



PMLA Notice to Offshore Crypto Firms

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Why in News?

The [Financial Intelligence Unit India \(FIU-IND\)](#) has issued show cause notices to 9 offshore [cryptocurrency](#) and **virtual digital assets service providers (VDA SPs)** including **Binance Kucoin, Huobi** for not being compliant with the requisite provisions of the [Prevention of Money Laundering Act \(PMLA\)](#).

What is the Prevention of Money Laundering Act (PMLA), 2002?

- **About:**
 - **PMLA is an Indian law enacted in 2002** to prevent money laundering and related offenses.
 - Money laundering involves **making illegally obtained funds appear legitimate or "clean"** by integrating them into the financial system.
 - It was enacted in a 2002 response to India's global commitment (**including the Vienna Convention**) to combat the menace of money laundering.
- **Regulating Authorities:**
 - The [Directorate of Enforcement \(ED\)](#) is the primary authority responsible for investigating and prosecuting money laundering.
 - It functions under the Department of Revenue of the Ministry of Finance.
 - Recently, the Supreme Court has ruled that the ED cannot arrest someone under the PMLA **simply for not responding to their queries and summons.**
 - **FIU-IND** is the national agency responsible for receiving, processing, analyzing and disseminating information relating to suspect financial transactions to enforcement agencies and foreign FIUs.
 - The agency works under the **Finance Ministry.**

What are PMLA Compliance Obligations for VDA SPs?

- **Registration Requirement:** VDA SPs engaged in activities involving virtual digital assets and fiat currencies, transfers, safekeeping, or control over digital assets **must register with FIU-IND as reporting entities.**
- **Activity-Based Compliance:** Compliance obligations under PMLA are **not contingent on physical presence** but are **activity-based**, encompassing reporting, record-keeping, and other specified obligations.
- **Regulatory Framework Expansion and Enforcement:** The regulatory ambit expanded in March 2023, bringing **VDA SPs under the Anti Money Laundering (AML) and Counter Financing of Terrorism (CFT)** framework within the PMLA.
 - Under the anti-money laundering law, **reporting entities are obligated to maintain [Know Your Customer \(KYC\)](#) details**, client identity records, beneficial owner information, account files, and business correspondence related to clients.

- Furthermore, reporting entities are required to **file Statements of Financial Transactions (SFT)** containing details of specific financial transactions or reportable accounts maintained during the year under the Income Tax Act.

UPSC Civil Services Examination, Previous Year Questions (PYQs)

Mains

Q.1 Discuss how emerging technologies and globalization contribute to money laundering. Elaborate measures to tackle the problem of money laundering both at national and international levels. **(2021)**

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