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BASIC INFORMATION ABOUT AML MEASURES FOR GENERAL GUIDANCE OF CLIENTS :

Background :

In response to mounting concern over money laundering world wide, G-7 summit as held in Paris in the year 1989, a policy making body having Secretariat Organisation for Economic Co-operation and Development (OECD) was established, to work for generating necessary political will / willingness to bring about national legislative and regulatory reforms to combat money laundering and terrorist financing.

World Bank and International Monetary Fund (IMF) have also established a collaborative framework in with Financial Action Task Force (FATF) in this regard. Our country (India) is also one of the member and has been accorded "Observer" status.

Objectives:

The brief objectives of these provisions is to establish general framework for the fight against money laundering, terrorism, financial crimes and corruption.

- Ensuring that financial institutions are not vulnerable to infiltration or abuse by organized crime groups
- Building capacity to fight terrorism and trace terrorist money
- Meeting binding international obligations and avoiding the risk of sanctions or other actions by the international community
- Avoid becoming heaven for criminals
- Securing a more transparent and stable financial system that is attractive to foreign investors

What is Money Laundering?

To concealing or hiding financial assets with a view to used it without detection of its source that is illegal activity which produced it.

- Through money laundering, the launder transforms the monetary proceeds derived from criminal activity into funds with an apparent legal source.
- It is the process by which criminals try to hide and disguise the true source / origin and ownership of proceeds of their illegal/criminal activities.
- It may be conversion of illegally earned income in to another form so that it appears as a legitimate income.
- The term "Money Laundering" is also used in relation to financing of terrorist activity (where funds may / may not originate from crime).
- It is a medium through which dirty money insert in the financial system and make such money look clean.
- Money is circulated around the financial system in such a way that its ancestry gets hidden.

Activities that can be considered as Illegal / Criminal Activity:

- | | |
|------------------------------|--------------------|
| • Corruption | • Gambling |
| • Bribery | • Robbery |
| • Counterfeiting and Forgery | • Fraud |
| • Smuggling | • Kidnapping |
| • Extortion | • Tax Evasion |
| • Prostitution | • Drug Trafficking |

Various stages of Money laundering:

- i. **Placement:** It is a initial stage in which money from criminal activities is placed in financial institution. It may be through various methods viz. arranging or breaking up currency transactions in to portion which falls below reporting threshold for specific purpose to avoid reporting requirements.
- ii. **Layering :** It is a process of conducting a complex series of financial transactions with a purpose of hiding origin of money and hindering any attempt to trace the funds. It may include multiple trades for security, Purchase of financial product such as Life Insurance or purchase of legitimate businesses.
- iii. **Integration:** Last and final stage in the re-injection of the laundered proceeds back in to the economy in such a way that they re-enter the financial system as normal business funds.

Consequences of Money Laundering :

- Finances terrorism
- Encourage crime
- Endangers society at large