

# INTERNATIONAL JOURNAL FOR LEGAL RESEARCH AND ANALYSIS



Open Access, Refereed Journal Multi-Disciplinary  
Peer Reviewed

[www.ijlra.com](http://www.ijlra.com)

## DISCLAIMER

No part of this publication may be reproduced, stored, transmitted, or distributed in any form or by any means, whether electronic, mechanical, photocopying, recording, or otherwise, without prior written permission of the Managing Editor of the *International Journal for Legal Research & Analysis (IJLRA)*.

The views, opinions, interpretations, and conclusions expressed in the articles published in this journal are solely those of the respective authors. They do not necessarily reflect the views of the Editorial Board, Editors, Reviewers, Advisors, or the Publisher of IJLRA.

Although every reasonable effort has been made to ensure the accuracy, authenticity, and proper citation of the content published in this journal, neither the Editorial Board nor IJLRA shall be held liable or responsible, in any manner whatsoever, for any loss, damage, or consequence arising from the use, reliance upon, or interpretation of the information contained in this publication.

The content published herein is intended solely for academic and informational purposes and shall not be construed as legal advice or professional opinion.

**Copyright © International Journal for Legal Research & Analysis.  
All rights reserved.**

## ABOUT US

The *International Journal for Legal Research & Analysis (IJLRA)* (ISSN: 2582-6433) is a peer-reviewed, academic, online journal published on a monthly basis. The journal aims to provide a comprehensive and interactive platform for the publication of original and high-quality legal research.

IJLRA publishes Short Articles, Long Articles, Research Papers, Case Comments, Book Reviews, Essays, and interdisciplinary studies in the field of law and allied disciplines. The journal seeks to promote critical analysis and informed discourse on contemporary legal, social, and policy issues.

The primary objective of IJLRA is to enhance academic engagement and scholarly dialogue among law students, researchers, academicians, legal professionals, and members of the Bar and Bench. The journal endeavours to establish itself as a credible and widely cited academic publication through the publication of original, well-researched, and analytically sound contributions.

IJLRA welcomes submissions from all branches of law, provided the work is original, unpublished, and submitted in accordance with the prescribed submission guidelines. All manuscripts are subject to a rigorous peer-review process to ensure academic quality, originality, and relevance.

Through its publications, the *International Journal for Legal Research & Analysis* aspires to contribute meaningfully to legal scholarship and the development of law as an instrument of justice and social progress.

## ***PUBLICATION ETHICS, COPYRIGHT & AUTHOR RESPONSIBILITY STATEMENT***

The *International Journal for Legal Research and Analysis (IJLRA)* is committed to upholding the highest standards of publication ethics and academic integrity. All manuscripts submitted to the journal must be original, unpublished, and free from plagiarism, data fabrication, falsification, or any form of unethical research or publication practice. Authors are solely responsible for the accuracy, originality, legality, and ethical compliance of their work and must ensure that all sources are properly cited and that necessary permissions for any third-party copyrighted material have been duly obtained prior to submission. Copyright in all published articles vests with IJLRA, unless otherwise expressly stated, and authors grant the journal the irrevocable right to publish, reproduce, distribute, and archive their work in print and electronic formats. The views and opinions expressed in the articles are those of the authors alone and do not reflect the views of the Editors, Editorial Board, Reviewers, or Publisher. IJLRA shall not be liable for any loss, damage, claim, or legal consequence arising from the use, reliance upon, or interpretation of the content published. By submitting a manuscript, the author(s) agree to fully indemnify and hold harmless the journal, its Editor-in-Chief, Editors, Editorial Board, Reviewers, Advisors, Publisher, and Management against any claims, liabilities, or legal proceedings arising out of plagiarism, copyright infringement, defamation, breach of confidentiality, or violation of third-party rights. The journal reserves the absolute right to reject, withdraw, retract, or remove any manuscript or published article in case of ethical or legal violations, without incurring any liability.

# **INDEPENDENT DIRECTORS IN STRENGTHENING ANTI-MONEY LAUNDERING FRAMEWORKS: GOVERNANCE, DUTIES, AND COMPLIANCE STANDARDS**

AUTHORED BY - ASHLESHA

Student, Master of Law, University Institute of Law, Sant Baba Bhag Singh University

CO-AUTHOR - POOJA BALI

Dean, University Institute of Law, Sant Baba Bhag Singh University

## **Abstract**

Money laundering poses a significant global threat to financial system integrity, economic development, and national security. India's regulatory architecture, anchored by the Prevention of Money Laundering Act (PMLA), 2002, and the Companies Act, 2013, establishes comprehensive anti-money laundering (AML) frameworks requiring active corporate governance oversight. Independent directors, as non-executive board members with fiduciary obligations, occupy a crucial position in strengthening organizational AML compliance. This article examines the multifaceted role of independent directors in combating money laundering, analyzing their constitutional duties under the Companies Act, 2013, their oversight responsibilities under PMLA-designated director requirements, and their capacity to enhance institutional AML controls. Through comparative analysis of international frameworks and examination of India's evolving regulatory landscape, this article demonstrates that independent directors serve as critical governance mechanisms for detecting, preventing, and reporting suspicious financial activities. The article concludes that robust independent director engagement in AML frameworks requires enhanced expertise, formalized oversight structures, and integration with compliance committees transforming independent directors from passive board members into proactive guardians of financial system integrity.<sup>1</sup>

---

<sup>1</sup>The Companies Act, 2013, No. 18, Acts of Parliament, 2013 (India).

## 1. INTRODUCTION

### 1.1 The Global Money Laundering Crisis

Money laundering represents one of the most pervasive threats to global financial stability, with estimates suggesting that illicit financial flows exceed \$2 trillion annually. The process enables criminal enterprises—drug trafficking organizations, arms smugglers, human traffickers, and terrorists—to legitimize proceeds derived from illegal activities. Beyond immediate security concerns, money laundering distorts legitimate economies, undermines market confidence, and diverts resources from productive activities toward facilitating crime. Financial institutions inadvertently facilitate money laundering when robust compliance controls are absent. High-profile cases—including scandals involving global banks processing illicit funds—underscore the human and institutional costs of regulatory failure. In India, rapid digitalization and e-commerce expansion have created new vulnerability vectors for money laundering schemes, requiring enhanced regulatory vigilance and institutional oversight.

### 1.2 India's Anti-Money Laundering Legal Framework

India's AML architecture rests on three foundational pillars:

**The Prevention of Money Laundering Act, 2002 (PMLA):** This statute criminalizes money laundering, establishes the Financial Intelligence Unit (FIU-IND), and imposes Know Your Customer (KYC), Customer Due Diligence (CDD), and suspicious activity reporting obligations on financial institutions and designated non-financial businesses.<sup>2</sup>

**The Companies Act, 2013:** This legislation establishes corporate governance standards requiring independent directors to exercise fiduciary duties including prudential oversight, conflict prevention, and protection of stakeholder interests.<sup>3</sup>

**Sectoral Regulations:** Reserve Bank of India (RBI) guidelines, Securities and Exchange Board of India (SEBI) regulations, and specialized financial regulator requirements impose AML/KYC/CFT (Counter-Terrorist Financing) standards on regulated entities.

These legal instruments create an integrated framework where corporate governance boards—specifically independent directors—bear responsibility for overseeing organizational AML compliance.

### 1.3 Independent Directors as Governance Anchors

An independent director, under the Companies Act, 2013, is defined as a non-executive director

---

<sup>2</sup>The Prevention of Money Laundering Act, 2002, No. 30, Acts of Parliament, 2003 (India).

<sup>3</sup>The Companies Act, 2013, No. 18, Acts of Parliament, 2013 (India).

who satisfies independence criteria and possesses no material relationships with the company, its promoters, or management. Unlike executive directors who manage daily operations, independent directors provide oversight, advice, and accountability mechanisms.

The significance of independent directors in AML frameworks emerges from their positioning: they represent shareholder interests, maintain independence from management bias, and exercise fiduciary duties encompassing prudential oversight and compliance verification. Yet their AML-specific role remains underexplored and underdeveloped in most jurisdictions, including India.

## 1.4 Objectives and Scope

This article examines:

- 1. Definitional Frameworks:** Core concepts including money laundering, anti-money laundering, independent directors, and governance standards
- 2. Historical Evolution:** How independent director requirements and AML frameworks emerged and matured
- 3. Current Legal Landscape:** PMLA obligations, Companies Act provisions, and sectoral regulations establishing independent director duties
- 4. Specific AML Duties:** Investigative, supervisory, and reporting responsibilities independent directors must discharge
- 5. Comparative Analysis:** International approaches (EU, US, UK frameworks) and their applicability to Indian contexts
- 6. Implementation Gaps:** Current weaknesses in independent director AML engagement
- 7. Recommendations:** Structural and capacity-building enhancements strengthening independent director effectiveness

## 2. FOUNDATIONAL CONCEPTS AND DEFINITIONS

### 2.1 Money Laundering: Definition and Typology

**Money laundering** is the process of concealing the origins of illicitly derived funds, making such funds appear as if they were legitimately earned. The PMLA, 2002, Section 2(u), defines money laundering as involving any person who directly or indirectly attempts to indulge in any transaction involving proceeds of crime, knowing that such property comprises proceeds of crime.<sup>4</sup>

---

<sup>4</sup>The Prevention of Money Laundering Act, 2002, No. 30, Acts of Parliament, 2003 (India).

Three distinct phases characterize the money laundering process:

**Placement Phase:** Introducing illicit funds into the financial system through deposits, purchases, or transfers, attempting to distance money from its illegal source.

**Layering Phase:** Conducting complex transactions designed to obscure the audit trail and ownership of illicit funds, creating confusion through multiple transfers, conversions, and cross-border movements.

**Integration Phase:** Reintroducing laundered funds into the legitimate economy as ostensibly legal income, through investments in real estate, businesses, or financial instruments.

Understanding this typology is essential for independent directors tasked with implementing control frameworks each phase presents distinct vulnerabilities requiring specific detection and prevention mechanisms.

## 2.2 Anti-Money Laundering (AML): Regulatory Response

**Anti-money laundering (AML)** encompasses legal, regulatory, and institutional frameworks designed to prevent, detect, and report money laundering activities. AML frameworks operate on five pillar structures, internationally recognized as best practice<sup>5</sup>:

**Pillar 1: Customer Due Diligence (CDD):** Comprehensive procedures to identify customers, verify identities, assess risk profiles, and understand beneficial ownership structures.

**Pillar 2: Transaction Monitoring:** Systematic surveillance of customer transactions to identify suspicious patterns inconsistent with known customer profiles or business activities.

**Pillar 3: Suspicious Activity Reporting (SAR):** Mandatory reporting of suspected money laundering to Financial Intelligence Units, with appropriate confidentiality protections.

**Pillar 4: Record-Keeping and Documentation:** Comprehensive maintenance of transaction records, customer information, and due diligence documentation for regulatory examination and investigation.

**Pillar 5: Compliance Management:** Organizational structures, policies, training, and audit mechanisms ensuring sustained AML program effectiveness.

## 2.3 Independent Directors: Statutory Definition and Eligibility

Under the Companies Act, 2013, Section 149, an **independent director** is a non-executive director who:

---

<sup>5</sup>Res. Bank of India, Master Circular: Know Your Customer (KYC) Policy 2025-26, Dep't of Banking Regul. (2025), <https://centralbankofindia.co.in/sites/default/files/2025-04/FINAL-KYCAML-Policy-2025-26-upto-06.11.2024.pdf>

- Is not a promoter of the company or its subsidiary.
- Does not hold 2% or more shares of the company.
- Has not been employed by the company or subsidiary in any capacity during the preceding two financial years.
- Is not a relative of promoters or key managerial personnel.
- Has not received any remuneration from the company beyond sitting fees and commission.
- Does not possess other disqualifications specified in the rules.

Schedule IV of the Companies Act, 2013, further elaborates independent director duties, which include<sup>6</sup>:

**Ethical Conduct:** Sustaining high ethical standards, impartiality, and acting in company interests.

**Expertise and Due Diligence:** Allocating time to understand company operations, risks, and financial position, thereby facilitating informed decision-making.

**Strategic Judgment:** Bringing independent judgment to matters of strategic risk management, resources, and key appointments.

**Stakeholder Protection:** Safeguarding minority shareholder interests and maintaining balance among competing stakeholder interests.

**Compliance and Governance:** Ensuring effective financial controls, risk management systems, and proper vigilance mechanisms.

These duties create a framework encompassing AML oversight, though most independent directors lack specific AML expertise or formal role definitions.

#### 2.4 Know Your Customer (KYC) and Customer Due Diligence (CDD)

**Know Your Customer (KYC)** refers to the process of identifying customers and understanding their transaction patterns before establishing business relationships. PMLA Chapter V establishes statutory KYC obligations requiring financial institutions to<sup>7</sup>:

- Collect customer identification documents and verify authenticity.
- Understand customer nature of business and transaction purposes.
- Conduct ongoing customer monitoring throughout the relationship.

<sup>6</sup>The Companies Act, 2013, No. 18, Acts of Parliament, 2013 (India).

<sup>7</sup>Res. Bank of India, Master Circular: Know Your Customer (KYC) Policy 2025-26, Dep't of Banking Regul. (2025), <https://centralbankofindia.co.in/sites/default/files/2025-04/FINAL-KYCAML-Policy-2025-26-upto-06.11.2024.pdf>

- Document all KYC information for regulatory inspection.

**Customer Due Diligence (CDD)** represents an enhanced KYC process applying heightened scrutiny to high-risk customers. Enhanced Due Diligence (EDD) applies to politically exposed persons (PEPs), non-resident customers, and customers from jurisdictions with weak AML frameworks. CDD and EDD require documentation of beneficial ownership structures, funding sources, and transaction purposes, creating comprehensive risk profiles.

## 2.5 Beneficial Ownership and Sanctions Screening

**Beneficial ownership** refers to the ultimate natural persons who own, control, or derive benefit from entities conducting transactions. Modern money laundering frequently employs shell corporations, trusts, and complex ownership structures obscuring beneficial owners. PMLA Chapter V mandates identification and verification of beneficial ownership to penetrate these structures.

**Sanctions screening** involves verifying customers and transaction parties against lists of sanctioned entities maintained by governments and international bodies (UN sanctions lists, OFAC designations, and similar instruments).<sup>8</sup> Financial institutions must screen customers at onboarding and continuously during relationships, immediately freezing accounts of identified sanctioned entities and reporting to authorities.

## 3. HISTORICAL EVOLUTION: FROM FRAGMENTED OVERSIGHT TO INTEGRATED GOVERNANCE

### 3.1 Pre-2000 Era: Absence of Statutory AML Frameworks

Prior to 2000, India lacked comprehensive, statutorily mandated AML frameworks. Financial institution AML practices were ad hoc, uncoordinated, and insufficient to address emerging money laundering threats.<sup>9</sup> Drug trafficking, smuggling, and corruption generated substantial illicit proceeds lacking legitimate financial integration mechanisms.

Similarly, corporate governance frameworks operated independently from AML considerations. Independent directors where they existed focused on financial reporting accuracy and executive oversight, without specific AML responsibilities.<sup>10</sup>

---

<sup>8</sup>The Prevention of Money Laundering Act, 2002, No. 30, Acts of Parliament, 2003 (India).

<sup>9</sup>Res. Bank of India, Master Circular: Know Your Customer (KYC) Policy 2025-26, Dep't of Banking Regul. (2025), <https://centralbankofindia.co.in/sites/default/files/2025-04/FINAL-KYCAML-Policy-2025-26-upto-06.11.2024.pdf>.

<sup>10</sup>The Companies Act, 2013, No. 18, Acts of Parliament, 2013 (India).

### 3.2 PMLA 2002: Establishing Statutory Anti-Money Laundering Architecture

The Prevention of Money Laundering Act, 2002, marked a watershed moment in India's financial regulation. Enacted following India's commitments under the Financial Action Task Force (FATF) recommendations and international best practices, PMLA established<sup>11</sup>:

**The Financial Intelligence Unit (FIU-IND):** Created as the nodal agency to receive, process, and analyze suspicious activity reports from financial institutions and reporting entities.

**KYC, CDD, and Record-Keeping Obligations:** Chapter V imposed statutory duties on banks, financial institutions, and designated non-financial businesses to verify customers, understand beneficial ownership, and maintain comprehensive transaction documentation.

**Suspicious Activity Reporting Mandates:** Financial institutions must report transactions suspected of involving money laundering proceeds or terrorist financing within specified timelines, with confidentiality protections for reporters.

**Designated Director Requirement:** Section 12(1) mandates that specified financial institutions appoint a "designated director" responsible for AML compliance, with explicit board oversight accountability.

However, PMLA focused on financial institution compliance, with limited attention to corporate governance frameworks or independent director engagement in non-financial corporations.

### 3.3 Companies Act 2013: Independent Directors and Governance Modernization

The Companies Act, 2013, represented a comprehensive corporate governance overhaul, elevating independent director status from peripheral board members to governance anchors. Key reforms included:

**Mandatory Independent Director Requirements:** All listed companies and large private companies must appoint independent directors constituting at least one-third of board strength, with additional requirements for audit committees and nomination-remuneration committees.

**Formalized Independent Director Duties:** Schedule IV codified independent director responsibilities including ensuring effective financial controls, risk management systems, and organizational ethics.

**Audit Committee Composition:** Audit committees must comprise independent directors and ensure financial statement integrity, risk management effectiveness, and compliance.

**Whistleblower Protection:** Companies must establish vigil mechanisms protecting

---

<sup>11</sup>The Prevention of Money Laundering Act, 2002, No. 30, Acts of Parliament, 2003 (India).

whistleblowers reporting fraud or misconduct, with independent director oversight.

While these reforms enhanced corporate governance generally, they did not explicitly integrate independent directors into AML compliance frameworks.

### **3.4 RBI and SEBI Guidance Notes (2010-2020): Sectoral AML Integration**

From 2010 onwards, sectoral regulators including the RBI and SEBI issued guidance notes integrating AML requirements into corporate governance structures.<sup>12</sup> These guidance notes:

- Mandated board-level AML policy approval.
- Established dedicated compliance officer positions reporting to boards.
- Required audit committee oversight of AML program effectiveness.
- Imposed AML training requirements for board members.
- Established suspicious activity reporting procedures with board notification.

These developments began positioning independent directors as AML stakeholders, though formal role definitions remained absent.

### **3.5 Post-2020 Certification Requirements and Enhanced Standards (2020-2025)**

From 2020 onwards, India witnessed accelerated regulatory development emphasizing independent director AML expertise:

- In Financial Services (IFSCA) regulations (2022) mandated AML/CFT/KYC certification for designated directors and principal officers of regulated entities.<sup>13</sup>
- SEBI guidance emphasized independent director engagement in algorithmic compliance and automation in AML systems.
- Reserve Bank issued Master Circulars on KYC/AML/CFT policies requiring board and committee-level oversight.

These recent developments reflect growing recognition that independent directors must evolve from passive governance roles to active AML compliance partners.

## **4. THE NECESSITY FOR INDEPENDENT DIRECTOR AML ENGAGEMENT**

### **4.1 Agency Problem and Separated Ownership-Management**

The foundational justification for independent directors rests on the agency problem: the

---

<sup>12</sup>The Prevention of Money Laundering Act, 2002, No. 30, Acts of Parliament, 2003 (India).

<sup>13</sup>Int'l Fin. Servs. Ctrs. Auth., Circular IFSCA/2025/90: IFSCA (Anti-Money Laundering, Counter-Terrorist Financing and Know Your Customer) Guidelines, 2022 (Nov. 17, 2025).

divergence between shareholders' interests and management's actual behavior. Management may prioritize short-term profits, executive compensation, or risk-taking over long-term shareholder value, regulatory compliance, and organizational integrity.

This agency problem intensifies in AML contexts. Money laundering transactions often generate substantial short-term profits through illicit trade financing, sanctions evasion, or fraudulent investment schemes. Management may face implicit or explicit pressure from organized crime networks, corrupt officials, or shareholders with illicit motivations to facilitate such transactions. Detecting and preventing money laundering requires vigilant oversight independent of management control—precisely the function independent directors provide.

#### **4.2 Information Asymmetries and Compliance Expertise**

Management possesses superior information about transaction patterns, customer relationships, and business operations compared to shareholders and independent directors. This information asymmetry creates vulnerabilities: management can conceal suspicious activities, misrepresent compliance status, or deliberately facilitate money laundering while claiming operational necessity.

AML expertise compounds this asymmetry. Modern money laundering employs sophisticated techniques including trade-based money laundering, cryptocurrency mixing, shell company networks, and cross-border structuring requiring technical knowledge to detect.<sup>14</sup> Independent directors without AML expertise cannot effectively challenge management claims regarding transaction legitimacy or compliance adequacy.

#### **4.3 Fiduciary Duties and Stakeholder Protection**

Independent directors bear fiduciary duties encompassing care, diligence, loyalty, and good faith. These duties extend beyond shareholder wealth maximization to stakeholder protection, including employees, creditors, communities, and the broader public.

Money laundering facilitation violates these duties in multiple dimensions:

**Employee and Creditor Protection:** Organizations facilitating money laundering face substantial penalties, reputational damage, and operational disruption, harming employee interests and creditor security.

**Community Protection:** Money laundering enablement supports criminal enterprises causing direct community harm through drug trafficking, human trafficking, and violence.

---

<sup>14</sup>The Prevention of Money Laundering Act, 2002, No. 30, Acts of Parliament, 2003 (India).

**Regulatory Compliance:** Fiduciary duties encompass ensuring organizational compliance with legal obligations, including AML statutes.

**Broader Public Interest:** Financial system integrity necessary for economic development, poverty reduction, and governance depends on preventing money laundering. Independent directors bear responsibility for protecting this broader public interest.

#### **4.4 Reputational Risk and Organizational Resilience**

Organizations discovered facilitating money laundering face devastating reputational damage, regulatory sanctions, criminal prosecution of executives, and operational disruption. The Panama Papers, Fincen Files, and Pandora Papers revealed institutional money laundering enabling, resulting in billions in fines, executive imprisonment, and loss of operating licenses. Independent directors bear ultimate responsibility for risk management and organizational resilience. Failing to implement robust AML oversight exposes organizations to existential risks that vigilant independent director engagement could prevent.

#### **4.5 Regulatory Expectations and Legal Obligations**

Regulatory authorities increasingly expect board-level AML engagement. PMLA Section 12(1) mandates designated director appointment, implicitly requiring board oversight. RBI guidance notes explicitly require AML policy board approval and audit committee monitoring. SEBI regulations mandate independent director participation in risk management, encompassing financial crime risks.

These regulatory expectations establish binding legal obligations. Independent directors cannot delegate AML oversight to management alone; they must actively participate in developing, monitoring, and enhancing AML frameworks.

## **5. CURRENT LEGAL FRAMEWORK: INDEPENDENT DIRECTOR AML DUTIES**

### **5.1 PMLA Section 12: Designated Director Requirements**

The Prevention of Money Laundering Act, 2002, Section 12(1), mandates that specified categories of reporting entities (banks, financial institutions, investment firms, and certain non-financial businesses) appoint a "designated director" responsible for ensuring organization-wide AML compliance.<sup>15</sup>

---

<sup>15</sup>The Prevention of Money Laundering Act, 2002, No. 30, Acts of Parliament, 2003 (India).

The designated director's statutory obligations include:

**Ensuring Compliance with KYC, CDD, and Record-Keeping Obligations:** The designated director must verify that organization systems require customer identification, beneficial ownership documentation, and ongoing transaction monitoring.

**Supervising Suspicious Activity Reporting:** The designated director must establish and supervise procedures ensuring that employees identify and report suspicious transactions to the Financial Intelligence Unit within statutory timelines.

**Implementing Compliance Procedures:** The designated director must develop, oversee, and update organizational AML policies, procedures, and control frameworks.

**Staff Training and Awareness:** The designated director must ensure all employees receive training enabling them to recognize suspicious activities and understand reporting procedures.

**Regulatory Reporting:** The designated director must respond to inquiries from the FIU-IND and enforcement authorities regarding AML compliance.

These Section 12 obligations apply to "designated directors," who must be natural persons (not entities) and typically occupy senior board or management positions. While not all independent directors serve as designated directors, the designated director role frequently falls to independent directors in organizations maintaining board-level AML oversight.

## **5.2 Companies Act 2013 Schedule IV: Independent Director Code of Conduct**

Schedule IV of the Companies Act, 2013, establishes comprehensive independent director duties, several of which encompass AML responsibilities:

### **Part I: Role and Function - Financial Expertise Requirements:**

"Every independent director should have access to information required to take and make informed decisions, in particular with regard to the financial position of the company, and should be provided with the required financial statements and other information in advance of the meetings of the board.

This provision establishes independent director rights to financial information necessary for AML oversight. Independent directors must receive suspicious activity reports, transaction anomalies, and compliance audit findings enabling informed AML assessment.

### **Part II: Role and Function - Risk Management Engagement:**

"The independent director should be actively involved in the board committees related to risks, audits, and remuneration, bringing an objective eye and contributing positively to risk management and internal controls".

This provision explicitly encompasses financial crime risk management. Independent directors

must engage with audit committees and risk committees to ensure AML systems, control adequacy, and compliance program effectiveness.

### **Part III: Ethical Standards and Impartiality<sup>16</sup>:**

"Every independent director should conduct himself in a manner that is consistent with the values of integrity and honesty and shall abstain from voting or participating in the voting on matters in which he is not disinterested".

These provisions establish ethical foundations for AML enforcement. Independent directors must maintain integrity when challenging management regarding suspicious transactions or compliance failures, refusing to participate in decisions influenced by conflicting interests.

### **5.3 Audit Committee Functions and AML Oversight**

The Companies Act, 2013, and Listing Agreement requirements mandate audit committee composition predominantly or entirely comprising independent directors. Audit committee functions explicitly include:

**Reviewing Financial Statement Integrity:** Audit committees must verify that financial statements fairly represent organization assets, liabilities, and cash flows, including detecting transactions potentially involving money laundering.

**Evaluating Internal Control Effectiveness:** Audit committees must assess whether internal control systems adequately detect and prevent unauthorized transactions, including those involving illicit proceeds.

**Overseeing Risk Management:** Audit committees must monitor organizational risk management systems, including financial crime risks and AML program effectiveness.

**Coordinating with Auditors:** Audit committees must engage with internal and external auditors regarding audit findings, including those related to suspicious transactions or AML deficiencies.

These audit committee functions create formal mechanisms through which independent directors exercise AML oversight responsibilities.

### **5.4 Whistleblower Policies and Fraud Reporting Channels**

Companies Act, 2013, Section 177(9) requires company audit committees to establish vigil mechanisms enabling employees to report concerns regarding unethical conduct, including financial crime and regulatory violations. Independent directors, through audit committee

---

<sup>16</sup>Roles and responsibilities of independent directors, IPLeaders (June 22, 2024), <https://blog.iplayers.in/roles-and-responsibilities-of-independent-directors/> (last visited on 26<sup>th</sup> January, 2026)

participation, must ensure these mechanisms:

- Protect whistleblowers against retaliation and maintain confidentiality.
- Enable direct reporting to independent directors or audit committee members.
- Establish investigation procedures for reported concerns.
- Document all reports and investigation outcomes.

This framework creates channels through which employee knowledge of suspicious activities reaches independent director attention, enabling proactive AML engagement.

### **5.5 Independent Director Liability Under PMLA**

A critical legal development concerns independent director liability under PMLA for organizational money laundering facilitation. While PMLA Section 2(u) focuses on parties "attempting to indulge in transactions involving proceeds of crime," courts have extended liability to board members and executives with knowledge of, or willful blindness toward, organizational money laundering.

The logic underlying this extension: fiduciary duties and regulatory obligations establish affirmative duties to prevent organizational participation in money laundering. Independent directors cannot claim ignorance when AML deficiencies were evident or would have been evident through reasonable due diligence. Documented failures to implement, oversee, or enforce AML compliance create liability exposure.

This liability framework transforms independent director AML responsibilities from optional governance enhancements to mandatory legal obligations with criminal exposure.

## **6. INDEPENDENT DIRECTOR DUTIES IN STRENGTHENING AML FRAMEWORKS**

### **6.1 Risk Assessment and AML Program Design**

**Primary Responsibility:** Independent directors must work with compliance committees to ensure organizations conduct comprehensive AML risk assessments identifying key vulnerability areas.

**Specific Duties Include:**

- **Assessing Customer Base Risk:** Understanding which customer segments, geographic markets, products, and delivery channels present elevated money laundering risks.
- **Evaluating Delivery Channel Risks:** Identifying whether digital banking, correspondent banking, wire transfers, or cash-intensive operations present elevated

vulnerability.

- **Analyzing Product Risks:** Understanding whether products (trade finance, investment services, money transmission) inherently attract money laundering activity.
- **Geographic Risk Analysis:** Identifying whether the organization operates in jurisdictions with weak AML frameworks, significant corruption, or substantial illicit financial flows.

Based on this risk assessment, independent directors must ensure design of AML programs and control frameworks proportionate to identified risks. Organizations in higher-risk segments must maintain more sophisticated transaction monitoring, enhanced due diligence procedures, and compliance staffing.

## 6.2 Customer Due Diligence (CDD) and Beneficial Ownership Verification

**Primary Responsibility:** Independent directors must ensure organizations maintain comprehensive customer identification, beneficial ownership documentation, and ongoing due diligence programs.<sup>17</sup>

**Specific Duties Include<sup>18</sup>:**

- **Verifying Onboarding Procedures:** Ensuring customers undergo thorough identity verification, beneficial ownership disclosure, and CDD before account opening.
- **Beneficial Ownership Documentation:** Ensuring organizations identify and document ultimate beneficial owners, penetrating shell company structures and complex ownership arrangements.
- **High-Risk Customer Procedures:** Ensuring enhanced due diligence for politically exposed persons (PEPs), non-residents, customers from high-risk jurisdictions, and high-risk business types.
- **Ongoing Monitoring:** Ensuring organizations conduct continuous customer monitoring throughout the relationship, updating due diligence as customer circumstances evolve.
- **Documentation Completeness:** Ensuring comprehensive documentation is maintained for all customers, including supporting identity documentation, beneficial ownership certificates, and transaction rationale.

---

<sup>17</sup>Res. Bank of India, Master Circular: Know Your Customer (KYC) Policy 2025-26, Dep't of Banking Regul. (2025), <https://centralbankofindia.co.in/sites/default/files/2025-04/FINAL-KYCAML-Policy-2025-26-upto-06.11.2024.pdf>.

<sup>18</sup>Independent Directors and Financial Oversight: Ensuring Accurate Reporting and Transparency, Directors Inst. (Nov. 26, 2024).

Independent directors must periodically review CDD procedures and sampling of customer files to verify adequate implementation and documentation.

### 6.3 Transaction Monitoring and Suspicious Activity Detection

**Primary Responsibility:** Independent directors must oversee development and maintenance of effective transaction monitoring systems designed to detect money laundering patterns.

**Specific Duties Include:**

- **System Capabilities:** Ensuring transaction monitoring systems employ rules-based and machine learning approaches capable of identifying suspicious patterns.
- **Ruleset Development:** Monitoring development and regular updating of monitoring rules reflecting known money laundering typologies, emerging threats, and organizational risk profiles.
- **Threshold Optimization:** Ensuring alert thresholds balance sensitivity (detecting actual suspicious activity) and specificity (minimizing false positives), enabling efficient investigator allocation.
- **Alert Investigation:** Ensuring organizational processes rapidly investigate alerts, determining legitimate versus suspicious transactions.
- **Suspicious Activity Reporting:** Ensuring reporting processes escalate confirmed suspicious activity to compliance officers and designated directors for FIU-IND reporting.

Independent directors should request periodic reports on transaction monitoring metrics: volumes of alerts generated, investigation timelines, suspicious activity reports filed, and detected money laundering patterns.

### 6.4 Sanctions Screening and Correspondent Banking Controls

**Primary Responsibility:** Independent directors must ensure organizations maintain current sanctions lists and screen customers and transaction parties for sanctions involvement.

**Specific Duties Include:**

- **Sanctions List Maintenance:** Ensuring organizations subscribe to updated UN sanctions lists, OFAC designations, and other relevant sanctions regimes.
- **Customer Screening:** Ensuring all customers are screened against sanctions lists at onboarding and continuously throughout relationships.
- **Transaction Party Screening:** Ensuring transaction counterparties are screened to

identify sanctions involvement.

- **Sanctions Investigation:** Ensuring organizations promptly investigate potential sanctions matches, determining whether matches represent false positives or genuine sanctions violations.
- **Account Freezing and Reporting:** Ensuring organizations immediately freeze accounts of identified sanctioned entities and promptly report to relevant authorities.

For international banks maintaining correspondent banking relationships, independent directors must ensure enhanced due diligence on correspondent banks, understanding their customer bases, risk profiles, and AML controls, and promptly terminating relationships with banks maintaining inadequate AML frameworks.

### 6.5 Compliance Staffing and Expertise Development

**Primary Responsibility:** Independent directors must ensure organizations maintain adequate compliance staffing and expertise proportionate to organization size and risk profile.<sup>19</sup>

**Specific Duties Include:**

- **Compliance Officer Competence:** Ensuring designated directors and compliance officers possess appropriate AML expertise, professional certifications (such as Certified Anti-Money Laundering Specialist certifications), and experience.
- **Compliance Department Capacity:** Ensuring adequate staffing levels enabling effective transaction monitoring, investigations, customer due diligence, and regulatory reporting.
- **Specialized Functions:** Ensuring organizations maintain specialized expertise in areas requiring particular knowledge (sanctions law, beneficial ownership verification, emerging typologies).
- **External Expertise:** Ensuring organizations access external counsel, consultants, and forensic specialists when internal capacity proves insufficient.
- **Continuing Professional Development:** Ensuring compliance personnel receive regular training on emerging money laundering typologies, new regulatory requirements, and lessons from industry enforcement actions.

Independent directors must regularly assess whether current staffing levels and expertise are adequate relative to organizational growth, risk profile changes, and regulatory requirements.

---

<sup>19</sup>Res. Bank of India, Master Circular: Know Your Customer (KYC) Policy 2025-26, Dep't of Banking Regul. (2025), <https://centralbankofindia.co.in/sites/default/files/2025-04/FINAL-KYCAML-Policy-2025-26-upto-06.11.2024.pdf>.

## 6.6 Policy Development and Procedure Maintenance

**Primary Responsibility:** Independent directors must ensure organizations develop, implement, and regularly update comprehensive AML policies and procedures.

**Specific Duties Include:**

- **Comprehensive AML Policies:** Ensuring organizations maintain written policies addressing customer identification, due diligence, transaction monitoring, suspicious activity reporting, record-keeping, and training.
- **Regular Updates:** Ensuring policies are updated at minimum annually or whenever regulatory requirements change, new typologies emerge, or internal reviews identify deficiencies.
- **Clear Procedures:** Ensuring AML policies establish clear procedures enabling employees to identify suspicious activities, escalate concerns, and report to authorities.
- **Board Approval:** Ensuring comprehensive AML policies receive explicit board or committee approval, establishing clear accountability.
- **Employee Dissemination:** Ensuring all employees receive copies of AML policies and receive training enabling understanding of policies and personal responsibilities.

Independent directors should periodically review policy documents, comparing current procedures against regulatory requirements and industry best practices, identifying enhancement opportunities.

## 6.7 Audit, Testing, and Compliance Assessment

**Primary Responsibility:** Independent directors must ensure organizations conduct regular independent audits and testing of AML program effectiveness.<sup>20</sup>

**Specific Duties Include:**

- **Internal Audit Function:** Ensuring organizations maintain internal audit functions evaluating AML program effectiveness, testing compliance with policies, and identifying control weaknesses.
- **External Audit:** Ensuring organizations engage external auditors to independently assess AML program adequacy, providing objective validation.
- **Testing Scope:** Ensuring audits test key AML program components including customer onboarding procedures, transaction monitoring systems, suspicious activity investigation processes, and compliance training effectiveness.

---

<sup>20</sup>Independent Directors' Liability under PMLA: Are They Really at Risk?, TaxGuru (Dec. 23, 2025).

- **Audit Findings:** Ensuring audit findings and management responses are promptly communicated to independent directors and audit committees.
- **Remediation Tracking:** Ensuring organizations implement audit-identified deficiencies and track remediation to completion.

Independent directors should review audit reports in detail, questioning management regarding deficiency causes and remediation adequacy.

## 6.8 Board-Level Reporting and Escalation

**Primary Responsibility:** Independent directors must establish mechanisms ensuring significant AML issues reach board attention for consideration and action.

### Specific Duties Include:

- **Regular Reporting:** Ensuring compliance officers provide regular reports to audit committees or boards regarding AML program status, metrics, and developments.
- **Issue Escalation:** Establishing clear procedures for escalating significant issues including regulatory violations, substantial weaknesses, or enforcement concerns to independent director attention.
- **Investigation Findings:** Ensuring suspicious activity investigations and their outcomes are communicated to boards when issues suggest systemic problems or significant risk.
- **Regulatory Feedback:** Ensuring regulatory inspections, examination findings, and enforcement actions are promptly communicated to independent directors.
- **Action Planning:** Ensuring boards develop and oversee implementation of action plans addressing identified deficiencies.

This reporting structure ensures independent directors possess accurate, current information necessary for informed AML oversight.

## 7. INTERNATIONAL FRAMEWORKS AND COMPARATIVE PERSPECTIVES

### 7.1 European Union Framework: Integration of Directors in AML Governance

The European Union's approach to AML governance emphasizes board-level engagement through several mechanisms:

**EU Directive 2015/849 (4th AML Directive)** and **EU Directive 2018/843 (5th AML Directive)** establish comprehensive AML/CFT requirements applicable to financial

institutions and non-financial businesses across member states. These directives establish<sup>21</sup>:

- **Governance Requirements:** Financial institutions must establish board-level governance structures overseeing AML/CFT compliance.
- **Compliance Officer Accountability:** Compliance officers must report directly to boards or senior management, with independence from commercial pressure.
- **Risk-Based Approach:** Entities must conduct risk assessments and implement control frameworks proportionate to identified risks.
- **PEP Screening and Enhanced Due Diligence:** Organizations must implement enhanced procedures for politically exposed persons and high-risk customers.

The EU framework explicitly recognizes board directors as governance anchors with fiduciary responsibilities encompassing AML compliance, rather than treating AML as a purely operational compliance function.

## 7.2 United States Framework: Board Oversight and Director Liability

The United States approach, developed through Federal Reserve guidance and cases like *In re Caremark International Inc. Derivative Litigation*, establishes that corporate directors bear affirmative duties to establish and monitor AML/Bank Secrecy Act compliance.

### Key Features:

- **Affirmative Monitoring Duty:** Directors cannot delegate AML oversight entirely to management; they must actively monitor compliance programs and request periodic reporting.
- **Knowledge Standards:** Directors bear liability for failures when they possessed knowledge of compliance deficiencies or deliberately avoided information suggesting problems.
- **Audit Committee Engagement:** Audit committees must understand BSA/AML program requirements and monitor program effectiveness through regular reporting.
- **Risk Management:** Directors must understand organization-specific AML risks based on customer base, products, and geographic operations.

The US framework emphasizes director accountability, with sanctions including removal from boards, director disqualification, and civil liability for director negligence in AML oversight.

---

<sup>21</sup>Fin. Action Task Force, *International Standards on Combating Money Laundering and the Financing of Terrorism & Proliferation* (2024).

### 7.3 United Kingdom Framework: FCA Governance Requirements

The Financial Conduct Authority (FCA) requires UK financial institutions to establish governance structures where senior management and boards oversee AML/CFT compliance.

The FCA emphasizes:

- **Senior Management Accountability:** FCA Handbook rules establish that senior managers bear personal accountability for AML/CFT compliance within their portfolios.
- **Compliance Committee Engagement:** Boards must establish compliance committees overseeing AML program adequacy.
- **Regular Reporting and Monitoring:** Boards must receive regular compliance reports and audit findings regarding AML program effectiveness.
- **Enforcement Action:** FCA enforcement typically includes director and senior manager accountability, with bans from financial services industry participation for individuals facilitating regulatory violations.

The UK approach integrates AML governance into broader financial services regulation, treating board-level AML oversight as a foundational governance responsibility.

### 7.4 Comparative Analysis: Indian Framework Positioning

Compared to international frameworks, India's independent director AML engagement frameworks remain underdeveloped:

#### Strengths:

- Explicit PMLA Section 12 designated director requirements establish clear accountability.
- Companies Act 2013 Schedule IV provides comprehensive independent director duty framework applicable to AML contexts.
- Audit committee requirements enable formal AML oversight mechanisms.

#### Gaps:

- No explicit independent director AML competency requirements or certification standards (unlike IFSCA financial services requirements).<sup>22</sup>
- Limited regulatory guidance specifically addressing independent director AML roles compared to international standards.<sup>23</sup>

<sup>22</sup> Int'l Fin. Servs. Ctrs. Auth., Circular IFSCA/2025/90: IFSCA (Anti-Money Laundering, Counter-Terrorist Financing and Know Your Customer) Guidelines, 2022 (Nov. 17, 2025).

<sup>23</sup> Fin. Action Task Force, International Standards on Combating Money Laundering and the Financing of

- Liability framework remains underdeveloped; few Indian cases establish director liability for organizational money laundering facilitation.
- No formalized process enabling independent directors to obtain regular AML program assessments and metrics.

**Opportunities:**

- Evolving regulations increasingly expect board-level AML engagement.
- International frameworks provide models for enhanced independent director engagement.
- Capacity building in independent director AML expertise could substantially strengthen compliance frameworks.

## **8. IMPLEMENTATION GAPS AND CURRENT CHALLENGES**

### **8.1 Expertise and Competency Deficiencies**

**Challenge:** Many independent directors lack specific AML expertise or formal training in money laundering detection, prevention, and regulatory requirements.<sup>24</sup>

**Manifestations:**

- Independent directors unable to meaningfully evaluate transaction monitoring system adequacy or alert investigation procedures.
- Difficulty assessing whether CDD procedures adequately penetrate shell company structures or beneficial ownership obfuscation.
- Limited ability to identify emerging money laundering typologies or assess organization vulnerability to novel schemes.

**Consequences:**

- Dependent on compliance officer representations without independent evaluation capacity.
- Vulnerable to management manipulation or deliberate concealment of AML weaknesses.
- Inability to challenge proposals or assess whether risk mitigation measures prove adequate.

---

Terrorism & Proliferation (2024).

<sup>24</sup>The Prevention of Money Laundering Act, 2002, No. 30, Acts of Parliament, 2003 (India).

## 8.2 Insufficient Information Access

**Challenge:** Independent directors often lack access to comprehensive information regarding organizational AML program metrics, transaction monitoring findings, and regulatory feedback.

**Manifestations:**

- Limited access to transaction monitoring alert data, investigation findings, or suspicious activity report details.
- Infrequent communication of regulatory examination findings or enforcement concerns.
- Absence of periodic dashboards or scorecards providing quantitative AML program metrics.

**Consequences:**

- Inability to identify whether AML programs actually function as designed or merely exist on paper.
- Delayed awareness of regulatory concerns, limiting opportunity for prompt remediation.
- Difficulty assessing whether staffing and resource levels adequately support compliance functions.

## 8.3 Time Constraints and Competing Responsibilities

**Challenge:** Independent directors typically serve on multiple boards and committees with demanding time requirements, limiting capacity for detailed AML oversight.

**Manifestations:**

- Board meetings typically allocate limited time to AML matters, focusing on financial reporting and strategic issues.
- Audit committees responsible for financial statement review, risk management, and compliance, with insufficient time for detailed AML assessment.
- Independent directors lacking opportunity to develop deep understanding of organization-specific AML risks.

**Consequences:**

- Superficial AML oversight, approving policies without detailed evaluation.
- Inability to conduct meaningful investigation or questioning regarding AML matters.
- Reliance on compliance officer summaries rather than independent analysis.

#### 8.4 Unclear Roles and Accountability Structures

**Challenge:** Many organizations lack clear definition of independent director AML roles, responsibilities, and accountability mechanisms.

**Manifestations:**

- Ambiguity regarding whether independent directors or audit committees bear primary AML oversight responsibility.
- Unclear escalation procedures for significant AML issues or regulatory concerns.
- Absence of explicit performance metrics or assessment standards for independent director AML oversight.

**Consequences:**

- Diffused accountability enabling independent directors to claim limited personal responsibility.
- Ineffective escalation when significant concerns arise.
- Absence of evaluative framework assessing whether independent directors discharge AML duties adequately.

#### 8.5 Regulatory Guidance Limitations

**Challenge:** Compared to international standards, India provides limited regulatory guidance specifically addressing independent director AML responsibilities.<sup>25</sup>

**Manifestations:**

- PMLA focuses on designated director and reporting entity obligations, with limited independent director integration.
- Companies Act 2013 Schedule IV establishes general independent director duties without specific AML articulation.
- RBI and SEBI guidance notes address board-level oversight without explicitly defining independent director roles.
- IFSCA financial services requirements mandate AML certifications but do not establish broader independent director competency standards.

**Consequences:**

- Uncertainty regarding regulatory expectations and independent director duties.
- Absence of baseline competency standards or certification pathways.

---

<sup>25</sup>Roles and responsibilities of independent directors, IPLeaders (June 22, 2024), <https://blog.ipleaders.in/roles-and-responsibilities-of-independent-directors/>

- Limited enforcement mechanisms when independent directors fail to discharge AML responsibilities.

## **9. COMPARATIVE ANALYSIS: CURRENT FRAMEWORK VS. STRENGTHENED AML GOVERNANCE MODEL**

### **9.1 Current Framework Characteristics**

The existing Indian framework reflects a compliance-based approach where:

- AML compliance is treated as an operational function delegated to designated directors and compliance officers.
- Independent directors provide general oversight through audit committees but lack specific AML engagement.
- Board-level focus emphasizes financial reporting and strategic matters, with AML receiving residual attention.
- Accountability is dispersed, with unclear responsibility allocation between independent directors, audit committees, and compliance functions.

#### **Strengths:**

- Statutory foundation establishing designated director requirements.
- Formal audit committee structures enabling compliance oversight.
- Schedule IV independent director duties encompassing financial controls and risk management.

#### **Weaknesses:**

- Limited independent director expertise in money laundering detection and prevention.
- Insufficient information access regarding AML program metrics and effectiveness.
- Unclear accountability structures and performance assessment mechanisms.
- Minimal integration of international best practices.

### **9.2 Strengthened AML Governance Model Requirements**

A strengthened model would incorporate:

#### **1. Formal Independent Director AML Competencies:**

- Mandatory training on money laundering typologies, PMLA requirements, and transaction detection.
- Professional certifications in AML/CFT/KYC similar to IFSCA requirements.
- Assessment of existing director expertise and targeted recruitment/training to address

gaps.

## **2. Structured AML Oversight Mechanisms:**

- Explicit independent director roles in AML policy development and ongoing oversight.
- Dedicated AML committees within boards or formal integration into audit committee mandates.
- Clear escalation procedures for significant AML issues requiring board attention.
- Quarterly or semi-annual AML reporting to boards covering metrics, findings, and regulatory developments.

## **3. Enhanced Information Access:**

- Regular access to transaction monitoring metrics, alert statistics, and investigation outcomes.
- Detailed reporting on suspicious activity reports filed, regulatory feedback, and enforcement concerns.
- Periodic independent audits of AML program effectiveness with board-level presentation.
- Transparency regarding compliance staffing, expertise, and resource adequacy.

## **4. Accountability Frameworks:**

- Performance assessment standards evaluating independent director AML engagement effectiveness.
- Explicit liability frameworks for director failures in AML oversight.
- Evaluation mechanisms assessing whether independent directors possess sufficient expertise and time allocation.

## **5. Regulatory Alignment:**

- Regulatory guidance clarifying independent director AML responsibilities.
- Harmonization of sector-specific regulations (RBI, SEBI, IFSCA) establishing consistent independent director expectations.
- Certification and training standards establishing baseline competencies.

### **9.3 Implementation Pathway: Transitioning from Current to Strengthened Framework**

#### **Phase 1 (Immediate - 6-12 Months):**

- Regulatory authorities (RBI, SEBI, Ministry of Corporate Affairs) issue guidance clarifying independent director AML responsibilities.
- Certification programs (such as IFSCA model) expand beyond financial services to

establish broader AML competency standards.

- Corporate boards conduct AML competency assessments and identify training/recruitment needs.
- Audit committees formalize AML oversight reporting structures.

**Phase 2 (Short-term - 1-2 Years):**

- Companies implement dedicated AML committee structures or formalize audit committee AML oversight.
- Independent directors complete targeted AML training and competency development.
- Organizations establish quarterly AML reporting to boards covering key metrics and issues.
- Independent audits of AML program effectiveness become standard practice.

**Phase 3 (Medium-term - 2-3 Years):**

- Regulatory framework evolution establishing explicit independent director AML competency requirements.
- Integration of international best practices (EU risk-based approach, US Caremark standards, UK FCA requirements) into Indian framework<sup>26</sup>
- Enhanced enforcement mechanisms holding independent directors accountable for AML oversight failures.
- Development of specialized AML governance metrics and assessment tools.

## **10. RECOMMENDATIONS FOR STRENGTHENING INDEPENDENT DIRECTOR AML ENGAGEMENT**

### **10.1 Regulatory and Policy Recommendations**

**Recommendation 1: Issue Guidance on Independent Director AML Responsibilities<sup>27</sup>**

- RBI, SEBI, and Ministry of Corporate Affairs should jointly issue guidance clarifying independent director roles, responsibilities, and accountability mechanisms in AML frameworks.
- Guidance should specifically address: independent director AML competency standards, information access requirements, audit committee engagement, and escalation procedures.

---

<sup>26</sup>Dep't of Revenue, Ministry of Fin., Prevention of Money Laundering Act (PMLA) Implementation Framework (June 30, 2005).

<sup>27</sup>Anti-Money Laundering Laws and Regulations: India 2025, Int'l Compliance Grp. (May 18, 2025).

- Guidance should articulate performance standards and assessment mechanisms evaluating independent director AML engagement effectiveness.

#### **Recommendation 2: Establish AML Competency Certification Framework**

- Expand IFSCA certification model to establish broader AML/CFT/KYC certification program applicable to all independent directors in regulated entities.
- Certification should be mandatory for independent directors in larger corporations and financial services institutions.
- Certification curriculum should address: money laundering typologies, PMLA requirements and FIU-IND procedures, transaction monitoring systems, beneficial ownership verification, sanctions law, and case studies of enforcement failures.

#### **Recommendation 3: Harmonize Sector-Specific Regulations**

- Align RBI, SEBI, IFSCA, and other sectoral regulator guidance on independent director AML roles, creating consistent expectations across regulated sectors.
- Establish minimum standards applicable to all listed companies and large private companies regarding independent director AML engagement.

### **10.2 Governance and Corporate Structure Recommendations**

#### **Recommendation 4: Formalize AML Oversight Structures**

- Companies should establish dedicated AML committees or formalize audit committee AML oversight mandates.
- AML committees/audit committees should comprise at least one independent director with AML expertise.
- AML committees should be responsible for: quarterly AML program reporting to boards, annual AML policy review and approval, oversight of compliance officer effectiveness, and escalation of significant AML issues to full boards.

#### **Recommendation 5: Establish Clear Independent Director AML Roles**

- Companies should develop written independent director role descriptions specifying AML responsibilities, information access rights, and accountability standards.
- Role descriptions should address: policy development and oversight, compliance monitoring, audit committee participation, escalation procedures, and training/development expectations.
- Independent directors should acknowledge understanding of AML roles and sign attestations confirming competency and willingness to fulfill responsibilities,

### **Recommendation 6: Enhance AML Reporting to Boards**

- Compliance officers should provide quarterly reports to audit committees/boards covering:
  - Transaction monitoring metrics: alert volumes, investigation timelines, false positive rates.
  - Suspicious activity reports: number filed, regulatory feedback, investigation outcomes.
  - Customer due diligence: new accounts processed, high-risk customer identification, beneficial ownership issues.
  - Sanctions screening: screening volumes, matches identified, investigation outcomes.
  - Audit findings: internal and external audit results, identified deficiencies, remediation status.
  - Regulatory developments: examination findings, enforcement actions, new regulatory requirements.
  - Staffing and training: compliance personnel changes, training completion rates, professional development activities.

### **Recommendation 7: Implement Independent AML Program Audits**

- Organizations should commission annual independent audits of AML program effectiveness by external auditors or specialized consultants.
- Audit reports should be presented directly to independent directors/audit committees with unrestricted access to management.
- Management should develop formal response plans addressing audit findings, with implementation tracking.

## **10.3 Capacity-Building Recommendations**

### **Recommendation 8: Establish AML Training and Development Programs**

- Industry bodies (FICCI, Confederation of Indian Industry, Chamber of Commerce) should develop targeted AML training programs for independent directors.<sup>28</sup>
- Training should address: money laundering typologies and detection mechanisms, PMLA requirements and enforcement landscape, transaction monitoring systems and

---

<sup>28</sup>Independent Directors: Applicability, Roles and Duties, Clear Tax (Apr. 20, 2025).

data interpretation, beneficial ownership verification procedures, sanctions law and international frameworks, case studies of corporate failures and lessons learned.

- Training should be mandatory for independent directors annually, with refresher training addressing regulatory developments.

#### **Recommendation 9: Create AML Expertise Resource Networks**

- Professional organizations and regulatory bodies should establish networks connecting independent directors with AML experts, enabling consultation on specialized issues.
- Industry forums should facilitate sharing of best practices, emerging threats, and solutions among organizations.
- Academic institutions should develop graduate-level AML governance programs preparing individuals for independent director roles.

#### **Recommendation 10: Promote Professional Certifications**

- Independent directors should pursue formal AML certifications such as Certified Anti-Money Laundering Specialists (CAMS) or similar international designations.
- Financial institutions and large corporations should incentivize certification through recognition, compensation adjustment, and board appointment preferences.

### **10.4 Accountability and Enforcement Recommendations**

#### **Recommendation 11: Clarify Independent Director Liability Standards**

- Regulatory authorities and courts should develop clear liability standards establishing when independent directors bear responsibility for organizational money laundering facilitation.
- Liability should turn on factors including: knowledge of AML weaknesses, access to information suggesting problems, documented failures to implement recommended controls, and neglect of monitoring duties.
- Regulatory guidance should clarify that deliberate ignorance or willful blindness constitute liability-triggering conduct.

#### **Recommendation 12: Implement Enhanced Enforcement Mechanisms**

- Regulatory authorities should expand enforcement mechanisms for independent director AML failures, including:
  - Board removal or director disqualification for egregious failures.
  - Civil penalties assessed against independent directors personally for breach of duties.

- Public sanctions or reputational consequences for directors facilitating compliance failures.
- Criminal prosecution of independent directors with knowledge of money laundering activities.

### **Recommendation 13: Establish Performance Assessment Standards**

- Regulatory authorities and stock exchanges should develop assessment standards evaluating independent director AML engagement effectiveness.
- Assessment standards should consider: certification/training completion, audit committee participation frequency and quality, board reporting frequency and comprehensiveness, identified issues and management responses, and regulatory feedback.
- Assessment results should influence director reappointment decisions and institutional investor voting on independent director elections.

## **11. CONCLUSION**

The Central role of independent directors in strengthening anti-money laundering frameworks represents a critical evolution in corporate governance and financial system integrity. As non-executive board members bearing fiduciary duties, independent directors occupy a unique position enabling both governance oversight and specialized AML engagement.

### **11.1 Key Findings**

**Necessity:** Independent directors' role in AML frameworks emerges from fundamental governance requirements addressing agency problems, information asymmetries, and fiduciary obligations. Management's potential conflicts of interest in AML contexts including implicit pressure from criminal networks or revenue incentives necessitate independent oversight. Independent directors provide precisely this independent, unbiased monitoring function.

**Legal Framework:** India's existing legal architecture encompassing PMLA Section 12 designated director requirements, Companies Act 2013 Schedule IV independent director duties, and audit committee oversight mechanisms—establishes a foundation for independent director AML engagement. However, this framework remains incomplete, lacking specific competency standards, formal role definitions, and clear accountability mechanisms.

**International Alignment:** Comparative analysis of EU, US, and UK frameworks demonstrates that leading jurisdictions explicitly integrate board-level directors into AML governance,

establishing competency standards, formal oversight mechanisms, and accountability frameworks. India's framework lags behind these international standards.

**Implementation Gaps:** Current challenges expertise deficiencies, insufficient information access, time constraints, and unclear role definitions significantly limit independent director effectiveness in AML oversight. These gaps enable management manipulation, create audit and oversight deficiencies, and expose organizations to substantial regulatory and reputational risk.

## 11.2 Transformative Potential

Implementation of recommended enhancements would substantially strengthen India's AML frameworks through:

**Enhanced Detection Capacity:** Independent directors with AML expertise, armed with comprehensive metrics and information access, would substantially improve organizations' ability to detect suspicious activities, emerging typologies, and systematic weaknesses.

**Improved Prevention:** Formalized AML governance structures with clear independent director roles and accountability mechanisms would incentivize proactive control implementation rather than reactive compliance.

**Organizational Resilience:** Robust independent director AML engagement would reduce organizations' vulnerability to criminal network penetration, regulatory sanctions, and reputational damage from money laundering facilitation.

**Regulatory Effectiveness:** Enhanced independent director engagement would multiply regulatory authorities' effectiveness, leveraging private sector governance to detect and prevent money laundering at the point of transaction execution.

## 11.3 Path Forward

The evolution from current compliance-based approaches to strengthened governance-integrated AML frameworks requires coordinated action across regulatory authorities, corporate boards, and professional development institutions.

**Immediate Priorities (6-12 months):**

- Regulatory guidance clarifying independent director AML responsibilities
- Expansion of AML certification programs establishing baseline competencies
- Board-level assessment of existing AML expertise and resource gaps

**Short-term Development (1-2 years):**

- Formalization of AML oversight structures through dedicated committees or audit

committee expansion

- Implementation of quarterly AML reporting to boards with comprehensive metrics
- Completion of targeted AML training and competency development for independent directors

**Medium-term Enhancement (2-3 years):**

- Regulatory framework evolution establishing explicit independent director competency and accountability standards
- Integration of international best practices into Indian regulatory and governance frameworks
- Development of specialized assessment tools and metrics evaluating independent director AML engagement.

#### **11.4 Broader Implications**

Independent director engagement in AML frameworks transcends corporate governance technicalities to address fundamental questions regarding financial system integrity, rule of law, and economic development. Money laundering facilitates criminal enterprises, corrupts governance institutions, and enables kleptocracy. Preventing money laundering through effective regulatory frameworks, institutional accountability, and governance oversight represents a prerequisite for economic development and social progress.

Independent directors, properly equipped with expertise, information, and accountability mechanisms, can serve as powerful guardians of financial system integrity. Their engagement in AML frameworks, though currently underdeveloped, represents a critical opportunity to transform corporate governance structures into instruments of financial crime prevention.

India's journey toward strengthened independent director AML engagement reflects broader global trends recognizing that effective financial regulation cannot rely solely on regulatory authorities and compliance specialists. Rather, robust governance frameworks integrating board-level oversight with institutional accountability mechanisms prove essential for detecting, preventing, and ultimately eliminating money laundering from India's financial system.

The recommendations articulated in this article, if implemented with commitment and coherence, would position India among leading jurisdictions in integrating independent

directors into comprehensive AML frameworks, creating institutional structures capable of identifying and preventing even sophisticated money laundering schemes. This transformation would simultaneously strengthen corporate governance, enhance financial system integrity, and establish India as a leader in financial crime prevention.

