

Combating Financing of Terrorism (CFT) – What you must know

What is Terrorism?

Terrorism is defined as the calculated use of violence (or the threat of violence) against civilians, in order to attain goals that are political or religious or ideological in nature, which is done through intimidation or coercion or instilling fear.

What is financing of terrorism?

Terrorist financing means providing financial support to terrorists or terrorist organizations to enable them to carry out terrorist acts. It is a closely related aspect of money laundering, where apparently legitimate funds are used to finance terrorist activities. It is sometimes referred to as ‘**reverse money laundering**’, since it involves source of funds for committing the crime as against the funds derived from crime.

Terrorist financing is a topic that shot into the limelight after the events of 11th September 2001. The US passed the USA PATRIOT Act, among others, to ensure that both combating the financing of terrorism (CFT) and anti money laundering (AML) were given adequate focus by US financial institutions. The act also had extra-territorial impact and non-US banks having correspondent banking accounts or doing business with US banks had to upgrade their AML/CFT process.

What is combating financing of terrorism (CFT)?

Initially, the focus of enforcement efforts for Combating Financing of Terrorism (CFT) purposes were on charities, unregistered money service businesses (MSBs) (so called underground banking or ‘Hawalas’),and registered MSBs, that were unregulated for CFT. The Financial Action Task Force (FATF),set up in 1989 by the G-7 summit in Paris, (working with US) brought in 9 special recommendations for CFT, which were recommended standards applicable to all FATF members, who were expected to upgrade their laws, regulations and enforcement efforts, including through Financial Intelligence Units (FIUs) and cross-border sharing of information for CFT purposes. The FATF black-list (Non- co-operative countries and territories (NCCT) list) mechanism was used to coerce countries to bring about change. All these efforts have brought about a huge change to global CFT regulations and have ushered in a new era of information sharing.

Is India a member of FATF?

No, as on date, India is not a member of FATF. India has got only an observer status in FATF meetings and FIU-IND is taking all out efforts to get a membership in FATF and expects to get it shortly. One of the main reasons for not getting the FATF membership is the low level of reporting of **suspicious transactions** by the banks and financial institutions in India, compared to the high level of large value cash transactions occurring in such financial institutions.