

ANTI-MONEY LAUNDERING (AML) AND COMBATING THE FINANCING OF TERRORISM (CFT) – AN INVESTOR AWARENESS INITIATIVE

1. What is money laundering?

The goal of a large number of criminal acts is to generate a profit for the individual or group that carries out the act. Money laundering is the processing of these criminal proceeds to disguise their illegal origin. This process is of critical importance, as it enables the criminal to enjoy these profits without jeopardising their source.

Illegal arms sales, smuggling, and the activities of organised crime, including for example drug trafficking and prostitution rings, can generate huge amounts of proceeds. Embezzlement, insider trading, bribery and computer fraud schemes can also produce large profits and create the incentive to “legitimise” the ill-gotten gains through money laundering.

When a criminal activity generates substantial profits, the individual or group involved must find a way to control the funds without attracting attention to the underlying activity or the persons involved. Criminals do this by disguising the sources, changing the form, or moving the funds to a place where they are less likely to attract attention.

2. What is Terrorist Financing?

Financial Terrorism means financial support for any form of terrorism or to those who encourage, plan or engage in terrorist activities.

Money launderers send illicit funds through legal channels in order to conceal their criminal origin while those who finance terrorism transfer funds that may be legal or illicit in original in such a way as to conceal their source and ultimate use, which is to support Financial Terrorism.

3. How does money laundering work?

In the initial – or **placement** – stage of money laundering, the launderer introduces his illegal profits into the financial system. This might be done by breaking up large amounts of cash into less conspicuous smaller sums that are then deposited directly into a bank account, or by purchasing a series of monetary instruments (cheques, money orders, etc.) that are then collected and deposited into accounts at another location.

After the funds have entered the financial system, the second – or **layering** – stage takes place. In this phase, the launderer engages in a series of conversions or movements of the funds to distance them from their source. The funds might be channelled through the purchase and sales of investment instruments, or the launderer might simply wire the funds through a series of accounts at various banks across the globe. This use of widely scattered accounts for laundering is especially prevalent in those jurisdictions that do not co-operate in anti-money laundering investigations. In some instances, the launderer might disguise the transfers as payments for goods or services, thus giving them a legitimate appearance.

Having successfully processed his criminal profits through the first two phases the launderer then moves them to the third stage – **integration** – in which the funds re-enter the legitimate economy. The launderer might choose to invest the funds into real estate, luxury assets, or business ventures.

4. AML and CFT Framework in India

India’s Anti-Money Laundering (AML) and Combating the Financing of Terrorism (CFT) Framework by way of Prevention of Money Laundering Act, 2002 was brought into force w.e.f. 1st July, 2005 by the Parliament. The said Act is applicable to banks, financial institutions and all intermediaries associated with the securities market and are registered with SEBI under section 12 of SEBI Act, 1992 such as Depository Participants, Stock Brokers, Investment Advisers, Portfolio Managers and Merchant Bankers. Espresso Financial Services Private Limited (“Espresso”) falls under the category of ‘Intermediary’ and hence is required to follow the guidelines of SEBI on the matter. SEBI has issued detailed guidelines/ instructions to be complied by all intermediaries as a part of the Anti-Money Laundering (AML) Program. Investors may refer SEBI master SEBI/ HO/ MIRSD/ DOP/ CIR/ P/ 2019/113 dated October 15, 2019 as amended from time to time, available on SEBI’s website. (<http://www.sebi.gov.in>).

5. Obligations of Investor

To ensure that clients have an uninterrupted access to the system, a healthy AML compliant ecosystem and a cordial and healthy business relationship, investors shall be required to provide details / information as may be required. Few of the illustrative details are stated below:

- Provide valid documents to prove your identity and address
- Provide your accurate contact information including mobile No, email id etc
- Provide accurate information about your occupation and its nature; for eg; if you are carrying on a business, you should be informing us not only the name of your business but also as to what the nature and product-line of your business is.
- Provide accurate information about your financials. For eg; provide information regarding your annual income and networth etc..
- Co-operate with us when we seek additional information or documents in connection with your trades, holdings etc after understanding that these documents/information etc is sought by us only to comply with statutory/regulatory requirements
- Let us know the real rationale / purpose for certain transactions or trades undertaken by you when we make inquiries.
- Immediately inform us as and when there is a change in the information that you have provided us along with supporting documents wherever required
- Update your KYC information with us or co-operate with us when we remind you that a KYC updation is due from your end.

6. Obligations of Espresso

The purpose of implementing AML/CFT measures is to stop criminals and terrorists from abusing the financial system and to know and understand its customers and their financial dealings better, which in turn would help Espresso manage its risks prudently. Adherence to AML Program policies and procedures is to enhance fraud prevention measures taken by Espresso is to protect itself and its genuine investors and ensure governance. Identification of customer is required to protect customer interests by preventing illegitimate money from entering the system using false identity and address. It is required to have a robust client acceptance policy and fortified client identification procedures, risk-based approach and a rigid, due-diligence process at the time of client registration as well as on a periodical ongoing basis. Implementation of AML/CFT measures at times may require us to demand certain information from investors which may be of personal nature or has hitherto never been called for or which are beyond the standard checklists. Such information can include documents evidencing source of funds/income tax returns/bank records etc.

We solicit investors’ co-operation to provide any other additional information / documents. This will help us to comply with regulatory requirements.

This is an investor education initiative undertaken to make investors aware about AML/CFT Objectives.