MONEY LAUNDERING THROUGH CAPITAL MARKETS: GAPS BETWEEN PMLA AND SEBI'S 2026 COMPLIANCE ARCHITECTURE

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ABSTRACT

Money laundering through capital markets poses a significant challenge to financial integrity, investor protection, and the effective enforcement of economic laws in India. The securities market provides opportunities for the placement, layering, and integration of proceeds of crime through complex transactions involving shares, derivatives, mutual funds, intermediaries, beneficial ownership structures, and cross-border investments. The Prevention of Money Laundering Act, 2002 (PMLA) establishes the statutory framework for preventing money laundering, preserving transaction records, reporting suspicious transactions, and tracing proceeds of crime. The Securities and Exchange Board of India (SEBI), under the SEBI Act, 1992, supplements this framework through regulatory supervision, know-your-client (KYC) requirements, anti-money-laundering (AML) and counter-financing of terrorism (CFT) standards, market surveillance, and compliance obligations applicable to securities market intermediaries. This study adopts a doctrinal research methodology based on constitutional and statutory provisions, delegated legislation, regulatory circulars, judicial precedents, and scholarly literature.

The principal objective is to determine whether the coexistence of a statutory anti-money-laundering regime and a securities-market compliance framework produces regulatory fragmentation or leaves identifiable weaknesses in the detection and prevention of financial crime. The research seeks to establish that effective anti-money-laundering regulation requires not merely the existence of overlapping legal obligations but also consistent implementation, timely information exchange, reliable beneficial ownership verification, and coordinated enforcement.

Keywords: Money Laundering, Capital Markets, PMLA, SEBI, AML/CFT Compliance, Beneficial Ownership, Suspicious Transaction Reporting, Financial Intelligence Unit, Securities Regulation, Regulatory Gaps.

INTRODUCTION:

Money laundering is the process through which the proceeds of criminal activity are concealed or disguised to make them appear to originate from legitimate sources. In modern financial systems, capital markets can be exploited for this purpose because securities transactions may involve multiple intermediaries, rapid transfers of financial assets, complex ownership arrangements, and transactions across different jurisdictions. Although capital markets facilitate legitimate investment and economic development, weaknesses in verification, monitoring, and enforcement can create opportunities for the movement and concealment of illicit funds.

In India, the legal framework for combating money laundering is principally governed by the Prevention of Money Laundering Act, 2002[1]. The Act criminalises money laundering in accordance with Section 3, provides for punishment under Section 4, and establishes mechanisms for attachment, adjudication, and confiscation of property connected with money laundering, subject to the statutory conditions. Chapter IV imposes obligations concerning the maintenance of records, verification of client identity, and furnishing of prescribed information. The Prevention of Money-laundering (Maintenance of Records) Rules, 2005 further elaborate the reporting and record-keeping framework.

The Securities and Exchange Board of India Act, 1992[2], establishes SEBI as the principal regulator of the Indian securities market. Under Section 11, SEBI is empowered to take measures to protect investors and regulate and develop the securities market. Section 11B provides for directions in the interests of investors and the securities market, subject to the applicable statutory requirements. Through its regulatory framework, SEBI imposes compliance obligations on relevant market intermediaries, including client identification, due diligence, internal controls, record maintenance, risk assessment, and suspicious transaction monitoring.

The relationship between these frameworks is particularly important because SEBI regulates the conduct and integrity of the securities market, whereas the PMLA establishes a broader statutory regime directed at money laundering and the proceeds of crime. The two frameworks

[1] Money laundering act , 2002
[2] The Securities and Exchange Board of India Act, 1992

therefore have complementary but distinct purposes.

SEBI's AML/CFT requirements are not an independent substitute for the PMLA; rather, they help translate statutory obligations into operational compliance practices within the securities sector.

The regulatory framework has evolved over time. SEBI's Master Circular dated 6 June 2024 consolidates guidelines on AML standards, CFT measures, and the obligations of securities market intermediaries under the PMLA and the rules framed under it. In addition, SEBI has continued to amend its wider regulatory framework. For example, its Intermediaries Regulations were amended as recently as 16 April 2026.

However, the existence of these legal and regulatory obligations does not automatically guarantee effective prevention. The central issue is whether suspicious activity can be detected when transactions are distributed across several intermediaries, whether beneficial ownership can be established beyond formal account holders, and whether information reaches the appropriate enforcement authority in a timely and usable form.

The title's reference to SEBI's "2026 compliance architecture" is therefore examined as the regulatory position applicable during 2026, including relevant statutory provisions, existing AML/CFT requirements, and subsequent amendments or circulars that are demonstrably in force. A distinction must be maintained between binding legal requirements, proposed regulatory changes, and analytical recommendations.

The importance of this inquiry lies in the possibility that each intermediary may comply with its individual obligations while the wider transaction remains difficult to investigate. For example, an investor may transact through multiple accounts, corporate entities, or intermediaries, while the underlying source of funds or ultimate beneficial owner remains insufficiently transparent. Such scenarios illustrate potential weaknesses in regulatory coordination, although the existence and extent of any actual gap must be established through legal analysis rather than assumption.

Accordingly, this doctrinal research examines the legal relationship between the PMLA and SEBI's compliance framework, identifies potential areas of regulatory overlap or fragmentation, evaluates judicial approaches to financial regulation and enforcement, and

recommends reforms to improve the prevention of money laundering through Indian capital markets.

OBJECTIVES OF THE STUDY

1. To critically analyse the statutory framework governing money laundering through capital markets under the Prevention of Money Laundering Act, 2002, and the SEBI Act, 1992, including the applicable AML/CFT regulations and circulars in 2026.

2. To identify and examine potential regulatory gaps concerning client due diligence, beneficial ownership, suspicious transaction reporting, market surveillance, information-sharing, and enforcement coordination between SEBI, FIU-IND, and the Enforcement Directorate.

3. To evaluate relevant judicial precedents and international AML/CFT standards to assess the effectiveness, accountability, and limitations of India's capital-market compliance framework.

4. To recommend legal and regulatory reforms that strengthen the prevention, detection, investigation, and enforcement of money laundering through capital markets while preserving due process and legitimate market activity.

REVIEW OF LITERATURE

The following review provides a foundation for the doctrinal analysis. It prioritises identifiable legislation, regulatory materials, official evaluations, and established legal scholarship rather than relying on unverified journal citations.

1. Prevention of Money Laundering Act, 2002: The Act provides the principal statutory framework for criminalising money laundering, dealing with proceeds of crime, and imposing compliance obligations on reporting entities. Its provisions concerning reporting, record maintenance, identity verification, and enforcement form the starting point for examining whether the securities-market framework adequately implements statutory requirements.

2. Prevention of Money-laundering (Maintenance of Records) Rules, 2005: These Rules operationalise important obligations concerning client identification, record retention, and the

reporting of prescribed and suspicious transactions. They are particularly relevant to evaluating whether formal reporting requirements sufficiently capture complex securities transactions and beneficial ownership structures.

3. Securities and Exchange Board of India Act, 1992: The Act establishes SEBI's regulatory powers over the securities market. Its provisions concerning investor protection, market regulation, directions, and enforcement are central to understanding how SEBI's supervisory responsibilities interact with the PMLA framework.

4. SEBI, AML/CFT Master Circular, 6 June 2024: This circular consolidates guidelines applicable to securities-market intermediaries under the PMLA and its rules. It provides an important regulatory baseline for examining customer due diligence, risk-based compliance, internal controls, and suspicious transaction reporting.

5. SEBI, AML/CFT Guidelines and Subsequent Amendments: SEBI's amendments to its AML/CFT guidelines demonstrate the continuing development of the securities-market compliance framework. These materials are relevant to assessing whether amendments sufficiently address emerging risks and maintain consistency with the PMLA and associated rules.

6. Vijay Madanlal Choudhary v. Union of India (2022): This Supreme Court decision examined important provisions of the PMLA, including its enforcement framework and the statutory treatment of money laundering. It is relevant to understanding the scope of PMLA enforcement powers, although it is not a securities-market-specific decision.

7. Pankaj Bansal v. Union of India (2023): The Supreme Court considered safeguards concerning communication of the grounds of arrest under the PMLA. The decision is relevant to the balance between effective enforcement and procedural fairness in investigations involving alleged money laundering.

8. V. Senthil Balaji v. State (2023): The Supreme Court examined issues relating to arrest and remand under the PMLA. The judgment contributes to the analysis of procedural safeguards and the exercise of statutory enforcement powers.

9. SEBI's Intermediaries Regulations, 2008, as amended on 16 April 2026: These Regulations govern important aspects of the registration and regulation of securities-market

intermediaries. Their 2026 position is relevant to the wider compliance environment in which AML/CFT obligations operate.

10. Government of India, FATF Mutual Evaluation Announcement, 2024: The Government's announcement regarding India's FATF evaluation records the country's placement in the regular follow-up category. It provides official context for assessing India's progress in implementing international AML/CFT standards, although it should not be treated as proof that every sector-specific compliance gap has been resolved.

Research gap identified from the literature :

The materials above establish the statutory and regulatory foundations of India's AML/CFT framework. However, the central question of this study is narrower: whether the interaction between the PMLA and SEBI's securities-market compliance requirements creates practical weaknesses in detecting and investigating money laundering through capital markets.

The research will therefore focus on the relationship between individual intermediary compliance and system-wide enforcement. Particular attention will be given to beneficial ownership transparency, transaction monitoring across intermediaries, reporting quality, regulatory coordination, and the distinction between formal compliance and demonstrable effectiveness.

This is a proposed research gap to be tested through doctrinal analysis; it should not be presented as an established finding before the relevant provisions, cases, and regulatory materials have been examined.

RESEARCH METHODOLOGY:

This study adopts a doctrinal research methodology, involving the systematic examination and interpretation of legal provisions, statutory rules, regulatory circulars, judicial precedents, and authoritative legal literature concerning money laundering through capital markets in India. The primary sources of research include the Prevention of Money Laundering Act, 2002; the Prevention of Money-laundering (Maintenance of Records) Rules, 2005; the SEBI Act, 1992; applicable SEBI regulations and AML/CFT circulars; and relevant judgments of the Supreme Court of India and other competent courts.

Secondary sources include legal commentaries, scholarly publications, FATF reports, official government publications, and research on securities-market regulation and financial crime.

The study follows an analytical and qualitative approach. It compares the legal obligations imposed under the PMLA with the regulatory and supervisory requirements applicable to securities-market intermediaries. The analysis focuses on identifying potential inconsistencies, overlaps, implementation difficulties, and enforcement weaknesses.

LEGAL FRAMEWORK GOVERNING MONEY LAUNDERING THROUGH CAPITAL MARKETS

Prevention of Money Laundering Act, 2002

The PMLA constitutes the principal legislation governing the prevention of money laundering in India. It provides for the prosecution of money laundering, the attachment and confiscation of property connected with such activity, and the imposition of preventive obligations on specified reporting entities.

The following provisions are particularly relevant to this research:

Section 2: Contains important definitions, including those relating to proceeds of crime, reporting entities, and intermediaries.

Section 3: Defines the offence of money laundering.

Section 4: Prescribes punishment for money laundering.

Section 5: Provides for provisional attachment of property in the circumstances specified by the Act.

Sections 8 and 9: Address adjudication and the vesting of confiscated property in the Central Government, subject to the statutory scheme.

Section 12: Establishes important obligations concerning the maintenance of records, furnishing of information, and verification and maintenance of client identity records.

Section 12AA: Provides for enhanced due diligence in specified circumstances.

The PMLA is not confined to cash-based transactions. Suspicious transactions may involve non-cash transfers, securities accounts, dematerialised accounts, and other financial arrangements. FIU-IND's explanation of suspicious transactions includes transactions of unusual complexity or those that lack an apparent economic rationale.

Consequently, the effectiveness of the Act in the capital-markets context depends on whether reporting entities can recognise suspicious patterns, maintain reliable records, and furnish information that enables the competent authorities to investigate the underlying source and movement of funds.

Securities and Exchange Board of India Act, 1992

The SEBI Act establishes the legal framework for the regulation and supervision of India's securities market.

Section 11 empowers SEBI to take measures for investor protection and the regulation and development of the securities market. Section 11B provides for directions in the interests of investors and the securities market, subject to the statutory requirements.

SEBI's regulatory responsibilities are particularly relevant because money laundering through capital markets may overlap with conduct such as market manipulation, fraudulent trading, misleading disclosures, and misuse of intermediaries.

SEBI's role, however, must be distinguished from that of the Enforcement Directorate. SEBI exercises securities-market regulatory powers, while the ED administers the PMLA enforcement framework within its statutory authority. FIU-IND performs a distinct financial-intelligence function by receiving and analysing information reported by reporting entities.

The effectiveness of this arrangement depends on the appropriate exercise of each authority's powers and the lawful exchange and use of relevant information.

SEBI's AML/CFT Compliance Framework in 2026

SEBI's AML/CFT framework translates important statutory obligations into operational requirements for securities-market intermediaries. The Master Circular dated 6 June 2024 provides a central reference point for the applicable guidelines.

The framework includes several important compliance functions:

Know Your Client (KYC): Establishing and verifying client identity before or during the relevant regulated relationship, in accordance with applicable requirements.

Customer due diligence: Assessing client information and identifying circumstances requiring enhanced scrutiny.

Beneficial ownership identification: Taking the required steps to identify the natural persons who ultimately own or control relevant clients or arrangements.

Risk assessment: Assessing the nature of the client, transactions, products, geography, and other relevant risk indicators.

Transaction monitoring: Identifying unusual transactions or patterns that warrant further scrutiny.

Suspicious transaction reporting: Reporting suspicious transactions to the competent authority in accordance with the PMLA and its rules.

Record maintenance: Preserving prescribed information so that transactions can be reconstructed and investigated.

MONEY LAUNDERING TECHNIQUES IN CAPITAL MARKETS:

Capital markets may be exploited at different stages of the laundering process. The following are analytical categories relevant to the study, rather than claims that every technique is widespread in India.

Placement through securities investments

Placement involves introducing illicit funds into the financial system. In a capital-market context, this may involve attempting to introduce funds through investment accounts, subscriptions, or other financial arrangements.

The regulatory concern is whether client identification and source-of-funds checks, where required, are adequate to detect suspicious funding arrangements.

Layering through complex transactions

Layering involves creating multiple transactions to obscure the origin or ownership of funds. Securities transactions can create complexity because assets may be bought and sold repeatedly, transferred between accounts, or held through multiple legal entities.

A transaction that appears legitimate when viewed in isolation may require additional scrutiny when assessed alongside connected accounts, related parties, trading patterns, and the source of funds.

Integration through investment proceeds

Integration refers to the reintroduction of illicit funds into the legitimate economy in a form that appears lawful. Investment proceeds, distributions, or the sale of financial assets may be presented as legitimate returns.

The central legal question is whether the relevant authorities can establish the necessary connection between the property, the underlying criminal activity, and the alleged laundering conduct under the applicable statutory provisions.

Misuse of beneficial ownership structures

Corporate entities, nominees, trusts, and other arrangements may make it difficult to identify the natural persons who ultimately own or control assets.

The existence of a corporate structure is not itself evidence of money laundering. The regulatory risk arises where the ownership information supplied to intermediaries is inaccurate, incomplete, outdated, or insufficient to establish the ultimate beneficial owner in circumstances where identification is required.

Cross-border transactions

Cross-border investment and financial transfers may involve different jurisdictions, disclosure standards, and supervisory authorities. Such arrangements can complicate the tracing of funds and the verification of ownership.

Effective supervision therefore requires compliance with applicable domestic law, appropriate

international cooperation, and timely access to relevant transaction information.

COMPARATIVE EVALUATION OF THE PMLA FRAMEWORK AND SEBI'S 2026 COMPLIANCE MECHANISM:

The Prevention of Money Laundering Act, 2002 (PMLA), and SEBI's compliance framework serve interconnected but distinct purposes in regulating financial activities and preventing illicit transactions in India's capital markets. While the PMLA establishes the statutory framework for addressing money laundering, tracing proceeds of crime, and imposing reporting obligations, SEBI focuses on maintaining securities-market integrity through intermediary supervision, client due diligence, transaction monitoring, and regulatory enforcement. Examining these frameworks side by side helps identify areas of regulatory overlap, differences in institutional responsibilities, and potential weaknesses in information-sharing and enforcement coordination. This comparative analysis therefore assesses whether the existing legal and regulatory mechanisms operate effectively together to detect, prevent, and address money laundering risks in the Indian securities market.

POTENTIAL REGULATORY GAPS BETWEEN PMLA AND SEBI'S 2026 COMPLIANCE ARCHITECTURE:

This section constitutes the central analytical component of the research. The gaps identified below are areas for doctrinal examination; their existence, extent, and legal significance must be assessed against the applicable statutory provisions and regulatory instruments.

Fragmentation of regulatory responsibilities

The PMLA, SEBI Act, and associated regulatory instruments assign different functions to different authorities. SEBI regulates securities-market conduct, FIU-IND receives and analyses financial intelligence, and the ED exercises its powers under the PMLA.

Although these functions are complementary, fragmented institutional responsibilities may create practical difficulties when suspicious activity involves multiple intermediaries or offences falling within different regulatory jurisdictions.

For example, an intermediary may identify unusual trading activity, while the financial intelligence needed to establish the source of funds may be held by another reporting entity.

The effectiveness of the overall framework therefore depends on lawful information-sharing, clear referral procedures, and effective coordination between the competent authorities.

Research issue: Whether existing arrangements provide sufficiently clear and effective mechanisms for sharing relevant information and coordinating investigations involving securities transactions.

Beneficial ownership and complex corporate structures

Identifying the person operating an account is not always equivalent to identifying the person who ultimately owns or controls the assets. Corporate entities and layered ownership arrangements may complicate the identification of beneficial owners.

The PMLA framework and SEBI's KYC requirements address aspects of identity verification and beneficial ownership. The potential weakness is therefore not necessarily an absence of legal requirements, but whether the available information is sufficiently accurate, current, and capable of verification. Where different intermediaries rely on information supplied through different channels, inconsistencies may be difficult to detect without appropriate verification and information-sharing mechanisms.

Research issue: Whether the existing framework sufficiently addresses the verification and updating of beneficial ownership information across complex securities-market relationships.

Suspicious transaction reporting and market-specific risks

Suspicious transaction reporting is an important mechanism for identifying possible money laundering. However, capital-market transactions may be complex, and unusual activity does not necessarily indicate criminal conduct.The principal challenge is distinguishing legitimate investment strategies and market volatility from transactions that warrant further scrutiny. Excessive reliance on static thresholds or isolated transactions may fail to capture suspicious patterns that emerge only when several connected transactions are considered together.

Conversely, indiscriminate reporting of ordinary transactions may generate large volumes of low-value information and reduce the efficiency of financial intelligence analysis.

Research issue: Whether the applicable reporting framework and monitoring practices

adequately capture securities-market-specific indicators while maintaining proportionate reporting standards.

Differences between market surveillance and AML investigation

SEBI's market surveillance systems are designed to identify potential securities-market misconduct, including suspicious trading patterns and possible market manipulation. AML investigations, however, may require additional information about the source, ownership, movement, and ultimate destination of funds. A suspicious trading pattern may justify regulatory scrutiny without independently establishing money laundering. Similarly, a laundering investigation may require evidence beyond the trading data ordinarily used to detect market misconduct.

The potential gap arises when market surveillance findings are not translated into appropriate financial-intelligence referrals or when relevant information is not available to the authority conducting the investigation.

Research issue: Whether the legal and institutional framework adequately facilitates the lawful conversion of market-surveillance information into actionable AML intelligence.

Cross-border transactions and international cooperation

Capital markets increasingly involve foreign investors, overseas intermediaries, international custodians, and cross-border financial flows. The investigation of potentially illicit funds may therefore depend on information held outside India. Different legal systems may apply different disclosure procedures, timelines, and standards of cooperation. These differences can complicate the reconstruction of transactions and the identification of beneficial owners.

India's 2024 FATF Mutual Evaluation provides a relevant international benchmark for examining its AML/CFT system and the effectiveness of international cooperation.

Research issue: Whether existing domestic and international cooperation mechanisms provide sufficiently timely and effective access to information relevant to money laundering through capital markets.

Technology, algorithmic trading, and emerging risks

Technology can improve compliance by allowing intermediaries to process large volumes of transaction data and identify unusual patterns. At the same time, increasingly complex trading systems and rapidly changing financial arrangements may create challenges for traditional monitoring processes. The use of automated alerts also creates questions concerning data quality, explainability, false positives, human supervision, and accountability for compliance decisions.

Research issue: Whether the current framework provides adequate standards for technology-assisted AML monitoring, accountability, data governance, and risk-based supervision.

Enforcement coordination and accountability

An effective compliance system requires more than the formal existence of rules. It also requires appropriate supervision, meaningful consequences for non-compliance, and the ability to distinguish administrative failures from deliberate participation in money laundering. The PMLA and SEBI framework provide distinct enforcement mechanisms. The potential concern is whether failures identified through one regulatory process are appropriately communicated to the authority responsible for another aspect of the same conduct.

Research issue: Whether the interaction between securities-market enforcement and PMLA enforcement provides clear accountability without creating unnecessary duplication, inconsistent treatment, or procedural uncertainty.

LANDMARK JUDICIAL DECISIONS AND THEIR RELEVANCE

Judicial precedents are essential to a doctrinal study because they clarify the scope of statutory powers, the meaning of money laundering, and the procedural safeguards applicable to enforcement.

The following cases provide a legal foundation for the analysis. They should not all be represented as direct decisions on money laundering through capital markets.

Vijay Madanlal Choudhary v. Union of India (2022)

The Supreme Court examined the constitutional validity and interpretation of several

provisions of the PMLA, including aspects of the statutory definition of money laundering and the powers of enforcement authorities.

The judgment is important for understanding the legal architecture of PMLA enforcement. For this research, its relevance lies in evaluating how statutory enforcement powers interact with reporting entities' preventive obligations and the wider objective of tracing proceeds of crime.

Pankaj Bansal v. Union of India (2023)

The Supreme Court addressed procedural safeguards relating to the communication of grounds of arrest under the PMLA.

The decision is relevant because an effective AML framework must balance the investigation and prosecution of financial crime with the protection of individual liberty and compliance with legal safeguards. Its relevance to capital markets is indirect: it concerns the enforcement framework that may apply when an investigation involving capital-market transactions proceeds under the PMLA.

SEBI v. Rakhi Trading Pvt. Ltd. (2018)

The Supreme Court considered securities-market transactions involving alleged manipulative trading practices.

The decision is relevant to the distinction between legitimate market activity and conduct that undermines market integrity. Although market manipulation and money laundering are legally distinct concepts, suspicious trading patterns may sometimes be relevant to an AML inquiry.

The case therefore supports the proposition that securities-market surveillance can provide an important source of information for further investigation, without treating every instance of manipulative trading as proof of money laundering.

N. Narayanan v. Adjudicating Officer, SEBI (2013)

The Supreme Court examined issues of corporate disclosure and accountability under securities law.

The judgment is relevant to the importance of accurate corporate information and the

responsibility of those involved in the management and disclosure of company affairs. Such principles may inform an analysis of transparency and accountability in the capital markets.

However, the case should be used for its securities-law principles rather than as direct authority on PMLA reporting obligations.

Analytical significance of the case law

Taken together, these decisions help establish three important principles for the study:

PMLA enforcement must operate within the limits of the governing statute and applicable procedural safeguards.

Securities-market misconduct and money laundering are distinct legal categories, even when the underlying transactions overlap.

COMPARATIVE JURISDICTIONAL ANALYSIS

A comparative study of international AML/CFT frameworks helps assess whether India's approach provides adequate safeguards against money laundering through capital markets.

United States

The United States follows a multi-agency approach to financial regulation and anti-money-laundering enforcement. The Bank Secrecy Act framework, administered through the Financial Crimes Enforcement Network (FinCEN) and other competent authorities, establishes important reporting and record-keeping requirements for covered financial institutions. Securities-market regulation is principally undertaken by the Securities and Exchange Commission (SEC), alongside other relevant agencies.

The US framework provides a useful comparison for examining financial intelligence, suspicious activity reporting, securities-market supervision, and inter-agency cooperation.

For India, the relevant question is whether similar coordination principles can improve the exchange of information between SEBI, FIU-IND, and the ED while preserving their distinct statutory responsibilities.

United Kingdom

The United Kingdom combines statutory AML requirements, financial supervision, and criminal enforcement. The Financial Conduct Authority (FCA) supervises relevant financial-market participants, while the National Crime Agency (NCA) performs important financial-intelligence and law-enforcement functions.

The UK framework is relevant to examining risk-based supervision, customer due diligence, beneficial ownership transparency, and the responsibilities of regulated financial institutions.

India may draw useful lessons from the clarity of supervisory responsibilities and the integration of AML obligations into the compliance systems of regulated entities.

International standards under FATF

The FATF Recommendations provide a common international framework for preventing money laundering and terrorist financing. They address customer due diligence, beneficial ownership, suspicious transaction reporting, supervision, and cooperation between competent authorities.

India's 2024 Mutual Evaluation recognised significant strengths in the country's AML/CFT framework while providing a basis for continued improvement.

The comparative lesson is that the effectiveness of AML regulation depends on both technical compliance and practical implementation. A framework may contain extensive statutory obligations, yet its effectiveness ultimately depends on the quality of supervision, reporting, intelligence analysis, and enforcement.

India's legal framework should therefore be evaluated in terms of its own statutory structure and market conditions rather than assuming that another jurisdiction's institutional model can be directly transplanted.

CHALLENGES AND CRITICISMS:

Despite the existence of statutory and regulatory safeguards, several challenges may affect the effectiveness of the framework governing money laundering through capital markets.

Regulatory overlap and duplication

The PMLA and SEBI framework may impose related obligations on the same regulated entity. Although these obligations serve complementary purposes, differences in reporting procedures, supervisory expectations, or enforcement processes may increase compliance complexity.

The solution is not necessarily to eliminate overlapping requirements, but to improve clarity, consistency, and coordination.

Compliance costs for intermediaries

KYC verification, transaction monitoring, record maintenance, staff training, and regulatory reporting require financial and technological resources.

Large intermediaries may have extensive compliance infrastructure, whereas smaller entities may face greater implementation challenges. A proportionate, risk-based approach can improve compliance without imposing unnecessary burdens on legitimate businesses.

False positives and information overload

Automated monitoring systems may flag transactions that are unusual but legitimate. If alerts are not appropriately prioritised, compliance teams may spend substantial time investigating low-risk activity.

Effective monitoring therefore requires reliable data, risk-sensitive alert thresholds, human review, and continuous assessment of system performance.

Beneficial ownership opacity

Identifying the ultimate beneficial owner can be difficult where several entities or intermediaries are involved. Incomplete or inconsistent ownership information may hinder the identification of the natural persons who ultimately control relevant assets.

Improved verification, updating, and lawful information-sharing can help address this challenge.

Delays in financial investigations

Investigations involving securities transactions may require the reconstruction of numerous transactions, examination of digital records, and coordination between multiple authorities.

Delays can reduce the practical value of financial intelligence and complicate the preservation and tracing of assets. Efficient investigative procedures and timely access to reliable records are therefore important.

Balancing enforcement with procedural fairness

Strong AML enforcement is necessary to prevent the misuse of financial systems. However, regulatory and investigative powers must remain consistent with statutory requirements and applicable constitutional safeguards.

An effective framework must distinguish between suspicious conduct warranting investigation, regulatory non-compliance, and conduct that satisfies the legal requirements for criminal liability.

FINDINGS OF THE STUDY

The following are the principal findings that the proposed doctrinal analysis is designed to test against the relevant statutory provisions, regulatory instruments, and judicial decisions.

PMLA and SEBI perform complementary legal functions

The PMLA establishes the statutory framework for preventing and prosecuting money laundering, while SEBI regulates securities-market conduct and imposes relevant compliance requirements on regulated intermediaries.

Their functions overlap in certain areas but are not identical. Effective enforcement requires coordination rather than treating either framework as a substitute for the other.

The existence of legal obligations does not guarantee effective compliance

Statutory requirements relating to identity verification, record maintenance, and suspicious transaction reporting are important preventive measures. Their effectiveness nevertheless

depends on the accuracy of information, the quality of monitoring, and the ability of competent authorities to act on the information received.

Beneficial ownership is a critical area for examination

Formal account identification may not always reveal the natural person who ultimately owns or controls assets. The effectiveness of the existing beneficial ownership framework must therefore be assessed in terms of verification, updating, and the ability to connect information across relevant entities and transactions.

Regulatory coordination is central to enforcement

SEBI, FIU-IND, and the ED perform different functions. The ability to share relevant information lawfully and coordinate their respective responsibilities is important where suspicious activity involves both securities-market misconduct and potential money laundering.

Market manipulation and money laundering must be distinguished

Suspicious trading, misleading disclosures, or market manipulation may provide grounds for regulatory scrutiny. They do not automatically establish the offence of money laundering.

A sound legal framework must ensure that the evidence required for each distinct regulatory or criminal finding is properly established.

Risk-based monitoring is important for capital-market supervision

Capital-market transactions vary in complexity, value, and risk. Effective monitoring must therefore account for patterns, connected transactions, customer profiles, and other relevant indicators rather than relying exclusively on isolated transactions or monetary thresholds.

SUGGESTIONS AND RECOMMENDATIONS

Based on the issues identified for examination, the following reforms may strengthen the relationship between PMLA and SEBI's compliance architecture.

1. Improve regulatory coordination: Establish or strengthen clear protocols for the lawful

exchange of relevant information between SEBI, FIU-IND, and the ED, including appropriate referral and follow-up procedures.

2. Strengthen beneficial ownership verification: Improve the accuracy, updating, and verification of beneficial ownership information in accordance with applicable law, particularly where complex ownership structures create additional risks.

3. Develop risk-sensitive monitoring standards: Encourage appropriate monitoring of connected transactions, unusual trading patterns, and inconsistencies between client profiles and transaction activity.

4. Improve reporting quality: Provide clear guidance and suitable training to help reporting entities distinguish genuinely suspicious activity from transactions that are merely unusual.

5. Clarify overlapping obligations: Where regulatory requirements intersect, publish clear guidance explaining the respective responsibilities of intermediaries under the PMLA, its rules, and SEBI's applicable requirements.

6. Strengthen technology governance: Ensure that automated monitoring systems are supported by reliable data, appropriate human oversight, documented decision-making, and periodic effectiveness reviews.

7. Improve cross-border cooperation: Strengthen the use of applicable information-sharing and mutual assistance mechanisms for investigations involving overseas entities, accounts, or transactions.

8. Promote proportionate enforcement: Ensure that regulatory responses reflect the nature and seriousness of non-compliance, while preserving the distinction between procedural failures, securities-market violations, and criminal money laundering.

CONCLUSION

Money laundering through capital markets presents a complex challenge to India's financial regulatory framework because it involves the interaction of securities-market transactions, financial intelligence, customer identification, beneficial ownership, and criminal enforcement.

The Prevention of Money Laundering Act, 2002, and the Securities and Exchange Board of India Act, 1992, provide distinct but complementary legal foundations for addressing these risks.

SEBI supplements this framework through market regulation, supervision of intermediaries, and AML/CFT compliance requirements. Nevertheless, the existence of comprehensive legal provisions does not necessarily eliminate every operational difficulty. Beneficial ownership opacity, inconsistent information, fragmented regulatory responsibilities, complex transactions, cross-border investigations, and the limitations of transaction-monitoring systems are important areas requiring continued examination. The analysis of judicial decisions further demonstrates that financial-crime enforcement must remain consistent with statutory authority and procedural safeguards. Securities-market misconduct and money laundering must be distinguished according to their respective legal requirements, even when they arise from connected transactions.

In conclusion, an effective anti-money-laundering framework requires more than the existence of separate regulatory obligations. It requires accurate beneficial ownership information, proportionate risk-based monitoring, reliable reporting, effective institutional coordination, and consistent enforcement. By examining the interaction between PMLA and SEBI's 2026 compliance architecture, this doctrinal research seeks to identify demonstrable weaknesses and recommend legally sound reforms that strengthen financial integrity while preserving investor confidence, procedural fairness, and the legitimate functioning of India's capital markets.

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