

# Money Laundering

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Money laundering is the generic term used to describe the process by which criminals **disguise the original ownership and control of the proceeds of criminal conduct** by making such proceeds appear to have derived from a legitimate source. The prevention of money laundering has become an international effort and now includes terrorist funding among its targets.

## Features of Money Laundering

- **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.

## Methods of Money Laundering

- 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) 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 channeled 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 cooperate 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.

### Statute for Prevention of Money Laundering

- **The Prevention of Money Laundering Act (PMLA), 2002** was enacted in January, 2003. **Sec. 3 of PMLA** defines offence of money laundering as whosoever attempts to indulge or knowingly assists in any process connected with the proceeds of crime and projecting it as untainted property shall be guilty of offence of money-laundering.
- It prescribes **obligation of banking companies, financial institutions and intermediaries** for verification and maintenance of records of the identity of all its clients and also of all transactions and for furnishing information of such transactions in prescribed form to the Financial Intelligence Unit-India (FIU-IND).

- PMLA empowers certain **officers of the Directorate of Enforcement** to carry out investigations in cases involving offence of money laundering and also to attach the property involved in money laundering.
- PMLA envisages **designation of one or more courts of sessions as Special Court** or Special Courts to try the offences punishable under PMLA and offences with which the accused may, under the Code of Criminal Procedure 1973, be charged at the same trial.
- PMLA allows the Central Government to enter into an agreement with the Government of any country for enforcing the provisions of the PMLA and **exchange of information** for the prevention of any offence under PMLA.