

NOTICES sent regarding loans given by these players to group cos and related parties

FIU Lens on Family-owned NBFCs for Not Filing Suspect Transactions

Pavan.Burugula@timesgroup.com

Mumbai: Transactions primarily involving related parties at family-owned non-bank lenders have come under the scanner of North Block, with a Central department sending notices to about half a dozen such entities recently for alleged breach of anti-money laundering laws.

Two people with direct knowledge of the matter told ET that under scrutiny are NBFCs set up by large family business groups, primarily to cater to the debt needs of their group companies and related parties.

A Hyderabad-based infra group, a Mumbai-based NBFC backed by a leading pharma company, and an NBFC owned by a Kolkata-based steel company are among the entities served with these notices, these sources told ET.

Under normal circumstances, banks and NBFCs have a fiduciary responsibility to report any suspicious activity — both to the Reserve Bank of India (RBI) and the Financial Intelligence Unit (FIU). However, the transactions in question were not reported as suspicious by these NBFCs. Subsequently, the transactions were found when RBI conducted annual inspec-

Raising a Red Flag

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The NBFCs under the lens are set up by family-owned business groups to cater to debt needs of group entities and related parties

Concerns raised by FIU pertain to some of these loans



These loans were being repaid by March 28-29 every year and fresh loans of the same amounts were being disbursed on April 1-2

RBI flagged these transactions to FIU after its annual inspections of the NBFCs' books

tion into the books of these NBFCs. This prompted the RBI to alert the FIU on the matter.

“RBI has pointed out that the transactions as detailed in the annexure were observed during scrutiny of your records. It has however been observed that no Suspicious Transaction Reports relating to these transactions were filed by you with FIU-IND under Prevention of Money Laundering Act 2002 read with Money Laundering (Maintenance of Records) Rules, 2005,” said one such notice dated September 2. ET has seen the notice.

ET has reviewed two such show-cause notices. The companies didn't comment. Mails sent to the FIU rema-

ined unanswered.

FIU is the central agency responsible for analysing information relating to suspect financial transactions. The body reports to the Economic Intelligence Council headed by the Finance Minister.

“In the current matter, FIU thinks these transactions have no economic rationale or bonafide purpose except to hide the actual asset quality,” said a lawyer with direct knowledge of the matter. “These notices are a serious concern since they are coming from an intelligence agency. We expect full scrutiny into the books of the NBFCs by the agency.”

In most of these cases, the concerns

raised by FIU pertain to some loans given by the NBFCs concerned to related parties. These loans were being repaid by around March 28-29 every year and subsequently, the NBFC was issuing a fresh loan to the same entities with identical amounts by April 1-2.

“By repaying the loan just before the end of the financial year, it is suspected that these NBFCs were window dressing the books,” said another lawyer representing an NBFC in the matter. “The agency also thinks that the scheme was being followed to evergreen the loans given to certain promoter entities.”

The notices come days after FIU issued similar directives against several stockbrokers for not filing suspicious transaction reports.

“You cannot expect an NBFC promoted by a group to raise red-flags on loans given to entities that belong to the same group...it will not work in any practical scenario,” said a top chartered accountant, speaking on the condition of anonymity. “When an NBFC is created to cater to specific needs of a business group, its compliance requirements should not be the same as what they are for a normal NBFC that gives loans to thousands of entities. Hopefully, RBI takes cognisance of this.”