



## FinCEN and FIU-IND

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### Why in News

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Recently, over 2100 **Suspicious Activity Reports (SARs)** were filed by banks with the **United States Department of the Treasury's Financial Crimes Enforcement Network (FinCEN)**.

The FinCEN files identify at least **USD 2 trillion** in transactions between **1999 and 2017** flagged as possible **evidence of money laundering or other criminal activity** by compliance officers of banks and financial institutions.

### Key Points

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- **FinCEN:**
  - It was set up in 1990.
  - It serves as the **leading global regulator** in the battle against **money laundering**.
  - It collects and analyzes information about financial transactions in order to combat domestic and international money laundering, terrorist financing, and other financial crimes.

- **Suspicious Activity Report:**

- SAR is a **document filed by banks and financial institutions** to report suspicious activity to the USA FinCEN.
- These are meant to **red flag, within 30 days** of the transaction's occurrence: criminal funds or any form of dirty money; **insider trading**; potential money laundering; terror financing; any transaction that raises suspicion.
- These are **used to detect crime but cannot be used as direct evidence** to prove legal cases.

There are details of banking transactions that give a clear indication of **round-tripping, money laundering** or dealings with **shell-like entities**.

- FinCEN **shares SARs with law-enforcement authorities** including FBI, US Immigration and Customs.

- **Significance:**

- The FinCEN Files **highlight the dangers correspondent banking pose**.
  - The term correspondent bank refers to a financial institution that provides services to another one—usually in another country.
  - It acts as an intermediary or agent, facilitating wire transfers, conducting business transactions, accepting deposits, and gathering documents on behalf of another bank.
- **For India:**
  - Individuals and companies being probed by Indian agencies in different cases are part of the SAR flagged to FinCEN.
  - Like, transactions of Indian entities named in scams such as the **2G scam**, the Agusta-westland scandal, etc. cases have all been listed with the FinCEN.

**Note:**

- **Round tripping** refers to money that leaves the country through various channels and makes its way back into the country often as foreign investment. This mostly involves black money and is allegedly often used for stock price manipulation.
- **Money laundering** is concealing or disguising the identity of illegally obtained proceeds so that they appear to have originated from legitimate sources. It is frequently a component of other, much more serious, crimes such as drug trafficking, robbery or extortion.
- **Shell companies** are typically **corporate** entities which do not have any active business operations or significant assets in their possession. The government views them with suspicion as some of them could be used for money laundering, tax evasion and other illegal activities.

## Indian Scenario

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- The **Financial Intelligence Unit-India (FIU-IND)** performs the same functions as FinCEN in the USA.
  - Under the Finance Ministry, this was **set up in 2004** as the nodal agency for receiving, analyzing and disseminating information relating to suspect financial transactions.
- The agency is authorised to obtain:
  - **Cash transaction reports (CTRs)**
  - **Suspicious transaction reports (STRs)**
  - **Cross border wire transfer reports**
- These reports are obtained from **private and public sector banks every month.**
- This happens under the **Prevention of Money Laundering Act, 2002 (PMLA).**
- **Mandatory:** It is mandatory for banks in India to furnish a **monthly CTR** to the FIU on:
  - All transactions **over Rs. 10 lakh** or its equivalent in foreign currency or a series of integrally connected transactions that add up to more than Rs. 10 lakh or its equivalent in foreign currency.
- **Process:** The STRs and CTRs are **analysed** by FIU.
  - Suspicious or doubtful transactions are shared with agencies like the **Enforcement Directorate**, the **Central Bureau of Investigation** and the **Tax Authority** for the purpose of launching probes to check possible instances of money laundering, tax evasion and terror financing.
- FIU's **2017-2018 annual report** reveals that it had received a record number of **14 lakh STRs** following demonetization which was three times the number of STRs filed in the previous year.

## **Way Forward**

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- SAR has in many cases of Indian entities and individuals, mentioned their financial history of alleged irregularities.
- The clear message for agencies in India is that their cases of financial fraud and corruption are being flagged by the FinCEN.
- There is a need to have regular information exchange between financial regulators to track and nullify the efforts for money laundering.

**Source: IE**