



# PMLA Notice to Offshore Crypto Firms

[Source: IE](#)

## Why in News?

The [Financial Intelligence Unit India \(FIU-IND\)](#) has issued show cause notices to 9 offshore [cryptocurrency](#) and **virtual digital assets service providers (VDA SPs)** including **Binance Kucoin, Huobi** for not being compliant with the requisite provisions of the [Prevention of Money Laundering Act \(PMLA\)](#).

## What is the Prevention of Money Laundering Act (PMLA), 2002?

- **About:**
  - **PMLA is an Indian law enacted in 2002** to prevent money laundering and related offenses.
    - Money laundering involves **making illegally obtained funds appear legitimate or "clean"** by integrating them into the financial system.
  - It was enacted in a 2002 response to India's global commitment (**including the Vienna Convention**) to combat the menace of money laundering.
- **Regulating Authorities:**
  - The [Directorate of Enforcement \(ED\)](#) is the primary authority responsible for investigating and prosecuting money laundering.
    - It functions under the Department of Revenue of the Ministry of Finance.
    - Recently, the Supreme Court has ruled that the ED cannot arrest someone under the PMLA **simply for not responding to their queries and summons.**
  - **FIU-IND** is the national agency responsible for receiving, processing, analyzing and disseminating information relating to suspect financial transactions to enforcement agencies and foreign FIUs.
    - The agency works under the **Finance Ministry.**

## What are PMLA Compliance Obligations for VDA SPs?

- **Registration Requirement:** VDA SPs engaged in activities involving virtual digital assets and fiat currencies, transfers, safekeeping, or control over digital assets **must register with FIU-IND as reporting entities.**
- **Activity-Based Compliance:** Compliance obligations under PMLA are **not contingent on physical presence** but are **activity-based**, encompassing reporting, record-keeping, and other specified obligations.
- **Regulatory Framework Expansion and Enforcement:** The regulatory ambit expanded in March 2023, bringing **VDA SPs under the Anti Money Laundering (AML) and Counter Financing of Terrorism (CFT)** framework within the PMLA.
  - Under the anti-money laundering law, **reporting entities are obligated to maintain [Know Your Customer \(KYC\)](#) details**, client identity records, beneficial owner information, account files, and business correspondence related to clients.

- Furthermore, reporting entities are required to **file Statements of Financial Transactions (SFT)** containing details of specific financial transactions or reportable accounts maintained during the year under the Income Tax Act.

## UPSC Civil Services Examination, Previous Year Questions (PYQs)

### **Mains**

**Q.1** Discuss how emerging technologies and globalization contribute to money laundering. Elaborate measures to tackle the problem of money laundering both at national and international levels. **(2021)**

PDF Reference URL: <https://www.drishtias.com/printpdf/pmla-notice-to-offshore-crypto-firms>

