Currency Report in prescribed format.

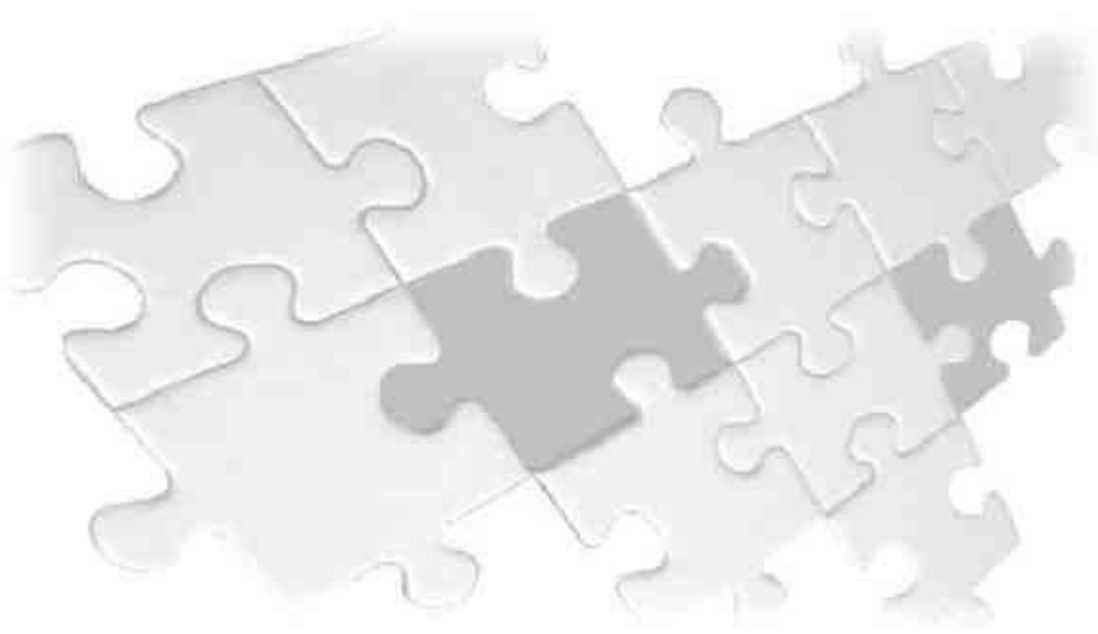
Salient features of the circulars issued by SEBI

- All registered intermediaries should follow enhanced due diligence norms for foreign politically exposed person (PEP).
- Intermediaries should take appropriate steps to evolve an internal mechanism for proper maintenance and preservation of records and information in a manner that allows easy and quick retrieval of data as and when requested by the competent authorities.
- It is likely that in some cases transactions are abandoned/aborted by customers on being asked to give some details or to provide documents. It is clarified that intermediaries should report all such attempted transactions in STRs, even if not completed by customers, irrespective of the amount of the transaction.
- Intermediaries must have an ongoing employee training programme so that the members of the staff are adequately trained in AML and CFI procedures. Training requirements should have specific focuses for frontline staff, back office staff, compliance staff, risk management staff and staff dealing with new customers. Intermediaries should prepare specific literature/ pamphlets etc. so as to educate the customer of the objectives of the AML/CFI programme.

Salient features of the circulars issued by IRDA

In case of Insurance Contracts with individuals:

- Telephone bill can be used for proof of residence, if it is pertaining to any kind of telephone connection like, mobile, landline, wireless etc. provided it is not older than six months from the date of insurance contract.
- Bank account statement can be used for proof of residence wherein the permanent / present residence address is available, provided it is not older than six months as on the date of acceptance.
- Written confirmation from the banks can be used as proof of both identity and residence where the prospect is a customer.



Building and strengthening organizational capacity

Money-launderers and financiers of terrorism keep adopting new techniques and changing methodologies to evade detection of their activities. The dynamic economic and technological scenario adds to the complexity of the task of detecting patterns of money laundering and financing of terrorism. To overcome these challenges, adequate internal capacity in terms of processes, technology, people and information security has to be built within FIU-IND. As a 'skill based, technology intensive' organization, FIU-IND adopted efficient work practices using technology, and endeavored to institutionalize these practices.

The following thrust areas were identified to build and strengthen organizational capacity:

- Rationalize processes to improve productivity and effective monitoring
- Upgrade the skills of employees
- Build a repository on AML/CFT issues
- Build highly secure, scalable and flexible technical infrastructure

FIU-IND: A knowledge driven organization

Various initiatives have been taken to build FIU-IND as a knowledge-driven-organization by regularly upgrading skills of its employees, and by providing training on AML/CFT and other related economic issues.

Training

Anti money laundering and combating financing of terrorism are dynamic and ever changing issues. During the year, FIU-IND officials attended training programs about functioning of a financial intelligence unit and were exposed to international best practices followed by other financial intelligence units (Table 13).

Repository on AML/CFT issues

FIU-IND has emerged as a national resource centre on AML/CFT issues. It has a collection of material on money laundering, terrorist financing and other related issues. FIU-IND is actively involved in india's preparation for the upcoming FATF mutual evaluation in November-December 2009.

Table 13: Capacity building workshops attended by officers from FIU-IND

Month	Meeting/Workshop	Place
May 08	Joint India IMF Training Program	Pune, India
Jun 08	World Bank Regional Workshop	Bangkok Thailand
Aug 08	Workshop on Financial Analysis Techniques by InWent, Germany	Delhi, India
Oct 08	AML/CFT workshop for senior policy makers (Joint India-IMF Training Program)	Pune, India
Mar 09	APG workshop for jurisdictions undergoing evaluation in 2009	Brunei Darussalam

IT Implementation

During the year 2008-09, FIU-IND continued its focus on Information Technology as a tool to increasing efficiency and effectiveness.

Assistance to reporting entities in preparation of electronic reports

Smaller banks such as cooperative banks and regional rural banks do not have centralised databases, and hence, face difficulties in preparing and submitting CTRs in electronic format. A Report Preparation Utility (RPU) developed by FIU-IND was provided to the reporting entities to assist them in generation of reports in electronic format. This utility has features to enable data entry; validation of data structure; and export of data into the prescribed data structure. The availability of the report preparation utility and the outreach activities reduced the number of manual reports from 15,470 in the year 2007-08 to 9,001 in the year under report. As a result, the percentage of electronic reports increased from 99.6% to 99.84% in the year 2008-09 (Table 1). Submission of reports in electronic format helped FIU-IND update its databases with these reports and reduced possibility of errors in digitization of manual reports at FIU-IND.

Data quality monitoring and feedback

Effective search and analysis of FIU-IND's databases requires that the data submitted by reporting entities is of good quality. A data validation utility developed in-house was used to check the reports submitted by reporting entities for all types of data defects on the basis of in-built data validation rules. This utility also generated a data quality report summarizing the types of defects noticed in each report. The data quality sheet prepared by this utility giving the particular file, record number and field in which a data quality defect was noticed was sent to the concerned reporting entity. In case of a fatal data error, a reporting entity was also asked to re-submit the report after removing the data defects pointed out.

Identification of probable errors in the reports

During 2008-09, FIU-IND conducted an exercise to identify Cash Transaction Reports (CTRs), which though submitted in correct data structure, contained information that appeared to be incorrect. A set of rules was applied on the CTR data to identify probable errors in reports. All such possible defect instances were communicated to the reporting entities for verification. Majority of the reporting entities resubmitted correct data after verification. These exercises helped in capacity building and increased awareness amongst reporting entities regarding accuracy and correctness of reports.

Reporting of Counterfeit Currency Transactions

The reporting format for Counterfeit Currency Reports (CCRs) was finalized in active consultation with RBI and the reporting entities. After the issue of RBI circular dated May 22, 2008, laying down the reporting format, FIU-IND released a Report Preparation Utility (RPU) to assist reporting entities in preparation of CCRs in electronic format. The submitted reports were imported in a centralized CCR database for further analysis.

Monitoring of compliance

The compliance module was strengthened to assist officers in monitoring compliance. The compliance module has facility to search for a reporting entity on the basis of name or part of name. The module presents a unified view of the reporting entity showing details of principal officer(s), reports submitted and data quality reports. This compliance module has been very effective in monitoring compliance by reporting entities of their obligations under PMLA.

Effective search of FIU-IND's databases

The search engine at FIU-IND has the functionality to compare search string with information in a database and generate a rank on the basis of degree of match. The search results are arranged in a descending order of relevance ranking value so that the most relevant results are displayed at the top of the list. This Search Engine not only enables analysts at FIU-IND in adding value during analysis of suspicious transaction reports but also assists in providing relevant information on the basis of specific request from law enforcement and intelligence agencies.

The data in FIU-IND's database is processed to create multiple unified views for each account, individual, legal person and address by linking this data. This enables a user to access relevant details such as IDs, related addresses, related persons and related accounts in one view. This facility of unified view has been integrated with the text search facility so that all related information available about a subject can be viewed on a single page to assist analysis. This link analysis reduces time for multiple searches and has substantially improved ability to disseminate meaningful intelligence as all relevant information is extracted in a single view.

Analysis of CTR data

Earlier the Cash Transaction Reports (CTR) database was used primarily for analysis of suspicious transaction reports and processing request for information. During the year, the CTR data was processed to generate clusters of CTRs on the basis of direct and indirect relationships. Certain high-risk clusters were analyzed and shared as CTR analysis reports. These analysis reports were found very useful by the concerned agencies.



Project FINnet

Project FINnet was initiated by FIU-IND 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".

The Project would greatly enhance the efficiency and effectiveness in the FIU-IND's core function of collection, analysis and dissemination of financial information. IT enablement of key processes would ensure substantially higher productivity, faster turnaround time and effective monitoring in all areas of FIU-IND's work.

Project FINnet consists of two main phases i.e. Design Phase (Phase I) and Implementation Phase (Phase II). After selection of M/S Ernst & Young Pvt. India Ltd. as the Consultants, the design phase commenced on 29th March 2007.

In the design phase of the Project FINnet all strategy, process and technical documents were finalized in active consultation with FIU-IND officials and other stakeholders. FIU-IND also prepared a Request for Proposal (RFP) for "Appointment of a Systems Integrator for Project FINnet to set up IT & other systems and provide related services".

During 2008-09, the Request for proposal for the selection of system integrator was issued and queries of the potential bidders were responded to. The bids from system integrators were evaluated with active involvement of the consultants and the Technical Evaluation Committee.

Role of System Integrator

The System Integrator (SI) has been made responsible for the development / customization, integration, testing and rollout of software applications and other infrastructure at FIU-IND office location, Primary Data Centre (PDC) and Business Continuity Plan-Disaster Recovery (BCP-DR) sites.

The total project timeframe is 5 years wherein the timeline for validation and acceptance of the complete solution is two years from the effective date of contract. The SI would provide enhanced support for 1 year from the date of the acceptance of the complete solution. The enhanced support would include Administration of Databases, Systems and Network, Facility Management Services, External Users Help Desk Services and Website maintenance. The SI is also required to provide Maintenance Support for the software and hardware for an additional 2 years.

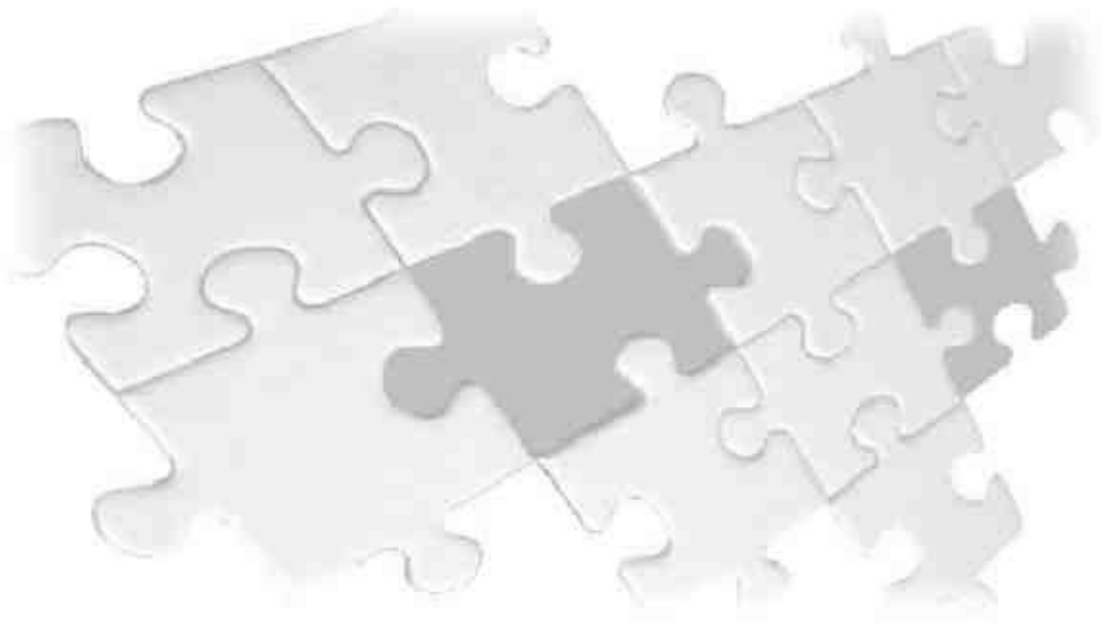
Project FINnet Timeline

Selection of System Integrator	
Oct 2008	Issue of Tender for selection of System Integrator
Jan 2009	Submission of Bids
Mar 2009	Technical Evaluation

Ensuring security of information

Being an IT-intensive organization, the importance of IT security cannot be overemphasized. A layered security approach has been adopted by FIU-IND to address the physical environment, personnel as well as areas specifically related to safeguarding information. FIU-IND implemented information security instructions covering information classification, Internet usage, Minimum Baseline Security Standards (MBSS), password protection, operational security, media security, virus management and incident reporting.

Implementation of Project FINnet will enhance the security architecture of the organization by deploying latest IT technology such as Stateful Inspection Firewalls, Application Proxy Firewalls, Intrusion Prevention System, Authentication Servers, Host Intrusion Detection Systems, Security Information Management, OS Access control and End Point Security. As part of Project FINnet, the consultant, M/s Ernst & Young (E&Y) has also developed a comprehensive Information Security Policies and Procedures (ISPP) for FIU-IND. This security policy is based on ISO/IEC 27002:2005 Code of practice for establishing, implementing, operating, monitoring, reviewing, maintaining and improving information security.



Appendices

Appendix A: Important Rules/Notifications

Date	Not. No.	Description
01.07.2005	1/2005	Appointed 1st 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 Chair person 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 thereof 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).

Appendix B: Important Circulars /Instructions issued by the Regulators

Reserve Bank of India	
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
23.08.2005	KYC Guidelines-AML Standards- Primary Urban Co-operative Banks
23.08.2005	KYC Guidelines-AML Standards- State Co-operative Banks and District Central Co-operative Banks
23.08.2005	KYC Guidelines-AML Standards- 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
25.06.2006	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 Co-operative Banks and District Central Co-operative Banks
22.05.2008	Circular on KYC norms/AML/CFT obligation of banks
01.07.2008	Master Circular on KYC norms/AML/CFT obligation of banks
Securities 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
19.11.2008	Master Circular on AML/CFT obligations of Securities Market Intermediaries
Insurance Regulatory and Development Authority (IRDA)	
31.03.2006	Guidelines of Anti Money Laundering Programme for Insurers
24.11.2008	Master Circular on AML/CFT obligations of Insurance Companies

Appendix C: 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 March 31, 2009
Director	1	1
Additional Director	7	3
Technical Director	1	0
Principal System Analyst	2	1
Senior Technical Officer	10	8
System Analyst/ Programmer*	3	2
Section Officer	1	1
Others*	18	14
Total	43	30

*includes persons hired on contract basis

Appendix D: 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	PMIA 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 Operational Working Group (OpWG) of the Egmont Group
Apr 13, 2006	Visit of the high level FATF delegation to FIU-IND
Jun 12-16, 2006	Attended 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
2008-09	
May 25-29, 2008	Attended Egmont Plenary Session at Seoul
May 27, 2008	Signed MOU with Brazil
May 29, 2008	Visit of Mr. Antonio Gustavo Rodrigues, incoming FATF President to FIU-IND
Jun 16-20, 2008	Attended FATF Plenary at London
Aug 25, 2008	Joint Working Group (JWG-CT) meeting with USA at New Delhi
Oct 20-23, 2008	Attended Egmont Working Group Meeting at Toronto
Oct 21, 2008	Signed MOU with Malaysia
Dec 5, 2008	Signed MOU with Russia
Dec 2, 2008	Joint Working Group (JWG-CT) meeting with UK at New Delhi
Dec 16-17, 2008	Joint Working Group (JWG-CT) meeting with Russia at New Delhi
Mar 2-5, 2009	Attended Egmont Working Group Meeting at Guatemala



Appendix B: Indicators for detection of suspicious transactions

Indicators are circumstances that indicate suspicious nature of transactions. Suspicious transaction may result from one indicator or a set of indicators.

Type of suspicion	Sample indicators for detection of suspicious transactions
Suspicion of proceeds of crime	<ul style="list-style-type: none"> • Match of customer details with known criminals or persons with suspicious background. • Customer has been the subject of a law enforcement inquiry. • Customer who conducts transactions in a pattern consistent with criminal proceeds, e.g. in amounts consistent with a lottery scam, illegal immigration. • Transaction involving a jurisdiction/area considered to be high risk from the money laundering or drug trafficking perspective.
Suspicion due to unusual or complex transactions	<ul style="list-style-type: none"> • Transaction is unnecessarily complex for its stated purpose. • Unusual single or aggregate transfers in single/multiple days. • Transaction is inconsistent with financial standing or occupation, or is outside the normal course of business for the customer in light of the information provided by the customer when conducting the transaction or during subsequent contact with the customer. • Routing of transfer through multiple locations. • "It-turn" transactions, i.e. money passes from one person to more than one person but it finally returns to the hands of the original sender. • Multiple related transactions that are split to just below maximum cash limit or reporting requirements. • The amounts or frequency or the stated reason of the transaction does not make sense for the particular customer. • Use of letter-of-credit and other method of trade financing to move money between countries when such trade is inconsistent with the customer's business.
Suspicion due to no economic rationale or bonafide purpose	<ul style="list-style-type: none"> • The volume or frequency of transactions has no economic rationale or lawful purpose. • Customer who travels unexplained distances to conduct transactions. • Customer who offers false identification, whether evident from the document alone, from the document's lack of connection to the customer, or from the document's context with other documents (e.g., use of identification cards issued by different countries). • Customer who uses agents or associates where the nature of the relationship or transaction(s) make it difficult to identify the beneficial owner of the funds. • Customer networks, i.e. defined groups of individuals conducting transactions at single or multiple outlet locations or across multiple services. • Common Unique IDs used by multiple customers. • Common address/telephone used by multiple unrelated receivers. • Customer conducts multiple cash transactions in a single day. • Customer conducts transactions involving countries that are known for highly secretive banking and corporate law practices. • Customer is hurried, nervous or evasive. • Customer has vague knowledge about amount of money involved in the transaction. • Customer is accompanied by unrelated individuals.

Type of suspicion	Sample indicators for detection of suspicious transactions
	<ul style="list-style-type: none"> • Suspicion that the customer is acting on behalf of a third party but not disclosing that information. • Customer provides information that seems minimal, possibly false or inconsistent. • Customer changes the information provided after more detailed information is requested. • Customer is reluctant to go forward with a transaction after being informed that identification information will be required. • Customer is reluctant to provide original ID. • Customer makes inquiries or tries to convince staff to avoid reporting. • Customer who offers different identifications or different identifiers (such as phone or address) on different occasions with an apparent attempt to avoid linkage of multiple transactions.
Suspicion of financing of terrorism	<ul style="list-style-type: none"> • Match of customer details with known terrorists or persons linked with terrorist organizations. • Customer who receives transactions in a pattern consistent with financing of terrorism. • Transaction involving a jurisdiction/area considered to be high risk from the terrorist financing perspective.



Appendix F: Examples of suspicion reported in STRs

Transfer of funds followed by cash withdrawal from bank accounts

- Substantial cheque deposits in the account of a building contractor were followed by immediate cash withdrawals of more than Rs.4 Crore over a year. These transactions were below the threshold limit of Rs. 10 lakhs. As per feedback received, there were bogus purchases in two related concerns of over Rs.8.5 Crore and undisclosed income of over Rs.1 Crore was detected and tax of over Rs. 50 lakhs was recovered.
- A customer declaring himself as self-employed made transactions to the tune of over Rs. 30 Crore, including cash withdrawals of over Rs. 15 crore over a period of nine months. Eleven other accounts of various entities were found to be transferring funds of around Rs. 7 crore to the customer's account.

Cash deposits in bank accounts followed by transfers

- The subject deposited over Rs. 60 lakhs in cash in his account and obtained drafts of over Rs.5 lakhs each in favour of apparently unrelated entities. The transactions were inconsistent with the customer's profile as the subject was a pensioner.
- A customer opened a saving account with cash deposit of over Rs. 5 Crore and made six term deposits aggregating over Rs.5Crore.

Inter-account transfers without any economic rationale

- Inter-account transfers between over 30 accounts were reported where the amount deposited by way of cheque/cash was transferred on the same day to other accounts after merging or splitting of amounts. The turnover in all the accounts was around Rs. 700 crore. Search of ETR databases identified an additional bank account of the group.

Transfer of funds from business accounts to personal accounts followed by cash withdrawal

- Funds amounting to over Rs. 13 Crore were systematically transferred from a current account held in the name of a proprietary firm to a savings account held in the name of the proprietor. Subsequently funds have been withdrawn from the savings account in cash at regular intervals.

Financial fraud through use of internet/emails

- Individuals were using bank accounts for furthering internet frauds such as e-lottery. A number of small deposits from multiple locations were observed. More than Rs. 1.50 Crore cash was withdrawn through ATMs. Three more accounts belonging to same group of individuals were traced in the CTR database.

Sudden spurt of activity in dormant account

- An individual deposited a cheque of more than Rs. 14 crores in his dormant bank account claiming it to be proceeds of sale of property. Thereafter, part amount was withdrawn in cash and a request was made for a demand draft of huge amount for purchase of gold for business. The activity was not consistent with his business profile. Matches in CTR database were also found.

Purchase of large amount of foreign exchange

- A listed public limited company purchased foreign exchange amounting to US\$ 3,79,000 in cash (equivalent of Rs. 1.63 crores) to facilitate overseas travel of 12 employees of the company during a period of less than three months. The individuals traveled to CIS countries, particularly Kyrgyzstan. The business did not justify frequent visits

by the employees in such numbers to that particular destination. Further, large volumes of cash transactions were also reported from the bank account held by the company.

Cross border remittances

- Two customers settled in Dubai were reported to have received funds of around Rs. 42 crore through RTGS in their Indian accounts. The funds were immediately used for investment in stock market. The customers have given a common PO box in Dubai as their address. The same customers were found to have received funds through serially numbered Demand Drafts of Rs 5 lakh each earlier.
- Electronic transfers and cheques of over Rs. 74 Crore were credited to a non-resident's account in one year. The amount was transferred to another account from where cheques were issued to various parties against purchase of property. The subject claimed that he had a mandate from a real estate developer, who had a joint venture with an overseas company. However, no approval for FDI in India by the overseas company could be produced. Cash transactions were also found in various bank accounts belonging to or related to the subject.

Payment of premium for insurance policies through cash

- The subject persons residing at the same address and apparently related to each other paid insurance premium of over Rs 1 Crore in cash, each below Rs. 50,000 in a single month towards 229 life insurance policies. As per feedback received, the information resulted in admission of undisclosed income of over Rs. 2.5 Crore and seizure of unaccounted cash of over Rs. 30 lakhs. The source of investment towards life insurance premium was the sale consideration of Rs. 2.10 crore received against sale of land. The purchaser of the land also admitted payment of unaccounted cash of Rs. 57.28 lakhs in the land sale.
- The subject paid insurance premium of Rs. 50 lakhs in cash on a single day for 100 life insurance policies (Rs. 50,000/- in cash for each policy). The information resulted in admission of undisclosed income of Rs. 50 lakhs.
- A husband & wife paid insurance premium of over Rs. 2.5 Crore for over 15 life insurance policies, out of which over Rs. 80 lakhs was paid in cash in multiple installments of less than Rs. 50,000/-. As per the feedback received, the information resulted in the admission of undisclosed income of the entire amount of insurance premium.

Investment in capital markets

- Two accounts were opened in the name of salaried employees and large investments in capital markets were made through these accounts. The employees were office assistants and their employer was routing his unaccounted income through these banks accounts. Feedback received from CBDT revealed undisclosed income of about Rs. 4 Crore in this case and detection of undisclosed income of over Rs. 18 Crore from a related concern.

Investment in mutual funds through multiple folios

- An individual invested over Rs. 4 Crore in a mutual fund through 25 folios. Some transactions were undertaken in the same scheme on same day but in different folios. Substantial cash transactions were found in his other bank account on search of FIU-IND's CTR database.

Appendix G: Interaction with Law Enforcement and Intelligence Agencies

April, 2008	<ul style="list-style-type: none"> • Presentation in the Training Programme on e-Investigation - "Detection and Investigation of Financial Crimes" to Officers of level of Assistant Commissioner of Income Tax to Commissioners of Income Tax at the National Academy of Direct Taxes, Nagpur • Presentation in the Training Programme on Economic Offences - "International Ramifications of Economic Crimes" for officers of the rank of Inspectors to Senior Superintendents of Police of CBI and State Anti-Corruption Bureau/Economic Offences Wing (EOW), Assistant Public Prosecutor to Senior Public Prosecutor of CBI and officers from the Anti-Corruption Commission, Royal Government of Bhutan at CBI Academy, Ghaziabad.
June, 2008	<ul style="list-style-type: none"> • Two-day interaction with Government of India Representatives to Advisory Panel on Financial Regulation and Supervision for Committee on Financial Sector Assessment at RBI, Mumbai.
July, 2008	<ul style="list-style-type: none"> • Presentation in the Training Programme on "Analysis of Banking Transactions - Searches & Surveys" to Deputy and Assistant Directors and Income Tax Officers of Directorate of Income-Tax Investigation, New Delhi • Presentation on "Detection and Investigation of Financial Crimes" during the seminar on "Digital Evidence & Tally" for Deputy and Assistant Directors and Income Tax Officers of Directorate of Income-Tax Investigation, Mumbai at Direct Taxes Regional Institute.
August, 2008	<ul style="list-style-type: none"> • Lecture on "Reporting Regime under PMLA" during the Orientation Course for Assistant Commissioners of Income Tax at National Academy of Direct Taxes, Nagpur. • Presentation during Orientation Course on "Use of Information Technology in detection and investigation of Financial Crimes and Suspicious Transaction Reporting and Section 6A" for Newly promoted Assistant Commissioners of Income Tax and Income Tax Officers organized by National Academy of Direct Taxes, Nagpur
September, 2008	<ul style="list-style-type: none"> • Presentation on "An Overview of FIU and Its Role in Detection of Economic Offences" during Workshop on Economic Offences for Deputy Inspector General/Superintendent of Police-level officers of CBI and other Police Departments organized by CBI Academy, Ghaziabad.
December, 2008	<ul style="list-style-type: none"> • Presentation during training on Risk Management for Effective Tax Administration to Senior Officers of National Board of Revenue, Bangladesh organized by National Academy of Direct Taxes, Nagpur.
February, 2009	<ul style="list-style-type: none"> • Two meetings with Nodal Officers of Economic Offences Wings of State Governments/Union Territories at FIU-IND, New Delhi.

Appendix H: Details of Outreach Activities

April, 2008	<ul style="list-style-type: none"> • Workshops for Cooperative Banks & Regional Rural Banks at RBI, Lucknow & Kanpur • Presentations to senior managers of IDBI Bank, United Bank of India, Bombay Mercantile Coop. Bank, and HSBC at Mumbai and State Bank of Patiala at State Bank of Patiala-Infotech Academy, Patiala • Review meetings with principal officers of life insurance companies, principal officers of asset management companies and two meetings with principal officers of Foreign Private Banks at FIU-IND, New Delhi • Presentation to principal officers of Intermediaries at NSDL, Chennai • Workshop of principal officers & other officers of Cooperative Banks at RBI, Dehradun • Presentation to middle & senior level officers from the Supervisory Depts. of RBI at RBI Staff College, Chennai
May, 2008	<ul style="list-style-type: none"> • Presentation at Bank of India, Hyderabad for its senior officers • Presentations at workshop for compliance & other senior officers of Banking, Financial Services & Insurance Sector at RBI, Mumbai; workshop for Financial supervisors & other senior officers from RBI, SEBI & IRDA at College of Agricultural Banking, RBI, Pune; and compliance officers of banks at College of Agricultural Banking, RBI, Pune • Workshop for principal officers of Cooperative Banks and Regional Rural Banks at RBI, Bhopal • Presentations to senior officers of ABN Amro Bank at Gurgaon and Andhra Bank and Canara Bank at Bangalore
June, 2008	<ul style="list-style-type: none"> • Review meeting with principal officers of Depositories, SEBI & DPs at FIU-IND, New Delhi • Presentations at workshop of principal officers & IT officials of Cooperative Banks at Kolhapur, and four workshops for managers of Andhra Bank at Bhubaneswar, Kolkata, Chennai & Thirupathi, and workshop for Cooperative Banks at RBI, Jaipur • Presentations to managers of Kotak Mahindra Bank at Chandigarh and Bank of Rajasthan at Jaipur • Workshop for senior officers of Deptt. of Supervision, organized by National Bank for Agricultural & Rural Development (NABARD) at Lucknow
July, 2008	<ul style="list-style-type: none"> • Review meeting with brokers, stock exchanges, ANMI & SEBI at FIU-IND, New Delhi • Workshop for cooperative banks at College of Agricultural Banking, RBI, Pune • Presentation to officials of HSBC Bank at New Delhi, Federal Bank at Cochin, Dhankalakshmi Bank, Catholic Syrian Bank and South Indian Bank at Trichur and Andhra Bank at Vizag • Presentation during Regional Seminar organized by NABARD for its senior officers of Deptt. of Supervision at Hyderabad and Bhubaneswar • Address at Conference on "Overcoming the challenges of Risk-based approach to Compliance" organized by Finsight Media, Mumbai for compliance & risk officers of the banks. • Interactions with AML teams of HDFC Bank and ICICI Bank at Mumbai
August, 2008	<ul style="list-style-type: none"> • Presentation to senior managers of Canara Bank at Gurgaon, Karnataka Bank and Corporation Bank at Mangalore, Syndicate Bank at Manipal, Andhra Bank at New Delhi and State Bank of Mysore at Bangalore • Interactions with AML Team of Central Bank of India and Standard Chartered Bank at Mumbai • Workshop for officers of Cooperative Banks & Regional Rural Banks at RBI, Raipur • Review meeting with principal officers of Top 20 RRBs at FIU-IND, New Delhi
September, 2008	<ul style="list-style-type: none"> • Presentation to regional managers & senior managers of National Housing Bank, Chandigarh • Review meeting with principal officers of Regional Rural Banks at FIU-IND, New Delhi • Meeting with Managing Director and senior managers of State Bank of Indore at Indore and Executive Director of UCO Bank at Kolkata • Presentation to managers of State Bank of Indore at Indore & Bhopal, UCO Bank at Kolkata, Syndicate Bank at New Delhi and Axis Bank at Mumbai • Presentation to principal officers of asset management companies, banks and registrars & transfer agents at Association of Mutual Funds of India, Mumbai • Interaction with principal officers of Housing Finance Companies at National Housing Bank,

	<ul style="list-style-type: none"> • Pune. • Workshops for banks including co-operative banks of 7 North-Eastern States at RBI, Guwahati • Workshop for principal officers & IT officials of coop. banks at Nasik
November, 2008	<ul style="list-style-type: none"> • 'Train the Trainers' programme on AML/CFT Capacity Building for officers from faculties of staff training colleges/institutes of PSU Banks by FIU-IND at New Delhi. • Presentation for officers of State Bank of India and Co-operative Banks at Shillong, Canara Bank and Allahabad Bank at Kolkata, Bank of Maharashtra and Bank of India at Mumbai, Indian Overseas Bank and Indian Bank at Chennai and Tamilnad Mercantile Bank at Tuticorin • Workshop for chief inspectors/auditors of DCCBs and SLBs of East, North-East and Central India by NABARD at Bolpur, West Bengal. • Meetings with Chairman & AML team of Allahabad Bank, United Bank of India and UCO Bank, Kolkata to review compliance to PMLA • Presentation for Chairman & branch heads of Haryana Gramin Bank at Rohtak
December, 2008	<ul style="list-style-type: none"> • Review meetings with principal officers of Indian Private Sector Banks and Private Foreign Banks at FIU-IND, New Delhi • Presentation for senior managers of Andhra Bank at Vijayawada; Indian Overseas Bank at Hyderabad and Standard Chartered Bank at Chennai • Presentation during the workshops organized by State Bank of India for principal officers of banks including commercial banks at Agartala, Imphal & Aizwal • Presentation during Regional Supervision Seminars organized by NABARD for senior officers of co-operative banks at Lucknow & Mangalore • Presentation to general managers & deputy general managers of RBI at Reserve Bank of India Staff College, Chennai. • Interaction with senior staff and Principal Officer of Religare Securities Ltd. at New Delhi and Indiabulls Securities Ltd. at Gurgaon • Interaction with Principal Officers & AML staff of Bajaj Allianz Insurance at Pune and ICICI Prudential Life Insurance Corpn. and HDFC Standard Life at Mumbai
January, 2009	<ul style="list-style-type: none"> • Presentation for officers of Bank of Maharashtra at New Delhi and Kolkata; Standard Chartered Bank and Kotak Mahindra Bank at Mumbai; Bank of Rajasthan at Jaipur and Indian Overseas Bank at Chennai & Madurai • Review meetings with principal officers of PSU Banks and Scheduled Urban Cooperative Banks at FIU-IND, New Delhi • Interaction with senior officers & AML staff of HDFC Securities Ltd. at Mumbai • Presentation to AML Cell of State Bank of India at Jaipur
February, 2009	<ul style="list-style-type: none"> • Presentation to senior officers of Bank of Maharashtra at Nagpur, Canara Bank, Vijaya Bank and ING Vysya Bank at Bangalore • Review meetings with principal officers of housing finance companies and regional rural banks at FIU-IND, New Delhi • Interaction with senior officers of Max Life Insurance Co. Ltd. at Gurgaon • Presentation during '3rd Annual Risk & Compliance Summit 2009 - Regulating Financial Innovation' organized by Indian Banks' Association, Mumbai • Interaction with compliance and technical officers of ICICI Bank at Mumbai
March, 2009	<ul style="list-style-type: none"> • Presentation to officers of Bank of Maharashtra at Bangalore • Workshop for managers at College of Agricultural Banking, RBI, Pune • Presentation during Regional Seminar organized by NABARD for principal officers/officers from co-operative Banks at Mangalore

Glossary

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
BCP-DR	Business Continuity Plan/ Disaster Recovery
CBDT	Central Board of Direct Taxes
CBEC	Central Board of Excise & Customs
CBI	Central Bureau of Investigation
CCR	Counterfeit Currency Report
CFT	Combating Financing of Terrorism
CTED	Counter Terrorism Executive Directorate
CTR	Cash Transaction Report
ED	Enforcement Directorate
EOI	Expression of Interest
ESW	Egmont Secure Web
FATF	Financial Action Task Force
FEMA	The Foreign Exchange Management Act, 1999
FICN	Fake Indian Currency Notes
FINnet	Financial Intelligence Network
FIU-IND	Financial Intelligence Unit-India
IA	Intelligence Agency
IB	Intelligence Bureau
IBA	Indian Banks' Association
ICAI	Institute of Chartered Accountants of India
IMF	International Monetary Fund
IRDA	Insurance Regulatory and Development Authority
ISPP	Information Security Policies and Procedures
JWG	Joint Working Group
LEA	Law Enforcement Agency
KYC	Know Your Customer
MEQ	Mutual Evaluation Questionnaire
MHA	Ministry of Home Affairs
MOU	Memorandum of Understanding
NABARD	National Bank for Agriculture and Rural Development
NBFC	Non-banking Financial Company
NCB	Narcotics Control Bureau
NHB	National Housing Bank
NSCS	National Security Council Secretariat
OpWG	Operational Working Group
PDC	Primary Data Centre
PMLA	The Prevention of Money Laundering Act, 2002
R&A/	Research & Analysis Wing
RBI	Reserve Bank of India
RBSC	Reserve Bank Staff College
REIC	Regional Economic Intelligence Committee
REP	Request For Proposal
RPU	Report Preparation Utility
RRB	Regional Rural Bank
SEBI	Securities and Exchange Board of India
SI	System Integrator
STR	Suspicious Transaction Report
UAPA	The Unlawful Activities (Prevention) Act, 1967
UCB	Urban Co-operative Bank
UNSCR	United Nations Security Council Resolution



