Module 11 · Prevention of Money Laundering Act, 2002 P13 · Section B · topics 11.1–11.2

SM pp. 401–410. **26 marks in 7 papers.** Long questions in 4 of the first 5 papers (process, schedules, key features), then MCQs only. The ICMAI MQP has a fresh long one: **the offence (s.3) and its punishment (s.4)**.

Paper	What was asked	Marks
Jun'23	Q7(b)(i) the **process of money laundering**	5
Dec'23	nothing	0
Jun'24	Q6(c) the **process of money laundering** again	3
Dec'24	MCQ: PMLA cases go to **special designated courts** (= SM MCQ 7) · Q7(b) **offences in the schedules** (Parts A, B, C)	2 + 7
Jun'25	Q8(b) **key features** of the PMLA: any seven	7
Dec'25	MCQ: every scheduled offence is a **predicate offence** (= SM fill-in 2)	2
Jun'26	nothing	0

HOW IT IS EXAMINED · DEC'26 PREDICTION

- All past questions are **SM paragraphs**. Two blank papers in a row, so a long question may return: **s.3 offence + s.4 punishment** (MQP Q8(a)), or key features again.
- MCQ: about 20%: placement, predicate offence, special courts, ₹10 lakh, 10 days, 5 years.

MAP

1. Meaning, history, objects ★★
2. Process: placement, layering, integration ★★★
3. Offence, schedules, punishment ★★★
4. ED, FIU-IND, AA, Tribunal, Special Courts ★★
5. Reporting entities, STRs, Record Rules 2005 ★★

11.1 Meaning, history and objects · Jun'25 Q8(b)

- **Money laundering** is the processing of criminal proceeds (from arms sales, smuggling, drug trafficking, embezzlement, insider trading, bribery, computer fraud) **to disguise their illegal origin**: converting "**dirty money**" so that it appears **legitimate**. [SM 403]
- A global problem: India is a member of the **Financial Action Task Force** and the **Asia Pacific Group** on money laundering. [SM 403]
- Enacted in **January 2003**; in force with its Rules from **1 July 2005**; extends to the whole of India; amended in **2009** (from 1 June 2009) and **2012** (from 15 Feb 2013). It meets the obligations of the UN General Assembly's **Political Declaration and Global Programme of Action**. [SM 403]
- Structure: **ten chapters, 75 sections**, one Schedule; Ch. II (s.3–4) offence and punishment; Ch. III (s.5–11) attachment, adjudication, confiscation; Ch. IV (s.12–15) obligations of banks, FIs and intermediaries; Ch. V (s.16–24) summons, search and seizure. [SM 403]

OBJECTS

a. to **prevent and control** money laundering;
b. to **confiscate and seize** property obtained from laundered money;
c. to deal with any other issue connected with money laundering in India.

[SM 404]

THE PROCESS: JUN'23, JUN'24

(a) Placement illegal funds enter the financial system: cash split into small deposits, or bought instruments (cheques, drafts) deposited elsewhere →→ **(b) Layering** a series of conversions and movements through many accounts, often abroad in non-cooperating jurisdictions, to hide the origin →→ **(c) Integration** funds rejoin the legitimate economy, mixed with legal income: real estate, businesses, luxury assets

[SM 404]

*SM MCQ 6: introducing illegal funds into the financial system = **placement**.*

s.3–4 Offence, scheduled offences, punishment · Dec'24 Q7(b), Dec'25 MCQ, MQP Q8(a)

THE OFFENCE (s.3) · THE MQP ANSWER

SM WORDS Whosoever **directly or indirectly attempts to indulge** or **knowingly assists** or **knowingly is a party** or is

THE SCHEDULE (DEC'24 Q7(b))

- **Part A** (**28 paragraphs**): offences under the **IPC**, **NDPS Act**, Explosive Substances Act 1908, **Unlawful Activities**

actually involved in any process or activity connected with the **proceeds of crime**, including its **concealment, possession, acquisition or use**, or **projecting or claiming it as untainted property**, shall be guilty of the offence of money-laundering. [SM 404]

SM WORDS **Punishment (s.4)**: **rigorous imprisonment** for not less than **three years**, which may extend to **seven years**, **and fine**. Where the proceeds relate to an offence in **paragraph 2 of Part A** of the Schedule (the NDPS Act), the maximum is **ten years**. Property derived from proceeds of crime may be **attached and confiscated**. [SM 405]

Add for depth (from the Act): "proceeds of crime" = property derived from criminal activity relating to a scheduled offence; the 2019 Explanation makes the offence a **continuing activity** and covers each of the listed acts on its own; upheld in *Vijay Madanlal Choudhary v. UoI* (SC, 2022).

(Prevention) Act 1967, Arms Act 1959, Wild Life (Protection) Act 1972, Immoral Traffic (Prevention) Act 1956, **Prevention of Corruption Act 1988**, Explosives Act 1884, Antiquities and Art Treasures Act 1972, **SEBI Act 1992**, **Customs Act 1962**, etc. [SM 404–405]

- **Part B**: offences where the total value involved is **₹1 crore or more** (SM MCQ 3). [SM 405] Since 2015 Part B holds the Customs Act s.132 false-declaration offence.
- **Part C**: **trans-border crimes**, a vital step against laundering across borders. [SM 405]
- SM WORDS **Every scheduled offence is a predicate offence.** Its occurrence is a **pre-requisite** for starting an investigation into money laundering (Dec'25 MCQ: (D)). [SM 405]

11.1 Authorities, investigation, courts · Dec'24 MCQ

Authority	Role (SM)
Directorate of Enforcement (ED)	Department of Revenue, Ministry of Finance: **investigates and prosecutes** money-laundering cases and **attaches property**; also enforces **FEMA** (SM fill-in 1) [SM 404–406]
FIU-IND	set up in **November 2004**, headed by a Director of Joint Secretary rank: the central agency that **receives, processes, analyses and disseminates** information on suspect transactions to enforcement agencies and foreign FIUs; receives **CTRs and STRs** under s.12; may **fine** reporting entities for non-compliance; reports to the **Economic Intelligence Council** headed by the Finance Minister [SM 404–406]
Adjudicating Authority (s.6)	appointed by the CG; if property is involved in money laundering, it **confirms the attachment** (s.5) or the retention of seized property, or orders **confiscation** [SM 405–406]
Appellate Tribunal (s.25)	a Chairperson and **two** members (the ATFP's chairman and a member hold additional charge); hears appeals against the Adjudicating Authority, the Director of FIU-IND and other authorities [SM 405–406]
Special Courts ★	the CG, **in consultation with the Chief Justice** of the High Court, designates **Courts of Session** as Special Courts; they try the s.4 offence and any connected **scheduled offence**, for the area where it was committed (Dec'24 MCQ = SM MCQ 7; SM short essay 2) [SM 405, SM 407]
International	**reciprocal arrangements** and bilateral agreements with foreign states to enforce the Act and exchange information [SM 405]

JUN'26 SUPPLEMENTARY

I4C: on **25 April 2025** the Indian Cyber Crime Co-ordination Centre was notified as a "financial institution" under s.66, so it can exchange financial intelligence with the **ED** (online money trails). **2025 framework**: **risk-based KYC** (enhanced due diligence for high-risk customers, simplified updating for low-risk ones, more digital identity checks); continuous monitoring; updating **beneficial ownership**; **STRs through upgraded FIU utilities**; automated transaction monitoring. [Supp Jun'26 p.10]

s.12 Reporting entities, STRs and the Record Rules, 2005 · SM short essay 3

OBLIGATIONS OF A REPORTING ENTITY (s.12)

Reporting entity = a banking company, financial institution, intermediary, or a person carrying on a **designated business or profession**. It must: [SM 406]

a. keep a **record of all prescribed transactions** so that each can be reconstructed;
b. **furnish** information on them to the **Director (FIU)** in time;
c. **verify the identity** of its clients;
d. **identify the beneficial owner** of its clients;
e. keep records of identity documents and account files, and transaction records, for **five years**;
f. for **five years after the relationship ends** or the account is closed, whichever is later.

PML (MAINTENANCE OF RECORD) RULES, 2005 (REVISED MARCH 2023)

Records of: (a) **cash transactions above ₹10 lakh** (or foreign-currency equivalent); (b) **integrated series** of cash transactions below ₹10 lakh in a month; (c) receipts of ₹10 lakh and more; (d) all transactions with **counterfeit currency**; (e) all **suspicious transactions**, in cash or otherwise; (f) **cross-border wire transfers** above **five lakh rupees** where the origin or destination is in India; (g) purchase or sale of **immovable property of fifty lakh rupees** or more registered by the entity (SM MCQ 1: all of the above). [SM 408]

- A **principal officer** reports to the Director, FIU-IND, every month by the **15th of the next month**. [SM 408]

[SM 406]
STR: a transaction, in cash or not, that to a person acting in good faith (a) gives **reasonable ground of suspicion** of proceeds of crime; (b) has **unusual or unjustified complexity**; or (c) has **no economic rationale** or bona fide purpose. [SM 407]

- Clients' KYC data go to the **Central KYC Records Registry within 10 days** (SM MCQ 5); the registry was set up in **2015**; the RBI may call for information from it or inspect it. Digital KYC is online and secure. [SM 408]

M Model answer · key features of the PMLA (Jun'25 Q8(b)): any seven

1. **Offence** defined widely (s.3): any involvement with proceeds of crime, incl. projecting them as untainted.
2. **Punishment** (s.4): RI 3 to 7 years and fine; up to 10 years for NDPS-linked proceeds.
3. **Scheduled (predicate) offences** in Parts A, B and C; one must exist before an investigation.
4. **Attachment and confiscation** of property, confirmed by the **Adjudicating Authority**.
5. **Authorities**: ED investigates and prosecutes; FIU-IND receives and analyses reports.
6. **Reporting entities**: records, KYC, beneficial owner, reports to FIU, five-year retention; STRs.
7. **Special Courts** (Courts of Session) try the offence with connected scheduled offences.
8. **Appellate Tribunal** for appeals; **reciprocal arrangements** with foreign countries.

[SM 403–408]

The SM's own exercise (SM 409–410)

MCQs: 1 records to keep: **all of the above** · 2 FIU = **Financial Intelligence Unit** · 3 Part B value: **one crore** · 4 STR = **suspicious transaction reports** · 5 KYC to the registry within **10** days · 6 **placement** · 7 tried in **special designated courts** ★. **Fill-ins:** authority = **Directorate of Enforcement** · every scheduled offence is a **predicate** offence ★ · maximum imprisonment **7** years (10 for NDPS proceeds) · FIU · STR · cash above ₹**10** lakh · Central KYC Registry **2015** · Record Rules **2005**. [SM 409–410]

R Revision: numbers

Rule	Number	Rule	Number
enacted / in force	Jan 2003 / 1 July 2005	cash transaction record above	₹10 lakh
chapters / sections / Part A paras	10 / 75 / 28	cross-border wire / immovable property	₹5 lakh / ₹50 lakh
punishment	RI 3–7 yrs + fine (10 NDPS)	monthly report to FIU by	15th
Part B value	≥ ₹1 crore	KYC to central registry	10 days
FIU-IND set up	Nov 2004	record retention	5 years
Tribunal members	chair + 2	Central KYC Registry	2015