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Written by **Aanchal Magazine**

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“Outreach should be conducted in a more focused, coordinated and risk-based manner by the relevant competent authorities, ensuring NPOs at risk of terror financing abuse enhance their understanding of the risks, including the sources, channels and end-use of funds as per their respective theatre,” it said.

THE FINANCIAL Action Task Force (FATF) on Thursday placed India in the “regular follow-up” category for its compliance with **anti-money laundering and counter-terror financing** recommendations, saying it has an “effective” system, but added that “major improvements” are needed to strengthen prosecution in these cases.

In its mutual evaluation report, the global watchdog listed some areas for improvement, including the limited number of prosecutions and convictions, risk-profiling of customers of financial institutions, monitoring of the Ministry of Corporate Affairs (MCA) registry for availability of accurate owner information, and the link between money laundering and human trafficking.

India’s main sources of money laundering originate from within, and the country faces a “disparate range” of terrorism threats from regional insurgencies in the Northeast and North, and Left-Wing Extremist groups, the Paris-based intergovernmental organisation said. The “most significant” terror threats seem to be related to the Islamic State or al-Qaeda linked groups active in and around

Jammu and Kashmir, it said. Its largest money laundering risks are related to fraud including cyber-enabled fraud, corruption and drug trafficking, it said.

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For the non-profit organisations (NPO) sector, the FATF said India should ensure that measures aimed at preventing the sector from being abused for terror financing are implemented. “Outreach should be conducted in a more focused, coordinated and risk-based manner by the relevant competent authorities, ensuring NPOs at risk of terror financing abuse enhance their understanding of the risks, including the sources, channels and end-use of funds as per their respective theatre,” it said.

The report also called for major changes to address delays in prosecution of terror financing cases. Noting that there was a disruption to the progress of prosecution of cases under the Prevention of Money Laundering Act (PMLA) during 2014-2022 as the government faced several challenges to the constitutionality of the law, the report said although the number of money laundering investigations increased since the review period, the number of prosecution complaints and concluded trials did not show a proportionate increase.



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Between 2018 and the FATF team’s visit in 2023, the Enforcement Directorate (ED) was able to secure convictions in 28 money laundering cases, it said.

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The “regular follow-up” ranking is being seen as a favourable outcome by New Delhi, as some developed countries had raised objections. “Some developed countries pointed out that the onus of disclosing details of beneficial ownership is

with the companies. We responded by saying that there are systems to identify investments coming from tax havens,” a government official said.

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The “regular follow-up” rating is currently shared by only four other G20 countries — the UK, France, Italy and Russia (now suspended from FATF). Most of the developing countries are in the “enhanced follow-up” category, which requires submission of reports on an annual basis, as against once in three years in the “regular follow-up” category.

The FATF said India should improve its framework for implementing targeted financial sanctions to ensure freezing of funds and assets without delay, and streamline the process for communicating such listings.

The report also flagged the need for India to define domestic PEPs (politically exposed persons) under the anti-money laundering laws. Reporting entities should improve identification of domestic PEPs and take risk-based enhanced measures in relation to them, it said.

Last year, the government had incorporated the definition of foreign PEPs as individuals who have been “entrusted with prominent public functions by a foreign country, including the heads of states or governments, senior politicians, senior government or judicial or military officers, senior executives of state-owned corporations and important political party officials”. However, it has not defined domestic PEPs under PMLA.

Responding to the report, Finance Ministry officials said India recognises the need to streamline the trial process in terror financing and money laundering cases and

is taking steps to improve it. Additional Secretary (Revenue) Vivek Aggarwal said the FATF has given a high rating to India on major parameters, including financial intelligence, anti-money laundering and terror financing risks, and disclosure of beneficial ownership.

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Of the recommendations made by the FATF, fast-tracking trials in terror financing and money laundering cases is important, while the rest are ancillary in nature, he said.



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Prior to this report, the FATF had undertaken an evaluation for India in June 2010. India was then placed in the "regular follow-up" category, but was subsequently removed after a follow-up report in June 2013. Due to the pandemic and pause in the FATF's assessment process, the next round of mutual evaluation had been postponed to 2023.

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