

FATF Commends India's Anti-Money Laundering and Terror Financing Measures in 2024 Report

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What's in today's article?

- Why in News?
- What is Financial Action Task Force (FATF)?
- What is FATF's Mutual Evaluation Process?
- Key highlights of the FATF's mutual evaluation report on India

Why in News?

Global anti-money laundering and terror financing body FATF has launched its mutual evaluation report on India. The report commending the country's systems to tackle the menace of money laundering and terror financing. It also urged India to expedite its prosecutions in financial fraud cases.

What is Financial Action Task Force (FATF)?

- **About**

- Set up in 1989, FATF is the global money laundering and terrorist financing watchdog.
- It was established during the **G7 Summit** in Paris.
- It currently comprises 38 member jurisdictions and 2 regional organisations.
- India became an Observer at FATF in 2006. On June 25, 2010 India was taken in as the **34th country member of FATF**.
- The inter-governmental body sets international standards that aim to prevent these illegal activities and the harm they cause to society.
- The FATF functions as an independent body guiding policy, with its president selected by the plenary for a one-year period.
- The FATF Secretariat is located at the OECD headquarters in Paris.

• Functions

- The FATF has developed the FATF Recommendations, or FATF Standards, which ensure a co-ordinated global response to prevent organised crime, corruption and terrorism.
- It also works to identify national-level vulnerabilities with the aim of protecting the international financial system from misuse.
- They help authorities go after the money of criminals dealing in illegal drugs, human trafficking and other crimes.
- It also works to stop funding for weapons of mass destruction.

What is FATF's Mutual Evaluation Process?

• About

- Mutual Evaluation Process is a comprehensive and rigorous assessment conducted **to evaluate a country's compliance with international standards for combating money laundering (ML) and terrorist financing (TF)**.
- **India and FATF's mutual evaluation report**
- In its previous evaluation in **June 2010**, India was placed in the **"regular follow-up"** category, which was removed in **June 2013**.
- India's next assessment is set for 2031.

Key highlights of the FATF's mutual evaluation report on India

• India in the regular follow-up category

- FATF placed India in the **"regular follow-up"** category for its compliance with anti-money laundering (AML) and counter-terror financing (CTF) recommendations.
 - This category signifies a high level of compliance in combating ML and TF, though some non-financial sectors require improvement in supervision and preventive measures.
- This classification is shared by only four other G20 countries [the UK, France, Italy and Russia (now suspended from FATF)].
 - Most of the developing countries are in the **enhanced follow-up** category, which requires submission of reports on an annual basis, as against once in three years in the "regular follow-up" category.

- India complied/largely complied with **37 of 40** recommendations and all of the **“Big-Five”**.
- **Lauds India’s PMLA, terror financing**
 - The report praised India’s systems to tackle the menace of money laundering and terror financing.
 - India is taking steps to address the **fast-tracking of trials** in terror financing and money laundering cases, which was identified as a priority.
- **Areas for Improvement**
 - **Limited Prosecutions and Convictions:** India has seen a limited number of prosecutions and convictions in money laundering and terror financing cases.
 - It flagged delays in the prosecution of terror financing cases due to challenges in the constitutionality of the Prevention of Money Laundering Act (PMLA) between 2014-2022.
 - Though the Enforcement Directorate (ED) increased investigations, the number of prosecutions and concluded trials has not shown a proportionate increase.
 - **Risk-Profiling:** Customer risk-profiling in financial institutions requires improvement.
 - **MCA Registry Monitoring:** Accurate ownership information in the Ministry of Corporate Affairs (MCA) registry needs better oversight.
 - **Human Trafficking Link:** Greater focus is required on the connection between money laundering and human trafficking.
- **Jan Dhan-Aadhaar-Mobile Initiative & GST**
 - FATF praised India’s Jan Dhan-Aadhaar-Mobile (JAM) initiative for boosting financial inclusion and reducing the cash-based economy.
 - The implementation of GST, requiring e-invoices and e-bills, was recognized for increasing transparency in the supply chain.
- **Key Compliance Measures**
 - India’s Cybercrime Coordination Centre, beneficial ownership registry by the Ministry of Corporate Affairs, and Central KYC Records Registry (CKYCR) were highlighted as positive steps.
 - The establishment of task forces and high-level committees to combat corruption, black money, drug trafficking, and fake currency was commended.
- **Enforcement Achievements**
 - The ED was recognized for confiscating assets worth ₹16,537 crore and securing restitution of ₹141.3 billion in the Vijay Mallya case.
 - ED’s success in pursuing complex, large-scale, cross-border money laundering cases and “hawala” operations was noted.
- **Shell Companies Task Force**
 - The report highlighted the removal of 3,82,875 shell companies and the disqualification of over 3 lakh directors who failed to file financial statements.
- **International Cooperation and Asset Recovery**
 - India’s strong coordination on illicit financial flows, financial intelligence, and international cooperation was appreciated.
 - The FATF also noted India’s ability to implement targeted financial sanctions.
- **Terrorism Threats in India**

- India faces a “disparate range” of terrorism threats, including regional insurgencies in the Northeast and North, Left-Wing Extremist groups, and Islamic State or al-Qaeda-linked threats in Jammu and Kashmir.
- The largest money laundering risks stem from fraud, corruption, and drug trafficking.

- **Non-Profit Sector Oversight**

- India needs to ensure that non-profit organizations (NPOs) are safeguarded against misuse for terror financing.
- The FATF recommended more focused, coordinated outreach to help NPOs understand these risks better.

- **Targeted Financial Sanctions**

- The FATF urged India to improve the framework for implementing targeted financial sanctions to ensure the prompt freezing of funds and assets.
- The current process needs streamlining for better communication.

- **Definition of Domestic Politically Exposed Persons (PEPs)**

- The report highlighted the absence of a definition for domestic PEPs under anti-money laundering laws.
 - Foreign PEPs have already been defined, but domestic PEPs require proper identification and risk-based enhanced measures.
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Q.1. What did FATF highlight in its 2024 report on India?

The FATF praised India’s robust anti-money laundering systems, recognizing achievements in financial inclusion through the JAM initiative and the enforcement actions taken by the ED.

Q.2. What areas did FATF suggest India should improve?

FATF urged improvements in customer risk profiling, better prosecution of financial crimes, and enhanced oversight of shell companies and the non-profit sector.

Source: [FATF on India: Effective anti-money laundering system, low prosecution](#) | [FATF](#) | [The Hindu](#) | [Economic Times](#)

Source: <https://vajiramandravi.com/current-affairs/fatf-commends-indias-anti-money-laundering-and-terror-financing-measures-in-2024-report/>

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