



# **Anti Money Laundering and Combating Terrorist Financing**

**HDFC SECURITIES LTD.**



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## Need for Money Laundering

- Every year, huge amounts of funds are generated from illegal activities. These funds are mostly in the form of cash.
- The criminals who generate these funds need to bring them into the legitimate financial system.

Over \$1.5 trillion of illegal funds are laundered each year.



# Consequences of Money Laundering

➤ **Finances Terrorism:**

Money laundering provides terrorists with funds to carry out their activities.

➤ **Undermines rule of law and governance:**

Rule of Law is a precondition for economic development – Clear and certain rules applicable for all

➤ **Affects macro economy:**

Money launderers put money into unproductive assets to avoid detection.

➤ **Affects the integrity of the financial system:**

Financial system advancing criminal purposes undermines the function and integrity of the financial system.

➤ **Reduces Revenue and Control:**

Money laundering diminishes government tax revenue and weakens government control over the economy.



## Steps in which money is laundered

Money laundering basically involves three independent steps

### A: Placement:

This refers to physical disposal of bulk cash proceeds derived from illegal activity.

### B: Layering:

Refers to separation of illicit proceeds from their source by creating complex layers of financial transactions. Layering conceals the audit trail and provides anonymity.

### C: Integration:

Refers to the re-injection of the laundered proceeds back into the economy in such a way that they re-enter the financial system as normal business funds. Banks and financial intermediaries are vulnerable from the Money Laundering point of view since criminal proceeds can enter banks in the form of large cash deposits.



## Global Framework - Financial Action Task Force

- Established by the G-7 Summit in Paris in 1989 in response to mounting concern over money laundering.
- A policy making body, having secretariat at Organisation for Economic Co-operation and Development (OECD).
- Works to generate the necessary political will to bring about national legislative and regulatory reforms to combat money laundering and terrorist financing.
- Members: 31 countries, European Commission and Gulf Co-operation Council
- India has been accorded 'Observer' status





## Indian Scenario

- Prevention of Money Laundering Act brought into force from 1<sup>st</sup> July 2005 to prevent money laundering and to provide for confiscation of property derived from, or involved in, money laundering.
  - Offence of money laundering (section 3 of PMLA)
  - Proceeds of crime (section 2(1)(u) of PMLA)
  - Scheduled offences
- FIU-IND established in Nov 2004.
- Enforcement Directorate
  - Powers to investigate





## Obligation of the Customer

- Provide complete details at the time of account opening
  - viz. Add proof,
  - id proof, PAN etc.
  - income details
- Periodically update the financial details.
- The transaction executed need to commensurate with the disclosed income details.





# Thank You

For any queries please contact  
[compliance@hdfcsec.com](mailto:compliance@hdfcsec.com)

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