

**GOVERNMENT OF INDIA
FINANCE
LOK SABHA**

UNSTARRED QUESTION NO:3888
ANSWERED ON:16.12.2011
INVESTMENT IN STOCK EXCHANGES BY TERRORISTS
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Will the Minister of FINANCE be pleased to state:

- (a) whether instances of terrorists having invested in the Indian stock exchanges come to the notice of the Government;
- (b) if so, the details thereof;
- (c) whether the Government has set up any monitoring mechanism to determine all the sources of foreign investments;
- (d) if so, the details thereof; and
- (e) the details of the Government's measures to stop investments in the Indian stock exchanges by such terrorists?

Answer

MINISTER OF THE STATE IN THE MINISTRY OF FINANCE (SHRI NAMO NARAIN MEENA)

(a): Financial Intelligence Unit-India (FIU-IND), which is the central national agency responsible for receiving, analyzing and disseminating information relating to suspect financial transactions, has reportedly received Suspicious Transaction Reports (STRs) from intermediaries, which includes intermediaries of stock market such as stock brokers, asset management companies, etc. Some of these STRs have been linked to money laundering and terrorist financing. These cases were disseminated to intelligence agencies for further investigation.

(b): Year-wise number of STRs suspected to be linked to terrorist financing received from intermediaries of stock market such as stock brokers, asset management companies, etc and disseminated to intelligence agencies by FIU-IND are given as under:

Financial Year	No. of STRs
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2009-10	05
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2010-11	04
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2011-12 (upto 30 Nov, 2011)	01
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(c) and (d): Securities and Exchange Board of India (SEBI) remains vigilant at all times guard against any malpractices in the market. It also takes action against the entities violating the provisions of SEBI Act, Rules and Regulations etc. SEBI and the Exchanges have also put in place surveillance systems to monitor trading activity of the listed companies. In addition, the Prevention of Money Laundering Act (PMLA), 2002 has established a regime since July 2005 for the reporting of suspicious transactions. As stated in part (a) above, FIU also plays an important role in safeguarding the securities market. India is also a member of Financial Action Task Force (FATF), an international inter-governmental body for setting standards to combat money laundering and financing of terrorism. FATF has issued 49 recommendations to prevent the abuse of financial systems for money laundering and to detect, prevent and suppress the financing of terrorism. As per FATF standards and PML Act and Rules, the regulated entities are implementing mandates relating to Know Your Customer (KYC) and Customer Due Diligence (CDD). They are also required to monitor transactions and report cash transactions above Rs. 10 lakhs and all suspicious transactions to FIU-IND. The membership of FATF also helps Indian law enforcement agencies to exchange information at the international level by way of mutual legal assistance and information sharing with regulators and law enforcement agencies.

(e): Several steps have been taken to prevent black money or terrorist funds from flowing into the stock markets. For instance, the payments for transactions in the stock markets have to be made through banking channels. Banks and other financial intermediaries are also required to ensure compliance with the customer due diligence norms as required under FATF Recommendations, Prevention of Money Laundering Act (PMLA), 2002, and relevant Rules. SEBI registered intermediaries such as Mutual Funds, Depository Participants, Stock Brokers etc. follow the Know Your Client (KYC) guidelines laid down by SEBI when customers are registered. These intermediaries as also other reporting entities in the financial sector such as banks, insurance companies, financial institutions, payment system operators, casinos, etc. are required to make Suspicious Transaction Reports (STRs) to Financial Intelligence Unit (FIU-IND), Department of Revenue whenever they come across a transaction, including an attempted transaction, which:

(i) gives rise to a reasonable ground of suspicion that it may involve proceeds of an offence specified in the Schedule to the Act, regardless of the value involved; or

(ii) appears to be made in circumstances of unusual or unjustified complexity; or

(iii) appears to have no economic rationale or bona fide purpose; or

(iv) gives rise to a reasonable ground of suspicion that it may involve financing of the activities relating to terrorism.