



India Strengthens PMLA

For Prelims: [PMLA](#), [FATF](#)

For Mains: Legal and regulatory framework in India to combat money laundering, Prevention of Money-Laundering Act (PMLA) and its objectives, Impact of money laundering on the economy.

Why in News?

India has undertaken changes in the money laundering law, the [Prevention of Money-Laundering Act \(PMLA\), 2002](#), as part of a series of changes to plug loopholes ahead of the country's proposed assessment later in 2023 under the [Financial Action Task Force \(FATF\)](#).

What are the Changes Made Under the PMLA?

- More disclosures for **non-governmental organizations** by reporting entities like financial institutions, banking companies or intermediaries.
- Defining "**politically exposed persons**" (PEPs) as individuals who have been **entrusted with prominent public functions by a foreign country**, bringing uniformity with a 2008 [Reserve Bank of India \(RBI\)](#) circular for **Know Your Customer (KYC)** norms and anti-money laundering standards for banks and financial institutions.
- Bringing in **practicing chartered accountants, company secretaries, and cost and works accountants carrying out financial transactions** on behalf of their clients into the ambit of the money laundering law.
 - **Financial Transactions Include:**
 - Buying and selling of any immovable property.
 - Managing client money, securities, or other assets.
 - Management of bank, savings, or securities accounts.
 - Organization of contributions for the creation, operation, or management of companies.
 - Creation, operation, or management of companies, limited liability partnerships, or trusts.
 - Buying and selling of business entities.
- The government widened the list of **non-banking reporting entities** to allow 22 financial entities like Amazon Pay (India) Pvt. Ltd, Aditya Birla Housing Finance Ltd, and IIFL Finance Ltd. to verify the **identity of their customers via Aadhaar** under the ambit of the money laundering law.

What are the Concerns Regarding the Changes?

- The changes require reporting entities to **maintain records of all transactions and conduct KYC before each specified transaction**. Failure to comply could result in **penalties and action from investigative agencies**.
- **Low conviction rate** under the PMLA but an **extremely difficult process to go through**.
- The **exclusion of lawyers and legal professionals** in the new definition of entities covered under the PMLA has been criticized by some professionals.

- Some also argue that these newly incorporated professionals are **already regulated by professional bodies** set up under various acts of Parliament, making these measures unnecessary.

What is the PMLA, 2002?

- **Background:**
 - The PMLA **was enacted in response to India's global commitment (Vienna Convention)** to combat the menace of [money laundering](#). These include:
 - [United Nations Convention Against Illicit Traffic in Narcotic Drugs and Psychotropic Substances 1988](#)
 - **Basle Statement of Principles, 1989**
 - [Forty Recommendations of the Financial Action Task Force on Money Laundering, 1990](#)
 - **Political Declaration and Global Program of Action adopted by the [United Nations General Assembly](#) in 1990.**
- **About:**
 - It is a criminal law enacted **to prevent money laundering and to provide for confiscation of property derived from**, or involved in, money-laundering and related matters.
 - It forms the core of the legal framework put in place by India to combat Money Laundering.
 - The provisions of this act are applicable to all financial institutions, banks (**Including RBI**), [mutual funds](#), [insurance companies](#), and their financial intermediaries.
- **Objectives:**
 - Confiscate and seize proceeds of crime that are laundered, generated or acquired through criminal activities.
 - Establish a legal framework for the prevention of money laundering and terrorist financing.
 - Strengthen and improve the mechanism for investigation and prosecution of money laundering offences.
 - Enhance international cooperation in the fight against money laundering and related crimes.
- **Regulating Authorities:**
 - [Directorate of Enforcement \(ED\)](#): The ED is responsible for enforcing the provisions of the PMLA and investigating money laundering cases.

What is FATF?

- **About:**
 - The FATF is an **intergovernmental organization** established in 1989.
 - It is a global **standard-setter for combating money laundering, [terrorist financing](#)**, and other related threats to the integrity of the international financial system.
 - FATF operates as a **policy-making body** that promotes the implementation of **legal, regulatory, and operational measures to combat financial crimes**.
- **Objective:**
 - FATF's primary objective is to set international standards and promote the effective implementation of measures to combat money laundering, terrorist financing, and the proliferation of weapons of mass destruction.
- **Formation:**
 - **FATF was formed at the initiative of the [G7 countries](#)** in response to growing concerns about money laundering and its impact on the global economy.
 - It initially focused on **developing recommendations and best practices to combat money laundering**.
 - Over the years, its mandate expanded to **include countering terrorist financing and addressing new emerging threats**.
- **Grey List and Black List:**
 - FATF maintains two key lists: the "[grey list](#)" and the "**black list**."
 - The **grey list includes jurisdictions that have strategic deficiencies** in their anti-money laundering and counter-terrorist financing frameworks.
 - Placement on the grey list signifies a **need for improvement** and **subjects the**

jurisdiction to increased monitoring by FATF.

- The **black list**, officially known as the "**Call for Action**," comprises countries with **severe deficiencies in their anti-money laundering and counter-terrorist financing efforts**.
 - Inclusion on the black list may result in **international sanctions and restrictions**.
- **Member Countries:**
 - There are **currently 39 members of the FATF; 37 jurisdictions and 2 regional organizations (the Gulf Cooperation Council and the European Commission)**.
 - FATF also works closely with other international organizations, such as the **United Nations**, to strengthen global cooperation in combating financial crimes.
- **India and FATF:**
 - **India became a member of FATF in 2010.**

UPSC Civil Services Examination, Previous Year Questions (PYQs)

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

Source: IE

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