Money laundering and scams "THROUGH" Multi-State Urban Cooperative Credit Societies, Angadia's & Banks in India/Abroad – Gems & Jewellery Industry

Research Committee
The Institute of Chartered Accountants of India
(Set up by an Act of Parliament)
New Delhi

Basic draft of this publication was prepared by CA. Jinesh Mehta

Edition	:	February, 2020
Committee/Department	:	Research Committee
E-mail	:	research@icai.in
Website	:	www.icai.org
Price	:	₹ 110/-
ISBN	:	78-93-90668-26-7
Published by	:	The Publication Department on behalf of the Institute of Chartered Accountants of India, ICAI Bhawan, Post Box No. 7100, Indraprastha Marg, New Delhi - 110 002.
Typeset by	:	Elite-Art, New Delhi
Printed by	:	Sahitya Bhawan Publications, Hospital Road, Agra - 282 003. February/2021/500 copies

Foreword

India's Gems and Jewellery sector is one of the largest in the world contributing around 29% to the Global Jewellery consumption, around 15% to India's total merchandise export, 75% of the world's polished diamonds are exported from India and is the world's largest centre for cut and polished diamonds. This sector contributes about 7% to India's Gross Domestic Product (GDP) and employ over 4.64 million employees. Being a major contributor to the Indian Economy, this sector also faces many instances of money laundering and irregularities "THROUGH" Multi-State Urban Cooperative Credit Societies, Angadia's & Banks in India/Abroad. The ICAI through its Research Committee has been relentlessly working to ensure that the professionals are well equipped with updated guidance on the working of Gems & Jewellery Sector and how these irregularities/ scams are structured in the sector.

I am very pleased to note that the Research Committee of the Institute undertaken the task to publish **three** Research Case Studies on the topic of "**Money laundering and scams "THROUGH" Multi-State Urban Cooperative Credit Societies"** in three volumes, namely Cash Deposits, Gems & Jewellery Industries and Sugar Industries. This volume focuses on providing overview as to how the **Gems and Jewellery** Segment set up their structures and operate in a way that the cash is flown through Multi state Urban cooperative credit societies, Angadia's & Banks in to the sophisticated channels and used for doing businesses and how the funding is generated by using facilities provided by Banks for doing businesses globally.

I would like to take this opportunity to express my thanks to CA. Anuj Goyal, Chairman, Research Committee and CA. Kemisha Soni, Vice-Chairperson, Research Committee, who initiated the task of publishing three research case studies on this emerging topic. I would also like to take this opportunity to express my gratitude to the members of the Research Committee who have made invaluable contribution through their expert guidance in the finalisation of this Research Case Study on Gems & Jewellery.

I am confident that this Research Case Study will be extremely useful to the members of the Institute.

New Delhi	**CA. Atul Kumar Gupta**
January 29, 2021	**President, ICAI**

Preface

Research Committee of Institute of Chartered Accountants of India (ICAI) through this Research Case study want to draw emphasis on how the Gems and Jewellery Segment set up their structures and operate in such a way that the cash is flown through Multi state credit cooperative societies and Angadia's in to the sophisticated channels and used for doing businesses and how the funding is generated by using Banks and facilities provided by Banks for doing businesses Globally.

Therefore, the objective of research is to study and understand the methodology followed by the Fraudster while misusing the Society and its members in executing the transactions for unethical and Illegal / wrongful purposes and who should be ultimately punished / Taxed / Penalized / Prosecuted?

I am thankful to CA. Atul Kumar Gupta, President, ICAI and CA. Nihar N. Jambusaria, Vice President, ICAI who inspired me to undertake the task to publish three Research Case Studies on the topic of "Money laundering and scams "THROUGH" Multi-State Urban Cooperative Credit Societies".

I would also like to extend my thanks to CA. Kemisha Soni, Vice-Chairperson, Research Committee and all the members of the Research Committee.

I would like to take this opportunity to congratulate CA. Jinesh Mehta for writing Research Case study on "**Money laundering and scams "THROUGH" Multi-State Urban Cooperative Credit Societies, Angadia's & Banks in India / Abroad – Gems & Jewellery Industry"** and to express my thanks to CA. Jagdish Kapoor, Expert for providing his valuable comments and observations on the Research Case Study for improvement of its technical and presentation aspect. I also appreciate the whole hearted support and cooperation of Dr. Amit Kumar Agrawal, Secretary, Research Committee and CA Rahul Paul, Project Associate for relentlessly working on the finalisation of Research Case Study.

I believe and trust that this publication would prove useful to the members of the Institute and others concerned.

New Delhi **CA. Anuj Goyal**
January 29, 2021 **Chairman, Research Committee**

Contents

Money Laundering and Scams "THROUGH" Multi-State Urban Cooperative Credit Societies, Angadia's & Banks in India/Abroad – Gems & Jewellery Industry

Section 1: Introduction

- India's Gems and Jewellery sector is one of the largest in the world, contributing around 29% to the Global Jewellery consumption. The market size is estimated to reach Rs 6.99 lakh crore (US$ 100 billion) by 2025. The sector is home to more than 300,000 Gems and Jewellery players, contributing about 7 % to India's Gross Domestic Product (GDP) and employing over 4.64 million employees.
- India's Gems and Jewellery sector contributes around 15% to India's total merchandise export. The overall net export of Gems and Jewellery stood at US$ 29.01 billion in FY20, whereas, import was at US$ 26.05 billion in FY20. The Government of India is aiming at US$ 80 billion in Jewellery export over the next five years from 2019.
- India is the world's largest centre for cut and polished diamonds and export 75% of the world's polished diamonds. Today, 14 out of the 15 diamonds sold in the world are either polished or cut in India. India exported cut and polished diamonds worth US$ 18.66 billion in FY20; this accounted for 52.4% of the total Gems and Jewellery export.
- India is the largest consumer of gold in the world. Rising middle class population and increasing income levels are key drivers behind the demand of gold and other Jewellery in India. India's demand for gold reached 690.4 tonnes in 2019. The Government has permitted 100% Foreign Direct Investment (FDI) in the sector under the automatic route. The Rs 250,000 crore (US$ 35.77 billion) household Jewellery industry is probably going to get a major lift through the Government's decision for FDI in retail. The Bureau of Indian Standards (BIS) has revised the standard on gold hallmarking in India from January 2018 to include a BIS mark, purity in carat and fitness, as well as the unit's identification and the Jeweller's identification mark on gold Jewellery. The move is aimed at ensuring stringent quality check on gold Jewellery. The Government has made hallmarking mandatory for gold Jewellery and

artefacts and a period of one year is provided for its implementation (till January 2021).

- As per Union Budget 2019–20, the GST rate has been reduced from 18% to 5% (*5% without Input Tax Credit (ITC)) for services by way of job work in relation to Gems and Jewellery, leather goods, textiles etc.
- The cumulative FDI inflow in diamond and gold ornaments for the period April 2000–March 2020 stood at US$ 1.17 billion according to Department for Promotion of Industry and Internal Trade (DPIIT).

Section 2: Executive Summary.

- It has been seen in recent years that Black money and cash transactions are under the scanner, and the Government is taking various initiatives to control the same. Various transactions have already taken place in huge volumes prior to demonetization in the year 2016. Since normal Banking channels have various Compliances, KYC restrictions and stricter monitoring with respect to cash deposits; hence, the fraudsters use alternative channels of Angadia's and Cooperative societies to divert their funds.
- This Research Case Study would focus on the impact of cash deposits in credit cooperative societies and its mobilization through layering of funds in multiple chunks and through multiple account holders spread across various Banks, making it extremely difficult to trace. It also focuses on the Potential wrongful acts that are undertaken through loopholes in the systems.
- It is observed that there are various gaps in the system which makes these scams possible. These societies are misused over period of time by tapping various regulations for commercial purposes which has multiplying effect. For instance, the one-rupee fraudulent transaction may have multiplier effect of 3 to 5 times over years. The flow of money moves without being monitored seamlessly through various unethical channels and the outcome could be illegal or against the interest of the economy including potential terrorist funding or even grave purposes. This could disturb the overall economic scenario and may hamper the development of our Nation.
- It is important to understand the Nitty-gritty of the transactions and what are various modus operandi's and how one can unveil the mystery

through Data Analytics and Bank statement analysis followed by background searches.

- One may think that such scams have already occurred in the past and there would be less or limited relevance in the current economic scenario. However, it is important to understand that there are multiple cases pending with the Income Tax Department, Investigation Wings, Central Bureau of Investigation (CBI), Economic Offence Wings (EOW) and Enforcement Directorate (ED). ICAI can initiate through their members to follow appropriate approach to identify beneficiary apart from targeting merely the middle men's like societies, directors, companies, LLP's, Firms, Proprietorships, etc. who are unaware of the transactions held in their accounts or are merely used as conduits. This shall help to resolve the cases with right perspective thereby collection of taxes by the exchequer.
- In-fact, such Scams are still in continuance, however the modus operandi may be different. The solution that is proposed shall help to trace various kinds of movement of funds between various institutions through a connected network of databases.
- It is believed that Government Authorities with the help of ICAI can setup / establish a process whereby inbuilt software triggers can be set-up between multiple Banks / Financial Institutions, to catch hold of suspicious transactions at early stage and on real time basis through continuous monitoring and Big Data Analysis. Further, there are various guidelines / Compliances which are not in existence or are already prescribed, but not followed by the societies or the Financial Institutions including Nationalized & Private Banks.
- These assessment by way of "Case Study" has allowed us to put forward our experience and practical knowledge which will form basis for improving Governance and expedite Revenue Collection by targeting the "Ultimate Beneficiaries".

Section 3: Background of the Case

The emphasis of this case study is to provide overview as to how the Gems and Jewellery Segment set up their structures and operate in such a way that the cash is flown through Multi state credit cooperative societies and Angadia's in to the sophisticated channels and used for doing businesses.

The case study also focuses on how the funding is generated by using Banks and facilities provided by Banks for doing businesses Globally.

Angadia: **-** The word **Angadia means** courier in Hindi, but also designates those who act as hawaladars within India. These people mostly act as a parallel banking system for businessmen. They charge a commission of around 0.2–0.5% per transaction from transferring money from one city to another.

The **Angadia** system works on mutual trust and is an unofficial courier cum banking **service**. They are the conduit to transfer crores of rupees belonging to traders and rich people. Their area of operation is mainly between Mumbai and Gujarat.

Hawala is an informal method of transferring money without any physical money actually moving. Interpol's definition of **hawala** is "money transfer without money movement." Another definition is simply "trust." **Hawala** is used today as an alternative remittance channel that exists outside of traditional banking **systems**.

Hawala is an informal system for transferring money, especially across borders, in which local agents disperse or collect money or goods on behalf of friends, relatives, or other agents without legal protection or supervision, trusting that all remaining obligations will be settled through future transactions.

Is hawala Legal in India? It is definitely not **legal in India** as it has been declared as an **illegal** way of transferring money by The Foreign Exchange Management Act, 1999. Prior to that, it was made **illegal** under The Foreign Exchange Regulation Act (FERA) Act, 1973.

Is hawala legal in Dubai?

Hawala is an Arabic word which literally means transfer. **Legally** speaking, there is nothing **illegal** or wrong if a person prefers to use this method to transfer or send some money to his family, however, some of the **hawala** dealers diverted this system for **illegal** purposes, particularly Money Laundering.

Section 4: What is Money laundering, How it works & Where does money laundering occur?

What is Money Laundering?

- The goal of a large number of criminal acts is to generate a profit for the individual or group that carries out the act. Money laundering is the processing of these illegal / criminal proceeds to disguise their illegal origin. This process is of critical importance, as it enables the criminal to enjoy these profits without jeopardising their source.
- Illegal arms sales, smuggling, and the activities of organised crime, including for example drug trafficking and prostitution rings, can generate huge amounts of proceeds. Embezzlement, insider trading, bribery and computer fraud schemes, Crypto currencies, etc. can also produce large profits and create the incentive to “legitimise” the illegal gains through money laundering.
- When a criminal activity generates substantial profits, the individual or group involved must find a way to control the funds without attracting attention to the underlying activity or the persons involved. Criminals do this by disguising the sources, changing the form, or moving the funds to a place where they are less likely to attract attention.
- In response to mounting concern over money laundering, the Financial Action Task Force on money laundering (FATF) was established by the G-7 Summit in Paris in 1989 to develop a co-ordinated international response. One of the first tasks of the FATF was to develop Recommendations, 40 in all, which set out the measures National Governments should take to implement effective Anti-Money Laundering programmes.

How is money laundered?

Money Laundering Stage.	**Description.**
Placement Stage	In the initial - or **placement - stage** of money laundering, the launderer introduces his illegal profits into the financial system. This might be done by breaking up large amounts of cash into less conspicuous smaller sums that are then deposited directly into a Bank Account, or by purchasing a series of monetary instruments (cheques, money orders, etc.) that are then collected and deposited into accounts at another location.
Layering Stage	After the funds have entered the financial system, the second – or **layering – stage** takes place. In this phase, the launderer engages in a series of conversions or movements of the funds to distance them from their source. The funds might be channelled through the purchase and sales of investment instruments, or the launderer might simply wire the funds through a series of accounts at various banks across the globe. This use of widely scattered accounts for laundering is especially prevalent in those jurisdictions that do not co-operate in Anti-Money Laundering Investigations. In some instances, the launderer might disguise the transfers as payments for goods or services, thus giving them a legitimate appearance.
Integration Stage	Having successfully processed this illegal or criminal profits through the first two phases the launderer then moves them to the third stage – **integration stage** – in which the funds re-enter the legitimate economy. The launderer might choose to invest the funds into Gold. Real Estate, Cars, Luxury Assets, Crypto currencies or Business Ventures.

Where does money laundering occur?

- As money laundering is a consequence of almost all profit generating crime, it can occur practically anywhere in the world. Generally, money launderers tend to seek out countries or sectors in which there is a low risk of detection due to weak or ineffective anti-money laundering programmes. Because the objective of money laundering is to get the illegal funds back to the individual who generated them, launderers usually prefer to move funds through stable financial systems.
- Money laundering activity may also be concentrated geographically according to the stage the laundered funds have reached. At the placement stage, for example, the funds are usually processed relatively close to the under-lying activity; often, but not in every case, in the country where the funds originate.
- With the layering phase, the launderer might choose an offshore financial centre, a large regional business centre, or a world banking centre – any location that provides an adequate financial or business infrastructure. At this stage, the laundered funds may also only transit bank accounts at various locations where this can be done without leaving traces of their source or ultimate destination.
- Finally, at the integration phase, launderers might choose to invest laundered funds in still other locations if they were generated in unstable economies or locations offering limited investment opportunities.

Section 5: Objective of Research

The objective of research is to study and understand the methodology followed by the Fraudster while misusing the Society and its members in executing the transactions for unethical and Illegal / wrongful purposes thereby abusing / misusing the Structure of the Society.

And

Who should be Punished / Taxed / Penalized / Prosecuted?

Should the End Beneficiary be identified / traced and Punished?

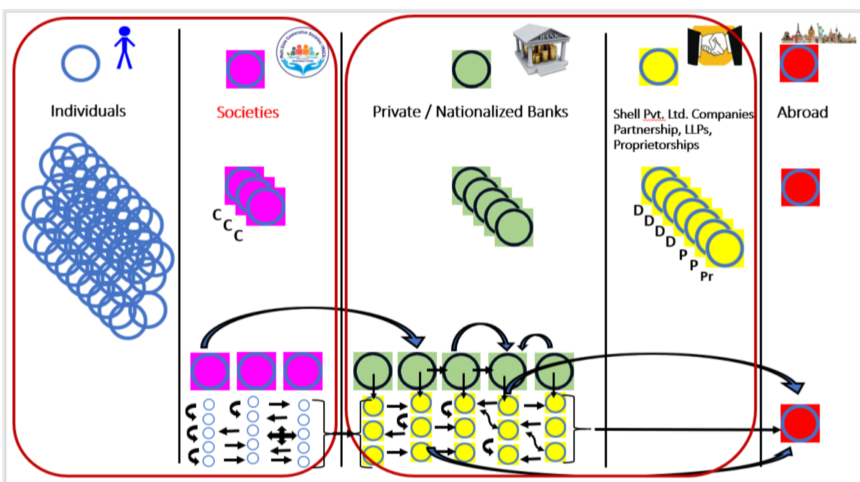
Or

Middle men's like societies, directors, companies, LLPs, Firms, Proprietorships, etc. who are unaware of the transactions held in their accounts or are merely used as conduits should be Punished?

How one can establish who is end beneficiary and what is the Modus Operandi? (Refer Research Methodology and other particulars).

Who should be punished?
Who should pay Tax ?
Who can REALLY PAY Tax??

Stage 1	Stage 2	Stage 3
Societies	Individuals / Members / Customers of Societies C	C = Chairman of the Society / Top Management / Managers / Employees
Private or Nationalized Banks	Top Management / Managers / Employees	
Private Limited Companies D	D = Directors of Private Limited Companies	
Partnership Firms / LLPs P	P = Partners of Partnership Firms or LLP's	
Proprietorships Pr	Pr = Proprietors	
Middle Men's / Commission Agent's	CA's / Angadia houses / Hawala Agencies	
Foreign Entity Abroad	Directors, Partners, etc.	
Ultimate Beneficiary	Politicians / Bureaucrats / Business men's / Film stars / Cricketers / HNI's / Builders / Jeweler's / Terrorist / Smuggling / Unlawful People / Bitcoiners	



Section 6: Statement of Problem for Research.

Identification of Ultimate Beneficiary of Money and Quantification of Funds involved: -

To identify the End Beneficiary and to quantify the impact of cash deposits in cooperative society and its mobilization through layering of funds in multiple chunks, through Angadia's and Banks within multiple account holders spread across various Locations, making it extremely difficult to trace the End Beneficiary.

This involves complex Techno-Financial capabilities so as to understand the Modus Operandi and ascertain the root cause of source as well as destination of funds and the parties involved. This is because the ultimate beneficiary is generally no-where in the fore-front.

Section 7: Research GAP

- The biggest gap is obtaining the right data sets (Example: Bank statements, RTGS Details, etc.) from various multiple sources which limits the output and underlying conclusion. Also, the time factor to obtain such information, sanitizing, processing, Analyzing and establishing sense out of the data / information to make it understandable to the users / various investigation agencies.
- The data sources are dispersed and no single Institution has access to such a Global level of consolidated data / information. Also, the formats are different and interpretations differ. To unveil the mystery, various skill set are required which includes accounting, Information Technology, Compliance, Analytics and High level of Professional Skepticism.
- Billions of Banking Transactions take place on Daily basis however, there is **"NO COMMON DATABASE"** which connects all of them. The centralized repository system is missing even with the Apex body like Reserve Bank of India (RBI). If this Historical database is maintained, processed, analyzed and reviewed on regular basis then many red flags can be uncovered which can act as a preventive measure to safeguard our economy against FRAUDULENT Transactions.
- There is one more gap whereby due to lack of TIME, Expertise and Political Pressures the Tax Authorities, tries to recover taxes from the middle men's just for the formality sake and merely to complete the assessment or task in hand. This approach would not lead to any benefit to the economy as there will not be any tax collection, since the middle men are used just as a conduit for routing the transactions and the real beneficiary is someone else. Further, assuming a scenario wherein the middle men are involved intentionally, then also the would not be able

to pay the 100% tax as practically they work for a nominal percentage which could range from 0.01% to 10% of the overall transaction value (Hypothetically)

- So, what every-one is doing is mere waste of time to finish their Jobs!

Section 8: Research Methodology.

A multi-facet approach is used to carry out research which includes Primary Research as well as Secondary research. Primary research is an approach wherein the researcher is actively involved in the data collection and goes to the source – usually the customers or target market. Secondary research is a research approach that involves relying on already existing data when carrying out a systematic investigation including open-source data gathering.

This exercise is done to carry out the fund trail, which includes FORENSIC Data Analysis, Compliance Review, Legal Interpretation, Background searches and in-depth analysis based on practical approach and ACTUAL work experience. Some bullets are cited hereunder: -

- References to Income Tax and CBI matters,
- Case Study and Real-life scenarios,
- Data analytics,
- Open-source back ground checks relating to common Directorship / Partnerships,
- Open-source articles / Online materials,
- Various Reports,
- Practical Experience,
- Interviewing various Personnel's,
- KYC snap shots,
- Site visits,
- Bank statement analysis,
- Other Sources.

Section 9: Dubai / UAE Gold Industry

- Most of the gold is traded in Dubai, home to the **UAE's** gold industry. The UAE reported gold imports from 46 African countries for 2016. Of those countries, 25 did not provide Comtrade with data on their gold exports to the UAE. But the UAE said it had imported a total of $7.4 billion worth of gold from them.
- **Dubai** has built itself as a major **gold** trading center by sourcing **its** raw materials from Africa and selling the finished products to buyers in the expanding economies of India and China. **Dubai** owns 29% of **gold** trade market in the world, with almost 1,200 tons of the metals traded in the city's **gold** souks.
- Although the introduction of the Value Added Tax (VAT) in 2018 does levy a percentage of tax on any items purchased, buying **gold** is still considerably **cheaper in Dubai** compared to other countries in the world. VAT in **Dubai** is currently the only form of tax applied on any **gold** purchase.
- Below case study focuses on scenarios wherein the Money moves from India to Dubai prior to VAT regime. This money was used to multiply by investing it into Gold business.
- Let's see few instances, which are summarized through brief descriptions followed by a pictorial flow chart for each of theme for better understanding.

Section 10: Case Study on Cash Moved out of India through Multistate Credit society and Import of Jewellery. Availing SEZ benefits, Treaty Benefits and creating Turnover for obtaining Bank Finance.

1. Hard cash is deposited in the Multi state cooperative credit society.
2. Then the money is transferred by way of RTGS on next day to third parties Bank account held with nationalized or private banks in India,
3. The money then circulates internally between various parties (Private companies, Partnership Firms, LLPs, etc.) in the accounts held with

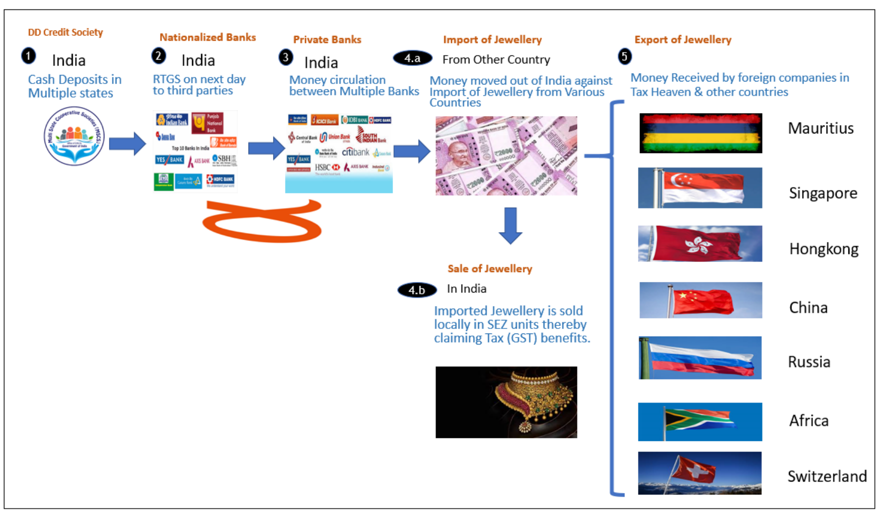
various Nationalized or Private Banks in India within different parts of the states,

4. There after the Jewellery is purchased in lots at different dates and different prices from various countries including Countries having Treaty Benefits.

    a) In this way the Black money is moved out of India (ex. through over invoicing and under invoicing approach).

    b) This Imported Jewellery is sold locally in SEZ units thereby claiming Tax benefits including Tax Holidays. The GST would not be payable in case the sale is within SEZ. (Also Reverse Charge Mechanism is not applicable on the payments made for legal fees abroad.)

5. Accordingly, the Money is received by foreign companies in Tax Heaven & other countries against the Jewellery exported from India and the payment is received in Bank accounts in Foreign Countries.



Section 11: Case Study on Recurring Dubai Gold Trading through Multistate Credit society and Diamond Trading (Polish and Rough) to create Turnover and obtain Bank Finance.

1. Hard cash is deposited in the Multi state cooperative credit society.

2. Then the money is transferred by way of RTGS on next day to third parties Bank account held with nationalized or private banks in India,

3. The money then circulates internally between various parties (Private companies, Partnership Firms, LLPs, etc.) in the accounts held with various Nationalized or Private Banks in India within different parts of the states between the different / same group companies having common directorship / common partners, etc.

4. There after the Rough Diamonds (Raw Material) are Imported in lots at different dates and different prices from various countries (ex. Belgium, Russia, Africa, etc.) and subsequently are converted to Polished diamonds by manufacturing the same in Factories in India (ex. Surat, Mumbai, etc.)

5. Thereafter the Polished Diamonds (Finished Goods) are exported from India to Dubai and the payment is received in Bank accounts in India,

6. Further these Polished Diamonds which are Imported from India, are Traded locally in Dubai within Shell / Dubba / Khokha Companies in Dubai to create Layering of funds and Turnover to obtain Bank Finance,

7. There after these Polished Diamonds are sold and encashed by selling the same in Dubai and money is credited in the linked Bank Accounts held by an entity in Dubai. Transaction is done either in Dirham or US Dollar currency,

8. There after these Sale proceeds on sale of Polished Diamonds are used to make Import payments to the mining companies for purchase of Dore Gold.

9. These Dore Gold consignments are received in Dubai and taken to refineries for sale.

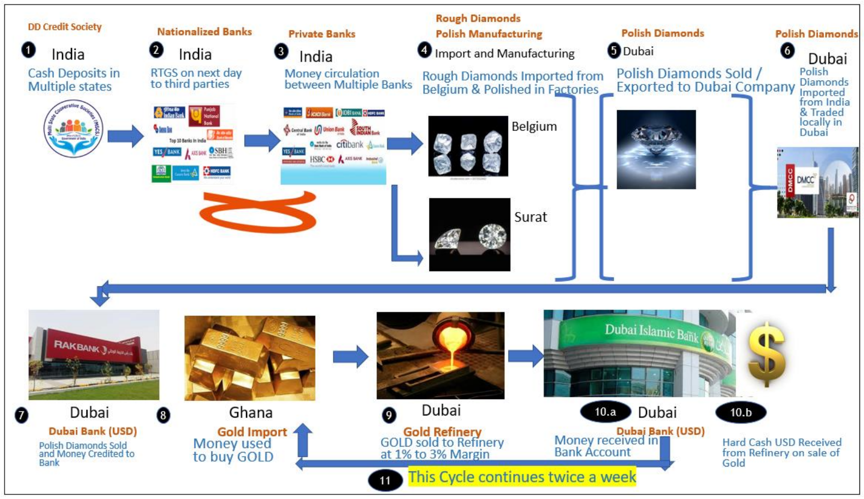
10. The refinery directly transfers the funds in foreign currency (Dirham or USD) to the:

    a) linked Bank account held with local Bank in Dubai.

    b) Alternatively, the refinery provides the Hard Cash foreign currency (Dirham or USD) in Dubai.

11. This Cycle of Import of Dore Gold from Ghana / Africa and sale to Refineries in Dubai continues twice a week to earn recurring income.

Imagine that average 1% Margin on every transaction works out to more than 100% yearly return and so on for years.



Section 12: Case Study on Recurring Dubai Gold Trading through Multistate Credit society and Diamond Trading (Polish and Rough).

1. Hard cash is deposited in the Multi state cooperative credit society.

2. Then the money is transferred by way of RTGS on next day to third parties Bank account held with nationalized or private banks in India,

3. The money then circulates internally between various parties (Private companies, Partnership Firms, LLPs, etc.) in the accounts held with various Nationalized or Private Banks in India within different parts of the states,

4. There after the Polished Diamonds are purchased in lots at different dates and different prices from various entities accounts in India from different parts of the states. These are traded multiple times locally and this cycle continues to build Turnover,

5. There after the Rough Diamonds are also imported from multiple (different) countries and the payment is made abroad through Bank accounts or through Letter of Credits,

6. Further the Rough Diamonds Consignments are sent to Subsidiaries /

Shell / Dubba / Khokha Companies in Dubai for sale locally to create Layering of funds and Turnover to obtain Bank Finance,

7. There after these Rough Diamonds are sold and encashed by selling the same in Dubai and money is credited in the linked Bank Account held by an entity in Dubai. Transaction is done either in Dirham or US Dollar currency,

8. There after these Sale proceeds on sale of Rough Diamonds are used to make import payments to the mining companies for purchase of Dore Gold.

9. These Dore Gold consignments are received in Dubai and taken to refineries for sale

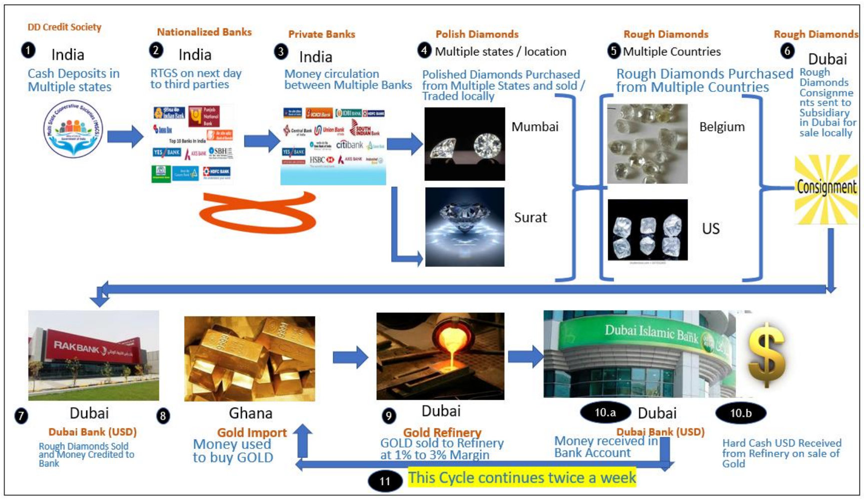
10. The refinery directly transfers the funds in foreign currency (Dirham or USD) to the:

a) linked Bank account held with local Bank in Dubai.

b) Alternatively, the refinery provides the Hard Cash foreign currency (Dirham or USD) in Dubai.

11. This Cycle of Import of Dore Gold from Ghana / Africa and sale to Refineries in Dubai continues twice a week to earn recurring income. Imagine that average 1% Margin on every transaction works out to more than 100% yearly return and so on for years.

Note: In step 6 The Dubai company will not pay to the Indian company which sends the goods on consignment. It will either remain open in Books or treated as Bad-debts or will be squared off as accounting adjustments.



Section 13: Case Study on Recurring Dubai Gold Trading through Multistate Credit society and Bitcoins (Potential Transaction).

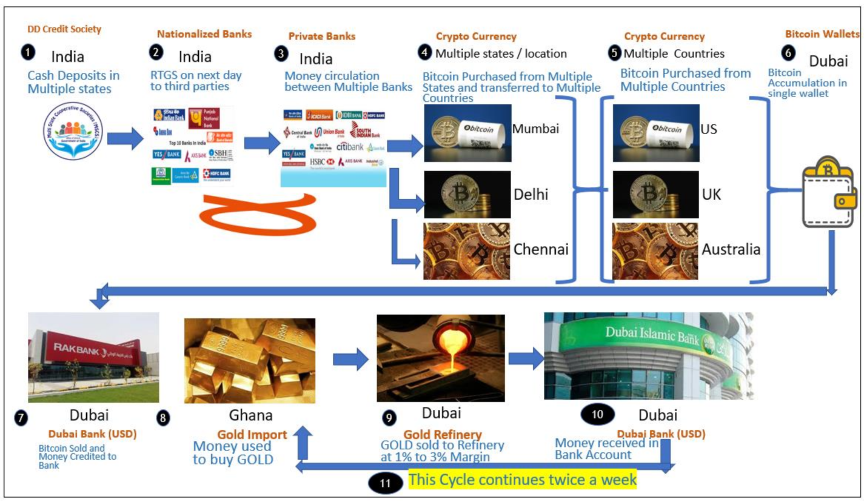
1. Hard cash is deposited in the Multi state cooperative credit society.
2. Then the money is transferred by way of RTGS on next day to third parties Bank account held with nationalized or private banks in India,
3. The money then circulates internally between various parties (Private companies, Partnership Firms, LLPs, etc.) in the accounts held with various Nationalized or Private Banks in India within different parts of the states,
4. There after the Bit coin is purchased in lots at different dates and different prices from various individual accounts and entities accounts in India from different parts of the states,
5. Thereafter the Bitcoins are transferred to various wallets in different countries where the Bitcoins inward is accepted,
6. Further all these bitcoins are accumulated to single wallet in Dubai from various other countries where the bitcoins were transferred in the earlier step,
7. There after these bitcoins are sold and encashed by selling the same in Dubai and money is credited in the linked Bank Account held by an entity in Dubai in Dirham or US Dollar currency,

8. There after these Sale proceeds (USD) on sale of Bitcoins are used to make import payments to the mining companies for purchase of Dore Gold.

9. These Dore Gold consignments are received in Dubai and taken to refineries for sale

10. The refinery directly transfers the funds in foreign currency (Dirham or USD) to the linked Bank account held with local Bank in Dubai,

11. This Cycle of Import of Dore Gold from Ghana / Africa and sale to Refineries in Dubai continues twice a week to earn recurring income. Imagine that average 1% Margin on every transaction works out to more than 100% yearly return and so on for years.



Section 14: Case Study on USD encashed in Dubai by Gold Trading through Multistate Credit society and Bitcoins (Potential Transaction).

1. Hard cash is deposited in the Multi state cooperative credit society.

2. Then the money is transferred by way of RTGS on next day to third parties Bank account held with nationalized or private banks in India,

3. The money then circulates internally between various parties (Private companies, Partnership Firms, LLPs, etc.) in the accounts held with

various Nationalized or Private Banks in India within different parts of the states,

4. There after the Bit coin is purchased in lots at different dates and different prices from various individual accounts and entities accounts in India from different parts of the states,

5. Thereafter the Bitcoins are transferred to various wallets in different countries where the Bitcoins inward is accepted,

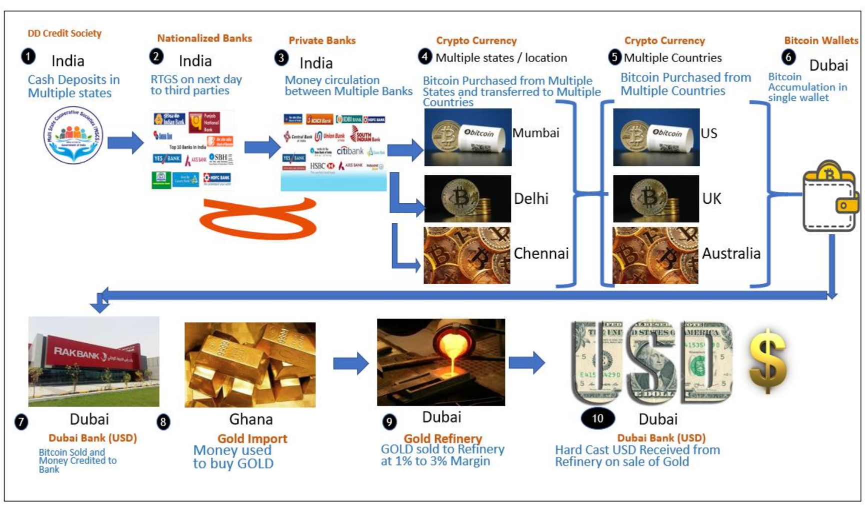
6. Further all these bitcoins are accumulated to single wallet in Dubai from various other countries where the bitcoins were transferred in the earlier step,

7. There after these bitcoins are sold and encashed by selling the same in Dubai and money is credited in the linked Bank Account held by an entity in Dubai in Dirham or US Dollar currency,

8. There after these Sale proceeds (USD) on sale of Bitcoins are used to make import payments to the mining companies for purchase of Dore Gold.

9. These Dore Gold consignments are received in Dubai and taken to refineries for sale

10. The refinery provides the Hard Cash foreign currency (Dirham or USD) in Dubai. This encashment is done in case of one time transaction wherein the money is required immediately in Hard Cash. (So Hard cash in Indian currency in step one is converted to USD in step 10).



Section 15: Case study on scams through LOU transactions by Gems & Jewellery company.

The points are presented in the form of sample Forensic Audit findings.

Background of the Case.

- Diamond King Group of entities is a Global Company carrying on the business of manufacturing and trading of precious stones and Jewellery
- Diamond King Group was regularly Importing Precious stones and Jewellery from various countries and making regular settlement of payments through LOU from Dead Bank.
- After few years Dead Bank noted select fraudulent Letter of Undertaking "LOU" transactions, which were unrecorded in the Core Banking System ("CBS") of the Bank
- Basis, internal investigation conducted by Dead Bank, a FIR was Filed with the Central Bureau of Investigation where 8 Fraudulent LOU transactions were reported. Subsequently, the total amount of fraudulent LOUs was increased substantially.
- Further, a second FIR was Filed by Dead Bank with respect to misutilization of credit limit sanctioned by Dead Bank, LostOut Branch.
- CBI Filed its first charge sheet against Diamond King group. Below are the key points in the charge sheet Filed.
    a) LOUs which were issued fraudulently by nexus of Diamond King and involvement of Bank officials
    b) The LOUs were issued against various exporter entities
    c) Amongst these entities, there were common directorship with some entities who were alleged related parties.
- Dead Bank appointed M/s Hunting Auditor's to carry out forensic audit, on behalf of the consortium lenders of WaterMoon Diamond International Private Limited and WaterMoon International Limited, for the below entities forming part of the Diamond King group:
    a) WaterMoon Diamond International Limited
    b) WaterMoon International Limited

c) Dollar Export

d) Rock Diamonds

e) Stone US

f) WaterMoon Diamond Limited, Hong Kong

g) WaterMoon Diamond FZE, Dubai

- ***(Hereinafter all these seven entities referred as "Diamond King Group Entities" or "Diamond King Group of entities" or "Diamond King Group")***

Following are summary of other factors / issues observed:

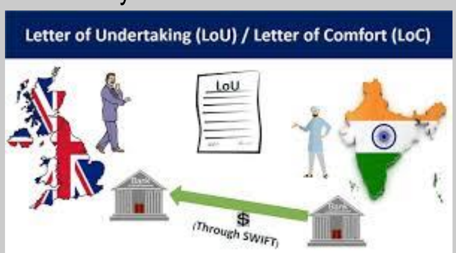
1. LOU Misutilization observed in fund trail
2. Bill of Entry Not Found in Customs Database
3. Duplicate Invoices observed in Customs database
4. Discounted Export Bills are Overdue
5. Negative Result of Site Visits Conducted (only 5 conducted)
6. Creditors in US Subsidiary
7. Same Power of Attorney
8. Cash mobilization through Multistate cooperative societies and Angadia route
9. Liability not booked in CBS
10. Common KMP with Diamond King Group (Current Employees)
11. Common KMP with Diamond King group (Ex-Employees)
12. Fraudulent LOU Filed in FIR
13. Bank statements recovered from Diamond King employee laptop
14. LOU Misutilization observed in fund trail
15. Inter Company Bank Transactions

Glossary of Terms to understand the Diamond King Case study (Case study on scams through LOU transactions by Gems and Jewellery company.

Terminology	Description
Nostro Account 	A **nostro** account refers to an account that a **bank** holds in a foreign currency in another **bank**. Nostros, a term derived from the Latin word for "ours," are frequently used to facilitate foreign exchange and trade transactions.
Bank Guarantee  	A **Bank Guarantee** is when a lending institution promises to cover a loss if a borrower defaults on a loan. The **guarantee** lets a company buy what it otherwise **could** not, helping business growth and promoting entrepreneurial activity. There are different kinds of **bank guarantees**, including direct and indirect **guarantees**. A **Bank Guarantee** is similar to a **Letter of credit** in that they both instil (establish) confidence **in the** transaction and participating parties. However the main **difference** is that Letters **of** Credit ensure that a transaction goes ahead, whereas a **Bank Guarantee** reduces any loss incurred if the transaction does not go to plan.
Letter of Credit  	A **letter of credit**, or "**credit letter**" is a **letter** from a bank guaranteeing that a buyer's payment to a seller will be received on time and for the correct amount. In the event that the buyer is unable to make a payment on the purchase, the bank will be required to cover the full or remaining amount of the purchase.

Buyer's credit 	Buyer's credit is a short-term loan facility extended to an importer by an **overseas lender** such as a bank or financial institution to finance the purchase of Capital Goods, services, and other big-ticket items. The importer, to whom the loan is issued, is the **buyer of goods**, while the exporter is the seller. Buyer's credit is a very useful financing method in International Trade as it gives importers access to **cheaper funds** compared to what may be available locally.

Terminology	Description
Letter of Undertaking	**Letter of undertaking** (LOU) is a form of Bank Guarantee under which a Bank (Dead Bank – India) can allow its customer to raise money from another Indian Bank's Foreign Branch (Grownup Bank – Antwerp - FBOLIB) in the form of a short term credit. The LOU serves the purpose of a Bank Guarantee for a Bank's customer (Diamond King) for making payment to its offshore suppliers (Exporter) in the foreign currency. For raising the LOU, the customer (Importer – Diamond King) is supposed to pay margin money to the Bank (Dead Bank) that issues the LOU and accordingly, the Customer is granted a credit limit. Once the LOU is acknowledged and accepted, the lender (Foreign Branch of Lending Indian Bank - FBOLIB) transfers money to the Nostro Account of the Bank that has issued the LOU (Dead Bank). In this case, Nostro account is the Dead Bank's account held in another Bank in a Foreign Country for the purpose of holding foreign currency. As a matter of fact, letter of undertaking is a letter of credit issued by one Bank (let's call it Dead Bank) that paves way for another Bank (let's call it Foreign Branch of Lending Indian Bank - FBOLIB) to give money to supplier of Dead

	Bank's customer. As mentioned earlier, the money is transferred by Foreign Bank (FBOLIB) to supplier of Dead Banks customer via a nostro account that Dead Bank holds in Foreign Bank (FBOLIB) in abroad. The credit is ideally meant for short-term only. In the Diamond King's case, the term of loan was allegedly extended far beyond what is prescribed as per the Rules. Even the Dead Bank and other lenders are slugging out over the loan term, which should not have been extended longer than 90 days. 

Parties Names, Roles and Description of the parties involved in the process of Letter of Undertaking.

Names of Parties	Parties Roles	Description
Dead Bank – India. 	Issuing Bank (Bank Providing Guarantee for the Customer or Importer).	Dead Bank – India allows its customer to raise money from another Indian Bank's Foreign Branch in the form of a short term credit. This is done to ensure that payment is made to the supplier in Antwerp for the goods imported.
Grownup Bank – Antwerp.	Lending Bank (Bank Providing Funds	Foreign Branch of Lending Indian Bank (FBOLIB). This Grownup Bank is actually and Indian Bank but it also has

	based on the Guarantee of the Issuing Bank).	its Branch in Antwerp Country. Hence the funds are provided in Antwerp directly and not in India. Funds are transferred in Foreign Currency (Say EURO) the Nostro Account of Dead Bank held in Antwerp with Grownup Bank – Antwerp.
Diamond King – India 	Importer who imports the goods (Diamond) from the supplier in Antwerp.	The money is transferred by Foreign Bank (FBOLIB) to supplier of Dead Banks customer via a nostro account that Dead Bank holds in Foreign Bank (FBOLIB) in Antwerp.
Water Moon International 	Exporter of foreign country supplying the goods to Importer in India.	Offshore suppliers (Exporter) who is eligible to receive payment for sale (Export) of Goods to the Indian Importer. These supplier receives the funds on Day one however, the Importer makes the payment (with Interest) on Day 90 to the Dead Bank who provides Guarantee.
Master Mind 	Responsible Person in Dead Bank to assist in Fraudulent activity.	Authorized person in Dead Bank who manages the SWIFT system, Core Banking System, NOSTR, NOSTRO Reconciliation, Accounting and Transactions of Diamond King.

OBSERVATION of LOU

1. Modus Operandi of Fraudulent LOU Transaction and Flow of Transaction.

Sr. No.	Steps	Normal Process	Flaw / Breach in Process
Step 1	**Bill Lodgment, Margin Money and Credit Limits and terms of LOU**	Import Bill is lodged in CBS. Margin Money taken from Customer to allocate the Credit Limits. Terms to be maximum 90 days.	Some Bills were not lodged in CBS. No Margin Money taken from Customer but Credit Limit Granted. Terms extended beyond 90 days. (ex. 360 days).
Step 2	**LOU Application**	Buyers Credit is extended to the Importer through SWIFT MT 799 to overseas Bank by Dead Bank.	Transaction Reference no. of CBS not entered in SWIFT.
Step 3	**Nostro Receipt**	Buyers Credit is extended to the Importer through SWIFT MT 799 to overseas Bank by Dead Bank.	All Logins Managed by Master Mind.
Step 4	**Bank Guarantee No**	Bank Guarantee (BG) Number is generated in CBS for LOU issued.	BG was not lodged in CBS.
Step 5	**Payment to Exporter**	Payment is made to Exporter by SWIFT MT 103.	Payment made to different exporter / foreign Bank for LOU repayment.
Step 6	**Nostro Reconciliation**	Application System reconciles LOU funds received in Nostro	Lack of Appropriate Reconciliation.

		account against payment to exporter.	
Step 7	**Repayment to Overseas Bank**	LOU repayment is done to Overseas Bank on due date by SWIFT MT 202 by receipt of funds from borrower.	Rollovers of LOU's.
Step 8	**Nostro Reconciliation**	IDPMS System reconciles funds received by borrower in Nostro account and payment made to overseas Bank.	Lack of Appropriate Reconciliation.

SWIFT

Society for Worldwide Interbank Financial Telecommunications (SWIFT) is a member-owned cooperative that provides safe and secure financial transactions for its members.

SWIFT is a messaging network that financial institutions use to securely transmit information and instructions through a standardized system of codes.

As powerful as SWIFT is, keep in mind that it is only a messaging system. SWIFT does not hold any funds or securities, nor does it manage client accounts. (In simple terms it is a text-based messaging system like WhatsApp / SMS used for communication only. It does not transfer funds by itself.)

SWIFT assigns each financial organization a unique code that has either eight characters or 11 characters. The code is interchangeably called the bank identifier code (BIC), SWIFT code, SWIFT ID, or ISO 9362 code.[2] To understand how the code is assigned, let's look at Italian bank UniCredit Banca, headquartered in Milan. It has the 8-character SWIFT code UNCRITMM.

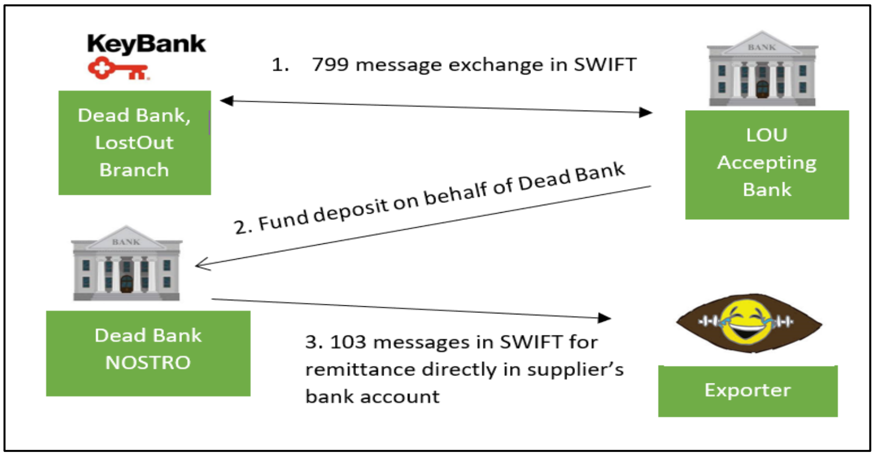
- ✓ First four characters: the institute code (UNCR for UniCredit Banca)
- ✓ Next two characters: the country code (IT for the country Italy)
- ✓ Next two characters: the location/city code (MM for Milan)
- ✓ Last three characters: optional, but organizations use it to assign codes to individual branches.

2. Modus Operandi of Fraudulent LOU Transaction | Process Overview.

As per the Dead Bank Treasury Team at LostOut Branch Office, Delhi it was informed that LOU's were issued for making foreign remittances from the Bank to entities based in foreign jurisdiction / Export units in India. It was noted that following Databases were required in a foreign remittance:

- **SWIFT database**: Dead Bank communicated with other Banks using SWIFT database to exchange information, place and receive requests for foreign remittances etc. Some of the key codes used in SWIFT for remittances are:
  - **799:** MT 799 swift is the message format used for correspondence sent in relation to Bank Guarantees, LOUs
  - **202:** MT 202 is a SWIFT payment message type/format used for transfers specifically to entities only to Banks in cross border/international location
  - **103:** MT103 is a SWIFT payment message type/format used for transfers directly to entities other than Banks in cross border/international location.
- **NOSTRO Account:** Dead Bank holds 32 NOSTRO Accounts with different foreign Banks. Once the SWIFT message of credit request, for e.g., a request from Dead Bank to issue LOU is acknowledged by foreign Banks, fund remittance is made in NOSTRO Account of Dead Bank through MT 202 in SWIFT. These funds are then utilized for payments to supplier's Banks through MT 103. A simplistic graphical illustration of a foreign remittance made using SWIFT database in Dead Bank framework is given in ensuing para.

Basic Process Flow of LOU



3. Fund Trail of LOUs Availed.

Steps	Description
1	The total fund borrowed from the foreign Banks using LOUs for each of the year through MT 799(I) messages.
2	The utilization of the funds - (payments to exporters) availed from the LOUs in "step 1" through MT 103(I) messages.
3	The Misutilization of the funds for closure of previous liabilities of payments to LOU acknowledging Bank availed from the New LOUs in "step 1" through MT 202(I) messages.
4	Closure of the LOUs availed on the due date by paying the liability off through Bank account
5	Closure of the LOUs availed on the due date by paying the liability off through a new LOU – depicting misutilization of new fund availed to close previous liabilities "as reflected in step 2"

▶ The following slides represent the flow of funds of the LOUs availed by the Diamond King Group of companies. LOUs availed have been utilized through either of the two channels -

- MT 103 (I) messages for direct payment to Exporters Bank account number

- MT 202 (I) messages where funds have been mis-utilized and paid to Banks for settlement of previous LOUs

► Further, the closure of the availed LOUs on the due dates have been through the following channels –

- Payments from Diamond King group company Bank accounts
- Funds availed through newly issued LOUs

► The following table represents the key for the LOU fund flow which has been broken down into the following 5 steps

4. Potential Evergreening of LOUs Availed

- Upon analyzing the fund trail of the LOUs obtained by the Diamond King group of companies from Dead Bank, it was observed that there were instances where new LOUs were issued to close previous LOUs obtained from the same lending Bank.
- These LOUs have been traced to their corresponding closures by mapping the relevant MT 799 (I) to the corresponding MT 799 (O) which was further mapped to the corresponding MT 202 through the transaction reference and related reference respectively

5. LOUS Requested and Paid Out Within Same Day

► Upon analyzing the fund trail of the LOUs obtained by the Diamond King group of companies from Dead Bank, it was observed that there were instances where the inflow and outflow of funds obtained through LOUs occurred within the same day. This consists of the following steps which occurred on the same day–

- MT 799 (I) message for request of LOU
- MT 799 (O) message from lending Bank in acceptance of the LOU request
- Funds flow into the Nostro account of Dead Bank
- MT 103 (I)/ MT 202 (I) messages sent by Dead Bank requesting payment to exporter/Bank

6. Same invoice No. against Multiple LOUs Availed

- Basis review of MT 799 (I) messages, it was observed that there were instances where the same invoice numbers from the same exporter were used to avail multiple LOUs from lending Banks.
- Following instances were noted: -
  - The LOUs availed were all from one lending institution i.e., GrownUp Bank – Antwerp
  - The creator of the MT 799 (I) message for all LOUs availed was the same
  - The authorizer of the MT 799 (I) message for all LOUs availed was the same i.e., Mr. MasterMind
  - Also, the same person Mr. Mastermind was having access to all the types of Swift categories; i.e., MT 799, MT 103, MT 202, etc.
  - The Maker and Authorizer access was allowed only through different login id's however, same person used to operate both the login ids; i.e. Mr. Mastermind.

7. Same Invoice No. Against Multiple Payouts

- Basis review of MT 799 (I) messages, it was observed that there were instances where the same invoice numbers from the same exporter were used to avail multiple LOUs from lending Banks.
- Following instances were noted: -
  - The LOUs availed were all from one lending institution i.e., GrownUp Bank – Antwerp
  - The creator of the MT 799 (I) message for all LOUs availed was the same
  - The authorizer of the MT 799 (I) message for all LOUs availed was the same i.e., Mr. MasterMind

OBSERVATIONS through FORENSIC AUDIT

1. Overall Fund Trail of Bank Account Statements
2. Misutilization of Export Credit Fund Disbursed by Banks

3. Misutilization of Packing Credit funds by Paying to Related Party which is in other line of Business
4. Potential Routing of Funds through Indian Conflicting Entity having minimal Business Operations
5. Diversion of Funds through Out of Consortium Accounts
6. Potential Circular Transactions Between Exporter Entities
7. Summary of Buyers Credit Transactions as per Tally Records
8. Summary of LOU Utilization as per Tally Records
9. High Receivables in Books of Accounts
10. Low profitability of partnership entities
11. Low operating expenditure indicating no / limited manufacturing of Jewellery
12. Inflation of Employee Cost and Potential Fake Employee Cost Booking
13. Books of accounts Review of Porche Gems Company Limited.

1. Overall Fund Trail of Bank Account Statements

On review of various Bank accounts and upon consolidation below categories were noted with respect to Source of Funds and Utilization of Funds: -

Utilization of Funds	Source of Funds
• Inter and Intra Transactions Amongst Same Entity • Controlled Relationship with Diamond King Group • Beneficiaries Details not Available • LOU Payment • Related Party (Individual and Entities) • Promoter Contribution and Loan From promoters • Other Parties • Fixed Deposits	• Inter and Intra Transactions Amongst Same Entity • PC and PSC Amount Received • Controlled Relationship with Diamond King Group • Beneficiaries Details not Available • Related Party (Individual and) • Promoter Contribution and Loan From promoters • Other Parties • Fixed Deposits • Interest and Bank Charges

• Interest and Bank Charges • Other	• Other

2. Misutilization of Export Credit Fund Disbursed by Banks

- On basis of review of financial statements of WMIPL and WMDIPL, it was noted that there were no business transactions of purchase - sale between the partnership entities and WMIPL and WMDIPL for the past years. During these financial years, it was noted that advances were provided by the companies to the partnership firms and most of the advances were repaid during the year.
- As per RBI circular, packing credit facility is provided to exporter for financing the purchase, processing, manufacturing or packing of goods prior to shipment / working capital expenses towards rendering of services.
- On further review of source of the funds for the said advances, it was noted that Bank facility (packing credit and post shipment credit facility) have been utilized for payment of these advances.
- Furthermore, on analysis of utilization of the Packing Credit and Post Shipment Credit advances, it was noted that these were utilized for payment of fraudulent Letter of Undertakings as well.
- These were the type of undertakings for which liability was not accounted in the books of accounts of the Bank by not flowing them through the Core Banking System maintained by the Bank (CBS).
- It was identified that 41 fraudulent LOUs of certain values wherein 30% of amount has been financed through credit facilities by the Banks.
- Furthermore, it was noted that certain value was financed through advances by the companies.

3. Misutilization of Packing Credit funds by Paying to Related Party which is in other line of Business

- On review of financial statement of MBEPL for the year, it was observed through digital forensic, that WMIL has acquired the entire shareholding of MBEPL and MBEPL became the wholly owned subsidiary of WMIL.

- On review of financial statement of WMIL for the period, it was observed through digital forensic, that WMIL has also invested in 0.01% compulsory convertible debentures of MBEPL, principal business activity of whose was to carry out real estate business.
- On analysis of provided Bank account statements of Diamond King group of entities for Review Period, it was identified that certain sum was paid to Make Big Enterprise Private Limited ("MBEPL").
- While identifying the source of funds through Bank account statements of WMIL, it was observed that a sum was sourced from the packing credit, disbursed in the WMIL Radhe Bank account # xxxx, to be used for to transfer to MBEPL.

4. Potential Routing of Funds through Indian Conflicting Entity having minimal Business Operations.

► On analysis of provided Bank Account statements of Diamond King group of entities for review period, it was identified that certain amount was paid to Merchandising Private Limited and were received from Diamond KingPL.

► **Controlled Relationship with Diamond King Group:**

- Basis public domain search it was identified that Mr. Ram is a manager in WaterMoon Group Companies.
- Ram is a director in Diamond KingPL. During the same period, he was an authorized signatory in WaterMoon Diamond International Private Limited and WaterMoon International Limited.
- Also, Prabhakar is an employee in the above entities basis WMILs extracted via digital forensics and disk review.
- In the due course of review period, neither the WaterMoon Group entities had disclosed Diamond KingPL as related party nor Diamond KingPL had disclosed WaterMoon entities in their financials.
- Basis KYC documents obtained from Banks; it was observed that Ram was a signatory for the WaterMoon Group Companies.

- Basis MCA's Director Master Data, it was observed that both, Ram and Prabhakar also held directorship at many related parties of WaterMoon Group Companies.

► **Disproportionate size of financials as compared to total receipts and payments:**

- On review of Financial Statements as available from MCA website, it was observed that the Balance Sheet size was not in line with the receipts and payments.

► **Further, on detailed review and comparison of net payouts to Diamond KingPL by Diamond King group of entities with the Financial Statements of Diamond KingPL, it was observed that:**

- Certain amount was paid to Diamond KingPL whereas some value was received from Diamond KingPL.
- However, as per the Balance Sheet, maximum total possible receipts for Diamond KingPL could be lesser value.

5. Diversion of Funds through Out of Consortium Accounts.

- On review of the provided Bank Statements, RTGS/NEFT dumps, basis the UTR numbers and IFSC Code, transactions were identified where funds were transferred to and from out of consortium accounts.
- One could only identify cases where funds have been transferred from WMIL/WMDIPL to WMIL/WMDIPL. Other receipts and payments out of consortium accounts have not been identified due to non-availability of out of consortium accounts.
- On review of Sanction letters, it was noted that the letters mentioned conditions stated by the Banks that the borrower should deal exclusively with the consortium members only.
- Further, as per Master Circular issued by RBI on Wilful Defaulters, the term 'diversion of funds' should be construed to include routing of funds through any Bank other than the lender Bank or members of consortium without prior permission of the lender.
- Transactions with State system of India, Stratum Bank and Candid Bank were identified during the period but were not considered since they were erstwhile consortium members.

6. Potential Circular Transactions Between Exporter Entities

- Bank account statement of Foreign Importer / Exporter entities were obtained for the limited period through disk review and during the review of these Banks accounts, it was identified potential routing of fund transactions.
- The funds received from post shipment facility is transferred to a conflicted party on the day of disbursement. On due date, the bill is repaid by taking a new bill discounting facility from same Bank or other Bank and routed through the same conflicting party.
- Basis the observation noted above, conducted the analytics on the Bank statements held in Dead Bank in Dubai to identify further instances of the similar scenario.
    - ▶ Post shipment (Original bill discounted) finance availed from the Bank is utilized for payment to a conflicting party within 2 days of the facility availed
    - ▶ On or before 5 days of due date of repayment of the facility originally provided:
        - ▪ A new post shipment finance is availed (through bill discounting)
        - ▪ Same conflicting entity is paid (for 90% to 110% of the original bill discounted and due) through the funds received from the facility
    - ▶ This scenario indicates a potential ever greening of the bill discounting facilities. Out of total bills discounted, it was observed the above scenario for bills discounted were of substantial value.
    - ▶ Further, analytics was conducted on the Bank statements held in Dead Bank in Dubai to identify further instances where:
        - ▪ Post shipment (Original bill discounted) finance availed from the Bank is utilized for payment to a conflicting party within 2 days of the facility availed
        - ▪ On or before 5 days of due date of repayment of the facility originally provided the same conflicting entity is paid (for

90% to 110% of the original bill discounted and due) through the funds available in the Bank account

- This scenario indicates a circular routing of funds received from bill discounting facilities. Out of total bills discounted, it was observed the above scenario for bills discounted amounted to substantial value.

7. Summary of Buyers Credit Transactions as per Tally Record

- The books of accounts of the 3 partnership entities were reviewed viz., Stone US, Dollar Exports and Rock Diamond as maintained in Tally Software.
- The summary of total Buyer's Credit transactions taken place during the period extracted from "Dead Bank – Buyer's Credit" ledger as maintained in Tally records were also reviewed.
- Out of the total of opening balance and New LOU taken certain portion was repaid through current accounts maintained by the partnership entities. However, certain value of buyer's credit funds has been repaid through funds received from new LOUs

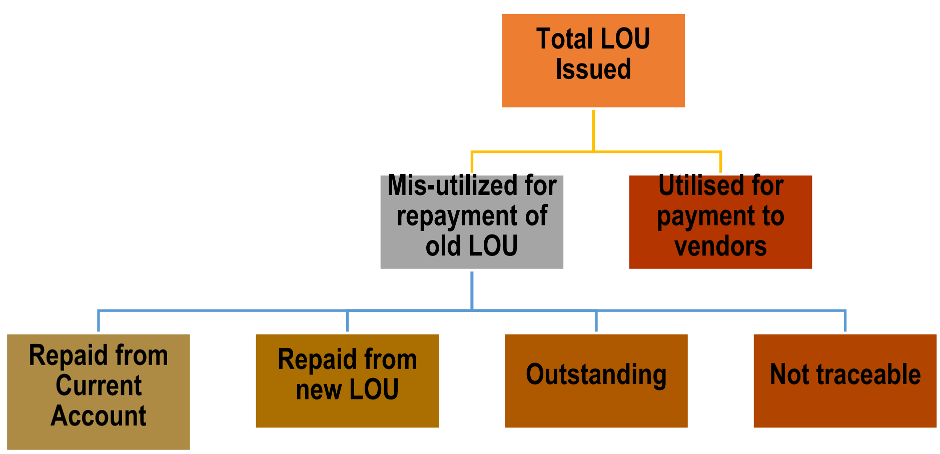
8. LOU Utilization as per Tally Records were reviewed

- Basis review of the "Dead Bank – Buyers Credit" ledger for the period, conducted analysis to determine:
  a) First level fund utilization of the LOU transactions (whether utilized for payment to vendors or for repayment of old LOUs)
  b) In cases where the LOU proceeds have been mis-utilized for repayment of old LOUs, identify status of payment of the import invoices as mentioned in the LOUs

Particulars	Worksteps conducted
Step 1 – Identify LOU Issued	• Reviewed Buyer's Credit ledger to determine total amount of LOU's issued (credit entries in ledger) • Mapped the total amount of LOU's issued as per

	tally records with the 799 (I) Dump (No differences were observed)
Step 2- LOU Mutualized	• Noted entries with both debit and credit effect in the same ledger, i.e., Buyer's Credit ledger, thereby depicting repayment of old LOU by availing new LOU
Step 3- Status of payment of the invoices used for availing LOUs mutualized	• Identified the Invoices utilized to avail such LOU's basis "Ref Number" as recorded in the tally records • Mapped the purchase entries corresponding to the invoices utilized for the LOU transactions • Mapped the purchase invoice as recorded with the IDPMS database (Import database as maintained by Customs department) to identify whether there are any mismatches • Checked actual payout of the invoices in the party ledger to identify status of the repayment for the purchase

- It was reviewed the Tally records for the partnership entities including the Buyers credit ledger, purchase register and corresponding purchase entity ledgers to conduct a fund trail on utilization of the LOU funds and subsequent repayment.



- Out of the total LOUs which have been mutualized, below is the bifurcation of the status of the payout of the invoices as recorded for these LOUs:
  1) Invoices amounting to certain value have been repaid from Current Account post a period of 2-3 months from the date of LOU issuance. This indicates that the proceeds of the LOU have been prima facie being utilized for repayment of old LOU. However, the payout of the invoices have been made from the funds received from multiple sources (other than LOU) in the Bank book
  2) Invoices amounting to certain value have been repaid from new LOUs. The invoice numbers of these new LOUs were observed to be different as compared to the actual paid invoices. Further, the invoices utilized for the new LOUs were observed to be unpaid. This indicates a misutilization of LOU funds for entity invoices also.
  3) Invoices amounting to certain values were observed to be unpaid in books of accounts
  4) The total of invoices repaid exceeds the total of amount misutilized as some part of the LOU availed against these invoices have been utilized for payment to vendors
- During the review, instances were found where fund received via original LOU has been misutilized for settling previous LOU via 202 swift messages. Further, payments to exporter entities against the invoice numbers as mentioned in the original LOU were made post 20 days of LOU creation, via 103 SWIFT messages. However, it was observed that the source of funds for the said 103 SWIFT messages was via funds received through a new LOU, which consisted of different invoice numbers or no invoice numbers mentioned in the new 799 SWIFT message.

9. High Receivables in Books of Accounts.

- The Tally records for the partnership entities including the entity wise ledgers were reviewed to identify the status of the receivables / payables in the books of accounts.
  - Basis review of exporter / importer ledgers in Tally of partnership

entities it was observed that the vendor pay-outs were pending to be paid, however receipts against sales are outstanding.

- Further, it was observed that the payments made to vendors were higher value however amounts received from exporters were of lesser values.

10. Low Profitability of Partnership Entities

- The Profit & Loss account as per Tally records for the partnership entities were reviewed to understand the profitability position of the entities.
  - It was noted that the net profit earned is merely 0.20% to 0.25% of Sales, further raising concern on the genuineness of the business operations of the entities.

11. Low operating expenditure indicating no / limited manufacturing of Jewellery.

- Basis review of Profit and Loss A/c in Tally records of Stone US and Rock Diamond for the period, it was noted that the total manufacturing expenses incurred during the period is only 0.03% to 0.04% of Purchases. Which is substantially low raising concern.

12. Inflation of Employee Cost and Potential Fake Employee Cost Booking

A) Inflation of employee cost (basis mismatch in attendance details and Tally records):

- Basis review of Tally records as received and comparison of attendance records as identified through digital forensics below mismatches were identified:
  - During the period, number of employees receiving salary is almost twice the number of employees as per attendance register
  - There has been no unusual increase in production during the aforesaid period
  - The basic salary of unmapped additional employees is almost twice the basic salary to other employees
  - This indicates potential inflation of salary expenditure.

B) Potential fake employee cost booking (basis review of attendance records)

- Basis review of attendance records of the 3 partnership entities it was observed an anomaly that the punch in time is 8:15 and punch out time is 16:45, 18:45 or 20:45 for 80% or more of the total days attended in case of many employees:
  - Employees having same punch in time and punch out time as per the attendance records indicates potential fake employee records maintained to show manufacturing operations.

13. Books of accounts review of Porche Gems Company Limited

- Obtained the books of accounts for Porche Gems basis digital forensic review conducted for the period. Conducted a limited review of the transactions for the period. Basis the limited review, below was observed.

A) Mismatch in material sold / purchased by partnership firms vis a vis Porche gems

- On comparing the books of accounts of Porche Gems and 3 partnership entities. Noted the below mismatch:
  a) Sales as recorded by partnership entities to Porche Gems were for material “Necklace 92.5” and “Bracelet 92.5”
  b) However, in books of accounts of **Porche Gems**, the corresponding purchases were shown as purchase of “Pearls” indicating mismatch in the material sold by the partnership entities and purchased by **Porche Gems**.
- Further, basis discussion held with trade references, it was informed that the Porche Gems used to separate the pearls in the necklaces shipped by the partnership entities and send the same pearls again as raw material for making of fresh necklaces.
- On Review of purchases and sales of pearls **(constituting 80% total purchases and sales).** All the Purchase and Sale of Pearls were made through entities from which LOUs have been taken from Dead Bank by partnership entities or WaterMoon Group entities and More than 80% of Pearls are purchased / sold are from 7 Parties out of 23 entities.

B) Round Tripping of same quantity of material received from partnership firms

- It was noted instances where the same quantity of material received from the partnership firms was received back as purchases by the same / other partnership entity forming part of Diamond King group.
- As per books of the partnership entities finished goods as manufactured by partnership entities sold to Porche Gems for the above transactions is Jewellery. The Jewellery as received from the partnership entities by Porche Gems (recorded as purchase of pearls in books of Porche Gems), was sold back to partnership entities, indicates the below 2 possibilities.
    a) No Jewellery was actually received by Porche Gems and the same consignment of pearls as received was re-exported by Porche Gems to partnership entities
    b) Porche Gems used to separate the pearls in the necklaces shipped by the partnership entities and send the same pearls again as raw material for making of fresh necklaces
- These transactions raise a red flag on the genuineness of the sale / purchases made between these entities.

Accordingly, it can be comprehended that Diamond King along with Mr. Mastermind and various skilled personnel's, have structured the scam strategically to execute the same in sophisticated manner.

Section 16: Case Study on how the Diamond companies' structure and present their projected financials to obtain the finance from Banks to conduct their Business.

- The Diamond companies' tie-up with various known parties across the Globe to display their Notional Image. They tie-up with the companies requesting them to use their Brand Names as Subsidiaries / Group Companies / Associates to display their presence Globally.
- This approach is used to impress upon the Banks and Financial Institutions to obtain Finance.

- Further, similar technique is used to obtain the long-term contracts from the Mining Companies as well.
- Below is the depiction of "Presentation" made to the Indian as well as Foreign Banks to obtain Finance.

TRAGIC DIAMONDS GROUP.
For Diamond Lending Bank,
Diamond Finance.
20th November, 2016.

Description of the company

History of establishing and developing the business, current situation at the company, major lines of business.

- Tragic Diamonds was founded in 1988.
- In 2004, Tragic Diamonds became Belgium's largest exporter by volume, having exported 12M cts.
- The Group is headquartered in Antwerp with associated companies in Dubai and India.
- Deep rough diamond expertise and has developed in-depth skills across a broad range of near-gem rough.
- Areas of specialization include black stone, rejections, browns, MBCL, and smaller sizes (3gr and down) – its focus on near-gem rough creates competitive advantages in expertise, infrastructure and distribution networks, delivering exceptional value.
- It manufactures the majority of its rough at in-house and other facilities. The remainder is rough traded, primarily to Indian manufacturers.
- Some of its polished is set in branded Jewellery collections which are distributed around the world.

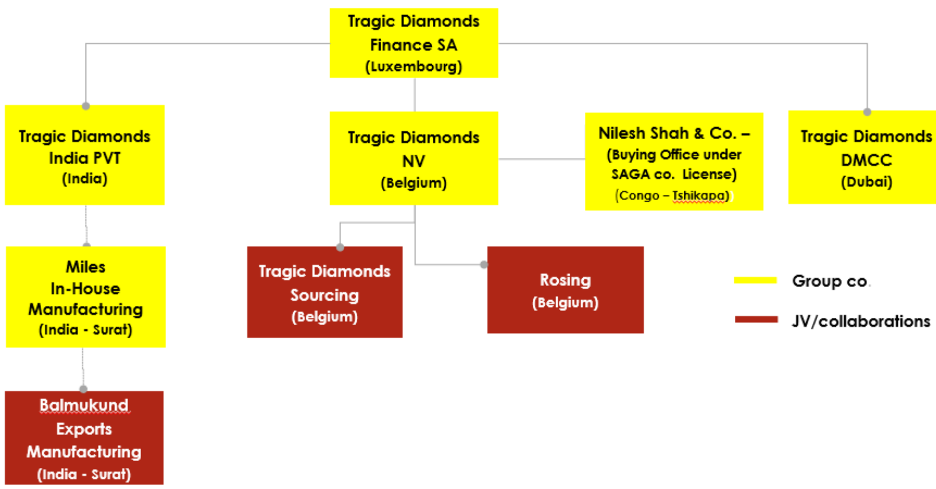
Tragic Diamonds adheres to working practices outlined by the Responsible Jewellery council

- Member of the Responsible Jewellery Council.
- Certified as complying with all standards relating to, among others, AML, working practices, KPCS, WDC and disclosure.

- Charitable contributions to communities in India and Antwerp diamond museum.
- Aamir Shah awarded Order of Leopold for his contribution to Belgian trade.

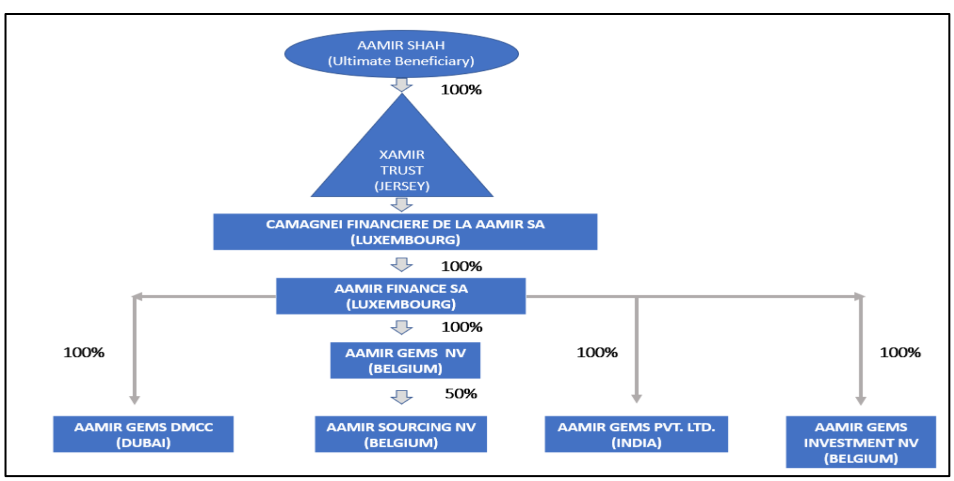
Tragic Diamonds was established almost 30 years ago.

Decades of working in the diamond industry, and proven resilience to cyclical and structural change.



Description and Structure of the company.

Capital structure.



Core business principles.

The company's strategy/mission (fundamental goals of the company).

Rough trading is the core of its business.

- ❖ Established infrastructure, systems and expertise to purchase rough diamonds from producers which includes Russia, Africa, Brazil and certain percentage from the secondary market.
- ❖ Receive allocations of gem and near gem rough under a contract with Lixam Mining.
- ❖ Rough diamonds allocated on a monthly basis from Lixam Mining, its contract with Lixam Mining gives it preferential access to Lixam Mining rough diamonds.
- ❖ We also regularly buy Gen and Near-Gem Rough from our buying office in Tshikapa.
- ❖ Able to take delivery of rough diamonds in Belgium, Dubai and India.
- ❖ Well networked with other primary rough diamond purchasers and can secure rough of any quality from any source from the secondary market. Track record of securing good prices on the secondary market.
- ❖ Networked with rough diamond customers, including those able to purchase on cash terms.

Goals, operational objectives, future plans of the company.

- ❖ **More than 80%** of the production is controlled by the handful players of the Rough Diamond Industry, due to which we have confidence that there is a strong potential in the future in Rough Diamonds Industry.
- ❖ Tragic Diamond's Goal is to increase the capacity of buying Rough Diamonds worth 10 to 12 Million Dollar per month from different sources,
- ❖ We have a strong network to increase our customer base to all over the world.
- ❖ Tragic Diamonds is a well-established rough diamond trader, with access to primary rough and networks to both secure and sell rough diamonds on the secondary market through our strong customer base.
- ❖ In 2017, we are planning to Launch and do strong marketing to Promote the brand Diamond Rose Jewellery all over the world.

- ❖ We also intend to get access from Lixam Mining, large special Rough Diamond stones (+10 Cts and above) and Manufacture in Russia.

Ways of achieving the goal.

- ❖ With proper and regular channel of Bank Financing, Tragic Diamonds is confident to strengthen the relations with Lixam Mining with greater commitment of higher volumes and also associate with other Supplier Channels.
- ❖ Company is establishing its presence and network in other parts of the world including Dubai, India and Belgium.
- ❖ All over the world we are hiring the professional peoples in different fields and also associate with the consulting firms and Marketing Companies to market our products.
- ❖ We are improving our IT software for better accountability.

Management

- ❖ Organisational and management structure of the company AND Distribution of duties.
- ❖ Established monitoring systems (accounting, debit, production, personnel).
    - Company is RJC Certified and All the Processes are within the Industry Standards,
    - Regular Risk Assessments Exercises are carried on to mitigate the Risk.
    - Necessary Physical, Logical & Environmental Controls are placed so as to maintain Confidentiality, Integrity and Availability of Information.
    - Independent Audits are done at Regular Intervals.

NAME	ROLES
Aamir H. SHAH	CEO-MANAGING DIRECTOR
IMAN DE BRUYN	OPERATIONS MANAGER
MINY DE LOUKER	SECRETARY

RAMESH SAHNI	INFORMATION TECHNOLOGY MANAGER
SURESH R. SHAH	DIRECTOR - DUBAI
MANIT SHAH	HEAD MANUFACTURING DEPARTMENT
RIMA SHAH	HEAD Jewellery - MARKETING
KAUSHAL SHAH	HEAD SALES - POLISHED DIAMONDS
RITESH MEHTA	FINANCIAL ANALYST & RISK OFFICER
ROHINI MEHTA	GLOBAL ACCOUNTING MANAGER
HARISH SHAH	DIRECTOR - INDIA
RAKESH SHAH	ASSISTANT MANUFACTURING - MANAGER
MILLENIUM (NIKEN)	IN HOUSE MANUFACTURER
ROHIT B. SHAH	HEAD PURCHASE - TSHIKAPA GOODS
GEMINI	CONSULTANT / ADVISOR
REILERS	ACCOUNTANT
ROSINA	MARKETING MANAGER
NEXIS	LEGAL ADVISOR

Clients of the company

- ❖ Total number of buyers and clients.
  - More than 200 (As per the Client's List attached)
- ❖ Key groups and segments of clientele.
  - Rough, Polish, Powder & Jewellery
- ❖ Strategy and conditions of selling products (via orders, at own outlets, through intermediaries etc.).
  - We sell Directly to parties, through Brokers, Tie-ups with Outlets and Sell Online as well.
- ❖ Payment turnaround times.
  - Cash, 30 days, 60 days and 90 days Credit cycle

Suppliers of the company

- ❖ Total number of suppliers.
  - 16
- ❖ The company's dependence on suppliers.
  - 50% dependency is on Lixam Mining and 20% on Tshikapa and 30% on all others.
- ❖ Supply costs compared to average market prices.
  - 3 % to 5 % Cheaper than the Average Market Prices.
- ❖ Alternative suppliers on the market.
  - Angola
- ❖ Pending changes in legislation or the economy that may affect supply volumes.
  - If there is a War then there are implications on the Industry.
- ❖ Forms and times of payment for products.
  - Advance Payments
- ❖ Risk of sharp changes in raw material and goods prices.
  - If there is any technical problem on the Mining side then only the Production may be affected, leading to less supply of Goods
  - Hardly there are any changes as the Prices are controlled by the Major Players in the Market.

Suppliers	**Country**
A	U.A.E.
B	RUSSIA
C	HONG KONG
E	BELGIUM
H	RUSSIA
G	RUSSIA
H	BELGIUM

I	BELGIUM
J	BELGIUM
K	U.A.E.
L	BELGIUM
M	BELGIUM
N	BELGIUM
O	CONGO
P	BELGIUM
Q	BELGIUM

Description of the project to be financed.

❖ Goal of the project, enabling objectives.

- To Increase Business Volumes with Lixam Mining and buy Rough through more long-term contracts
- Diversify into Online Segment as well in different parts of the world
- Launch new and unique products like Diamond Rose Jewellery

❖ Particulars of the company's current situation, what the requirements are for implementing the project.

- Finance at better Interest Rates,
- Hire Skilled Resources and seek Consultants support,
- Support from Bank and Suppliers to expand Diamond and Jewellery Business

❖ Changes in the company's situation following implementation of the project.

- Increase in Turnover,
- Better Financial Standing and Growth,

❖ Marketing and other research studies performed on matters related to the project.

- Recently launched Diamond Rose Jewellery
- Venture into Online Segment for Diamonds (Rough & Polish) and Jewellery.

Substantiation of key parameters of the requested loan.

❖ Precise technical and economic calculation of the amount of the loan (enclosed – all agreements and other documentation confirming the need to receive the specified amount).

- As per the Financial Plan and Cash Flow Projections
- Also refer the Long-Term Contract with Lixam Mining

❖ The company's participation in the project.

- Participate in Rough, Polish, Powder and Jewellery Activities
- Promote Diamond Rose Jewellery
- Planned investment in the project by the company itself.
- 20 % through Equity Investment (80% from Bank Finance Debt)

❖ Substantiation of the sources and timelines for discharging the loan.

- Loan repayment through Profits from the Business by way of Increase in Turnover and overall Profitability
- 10 years Repayment Tenure

❖ Expected loan interest rate.

- 3.5 % per annum

Financial forecasts substantiating effectiveness of the project (all calculation forecasts should apply to the requested financing period).

❖ *Optimistic and pessimistic forecasts:*

- Key indicators and assumptions underpinning the forecast.
- Planned profit/loss account.
- Planned balance.
- Forecast of cash flows by month during the first year of using the financing.

- Forecast of cash flows during each subsequent year of using the financing.
- As per the Financial Plan → **(Annexure 1).**

Loan collateral

❖ Description of collateral.

- Real Estate Office Property of approx. 671 Sq. Metre located at Antwerp Diamond Market,
- Discounting against Receivables (Factoring Financing),

❖ Balance and initial values of collateral.

- Initial value of Real Estate office property – Approx. 9,8 Million USD
- Receivables as per the Books

❖ Market value of collateral (according to a valuation/the client's opinion). Liquidity of collateral.

- Real Estate – Approx. 5 Million USD

❖ Expenses on maintenance of collateral, wealth will maintain it (the client's opinion).

- Real Estate – Approx. 12,500 USD per Quarter
- Receivables – Insurance, Collection, etc. as per the Books

❖ Title to collateral (pledged by the borrower itself or by a third party).

- There is no pledge on Real Estate.

Financial standing of the company.

Constant analysis of the company's financial standing.

As per the Financial Plan **on the basis of 15 Million Dollar of New Credit Line.**

↓

(Annexure 1.)

Section 17: Case study on Bad debts, insolvency and Insurance claims by Diamond companies.

Modus Operandi for claiming Insurance.

- After obtaining finance from Banks, the Diamond companies build turnover for few years and perform descent business and relations with the Bank. They follow timely payment structure and sophisticated business relations with customers and the collection from receivables is as per business as usual.
- After few years they book bed debts in their books of accounts and intimate Bank about loss of business due to lack of collections from debtors.
- Because of this Banks restructure their lending's and either reduce the interest rates or increase the tenure of loan by rescheduling the repayments and EMI's.
- Thereafter, again for few years there is descent business and regular collections.
- As years passes by, there is sudden blow and the biggest customer (Exporter) defaults and there is no collection and the customer is declared insolvent in other country. This will have impact on the business and the company is also in trouble.
- So now the only option is INSURANCE company which comes to rescue as per international norms and comes forward to stabilize the business.
- With this approach Diamond companies take advantage of international laws and the Banks, Government and Insurance companies suffer a lot.
- This manipulation is possible only with formal legal advice and planning from expert consultants. Further, political connects and various Banking officials support is provided to structure and execute the deals.

Letter issued by M/s Madhvi Impex Pvt. Ltd (Customer of M/s Tragic Gems NV) to the Chartered Accountants confirming that they are unable to pay the debts to Tragic Gems.

To,   Date: ___________
M/s ABC & Co.
Mumbai,
India.

Subject: Current Position regarding Outstanding Payable to M/s. Tragic Gems NV.

Dear Sir,

We are in receipt of your letter Dated. _____________ where in you have expressed your concern regarding long outstanding of your client M/s Tragic Gems NV. We appreciate the fact that dues are outstanding for longer period of time.

As regards payment of outstanding dues, kindly note that our company M/s Madhvi Impex Pvt. Ltd. is not able to settle the dues because we are in deep financial trouble and are already in litigation with various Banks. We express our deep regret for non-fulfillment of commitments on the due dates and as of date the amount seems to be unrecoverable in the foreseeable future.

Thanking You,

Yours Faithfully,

For Madhvi Impex Pvt. Ltd.

(Authorized Signatory)

CA Certificate issued based on the Bad Debt confirmation from the Customer (Madhvi Impex P. Ltd) _ Letter obtained by Tragic Gems NV for claiming the Insurance – Supporting documents for confirming the bad debts. (CA Being unaware of the actual use of his certificate).

To,
M/s Tragic Gems NV,
45 straat,
Antwerp 2018,

Dear Sir,

Sub: Current Position regarding unrecoverable Status of Outstanding Receivables from M/s. Madhvi Impex Pvt. Ltd.

With reference to the letter issued dated 29th June, ______ by the previous chartered accountant, kindly note that we have been appointed by your good self for review of credit worthiness of M/s. Madhvi Impex Pvt. (herein after referred to as Said Debtors) Ltd. having its registered office at 25, Diwani Rahat Marg, Penda lane, in Mumbai – 400 010, Maharashtra, India.

CONCLUSION

On the basis of our review of such records and documents, as referred during previous review, and according to the information and explanation given to us by you currently, we state that the conclusion given by ourselves in the previous certificate remains same as under:-

M/s Madhvi Impex Pvt. Ltd is in deep financial trouble. Since M/s. Madhvi Impex Pvt. Ltd. could not recover their receivables from Overseas Customers, they defaulted on its Creditors.

In light of above and as per the current status provided by you we conclude that the amount due from M/s Madhvi Impex Pvt. Ltd is unrecoverable in foreseeable future.

This certificate is furnished at the request of M/s Tragic Gems NV.

Disclaimer: *- Our opinion is based solely on details available and provided by you. We shall not be responsible in any way for our above view which we have formed based on the facts and circumstances and details made available to us.*

Kindly take the above on record and oblige.

For ABC & Co..
Chartered Accountants
(Registration No.__________)

MR. ABC
Membership No. ________
Place:

Section 18: To sum up.

- **Cooperatives: -** There is a lacuna in the process of operating system for running a Multistate Credit Cooperative Society. Here the Societies do not have clearing house, hence they have to collect the cash from all the customers and deposit their total funds / collections in the Pool account of "DD-MSCCS" maintained with the Nationalized / Private Banks who have the clearing house. Now, say if the customer gives instruction for RTGS or request for funds transfer through cheque then in such cases the Name of "DD-MSCCS" would be reflected in the Recipients / Beneficiaries account instead of the customer of "DD-MSCCS" who has actually instructed for the Funds transfer. The real transferor of funds (; i.e., "DD-MSCCS" customer) is MASKED / HIDDEN thereby raising doubts on societies. This is a lacuna in the functioning of the societies due to which people take advantage and misuse the names of the societies.

- Further most of the RBI guidelines and Banking regulation Act are not applicable to Credit societies. Also, in earlier years the PMLA reporting to FIU India was not applicable to credit societies leading to such scams. Further, due to this reporting and limited compliances, the Nationalized / Private Banks take undue advantages of the society and divert their customer's cash deposits to the societies instead of depositing the same in to their own Banks. By these methods the Nationalized / Private Banks avoid PMLA reporting to FIU India relating to acceptance of Cash deposits.

- **Gems and Jewellery: -** Further, the Diamond and Gems & Jewellery sector has been black listed in various countries for the purpose of financing. Some Banking and Financial Institutions have categorized it under the High Risk Business categories, due to its misuse of funds for illegitimate Business purposes. Many companies declare them selves as insolvent and do not repay the funds to the Financial Institutions and Creditors.

- **Cryptocurrencies (Ex. Bitcoins): -** The Reserve Bank of India had virtually banned cryptocurrency trading in India as in a circular issued in April 2018, it directed that all entities regulated by it shall not deal in virtual currencies or provide services for facilitating any person or entity in dealing with or settling those. The move came after it was observed that several companies had started dealing in digital currencies which, the Government and the RBI claim, had no Intrinsic Value - therefore leaving the Investors at Risk. The RBI's move was an attempt to ring-fence regulated entities from risks associated with Cryptocurrencies.

- In March, 2020 the Supreme Court overturned a ban imposed by the Reserve Bank of India (RBI) on cryptocurrency payments. However, several cryptocurrency exchanges continued to operate, focusing on trading between cryptocurrencies rather than fresh investment in cryptocurrency by Indian investors.
- Cryptocurrencies are new avenue for scams and money laundering. It is a very big market globally (including Dark-web) and one cannot stop this. However, if this segment is ignored then it will create big Chaos in the financial world. One should not wait for things to get out of control and envisage before the burst of a bubble!!

Section 19: EXPECTED OUTPUT.

- Establishing linkages between various parties and layering of funds between multiple Bank accounts is grave. It is believed that one can setup / establish a process whereby inbuilt software triggers can be set-up between multiple Banks / financial institutions, to catch hold of suspicious transactions at early stage and on real time basis through continuous monitoring and Big Data Analysis.
- Further, it appears from above case that there are various guidelines / compliances which are not in existence or are already prescribed, but not followed by the societies or the Financial Institutions including Banks.
- Our approach and methodology shall help various agencies (Income Tax / CBI / ED) to solve the cases swiftly and target right people for revenue collection rather than taxing the middle men’s like societies, directors, companies, LLPs, Proprietorships, etc. who are unaware of the transactions held in their accounts or are merely used as conduits.
- Assessee’s take advantage in the name of Tax Planning and divert the funds with wrong intentions.
- Also, this approach will generate professional opportunities for Chartered Accountants in supporting various agencies in unveiling the Scam.

- Moreover, one can control and prevent such scams, if appropriate centralized systems are put in place and triggers are set for throwing early-stage red flags. This will create a solution for monitoring / preventing the Transactions executed with the unlawful intentions of Money Laundering.

Section 20: Research questions or hypothesis.

- If one gets the data of various Bank statements with counter party data in required format (e.g., Excel Columnar format) then one can process the data in customized application or in excel to establish the fund trail and movement of funds from one party to other thereby establishing the end beneficiary.
- If the parties are private limited companies or LLP's then one can establish the common Directorship between the Companies / LLP's. Also, one can establish the common office addresses, DIN number of Directors, Strike-off or Active status of the companies / LLPs and whether they have completed their compliances and identify the Loan exposures, if any through MCA portal.
- If the Full names and PAN are provided then one can get the KYC from the Banks and look for common Partners who are controlling the General Partnership firms or LLP's. This information is not available from open source.
- If the Income Tax / CBI can write letters to various Banks and obtain the Bank statements, RTGS / NEFT Outward Details, KYC, LOAN Facilities, Sanction Letters, Bill of Entries, Bill of Ladings, Custom Documents, Foreign outward remittances, Form A2, FEMA compliance documents, LOU, LC, Swift details, and various other supporting documents; then one can establish the genuineness of transactions and the underlying documents supporting the transactions. This will help to corroborate the evidences.
- Similarly, the Bank statements and other information's should be made available from International Banks in case the funds are transferred abroad. This is extremely critical area where the investigations are held up due to lack of TIMELY information leading to closure of case in incomplete manner.

Note: -

- While representing to Income Tax and CBI for our case, we have followed above process and were able to obtain various details from the Banks and Open source and establish the linkages thereby forming the conclusion for the analysis performed on the available data.
- In our research report we have presented the relevant content of the masked output of the working done by us thereby maintaining the appropriate confidentiality. This approach will assist users in creating awareness as to how the transactions are accomplished operationally and structurally. We shall cover few sample analyses in our next research case study.

Section 21: Impact of Money Laundering.

How much money is laundered per year?

- By its very nature, money laundering is an illegal activity carried out by criminals which occurs outside the normal range of economic and financial statistics. Along with some other aspects of underground economic activity, rough estimates have been put forward to give some sense of the scale of the problem.
- The United Nations Office on Drugs and Crime (UNODC) conducted a study to determine the magnitude of illicit funds generated by drug trafficking and organised crimes and to investigate to what extent these funds are laundered. The report estimates that in 2009, criminal proceeds amounted to 3.6% of global GDP, with 2.7% (or USD 1.6 trillion) being laundered.
- This falls within the widely quoted estimate by the International Monetary Fund, who stated in 1998 that the aggregate size of money laundering in the world could be somewhere between two and five percent of the world's Gross Domestic Product. Using 1998 statistics, these percentages would indicate that money laundering ranged between USD 590 billion and USD 1.5 trillion. At the time, the lower figure was roughly equivalent to the value of the total output of an economy equivalent to the size of Spain.
- However, the above estimates should be treated with caution. They are intended to give an estimate of the magnitude of money laundering. Due

to the illegal nature of the transactions, precise statistics are not available and it is therefore impossible to produce a definitive estimate of the amount of money that is Globally laundered each year. The FATF therefore does not publish any figures in this regard.

How does money laundering affect business?

- The integrity of the banking and financial services marketplace depends heavily on the perception that it functions within a framework of high legal, professional and ethical standards. A reputation for integrity is one of the most valuable assets of a financial institution.
- If funds from criminal activity can be easily processed through a particular institution – either because its employees or directors have been bribed or because the institution turns a blind eye to the criminal nature of such funds – the institution could be drawn into active complicity with criminals and become part of the criminal network itself. Evidence of such complicity will have a damaging effect on the attitudes of other financial intermediaries and of regulatory authorities, as well as ordinary customers.
- As for the potential negative macroeconomic consequences of unchecked money laundering, one can cite inexplicable changes in money demand, prudential risks to bank soundness, contamination effects on legal financial transactions, and increased volatility of international capital flows and exchange rates due to unanticipated cross-border asset transfers. Also, as it rewards corruption and crime, successful money laundering damages the integrity of the entire society and undermines democracy and the rule of the law.

What influence does money laundering have on economic development?

- Launderers are continuously looking for new routes for laundering their funds. Economies with growing or developing financial centres, but inadequate controls are particularly vulnerable as established financial centre countries implement comprehensive anti-money laundering regimes.
- Differences between national anti-money laundering systems will be exploited by launderers, who tend to move their networks to countries and financial systems with weak or ineffective countermeasures.

- Some might argue that developing economies cannot afford to be too selective about the sources of capital they attract. But postponing action is dangerous. The more it is deferred, the more entrenched organised crime can become.
- As with the damaged integrity of an individual financial institution, there is a damping effect on foreign direct investment when a country's commercial and financial sectors are perceived to be subject to the control and influence of organised crime. Fighting money laundering and terrorist financing is therefore a part of creating a business-friendly environment which is a precondition for lasting economic development.

What is the connection with society at large?

- The possible social and political costs of money laundering, if left unchecked or dealt with ineffectively, are serious. Organised crime can infiltrate financial institutions, acquire control of large sectors of the economy through investment, or offer bribes to public officials and indeed Governments.
- The economic and political influence of criminal organisations can weaken the social fabric, collective ethical standards, and ultimately the democratic institutions of society. In countries transitioning to democratic systems, this criminal influence can undermine the transition. Most fundamentally, money laundering is inextricably linked to the underlying criminal activity that generated it. Laundering enables criminal activity to continue.

Section 22: Precautions / Safeguards against Money laundering.

How does fighting money laundering help fight crime?

- Money laundering is a threat to the good functioning of a financial system; however, it can also be the Achilles heel of criminal activity.
- In law enforcement investigations into organised criminal activity, it is often the connections made through financial transaction records that allow hidden assets to be located and that establish the identity of the criminals and the criminal organisation responsible.
- When criminal funds are derived from robbery, extortion, embezzlement

or fraud, a money laundering investigation is frequently the only way to locate the stolen funds and restore them to the victims.

- Most importantly, however, targeting the money laundering aspect of criminal activity and depriving the criminal of his ill-gotten gains means hitting him where he is vulnerable. Without a usable profit, the criminal activity will not continue.

What should individual governments be doing about it?

- A great deal can be done to fight money laundering, and, indeed, many governments have already established comprehensive anti-money laundering regimes. These regimes aim to increase awareness of the phenomenon – both within the government and the private business sector – and then to provide the necessary legal or regulatory tools to the authorities charged with combating the problem.
- Some of these tools include making the act of money laundering a crime; giving investigative agencies the authority to trace, seize and ultimately confiscate criminally derived assets; and building the necessary framework for permitting the agencies involved to exchange information among themselves and with counterparts in other countries.
- It is critically important that governments include all relevant voices in developing a national anti-money laundering programme. They should, for example, bring law enforcement and financial regulatory authorities together with the private sector to enable financial institutions to play a role in dealing with the problem. This means, among other things, involving the relevant authorities in establishing "CENTRLIZED GLOBAL Financial Transaction Reporting Systems (CGFTRS)", customer identification, record keeping standards and a means for verifying compliance.

Should governments with measures in place still be concerned?

- Money launderers have shown themselves through time to be extremely imaginative in creating new schemes to circumvent a particular government's countermeasures. A national system must be flexible enough to be able to detect and respond to new money laundering schemes.

- Anti-money laundering measures often force launderers to move to parts of the economy with weak or ineffective measures to deal with the problem. Again, a national system must be flexible enough to be able to extend countermeasures to new areas of its own economy. Finally, national governments need to work with other jurisdictions to ensure that launderers are not able to continue to operate merely by moving to another location in which money laundering is tolerated.

What about multilateral initiatives?

- Large-scale money laundering schemes invariably contain cross-border elements. Since money laundering is an international problem, international co-operation is a critical necessity in the fight against it. A number of initiatives have been established for dealing with the problem at the international level.

- International organisations, such as the United Nations or the Bank for International Settlements, took some initial steps at the end of the 1980s to address the problem. Following the creation of the FATF in 1989, regional groupings – the European Union, Council of Europe, Organisation of American States, to name just a few – established anti-money laundering standards for their member countries. The Caribbean, Asia, Europe and southern Africa have created regional anti-money laundering task force-like organisations, and similar groupings are planned for western Africa and Latin America in the coming years.

Who can be contacted if someone suspect a case of money laundering?

- The FATF is a policy-making body and has no investigative authority. In respect to investigating a company and persons involved in money laundering, individuals need to contact their local investigative authorities.

Section 23: Recommendations - Data Analytics, Fund Trail and Market Intelligence to Trace the Beneficiaries and Suspected Parties.

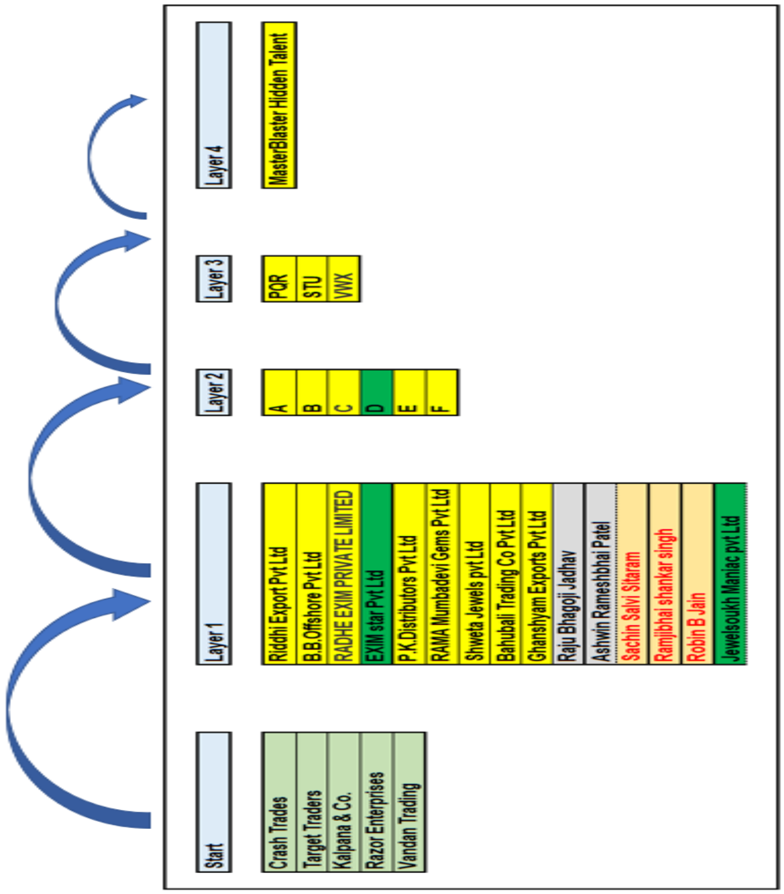
Identification of Layering, Common Directorships / Partnerships.

Establishing Connection between Customers and Key Personnel's.

- Once the Suspicion is raised the process of Fund trail and Bank statement analysis begins where in the Bank Statements of the parties are requested from concerned Banks and analyzed.
- The Bank statements are called from customers of Cooperative societies as well as Banks where RTGS is done from these account holders. This process will continue for each of the layers till the end Beneficiary is reached.
- Following steps are followed for identifying the Layering of Funds as explained in the next slide (Follow the colour coding schemes in next slide for better understanding): -
- The appropriate investigating authority having relevant powers shall send the official letters to the Banks requesting for the Bank statements in appropriate formats with requisite details,
- The Bank statements are sanitized, formatted and merged / consolidated for appropriate mapping. The consolidation is done for all the Banks and all the parties so that the overall birds eye view is established.
- The counter party details are pulled from the narration fields in case the same is not provided by the Banks,
- Thereafter a matrix is established as depicted in the next slides. The Colum header is the sender of the funds and the Row headers is the recipient of the corresponding funds,
- At the intersection of rows and columns it is seen that the money value that is transferred,

- The cumulative values are determined irrespective of the dates. This is done so as to know the total funds transferred from the sender to the recipient. The matrix reflects the combination of common parties where the funds are transferred; i.e. “One to Many”, “Many to Many”, Many to One” and “One to One” relationship are established.
- This relationship helps us understand the gravity of relationship and the volume involved in each of the 4 categories of relationships.
- After this step and based on the 80:20 principle the 20% of the parties are selected having 80% volume and accordingly the market intelligence / back ground search is initiated.
- Follow the colour coding schemes for better understanding.

The Money moves from “Start (Layer 0)” to “Layer 1” to “Layer 2” to “Layer 3” and finally ends at “Layer 4”.



In the above case the money is flowing from Group 1 to Group 2 (and so on) as depicted by the arrows. For example, money is moving as under: -

Step 1: Money is moving from Crash Trades to Riddhi Exports Pvt. Ltd.

Step 2: Then from Riddhi Exports Pvt. Ltd. the money moves to Party "A".

Step 3: Then from Party "A" the money moves to Party "PQR"

Step 4: Then from Party "PQR" the money moves to "MasterBlaster Hidden Talent" (Final Beneficiary)

Follow the colour coding schemes for better understanding. The Matrix for each of the 4 steps is depicted by way of example in the following slides.

Step 1: -

The matrix depicts the connections between the parties in intersection of Rows and columns.

layering 1

Row Labels	Crash Trades	Target Traders	Kalpana & Co	Razor Enterprise	Vandan Trading	Total
Riddhi Export Pvt Ltd	7,35,38,10,000	7,94,84,80,000	5,63,68,04,000	2,31,48,90,000	20,10,00,000	23,45,49,84,000
B.B.Offshore Pvt Ltd	5,72,82,80,000	5,81,28,06,768	3,30,45,10,000	3,61,41,88,000	-	18,45,97,84,768
RADHE EXIM PRIVATE LIMITED	4,92,53,05,110	6,00,94,60,000	3,62,51,92,550	1,80,26,02,580	-	16,36,25,60,240
EXIM star Pvt Ltd	3,29,46,52,894	1,07,82,84,255	1,07,61,77,313	74,35,53,213	6,64,07,31,216	12,83,33,98,891
P.K.Distributors Pvt Ltd	2,09,17,00,000	1,68,88,00,000	1,74,16,00,000	54,52,00,000	-	6,06,73,00,000
RAMA Mumbadevi Gems Pvt Ltd	1,29,15,10,000	2,10,03,40,000	15,68,00,000	1,32,24,90,000	-	4,87,11,40,000
Shweta Jewels pvt Ltd	1,58,32,00,000	1,09,94,00,000	1,33,72,00,000	49,16,00,000	-	4,51,14,00,000
Bahubali Trading Co Pvt Ltd	1,30,46,90,000	42,41,00,000	54,04,00,000	61,64,00,000	-	2,88,55,90,000
Ghanshyam Exports Pvt Ltd	59,30,00,000	-	9,70,00,000	4,24,00,000	1,78,76,000	75,02,76,000
Raju Bhagoji Jadhav	17,46,00,000	-	-	-	15,49,00,000	32,95,00,000
Ashwin Rameshbhai Patel	8,35,70,000	-	-	-	10,07,00,000	18,42,70,000
RUPEN KUMAR TATER	-	-	6,00,00,000	-	-	6,00,00,000
Ramjibhai shankar singh	-	-	1,30,00,000	-	-	1,30,00,000
Rajendra Kumar Chajer	-	-	-	1,00,00,000	-	1,00,00,000
Rameshbhai Patodi	-	-	94,00,000	-	-	94,00,000
Jewelsoukh Maniac pvt Ltd	-	-	-	50,00,000	-	50,00,000
Grand Total	**28,42,43,18,004**	**26,16,16,71,023**	**17,59,80,83,863**	**11,50,83,23,793**	**7,11,52,07,216**	**90,80,76,03,899**

The Money moves from "Start (Layer 0)" to "Layer 1" to "Layer 2" to "Layer 3" and finally ends at "Layer 4"

Follow the colour coding schemes for better understanding.

Step 2: - layering 2

Row Labels	Riddhi Export Pvt Ltd	B.B.Offshore Pvt	RADHE EXIM PRIVATE LIMITED	EXIM star Pvt Ltd	P.K.Distributors Pvt Ltd	Total
A	5,88,30,48,000	6,35,87,84,000	4,50,94,43,200	1,85,19,12,000	16,08,00,000	18,76,39,87,200
B	4,58,26,24,000	4,65,02,45,414	2,64,36,08,000	2,89,13,50,400	-	14,76,78,27,814
C	3,94,02,44,088	4,80,75,68,000	2,90,01,54,040	1,44,20,82,064	-	13,09,00,48,192
D	2,63,57,22,315	86,26,27,404	86,09,41,850	59,48,42,570	5,31,25,84,973	10,26,67,19,113
E	1,67,33,60,000	1,35,10,40,000	1,39,32,80,000	43,61,60,000	-	4,85,38,40,000
F	1,03,32,08,000	1,68,02,72,000	12,54,40,000	1,05,79,92,000	-	3,89,69,12,000
Grand Total	**19,74,82,06,403**	**19,71,05,36,819**	**12,43,28,67,090**	**8,27,43,39,034**	**5,47,33,84,973**	**65,63,93,34,319**

Step 3: - layering 3

Row Labels	A	B	C	D	E	Total
PQR	7,05,96,57,600	7,63,05,40,800	5,41,13,31,840	2,22,22,94,400	19,29,60,000	22,51,67,84,640
STU	5,49,91,48,800	5,58,02,94,497	3,17,23,29,600	3,46,96,20,480	-	17,72,13,93,377
VWX	4,72,82,92,906	5,76,90,81,600	3,48,01,84,848	1,73,04,98,477	-	15,70,80,57,830
Grand Total	**17,28,70,99,306**	**18,97,99,16,897**	**12,06,38,46,288**	**7,42,24,13,357**	**19,29,60,000**	**55,94,62,35,848**

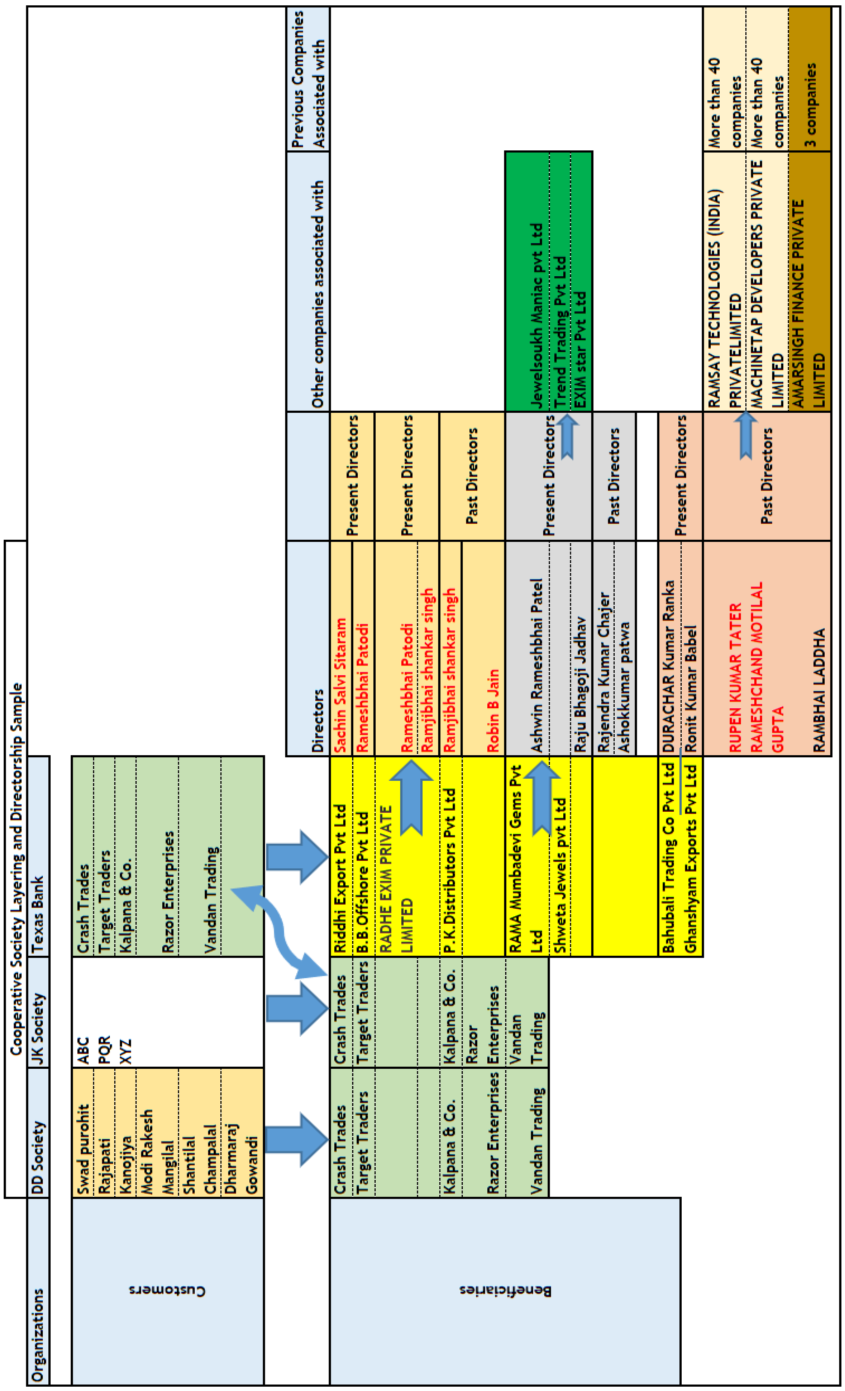
layering 4

Step 4: -

Row Labels	PQR	STU	VWX	Total
MasterBlaster Hidden Talent	11,76,60,96,000	12,71,75,68,000	9,01,88,86,400	33,50,25,50,400
Grand Total	**11,76,60,96,000**	**12,71,75,68,000**	**9,01,88,86,400**	**33,50,25,50,400**

Background Checks / Market Intelligence - Common Directorship.

- Once the connection is established then the Back ground checks are conducted from KYC documents provided by the Banks for each of the Parties involved at various layers.
- Further, the Open-source examination of the Companies / LLP's is done to establish pattern of Common Directorships and Common Partners involved to prove the relationship which may be disclosed in the Boks of Accounts or undisclosed in the Books of Accounts.
- Also, in some cases it could be observed that the Companies / LLP's are registered on the same addresses or locations. Further, at times the Bank accounts are also opened with the same Banks for the related parties.
- The site visits are also conducted in case the companies are not strike off are still operational. The photographs are taken. Further in case of critical parties a dummy party are setup and send for inquiries asking for services etc. This helps in confirming the operations of the suspicious parties found at the live locations.
- This approach is a combination of Financial analysis as well as background checks and site visits which assist in corroborating the evidence to prove the nexus between the parties and a step to reach the common beneficiaries.
- This process continues till we reach the common end point where the funds are accumulated at single destination. This destination may be in India or abroad in one or multiple countries.
- Follow the colour coding schemes for better understanding.


Cooperative Society Layering and Directorship Sample
Organizations
DD Society
JK Society
Texas Bank
Customers
Swad purohit
Rajapati
Kanojiya
Modi Rakesh
Mangilal
Shantilal
Champalal
Dharmaraj
Gowandi
ABC
PQR
XYZ
Crash Trades
Target Traders
Kalpana & Co.
Razor Enterprises
Vandan Trading
Beneficiaries
Crash Trades
Target Traders
Kalpana & Co.
Razor Enterprises
Vandan Trading
Crash Trades
Target Traders
Kalpana & Co.
Razor Enterprises
Vandan Trading
Riddhi Export Pvt Ltd
B.B.Offshore Pvt Ltd
RADHE EXIM PRIVATE LIMITED
P.K.Distributors Pvt Ltd
RAMA Mumbadevi Gems Pvt Ltd
Shweta Jewels pvt Ltd
Bahubali Trading Co Pvt Ltd
Ghanshyam Exports Pvt Ltd
Directors
Sachin Salvi Sitaram
Rameshbhai Patodi
Rameshbhai Patodi
Ramjibhai shankar singh
Ramjibhai shankar singh
Robin B Jain
Ashwin Rameshbhai Patel
Raju Bhagoji Jadhav
Rajendra Kumar Chajer
Ashokkumar patwa
DURACHAR Kumar Ranka
Ronit Kumar Babel
RUPEN KUMAR TATER
RAMESHCHAND MOTILAL GUPTA
RAMBHAI LADDHA
Present Directors
Present Directors
Past Directors
Present Directors
Past Directors
Present Directors
Past Directors
Other companies associated with
Jewelsoukh Maniac pvt Ltd
Trend Trading Pvt Ltd
EXIM star Pvt Ltd
RAMSAY TECHNOLOGIES (INDIA) PRIVATELIMITED
MACHINETAP DEVELOPERS PRIVATE LIMITED
AMARSINGH FINANCE PRIVATE LIMITED
Previous Companies Associated with
More than 40 companies
More than 40 companies
3 companies

Understanding the Process of back ground search, KYC review, Address verification, site visits and common Directorship in multiple companies.

- In the above scenario it is observed that the Customers have opened the accounts with DD society (Swad Purohit) and JK Society (ABC),
- From Swad Purohit and ABC the money is flowing to Cash Trades. Now the Cash Trades is a common beneficiary because the money flows from Swad Purohit and ABC both to the single destination; i.e., Cash Trades.
- Now it is important to find the Bank where Cash Trades holds its Bank Account to trace the next layer of movement of Funds,
- Say Cash Trades has account with Texas Bank. Accordingly, the Bank statement, KYC and Account opening Forms are obtained from Texas Bank for further analysis to trace the next layer where the funds are moved,
- From Cash Trades the Money moves to Riddhi Exports and Radhe Exim Private Limited. These both the companies have common director named Rameshbhai Patodi. This common directorship is established from the opensource background search available on MCA portal and various other opensource websites.
- This Director Names are double confirmed from the KYC documents provided by Texas Bank for the customer named Cash Trades.
- This process continues for each of the Companies / LLP's etc. and the common person is traced including the strike off status of the company and the registered address of the company.
- In most of the cases the Directors names are misused and they are unaware of the operations and transactions undertaken in the company in which they hold Key Management position. In some cases, they are aware and they work for nominal commission on each transaction undertaken in their companies or under their personal names. Hence, it is essential to trace these persons and analyze their Bank statements as well.
- There is also possibility that these Directors are already associated with many other companies and the same is available through their DIN

numbers and open source back ground searches. These steps help to unveil few more Hawala / shell companies who act as transfer agents for money transfers. Accordingly, the Bank statements of these companies are also called for and added to the database for tracing further layers till we reach the end beneficiary where the funds are accumulated at Integration stage.

- Follow the colour coding schemes for better understanding.

Background search of Layer 0 - Partnership firms. Common Partners in multiple Firms.

Details of Background search based on KYC Review of CONDUIT Banks Customers (Start / Layer 0 Beneficiaries)

Branch Name of Conduit Banks Customers	Conduit Banks Customer Name (Start / Layer 0 Beneficiary)	Account Number	Account Opening Form status	Partner 1	Partner 2	Bank Manager	Original Docs Verified	Site visit
RADHE MARKET, SURAT [GJ]	**Crash Trades**	1369530041676860	Submitted on 15-07-2018	SHABASH Mohamed Ali Patel	Reza Mohamed Ali Patel	SHANI Modi SS-2366	Original seen and verified-ID-25467	Site visit at office-ROHIT BBRM
DESHMUKH ROAD, ANDHERI (W),M	**Crash Trades**	1369530043394550	Submitted on 15-07-2018	SHABASH Mohamed Ali Patel	Reza Mohamed Ali Patel	RUPESH shah-38902		Somnath-32423543
RADHE MARKET, SURAT [GJ]	**Target Traders**	1369530041975380	Enclosed in CD	AFTAB Mehmmod Tamboli	RUHANI Reza Mohamed Ali Patel		Original seen and verified-ID-25467	Site visit at office-ROHIT BBRM
DESHMUKH ROAD, ANDHERI (W),M	**Target Traders**	1369530044667140	Enclosed in CD	AFTAB Mehmmod Tamboli	RUHANI Reza Mohamed Ali Patel	SHANI Modi SS-2366		
DESHMUKH ROAD, ANDHERI (W),M	**Kalpana & Co.**	1369530052020490	Enclosed in CD	RUHANI Reza Mohamed Ali Patel	RUKSAD Raza haider Ali Bhojani	SHANI Modi SS-2366		Somnath-32423543
RADHE MARKET, SURAT [GJ]	**Razor Enterprises**	1369530041676910	Enclosed in CD	RUKSAD Raza haider Ali Bhojani	AFTAB Mehmmod Tamboli		Original seen and verified-ID-25467	Site visit at office-ROHIT BBRM

- In the above scenario it can be seen that the RUHANI Reza Mohammed Ali Patel is common Partner in Target Traders as well as Kalpana & Co.
- Also, RUKSAD raza haider Ali Bhojani is common partner in Kalpana & Co. as well as Razor Enterprises.
- Follow the colour coding schemes for better understanding.

Case Study on nexus between the customers of one society (JK Society) Key Personnel's of other society (DD Society).

- Background search is also conducted between the employees and key personnel of cooperative societies and the customers of the other societies and vice versa.
- This also assists in establishing the nexus of the people involved in framing the entire modus operandi and instigating the scam.
- Though there may not be any direct financial transactions between these parties however, these links are extremely critical to understand the modus operandi and the catch hold of people who controlling the entire structure and flow of funds.
- In most of the cases the Ultimate Beneficiaries and controlling persons are never on record. And these people can be identified through inquiries and investigations of right set of people.
- This all companies are Surat based Gems and Jewellery companies involved in Hawala Transactions through Multistate Cooperative Societies and Angadia Routes.

List of key personnnels of DD society and their links with JK Society (Customers or past employees)

Customer of JK Society	JK Societys Account Numbers	Relation with DD society	Money Transferred to	PAN	Aadhar
Pawar MADUSUDAN	104204003644	Chairman	PATWARDHAN HARJIVANBHAI - ARCPP4567H (Director of DD Society)		
NITESH ASHOK (Employee of JK Society)	100104004817	Manager of DD Society			
DARJI AJAYKUMAR	101204003187	Vice Chairman			
Ashokbhai Patel (Employee of JK Society)	100104004813	Lady Director			
Akhilesh Madusudan Pawar	??	Director			203423-3970-02
Sanket Bhiva kamble	100204001532	Employee		BIPPK4567M	6709-4692-6034
	100104004214			APLPA4567G	
	100404001130				
Pritesh Bhiva Kamble	100204001534	Employee			3924-1623-5134
	100204003286				
	100104004304				
PATWARDHAN HARJIVANBHAI - ARCPP4567H (Director of DD Society)	109004003006	Past director			
	108204000410				
	108304003025				
	108504003022				
	108704003000				
	104604003009				
	109104003000				

- In the above scenario it can be observed that some of the Customers of JK Society are holding key positions in the DD society at different levels such as Chairman. Manager, Directors, Employees, etc.
- Follow the colour coding schemes for better understanding.

Section 24: Steps Taken by Government of India to Prevent Money Laundering.

1) **Criminal Law Amendment Ordinance (XXXVIII of 1944):** It covers proceeds of only certain crimes such as corruption, breach of trust and cheating and not all the crimes under the Indian Penal Code.

2) **The Smugglers and Foreign Exchange Manipulators (Forfeiture of Property) Act, 1976:** It covers penalty of illegally acquired properties of smugglers and foreign exchange manipulators and for matters connected therewith and incidental thereto.

3) **Narcotic Drugs and Psychotropic Substances Act, 1985:** It provides for the penalty of property derived from, or used in illegal traffic in narcotic drugs.

4) **Prevention of Money-Laundering Act, 2002 (PMLA)**

   a) It forms the core of the legal framework put in place by India to combat Money Laundering.

   b) The provisions of this act are applicable to all financial institutions, Banks, Mutual Funds, Insurance Companies, and their Financial Intermediaries.

   c) **PMLA (Amendment) Act, 2012**

      i) Adds the concept of **'Reporting Entity'** which would include a Banking Company, Financial Institution, Intermediary, etc.

      ii) It has provided for provisional attachment and confiscation of property of any person involved in such activities.

5) **Financial Intelligence Unit-IND:** It is an independent body reporting directly to the **Economic Intelligence Council (EIC) headed by the Finance Minister.**

6) **Enforcement Directorate (ED):**

   a) It is a law enforcement agency and economic intelligence agency responsible for enforcing economic laws and fighting economic crime in India.

   b) One of the main functions of ED is to Investigate offences of money laundering under the provisions of Prevention of Money Laundering Act, 2002 (PMLA).

   c) It can take actions like confiscation of property if the same is determined to be proceeds of crime derived from a Scheduled Offence under PMLA, and to prosecute the persons involved in the offence of money laundering.

7) **India** is a **full-fledged member of the FATF** and follows the guidelines of the same.

Section 25: Global efforts to combat Money Laundering.

1) **The Vienna Convention:** It creates an obligation for signatory states to criminalize the laundering of money from drug trafficking.

2) **The 1990 Council of Europe Convention:** It establishes a common criminal policy on Money Laundering.

3) **G-10's Basel Committee statement of principles:** It issued a "statement of principles" with which the International Banks of member states are expected to comply.

4) **The International Organization of Securities Commissions (IOSCO):** It encourages its members to take necessary steps to combat Money Laundering in securities and futures markets.

5) **The Financial Action Task Force:**

   a) It has been set up by the Governments of the G-7 countries at their 1989 Economic Summit and has representatives from: -

      i) 24 OECD countries

      ii) Hong Kong

      iii) Singapore

iv) The Gulf Cooperation Council

v) The European Commission

b) It monitors members' progress in applying measures to counter Money Laundering.

c) The famous **Forty Recommendations** are given by FATF.

6) **IMF:** It has pressed its 189 member countries to comply with international standards to thwart terrorist financing.

7) **The United Nations office on Drugs and Crime:** It proactively tries to identify and curb down / stop Money Laundering.

Section 26: Way Forward.

The threats of money laundering which are supported by the emerging technologies should be controlled with equally innovative Anti-Money Laundering tools like Big Data Analytics and Artificial Intelligence. The International and Domestic Stakeholders should collaborate and come together by strengthening effective data sharing mechanisms amongst them to effectively eliminate / control the snag of Money Laundering.

Section 27: Disclaimer.

- *The Case Study is based on the data provided and available with us, while providing services to the client / department authorities, and based on knowledge / experiences / interaction with various authorities.*
- *The Case Study provided would be based exclusively on the facts and circumstances described during the engagement for conducting the work and is given based on the representations, expressed or implied, and based on our interpretation of law, which may differ to another person. Certain portion is reproduced as per the report issued to the authorities / client so that the reader can have realistic view. The objective is to create awareness and not to breach confidentiality.*
- *Existence of any other factual or historical background not provided to us might require a conclusion different from the one expressed herein.*
- *The information contained herein is specific only to the facts of the present case and cannot be used in any other matter and is not intended to address the circumstances of any particular individual or entity other*

than what has been described in the Case Study.

- *The names and amounts used in the Research Case Study are hypothetical / fictitious in nature and do not necessarily represent any real events.*
- *Certain part of the case study is based on the Historical events which may or may not resemble the reality in current times due to change in economic conditions, amendments to various laws or changes in regulations or need of the society.*
- *The background search is based on open-source search and have no legal implications on the researcher.*
- *Although it has been endeavoured to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate thereafter. No person should act on such data / information without appropriate professional advice based on the circumstances of a particular situation.*
- *The recommendations or views expressed herein are based on the experience of the Researcher and do not necessarily resemble as the recommendations from ICAI.*
- *We carry No third-party claims or liabilities of whatsoever and no-where held ourselves personally responsible.*
- *This data / information with respect to the research case study was earlier provided to the Income Tax Department & CBI based on the information shared by "various societies" / various departments. Now the same is shared after masking with ICAI based upon the request from ICAI for the benefit of the members of ICAI. As an Independent Chartered Accountant (Researcher), we do not carry any personal interest or liability over the data or Case Study shared herein. We are adhering to the law of the land and acting accordingly in the overall interest of the nation. We do not have any conflict of interest and are objective in mind and appearance.*