

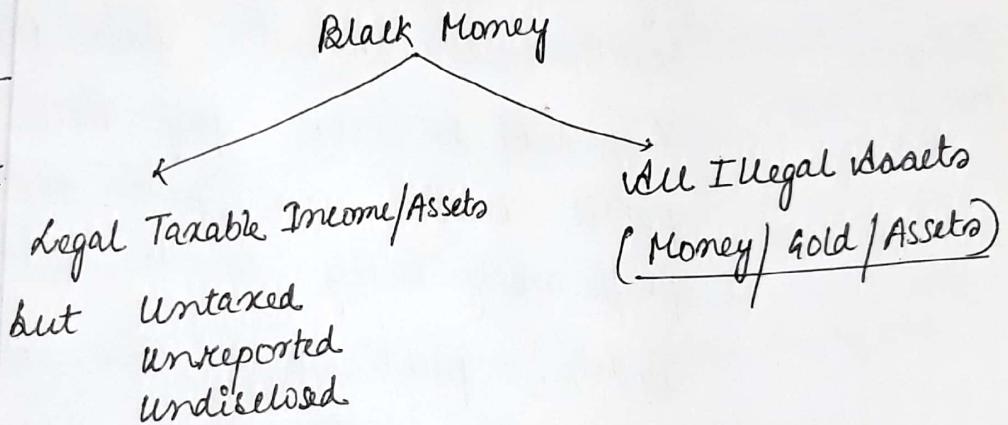
## Prevention of Money Laundering

14.10.20

### • Black Money →

Assets acquired by illegal means or all undisclosed taxable assets acquired from legal means form Black money.

Both the ←  
dimensions  
are important



There are 3 major sources of Black money  
in India —

- i) Corruption
- ii) Concealment of Income
- iii) Crimes (of other nature)

i) Corruption → it refers to misuse of Authority to take some personal benefit.

Cases:

- Jeep Scandal (1948)
- Bofors Scam (1986)
- Coalgate Scam  
— Rs 1.86 Lak Crore
- 2G Spectrum
- Satyam Scam  
(concealment case)

The top level managers, administrators & politicians misuse their power for personal benefits in different ways. According to "Transparency International", an NGO working against corruption, India is the most corrupt country in Asia-Pacific as 7 out of 10 people pay bribe to access public services. We know that India is performing badly in the "Corruption Perception Index", published by Transparency International every year. It ranks 180 countries on the basis of perceived level of public sector corruption as determined by experts & surveys.

## Add. on.

Recent Amendment  
to Prevention of  
Corruption Act

Corruption Cases:

- 2G
- Bofors
- AgustaWestland Helicopter
- Scorpene Submarine
- Maharashtra Irrigation
- H.P. Vyapam Scam
- Haryana Job Scam

- Bihar Fodder Scam
- Karnataka Mining Scam
- Commonwealth Games
- Abdul Karim Telgi counterfeit stamp paper scam
- Coal seams & many more.

e.g. i) Concealment refers to hiding facts or details from govt. by generally people & company in business using the following techniques -  
 Satayam ← Seams (Rs 1400000)

- a) Wrong Billing / over Billing / under Billing  
(Billing/Invoicing)
- b) Mis-statement about Financial Records  
e.g. Revenue, Income, Expenses etc.
- c) Creating false/fake documents.

ii) Crimes (of other nature) → it may involve  
 Hasal Ali ← Drug trafficking, Arms trafficking, Human  
 Case trafficking, Human organ trafficking,  
 (Arms trafficking) terror funding, Smuggling, Wild life crime  
 Ponzi Schemes & so on.

e.g. Rose Valley seam, Saradha seam (in West Bengal)

## Causes of Black Money in India :-

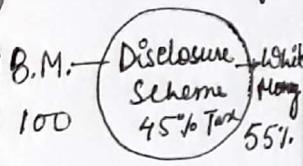
- i) Complicated legal structure.
- ii) Poor Implementation of law.
- iii) Lack of Transparency in Governance.
- iv) Lack of Technology use.
- v) Multiplicity of Taxes
- vi) High Rate of Taxes
- vii) Lack of Accountability in Governance & Politics
- viii) Wide Spread Illiteracy
- ix) Loss of Ethical Values in Society

## Effects of Black Money :-

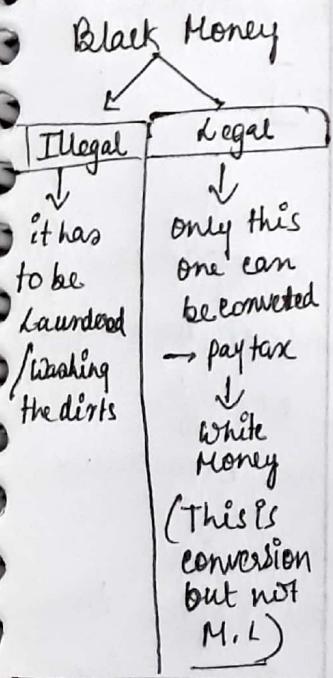
- Creation of Parallel Economy
- Inflation
- Involvement of criminals in Systems
- Increase in crime
- Income & wealth inequalities
- Transfer of Assets to other countries
- Loss of Revenue to Govt.

## Money Laundering :-

Conversion of  
Black money  
to White Money



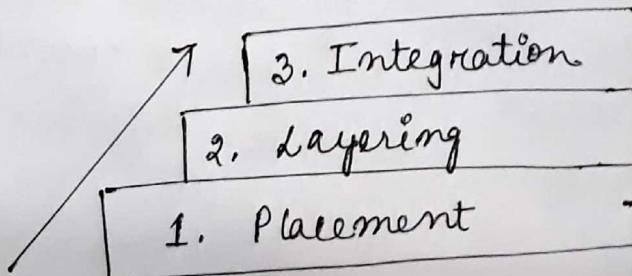
But this is  
not Money  
laundering



Meaning :-

Section 3 of Prevention of Money Laundering Act 2002 (PMLA 2002), any process or activity connected with the proceeds of crime including its concealment, acquisition, use or possession & projecting or claiming it as untainted property shall be the guilty of offence of Money Laundering.

It is not conversion of Black Money into white Money because Illegal Money can never become white money. Hence, it is an effort to claim any illegal asset as acquired from a legal source. The process of Money Laundering involves 3 steps →



(smurfing)  
(dividing large amounts into small amounts in various accounts)

Placement involves depositing money into banking system through smurfing or Hawala. Smurfing means dividing a large sum of money into small pieces which are deposited in different banks in numerous accounts when amount is very large it is sent to Tax Havens through illegal non banking channels called Hawala.  
[Tax Haven is a country with no tax or low tax & banks secrecy.]

Layering means creating fake companies (shell/ghost companies) to conduct business transactions of purchase, sale etc. for making legal evidences of some business activities. If several companies are created in different countries, then the evidence becomes difficult to trace for taxation authorities.

Finally, money is transferred to the place of origin in the form of investments, loans, financial instruments by the

technique called "Round-Tripping". At this stage, there is an integration of Black Money with White Money & investigation becomes very difficult.

Diagrams ← .

↓  
from google

### Measures to tackle Black Money

#### a) International Response :

In 1985, United Nations initiated serious efforts against Money Laundering by recognising it as truly international problem & suggested global cooperation.

In 1989, ~~first~~ Financial Action Task Force (FATF) was set up by G7 Summit in Paris as an International body to act against

(8)

Money Laundering & Terror Funding.  
Various regional bodies have been established for Anti-Money Laundering & combating terror funding, e.g.

Asia-Pacific Group

• EGMONT group

## Five Pronged Strategy

• Joining global crusade against Black Money

• Creating Appropriate legal framework

(Add. from current Affairs materials.)  
purpose & some facts)

## Steps taken by Govt. of India:

I)

India has joined several international & regional organisations including "FAIF" & India is a signatory to several international conventions on these matters.

II)

Several laws have been passed in India & several amended from time to time to create appropriate legal framework



- Prevention of Corruption Act, 1988.
- Prevention of Money Laundering Act, 2002.
- Black Money Act, 2015
- Prohibition of Benami Transactions Act, 2016.
- Fugitive Economic Offenders Act, 2018

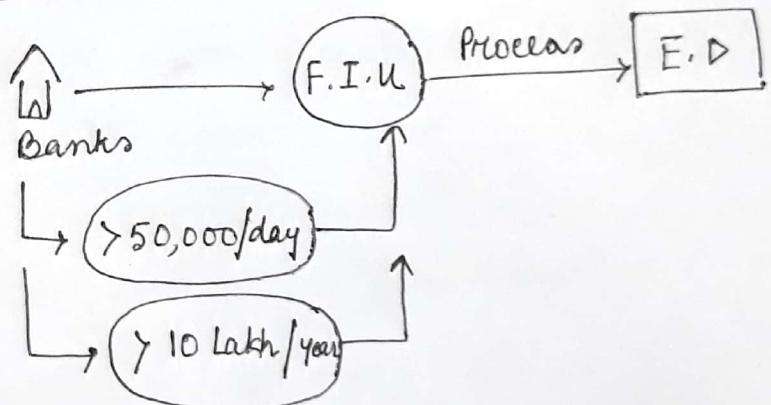
*Setting up institutions for dealing with Black Money*

- iii) Govt. has established several institutions for effective surveillance & enforcement including the Financial Intelligence Unit (FIU) & Enforcement Directorate. "FIU" is the national agency in India responsible for receiving, processing & analysing suspicious transactions, reports & providing information to the Enforcement Directorate (E.D.) & FIUs of other countries.

Data on suspicious transactions are given by Banking company, Financial Institutions, Intermediaries, (Key norms) works as Vigilant

#### Project Insight

- iv) Govt. of India has developed a comprehensive system for collecting financial information from Banks & other Financial Institutions on regular basis. Generally the following reports are made —
    - a) Suspicious Transactions Reports (STR)
- F.I.U collects information from all the reports →*



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- b) Cash Transactions Report (CTR)
- c) Counterfeit (fake) currency Report (CCR)
- d) Non-Profit Organisation Report, (NPOR)

• Imparting skills to manpower for effective action

- v) The steps taken by Central Govt. in recent times including providing training to the officers, amending different tax treaties, digitalisation of economy, banning all freeing the accounts of more than 3 lakh companies/shell companies, confiscating properties of fugitives are some commendable steps from the Govt.