

India FATF Distinction Mutual Evaluation Money Laundering Terror Financing abpp

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July 10, 2024



As India achieves outstanding outcomes in the mutual evaluation conducted by the Financial Action Task Force (FATF) for 2023-24, it has brought into focus the nation's concerted measures towards combating financial crimes. The Mutual Evaluation Report of India was adopted at the FATF plenary held in Singapore between June 26 and June 28, 2024. It has placed India in the 'regular follow-up' category, a unique distinction India shares with only four other G20 countries.

India's performance on the FATF Mutual Evaluation benefits the country's rapidly growing economy, demonstrating the financial system's overall stability and integrity, and increasing investor confidence. It will also help in the global expansion of the Unified Payments Interface (UPI), India's fast payment system.

India has taken several steps towards its FATF commitments, such as notifying practising chartered accountants, company secretaries, and cost and management accountants as reporting entities. The FATF Mutual Evaluation outcome for India highlights several points regarding the role of the task force, the associated obligations for member nations, India's proactive steps, and its global position in mitigating terror financing and money laundering.

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Financial Action Task Force

The FATF is a financial crime governance model, which was created in 1989 as a one-year task force to secure the integrity of the financial system. Its primary objectives encompass countering money laundering and terrorism financing, and controlling the proliferation of weapons of mass destruction.

Initially, its membership was restricted to G7 countries, but it remains open to countries with qualitative and quantitative merits. The FATF does not have a constitution of its own or an internal charter, but has fostered collaborations with the UN Office on Drugs and Crimes as well as the UN Security Council's (UNSC's) Counter-Terrorism Committee and Sanctions Committee. The FATF's prominence surged in the aftermath of 9/11, and the 2008 financial crisis.

India And The Financial Action Task Force

India commenced its FATF application in 2003 and acquired observer status in 2006. It was granted membership in 2010. India has taken steps to comply with the recommendations and standards of the FATF since 2004; at the time, it set up the Financial Intelligence Unit, which is an autonomous and specialised body established with an aim to achieve, analyse, and coordinate information received from and between financial institutions and law-enforcement agencies, especially over suspicious transactions.

India is committed to combating terrorism in all its forms, including the financial aspects of terrorism. From a law-enforcement perspective at the prosecutorial level, an appropriate focus on the financial aspect of terrorism can be observed in India's approach. However, this effort has not yet been convincingly followed up with a high conviction rate in such cases.

In 2022, the UNSC and the FATF recommended that all countries amend their laws to crack down on the financing and delivery systems for weapons of mass destruction. The same year, India introduced a bill titled 'Weapon of Mass Destruction and their Delivery Systems (Prohibition of Unlawful Activities) Amendment Bill' in Parliament, which was passed.

The FATF recommendation traces its roots to 2012 when a significant step was taken regarding the issue of proliferation finance under its 'Recommendation 7', which dealt with 'targeted financial sanctions related to proliferation'.

According to this recommendation, countries should implement targeted financial sanctions to comply with UNSC Resolution 1540, which deals with the prevention, suppression, and disruption of WMD proliferation and their financing.

India's 2022 law allows the government to freeze and seize the assets of people involved in such activities. This law was an amendment to the Weapon of Mass Destruction and Delivery System (Prohibition of Unlawful Activities) Act, 2005. The 2005 Act did not include the financial aspects of the weapon of mass destruction delivery system. The 2022 amendment included a new provision to control the financial aspect, and to meet India's international obligations. The justification cited for the amendment was that it will strengthen national security, and India's reputation on the global stage.

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G20 New Delhi Leaders' Declaration And Way Forward

In 2023, the G20 New Delhi Leaders' Declaration underscored the bloc's commitment to combating terrorism and money laundering, pleading for timely and global adherence to revised FATF standards. However, implementing such measures has been surrounded by many difficulties, ranging from lack of awareness, commercial concerns, and coordination, to the neglect of guidance and outreach to the private sector.

Furthermore, the proliferating networks operate through multiple production facilities, countries, and intermediaries, and break procurement down into parts and small amounts, which are difficult to detect or trace.

India needs to progressively expand and strengthen the preventive measures necessary for the financial aspect of terrorism. These measures should be made applicable to all the financial activities required to be covered under FATF standards. These preventive provisions should also be brought in line with FATF standards.

Furthermore, more time is needed for the substantial implementation of all these requirements. The need of the hour is to adopt a strategic approach that includes outreach and partnership with the private sector as well as the academic community, and ensure that data on the global flows of finance are collected, tracked, analysed, and matched to identify irregular and suspicious activities, to prosecute serious financial misconduct and networks.

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