Anti Money Laundering Awareness - Educating Clients About AML Provisions

This is an investor education initiative undertaken to make investors aware about the Anti-Money Laundering/Combating the Financing of Terrorism (“AML/CFT”) framework. As participants in the securities market, it would help investors to familiarize themselves with the contents of this communication.

What is money laundering?

Money laundering is the processing of criminal proceeds to disguise their illegal origin and ownership. This allows criminals to enjoy these profits without jeopardizing their source.

The term money laundering is also used when the funds are used for terrorist financing thought the origin of the funds may be legitimate. Money laundering is being employed by launderers worldwide to conceal criminal activity such as drugs/arms trafficking, terrorism, etc.

Stages of money laundering

The process of money laundering involves three stages:

- Placement – the physical disposal of cash proceeds derived from illegal activity.
- Layering – separating illicit proceeds from their source by creating complex layers of financial transactions designed to hamper the audit trail, disguise the origin of such funds and provide anonymity to their owners.
- Integration – placing the laundered proceeds back into the economy in such a way that they reenter the financial system appearing to be legitimate business funds.

The ability to launder the proceeds of criminal activity through the financial systems of the world is vital to the success of criminal operations, and therefore India, as one of the world’s emerging financial markets, has a vital role to play in combating money laundering.

The Financial Action Task Force (“FATF”)

The FATF was established by the G-7 Summit that was held in Paris in 1989. The Intergovernmental body facilitates the development and promotion of policies, both at national and international levels to combat money laundering. The FATF has provided with various recommendations, which provide a comprehensive blueprint of the action needed to combat money laundering. India is a member of the FATF since June 2010.

Legal Framework in India

Prevention of Money Laundering Act, 2002 (“PMLA”) forms the core of the legal framework put in place by India to combat money laundering. It was brought into force w.e.f 1st July, 2005 by Parliament. The PMLA 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. LGT Capital Markets Private Limited (LGTCM) falls under the category of ‘Intermediary’. SEBI has issued detailed guidelines/instructions to be complied by all intermediaries as a part of the AML program. Investors may refer SEBI master circular SEBI/HO/MIRSD/MIRSDSECFATF/P/CIR/2024/78 dated 6 June 2024 as amended from time to time, available on SEBI’s website. (**http://www.sebi.gov.in**)

PMLA Rules provide further details on the requirements of the PMLA, particularly regarding maintenance of records of the nature and value of transactions, the procedure and manner of maintaining and time for furnishing information and verification and maintenance of records of the identity of the clients of intermediaries.

The Unlawful Activities (Prevention) Act, 1967 ("UAPA") prescribes the procedures for prevention of, and for coping with, terrorist activities. In terms of Section 51A, the Central Government is empowered to freeze, seize or attach funds and other financial assets or economic resources held by, on behalf of or at the discretion of persons engaged in or suspected to be engaged in terrorism.

LGTCMs' obligations

The objective of LGTCM's AML program is to stop criminals and terrorists from abusing the financial system, and to protect itself and its genuine investors. Identification of customers is required to protect customer interests by preventing illegitimate money from entering the system using false identity and address. Towards this end, LGTCM has implemented a robust client acceptance policy and procedures, a risk-based approach and client due diligence processes at the time of client registration as well as on a periodical ongoing basis.

Investor Obligations

To ensure that clients have access to a financial ecosystem, investors shall provide details / information as may be required. Few of the illustrative details are stated below:

- Know your Client (KYC) details and valid documents
- Accurate contact details
- In-person verification
- Business/Occupation
- Information and documents regarding financials, e.g. Source of funds/ income range/net worth /tax returns, etc.
- Ultimate individual beneficial owner details
- Any change in information / details should be intimated immediately
- Update your KYC details periodically
- Inform LGTCM regarding economic rationale / purpose for certain transactions or trades undertaken

We solicit investor's co-operation to provide additional information / documents. This will help us to justify investments and comply with regulatory requirements.