



Overview of PMMLA Red Flags on SSP

NAVIGATING POTENTIAL PITFALLS

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What are Red Flag Indicators ?

Warning signs or signals that suggest the presence of potential problems or risks.

Recognizing and understanding these red flags is essential for preventing or mitigating negative outcomes.

Individuals and organizations can take proactive measures to address the underlying issues and prevent serious consequences.

Principles of Implementation of RFIs



RFIs to be kept confidential

RFIs must be contextualised before implementation

REs to review and revise RFIs on ongoing basis

RFIs are indicative in nature

Relevant Legal Provisions



The statutory basis for obligations relating to customer due diligence, record maintenance, transaction monitoring, and reporting of prescribed transactions are given in PMLA, 2002.

Provisions of PMLA have been supplemented by the PML Rules which inter alia prescribe specific obligations relating to aforesaid topics.

REs are required to evolve internal mechanisms to detect and report prescribed transactions including suspicious transactions.

Failure to comply with any obligation may extend to warning, specific directions, enhanced reporting, or monetary penalty on a RE or its designated director or any of its employees minimum 10.000 which may extend to Rs. 1,00,000.

WHY THERE IS NEED TO REPORT??

- Increase of fraud incidences
- Increase in bank frauds

- The auditor is held personally responsible for loss to the bank.
- Answerable to ICAI/RBI/Banks/Regulatory authorities.

WHAT DOES RBI SAYS?



Who is a reporting entity?

- Banking company
- Financial institution
- Intermediary or a person carrying on a designated business or
- Profession like Inspector General of Registration, Real estate agents,
- Persons carrying on activities for playing games of chance/casinos or
- As notified by the Central Government

Who is the Enforcement Agency?

The Directorate of Enforcement (ED)



When are Chartered Accountants made Reporting Entity?

Only when there is a financial transaction carried out by;

- A Chartered Accountant in Practice;
- On behalf of his/her client;
- In relation to notified activities.

Which Chartered Accountants are not made Reporting Entity?

- Chartered Accountants in corporate form
- Official Liquidator
- Insolvency Professional
- Independent Director
- Nominee Director
- Recovery Consultant of Banking Company

Who shall be the central coordinating Agency to whom the information is submitted?

The Financial Intelligence Unit of India (FIU-IND) is the central coordinating agency with regard to this notification dated 3rd May, 2023. FIU collects information from various Reporting Entity (RE) in the form of Reports.

Whether all Practicing CAs required complying and submitting the information?

Any practicing CA who holds a COP and carries out any of the five activities as per the Notification is treated as a RE.

Whether all the activities of CAs are covered by the Notification?

No, only these 5 activities:

Buying and selling of an immovable property

Management of bank, savings or securities accounts.

Organisation of contributions for the creation, operation or management of companies.

Managing of client monies securities or other assets

Creation, operation or management of companies, limited liability partnerships or trusts, and buying and selling of business entities.



What are the general obligations of RE?

1. Registration with SRB(ICAI)
2. Framing the policies and procedure within a firm related to client KYC, client acceptance, client risk profiling, monitoring of transaction, maintenance of records and furnishing information to FIU- IND through SRB in the form of various report such as –
 1. Cash transaction report(CTR)
 2. Suspicious transaction report(STR)
 3. Wireless transfer transaction report(WTR)
 4. Not-for-profit organization transaction report(NTR)



**Financial
Mismanagement**

**International and
Regulatory Concerns**

**Suspicious Account
Activity**

**Legal and Security
Issues**

Financial Mismanagement

Client receives unusual payments from unlikely sources inconsistent with sales.

Client owns assets abroad, obtains loans from unidentified parties or on relatively low income.

Company records consistently reflect sales at less than cost, leading to continuous losses without reasonable explanation.

Complex corporate structure where complexity does not seem warranted.

Complex or unusual transactions, possibly with related parties.

Transactions with little commercial logic in the normal course of business.



Financial Mismanagement

Transactions not in the normal course of business.

Transactions which are undervalued.

Transactions with subsidiaries or entities not in normal course of business.

Payments for unspecified services or payments for services that appear excessive.

Deposit at a variety of geographical locations and times for no logical reason.

Company/Shareholder loans not consistent with business activity.



International and Regulatory Concerns

Company is invoiced/financed by organizations located in countries without adequate money laundering laws.

Transactions with companies registered in countries identified as tax havens.

Opening accounts when the client's address is outside the local service area.

Opening an account that is credited exclusively with cash deposits in foreign currencies (IFSCA located companies/ clients).

Use of nominees who act as holders of, or hold power of attorney over, bank accounts.

Accounts receiving frequent deposits of bearer instruments from high-risk countries.

Financial Mismanagement

Use of wire transfers and the Internet to move funds to/from high-risk countries.

Loans secured by obligations from offshore banks.

Loans to or from offshore companies.

Transactions involving an offshore “shell” bank.

Offers of deposits from a confidential source to be sent from or guaranteed by an offshore bank .

Suspicious Account Activity

Many large cash transactions, when not expected.

Account with a large number of small cash deposits and a small number of large cash withdrawals.

Funds are deposited into several accounts, consolidated into one, transferred outside the country.

Opening accounts with names very similar to other established business entities.

Establishment of multiple accounts, some of which appear to remain dormant.



Suspicious Account Activity

Apparent use of personal account for business purposes.

Account that was reactivated from inactive or dormant status suddenly sees significant activity.

Cash advances from credit card accounts to purchase cashier's checks or to wire funds to foreign destinations.

Unusual & sudden distribution of cash by way of expenditure below threshold limit in disturbed areas.

Large cash payments on small or zero-balance credit card accounts followed by "credit balance refund checks" sent to account holders.

Legal and Security Issues

Long delays in the production of company or commencement of activities in the case of trusts accounts.

Registration of offenses against the client by Law Enforcement Agencies.

Frequent extensive foreign travel apparently unnecessary & unusual.

Requisition of information about the activities of the clients by Law Enforcement Agencies.

Legal and Security Issues



Unusual transactions initiated & routed through non-reporting entities.

Client has an unusual rise in net worth arising from gambling, lottery gains, or inheritance from a criminal family member.

Client match with list of individuals designated as 'terrorist', or other criminal or TF list, FIU-Alerts list or UN List

Client appears to be living beyond declared income/turnover.

Thank You

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