

Anti-Money Laundering – An Investor Education Initiative

What is money laundering?

Money laundering is the process by which Persons attempt to hide and disguise the true origin and ownership of the proceeds of their illegal activities, thereby avoiding prosecution, conviction and confiscation of the funds generated through illegal acts and means. The term money laundering is also used when the funds are used for terrorist financing though the origin of the funds may be legitimate.

How does money laundering work?

The process of money laundering involves three stages:

1. Placement - the physical disposal of cash proceeds derived from illegal activity.
2. 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.
3. Integration - placing the laundered proceeds back into the economy in such a way that they re- enter the financial system appearing to be legitimate business funds.

Few instances of money laundering are profits from drug trafficking, arms deal, hawala transactions.

Having identified these stages of the money laundering process, fund managers and investment managers have to adopt procedures to guard against and report suspicious transactions that occur at any stage.

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.

History of Anti-Money Laundering

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. IIFL Asset Management Limited (Investment Manager to IIFL Mutual Fund) falls under the above category 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 can refer SEBI master circular SEBI/ HO/ MIRSD/ DOS3/

CIR/ P/ 2018/ 104 dated 04.07.2018 as amended from time to time, available on SEBI's website.
(<http://www.sebi.gov.in>).

Adherence to AML Program policies and procedures is to enhance fraud prevention measures taken by an investment manager 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. An investment manager is required to have a robust client acceptance policy and procedure, risk-based approach and a rigid, due-diligent process at the time of client registration as well as on a periodical ongoing basis.

Investor Obligations

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 provide details / information as may be required. Few of the illustrative details are stated below:

- Know your Client (KYC) details,
- In-person verification
- Business / Occupation
- Source of funds / income range / net worth / financials / tax returns etc.
- Significant beneficial owner (in case of non-individual investor)
- Any change in information / details should be intimated immediately

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

This is an investor education initiative undertaken to make investors aware about AML Program.