

A US \$100 bill is shown floating in water, with ripples and bubbles around it. The bill is partially submerged, and the water's surface is dark and reflective. The text of the bill, including 'ONE HUNDRED DOLLARS' and the serial number 'HB 88478962 N', is visible. A white curved line is on the left side of the image.

An Introduction to **Anti-Money Laundering,** **Combating Financing Terrorism, and** **Financing of illegal Organizations**

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What is Money Laundering?

Money laundering involves taking criminal proceeds and disguising their illegal sources in order to use the funds to perform legal or illegal activities. Criminal activities that lead to money laundering (i.e predicate crimes) can include illegal arms sales, narcotics trafficking, contraband smuggling, and other activities related to organized crime, embezzlement, insider trading, bribery, and computer fraud schemes

Stages of Money Laundering

1. Placement: The physical disposal of cash or other assets derived from criminal activity.

2. Layering: The separation of illicit proceeds from their source by layers of financial transactions intended to conceal the origin of the proceeds.

3. Integration: Supplying apparent legitimacy to illicit wealth through the re-entry of the funds into the economy in what appears to be normal business or personal transactions



Examples Of Stages of Money Laundering

Placements

- Blending of funds
- Purchasing of foreign exchange with illegal funds
- Breaking of amounts and placing cash in small amounts and depositing them into numerous bank accounts in an attempt to evade reporting requirements
- Currency smuggling
- Repayment of legitimate loans using laundered cash

Layering

- Electronically moving funds from one country to another
- Moving funds from one financial institution to another or within accounts of the same financial institution
- Converting the cash placed into monetary instruments
- Investing in real estate and other legitimate businesses
- Placing money in stocks, bonds or life insurance products
- Using shell companies to obscure the ultimate beneficial owner and assets

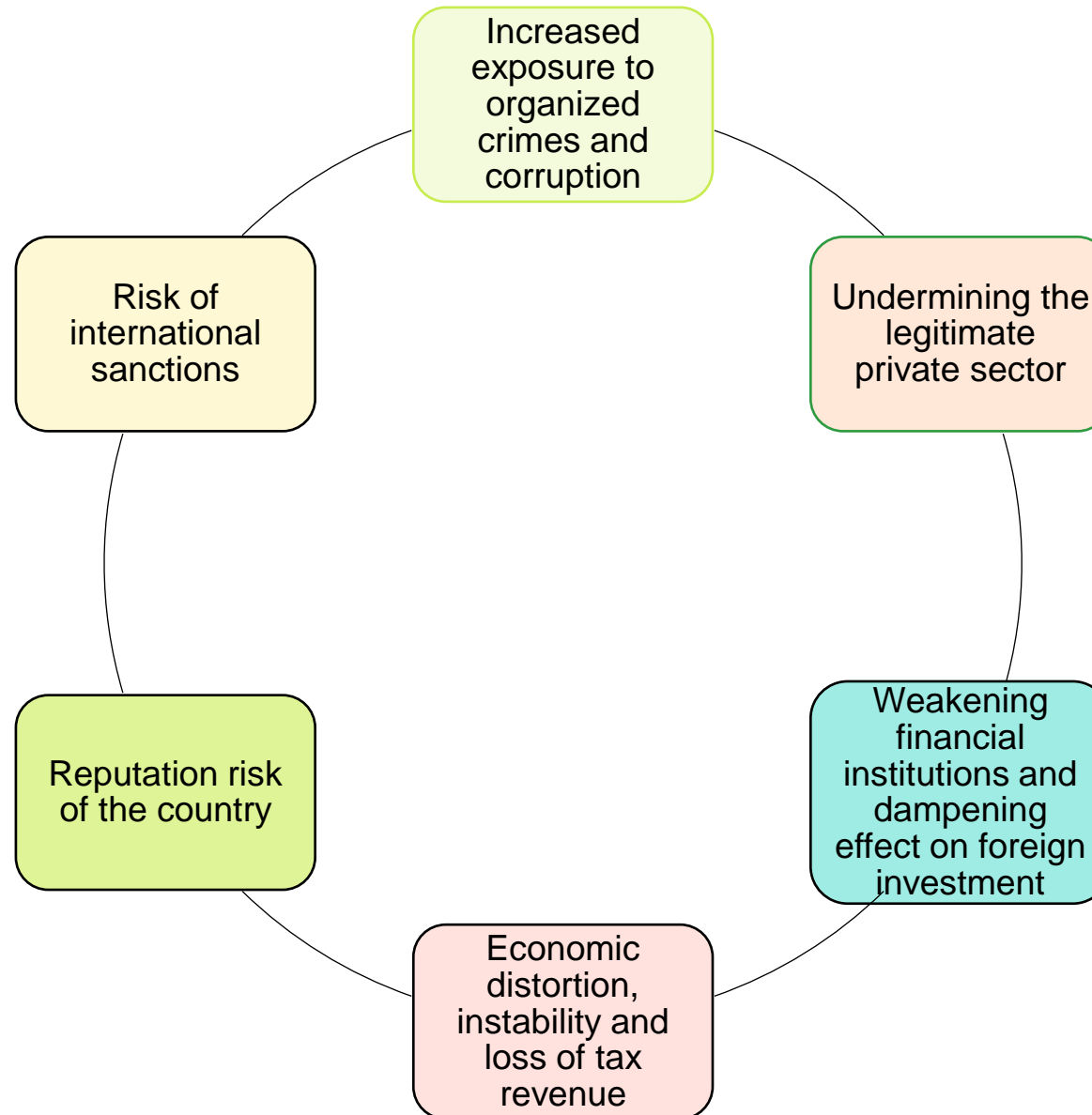
Integration

- Purchasing luxury assets such as property, artwork, high-end automobiles, etc
- Getting into financial arrangements or other ventures where investments can be made in business enterprises

Illegal Activities



Economic And Social Consequences of Money Laundering



Money Laundering vs Terrorist Financing



Money Laundering

- Purpose and Source of Funds:



- Large Sum



- Greed



Terrorist Financing

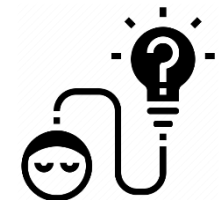
- Purpose and Source of Funds:



- Small Sum



- Ideologically Driven



9/11 Terrorist Attack



Applicability

Banks & Other Depository Institutes

- Electronic Transfer of Funds
- Correspondent Banking
- Trade Finance Transactions
- Remote Deposit Capture
- Private Banking

Non-Banking Financial Institutes

- Credit Card Industry
- Insurance Companies
- Money Remitters / Money Exchange Houses
- Securities Broker – Dealers

Non Finance Businesses & Professionals

- Dealers of Precious Metals and Gemstones and car dealers
- Real Estate Brokers & Agents
- Travel Agents / Vehicle Sellers
- Professional gatekeepers (Accountants, auditors, lawyers, and Corporate Service Providers)

- This is applicable for all the below people associated with the above businesses by way of their individual capacity as:



Board of Directors (BOD's)



Managers



Employees

Shell Companies

Shell company



Incorporated company with no independent operations, significant assets, ongoing business activities, or employees.

Front company



Fully functioning company with the characteristics of a legitimate business, serving to disguise and obscure illicit financial activity.

Shelf company



Incorporated company with inactive shareholders, directors, and secretary and is left dormant.

International Bodies

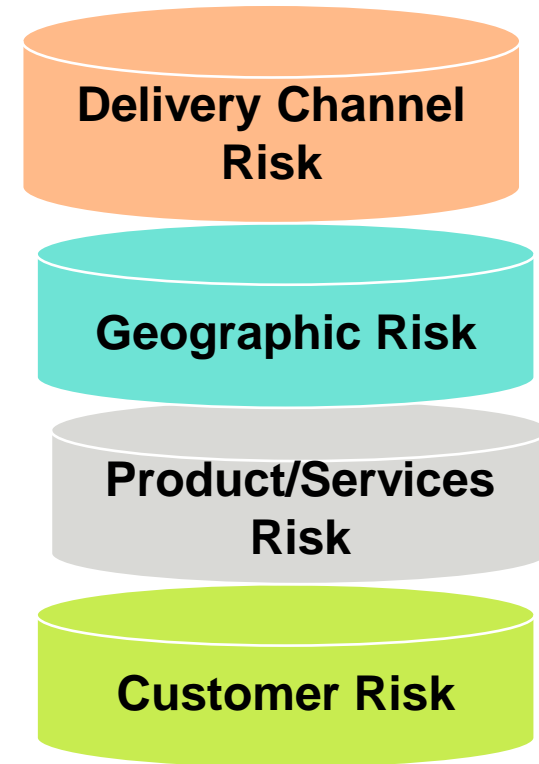
International Body	Description	Important mandates/documents
The United Nations (UN)	The UN activity operated a program to fight money laundering, the Global Program against Money Laundering (GPML), which is headquartered in Vienna, Austria, is part of the UN Office of Drugs and Crime (UNODC)	Global Program against Money Laundering
Financial Action Task Force (FATF) on Money Laundering	<ul style="list-style-type: none"> Intergovernmental body with 39 member countries and two international organization Sets money laundering and terrorist financing standards 	40 Recommendations on Money Laundering/Terrorist Financing popularly known as FATF 40 Recommendations
Basel Committee on Banking Supervision	<ul style="list-style-type: none"> Established by the Central Bank Governors of G-10 Promotes sound supervisory standards worldwide 	<ul style="list-style-type: none"> Customer Due Diligence for banks Sharing of financial records between jurisdictions in connection with the fight against terrorist financing General guide to account opening and customer identification Consolidated KYC Risk Management
APG, CFATF, EAG, GABAC, MENAFATF, MONEYVAL	<ul style="list-style-type: none"> FATF-style regional bodies that have similar form and functions to those of FATF Provide Input to FATF on standards and typologies 	Standards and typologies
Egmont Group	Informal networking group of financial intelligence units	<ul style="list-style-type: none"> Statement of Purpose Principles for Information Exchange Between Financial Intelligence Units Best practices for the exchange of information between Financial Intelligence Units

Minimum Statutory Obligations of the Covered Institutions

Minimum Statutory Obligations
1. To identify and understand minimum AML/CFT risks
2. To define the scope and take necessary due diligence measures
3. To appoint a compliance officer with relevant qualification and expertise and in line with the requirements of the relevant statutory authority
4. To put in place adequate management and information systems, internal controls, policies, procedures to mitigate risks and monitor implementation
5. To put in place indicators to identify suspicious transactions
6. To report suspicious activity and cooperate with Competent Authorities
7. To promptly apply directives of Competent Authorities for implementing UN Security Council decision under Chapter 7 of the UN Convention for the Prohibition and Suppression of the FT and Proliferation.
8. To maintain adequate records

Risk-Based Approach

- A risk-based approach requires a firm to have systems and controls that are commensurate with the specific risks of money laundering and terrorists' risks facing them.
- The risk based approach should be flexible, effective and proportionate



FATF RECOMMENDATIONS ON CUSTOMER DUE DILIGENCE

Adopt a risk-based approach with customers



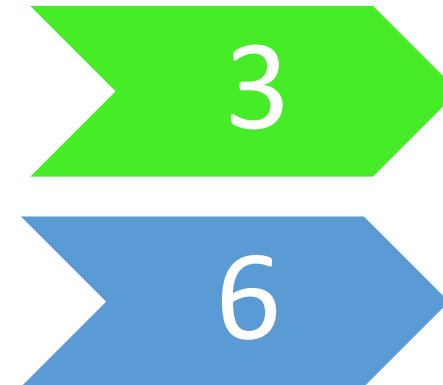
Apply simplified CDD when lower risk factors have been determined

Entities should require up-to-date documents that must be collected under the CDD process, especially with high-risk clients



Identifying and verification can be done using a reliable independent source

Entities should apply full CDD on the clients and beneficial owner before or during establishing the business relationship



If entities are not able to comply with the requirements of this recommendation, then they should not commence a relationship with the client and should end any existing business relationships that may be considered non-compliant

Customer Due Diligence – Key Elements

Client
Identification

Development of
activity profile

Client Acceptance

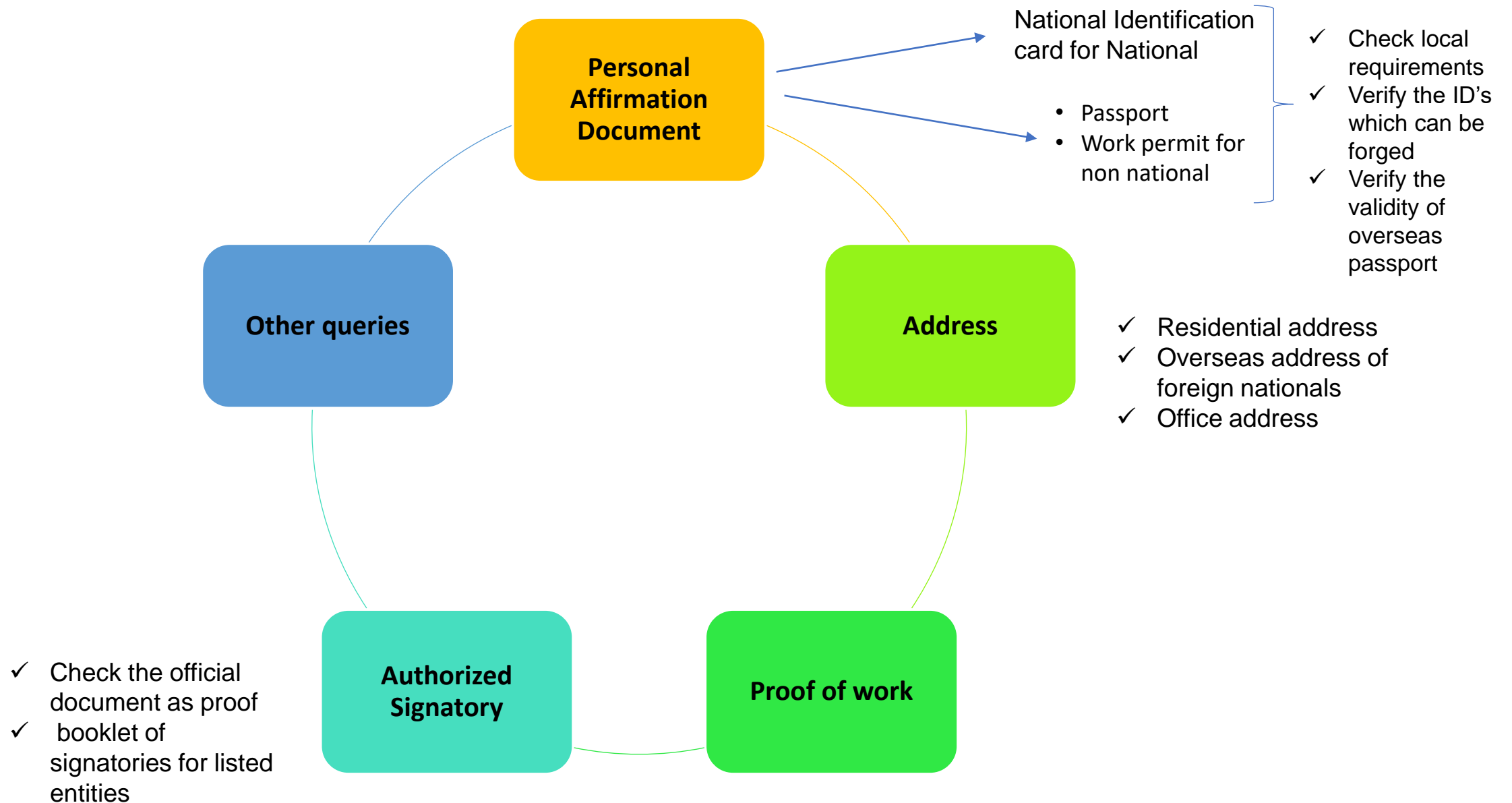
Risk Rating

Monitoring

Investigation

Documentation

CUSTOMER DUE DILIGENCE FOR INDIVIDUAL



CUSTOMER DUE DILIGENCE FOR ENTITIES

Required Documents

- Registration Certificate
- Valid Professional License
- Valid identification
- Valid identification in case of a local owner
- Document for authorized signatories
- Copy of passport for foreign owners
- Verification when direct ownership exceeds 20% (Can be 10% refer local law)
- Articles of Association, brand name certificate (if applicable)

Enquiries through special systems

- Verify the Company ID through e-Government Services or any other verification method
- Enquire about Company Name and Trade Name (if any)
- Name Screening – Check Company Names, and Owners (who own more than 20%) against Sanctions and Embargoes lists
- Verify the owners and authorized signatories ID

Foreign Parent Company

- A copy of the registration certificate and related documents of the foreign parent company must be obtained to identify the ultimate beneficial owners

CDD FOR LOCAL CHARITIES AND NON-PROFIT ORGANIZATIONS

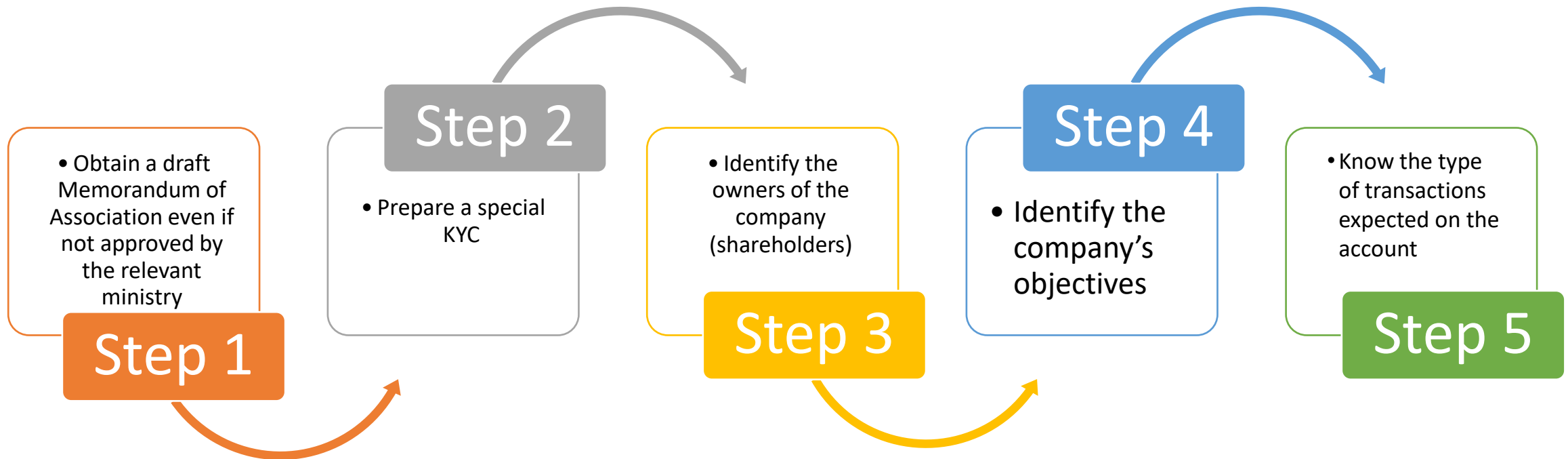
Required Documents

- Certificate of registration/license from the relevant Ministry
- A letter from the relevant authority requesting the opening of the account and specifying the authorized signatories
- Internal system of the entity. A letter including the names of the current administrative body members
- Copy of the authorized signatories ID
- A letter including the names of the administrative body members
- A document proving the location of the entity
- MLRO approval is a must

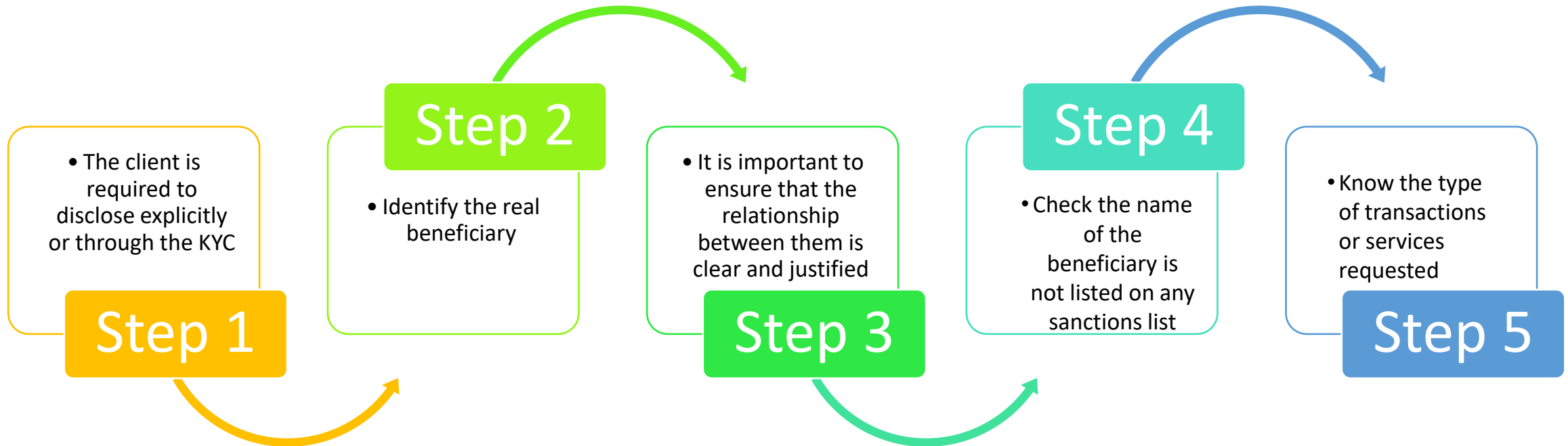
Enquiries through special systems

- Name Screening (check the sanctions and embargoes lists) for the name of the entity, administrative body members and authorized signatories
- Verify the entity certificate via E- Government Services
- Verify the IDs of the Administrative Body Members and the Authorized Signatories

CUSTOMER DUE DILIGENCE FOR COMPANIES UNDER REGISTRATION



IDENTIFICATION OF REAL BENEFICIARY



Design for a form to identify the real beneficiary

Name	
Relationship with the account holder	
Nationality / Other Nationality	
Country of residence	
Work nature	
Work address	
Work phone	
Monthly income	
Income Sources	
Home address	
Home phone	
Is there another beneficiary?	<input type="checkbox"/> Yes <input type="checkbox"/> No If there is more than one real beneficiary, please fill out a form for each one.

Know Your Customer (KYC)

1. Customer Information:

Name of entity in local language:			
Name of entity in English:			
Branch:	Account No.	Account opening date:	
Commercial name of entity:			
Legal form (company type):			
The nature of the company's activity			
Institution Tax Number:			
Entity's Nationality			
Residency Index	<input type="checkbox"/> Local operating entity <input type="checkbox"/> Foreign operating entity <input type="checkbox"/> Nonoperating foreign entity		
Sales / average monthly income			
Expected deposits/ payments per month on account:			

2- Entity Address

Country:				
Street:				
Building / apartment / villa No.				
Full postal address:	PO Box:	Zip code:	PO Box:	Zip code:
Phone No.				
Mobile No.				
Email:				

3. Shareholders / Owners:

Name of shareholders (Shareholders whose contribution exceeds 10%)

Data	Name	Nationality	Other Nationality (If yes, Where)	Address (State, City, Area, Street, Building)	Place of Birth	Do you have US Citizenship, a Green or are subject to FATCA ?
First Shareholder			<input type="checkbox"/> NO <input type="checkbox"/> YES			<input type="checkbox"/> NO <input type="checkbox"/> YES
Second Shareholder			<input type="checkbox"/> NO <input type="checkbox"/> YES			<input type="checkbox"/> NO <input type="checkbox"/> YES
Third Shareholder			<input type="checkbox"/> NO <input type="checkbox"/> YES			<input type="checkbox"/> NO <input type="checkbox"/> YES
Fourth Shareholder			<input type="checkbox"/> NO <input type="checkbox"/> YES			<input type="checkbox"/> NO <input type="checkbox"/> YES
Fifth Shareholder			<input type="checkbox"/> NO <input type="checkbox"/> YES			<input type="checkbox"/> NO <input type="checkbox"/> YES
Sixth Shareholder			<input type="checkbox"/> NO <input type="checkbox"/> YES			<input type="checkbox"/> NO <input type="checkbox"/> YES
Seventh Shareholder			<input type="checkbox"/> NO <input type="checkbox"/> YES			<input type="checkbox"/> NO <input type="checkbox"/> YES
Eighth Shareholder			<input type="checkbox"/> NO <input type="checkbox"/> YES			<input type="checkbox"/> NO <input type="checkbox"/> YES
Ninth Shareholder			<input type="checkbox"/> NO <input type="checkbox"/> YES			<input type="checkbox"/> NO <input type="checkbox"/> YES

DEALING WITH POLITICALLY EXPOSED PERSONS (peps)

Foreign PEPs: Individuals who are or have been entrusted with prominent public functions by a foreign country, (FATF).

First, the customer disclosure on the KYC form.



Definition

Determination
Process

Domestic PEPs: individuals who are or have been entrusted domestically with prominent public functions, (FATF)

Second one is to screen the name of the customer through specialized systems at the bank where all the names of PEPs from around the world are available.

PEP KYC

Design for a form to identify the politically exposed customer

Name	
Type of politically exposed person	<input type="checkbox"/> Domestic <input type="checkbox"/> Foreign
Relationship with the account holder	
Nationality / other nationality	
Country of residence	
Function occupied (currently or previously)	
Function occupied since (Date)	
Left the position in (Date)	

Customer Due Diligence - Monitoring

- Should be performed at least annually.
- Since you last carried out work for the client, consider whether the client has undergone any significant change(s) which would affect your previous assessment of risk and level of due diligence. For example:

Changes in the level or profile of the client's activities

Greater involvement in significant cash transactions

Obtaining additional capital from an unverifiable source

Changes in the countries of operation

Deterioration in the accounting records and internal controls

Changes in the client's strategy or business profile

Acquiring significant new sources of income

Non-compliance with regulatory requirements

Where any cause for concern or suspicion has arisen (but we must avoid doing anything that could be tipping off)

Enhanced Due Diligence – High Risk Customers

– Must be performed before accepting business from a client involved in below business activities:

- Political Associations and PEP's
- Religious Associations
- Charities



– Travel Agencies



- Money Exchanges
- Cash Intensive Business



- Gold Dealers
- Precious Gem Dealers



– Gambling Industry



- Weapons
- Military Departments
- Dual Use Equipment
- Technology Production and Sale



Enhanced Due Diligence – High Risk Customers

A

The client is non-resident, cash intensive businesses or unusual or excessively complex appearance of the ownership structure of the clients business

B

The client is a resident of a high-risk country or countries subject to sanctions, embargoes or countries having significant levels of drug trafficking or corruptions,

C

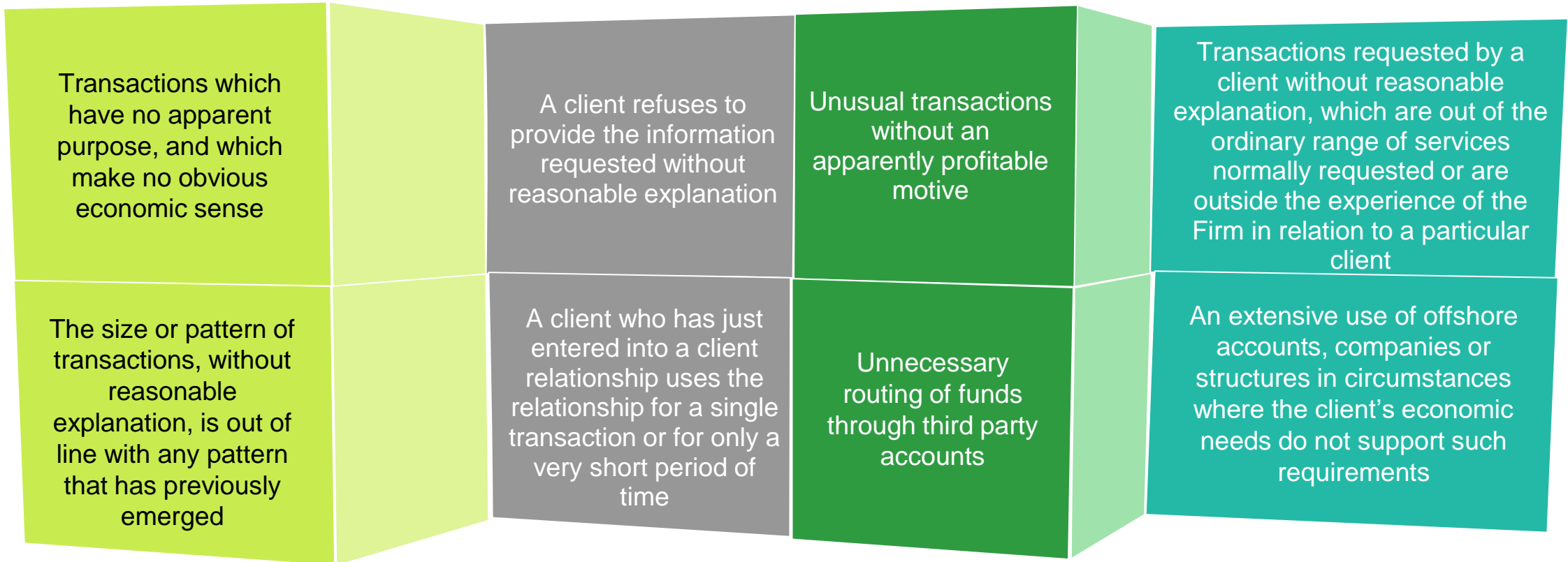
The client, its shareholders or directors are Politically Exposed Persons (“PEP”), or any immediate family members of PEP, or a known close associate of PEP

D

Nonface-to-face business relationships or transactions

Suspicious Transactions

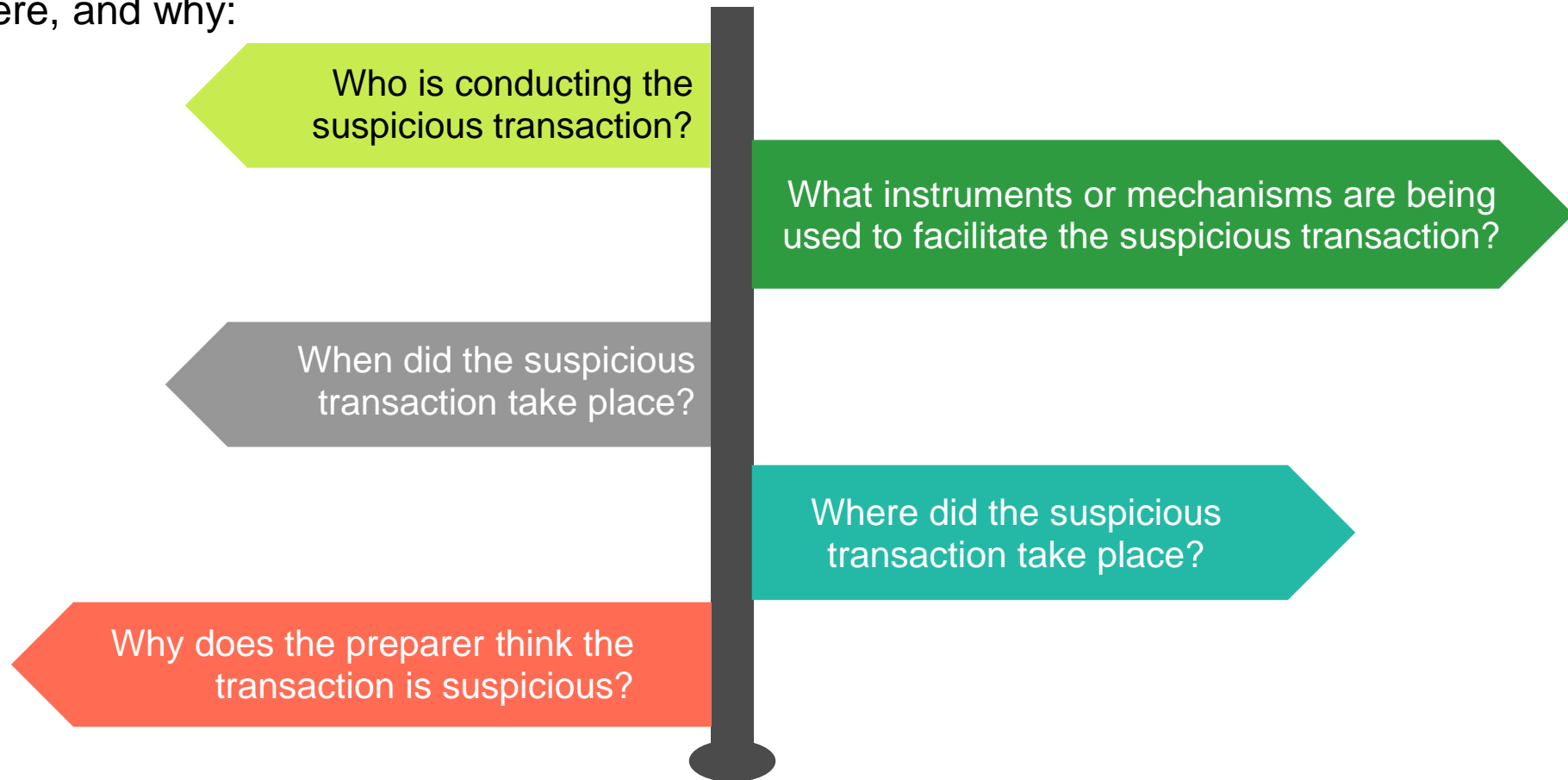
- Circumstances that might give rise to suspicion or reasonable grounds for suspicion may be:



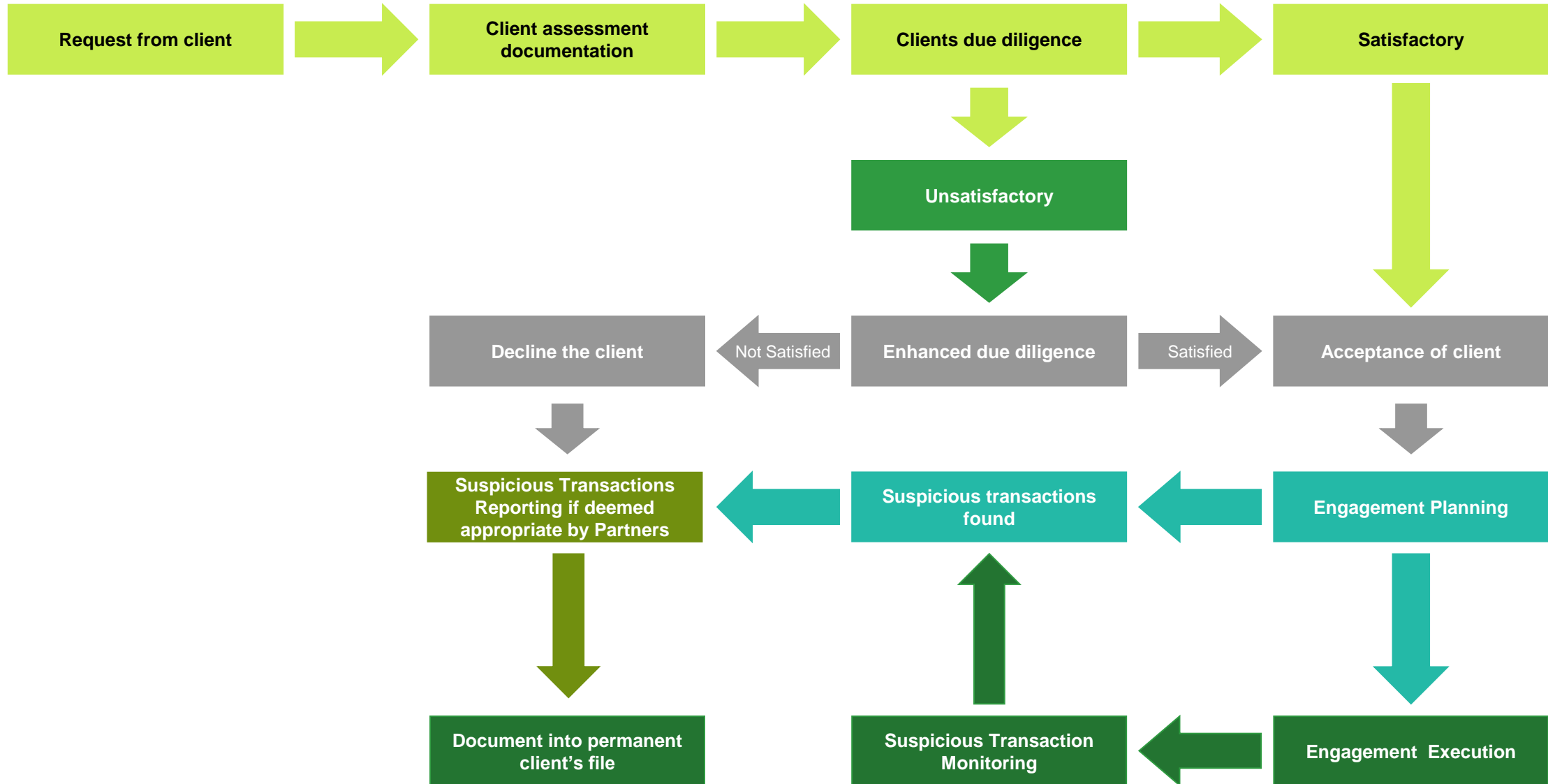
- Effective 'Know Your Client' (KYC) arrangements may provide the basis for recognizing unusual and suspicious transactions.
- Suspicious transaction will often be one that is inconsistent with a client's known legitimate transactions, or with the normal business activities for that type of account or client.

Suspicious Transaction Reporting

- In the event that a suspicious transaction is detected by any of the Firm's employees, the appropriate action will be to prepare an internal Suspicious Transaction Report as soon as possible.
- The report should aim to identify the following five essential elements of information – who, what, when, where, and why:



Anti-Money Laundering Procedures Flow Chart



Tipping Off

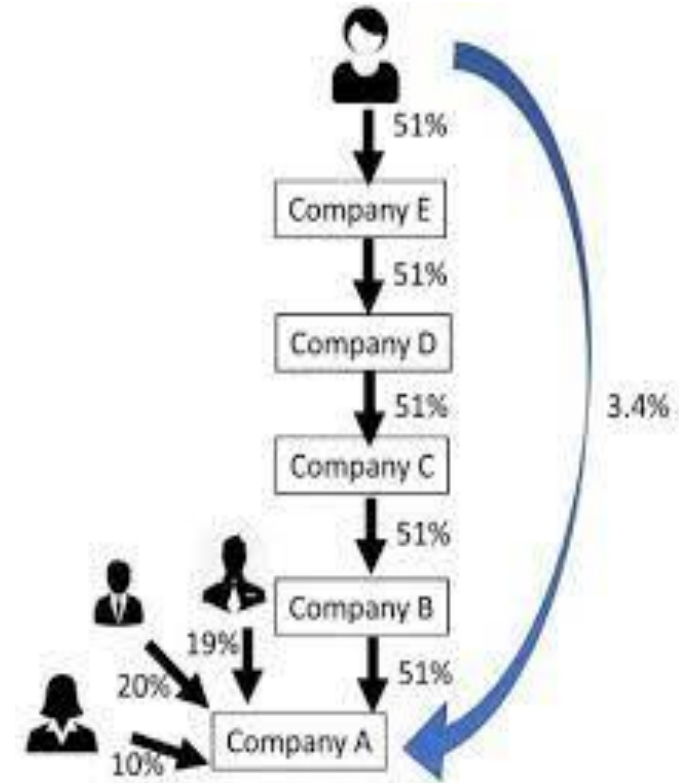


- The Firm or any of its Employees must not tip-off any person
- That is, inform any person that his/her transaction is being scrutinized for possible involvement in suspicious money laundering operations, or
- That any other competent authority is investigating his/her possible involvement in suspicious money laundering operations.

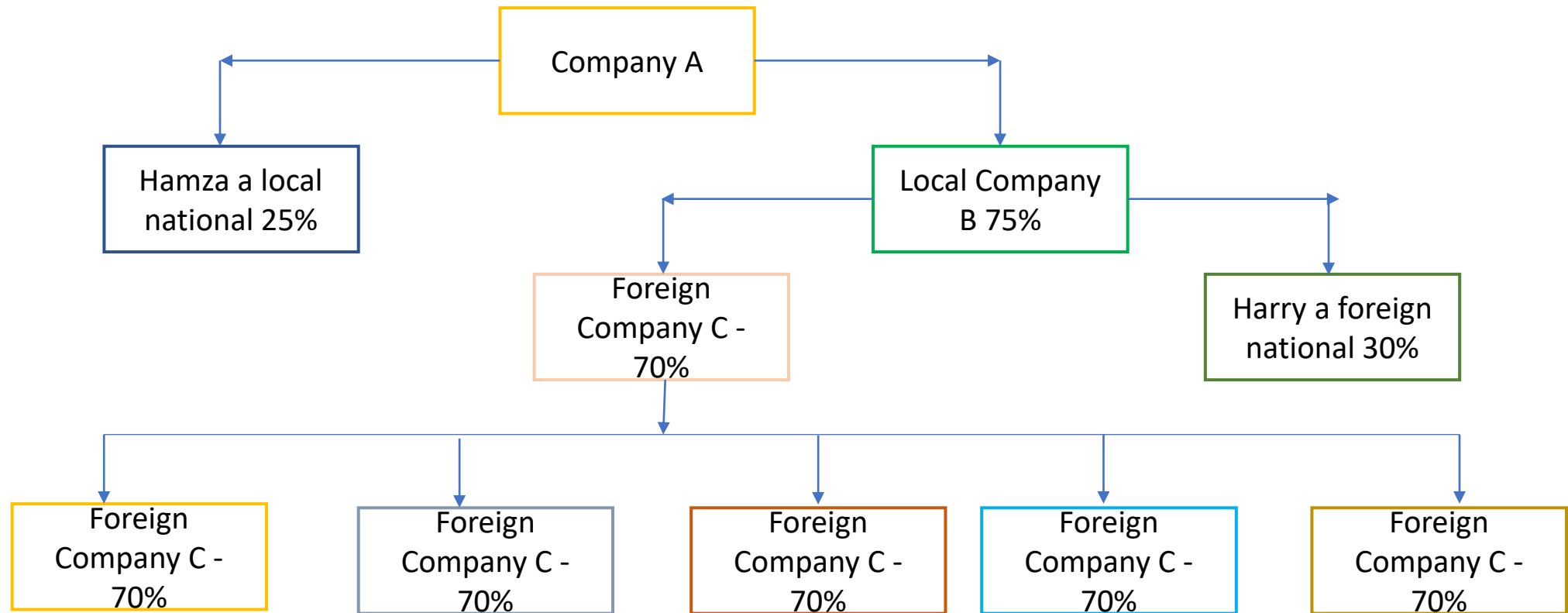
COMPLEX OWNERSHIP STRUCTURE – CASE EXAMPLE

The Directors of Company A have requested to open a bank account. The company operates as a huge importer and exporter of foodstuffs with a capital of USD 10 million, targeting many South American markets.

When Michael, the bank employee, examined the ownership structure of the company to verify that the owner's names are not 'listed' (forbidden to deal with) as well as to meet KYC procedures, he discovered the following:

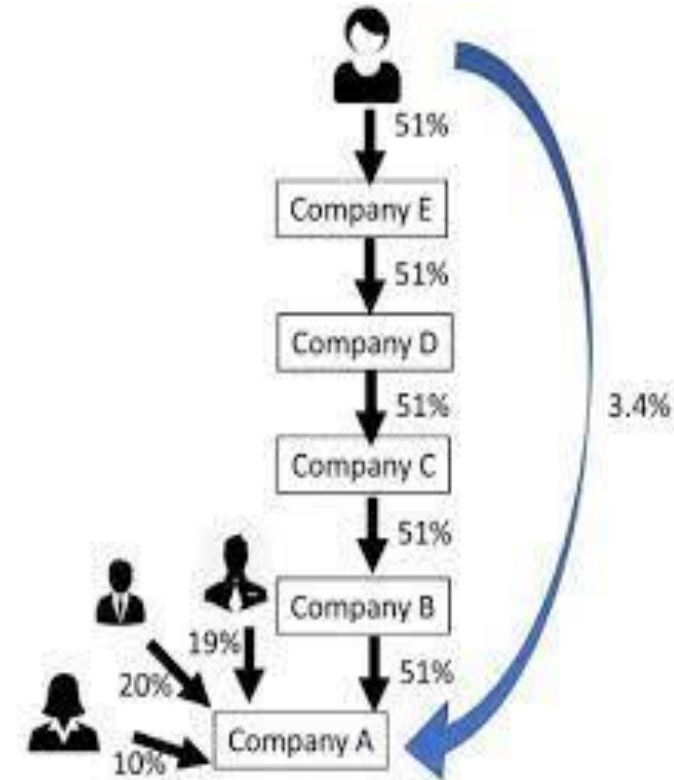


COMPLEX OWNERSHIP STRUCTURE CASE EXAMPLE (CONTINUED)



COMPLEX OWNERSHIP STRUCTURE – CASE EXAMPLE

A large investment company called Z1 maintained a bank account in Country A in Eastern Europe. Z1 had a complex ownership structure whereby three other foreign companies owned it from country B. Country B provides electronic services for verifying registered companies and their owners. So the bank verified the identity of the company and its final owners, despite complex ownership structure. The company owns hundreds of millions of dollars in real estate in the country and maintains a high investment balance as a result. The bank was committed to updating the company's data and monitoring its financial transactions. The bank did not find any concerns regarding the company's account or ownership.



What happened next?????

Common AML/TF Typologies

Typologies	Descriptions
Currency exchange/cash conversion	Used to assist with smuggling to another jurisdiction or to exploit low reporting requirements on currency exchange houses to minimize risk of detection-e.g purchasing of traveller's cheques to transport value to another jurisdiction.
Cash couriers/currency smuggling	Concealed movement of currency to avoid transaction/cash reporting measures.
Structuring (smurfing)	A method involving numerous transactions (deposits, withdrawals, transfers), often various people, high volume of small transactions and sometimes numerous accounts to avoid detection threshold reporting obligations
Use of credit cards, cheques, promissory notes etc	Used as instruments to access funds held in financial institutions, often in different jurisdictions
Purchase of portable valuable commodities (gems, precious metals etc)	A technique to purchase instruments to conceal ownership or move value without detection and avoid ML/CFT measures e.g. movement of diamond, gold to another jurisdiction
Purchase of valuable assets (real estate, racehorses, vehicles etc)	Criminal proceeds are invested in high-value negotiable goods to take advantage of reduced reporting requirements to obscure the source of proceeds of crime.
Use of wire transfers	To electronically transfer funds between financial institutions and often in another jurisdiction to avoid detection and confiscation

Common AML/TF Typologies (Continued)

Typologies	Descriptions
Trade based money laundering and terrorist financing	Usually involves invoice manipulation and uses trade finance routes and commodities to avoid financial transparency laws and regulations
Abuse of Non-Profit Organizations (NPO's)	Used to raise terrorist funds, obscure the source and nature of funds and to distribute funds for terrorist activities.
Use of shell companies/corporations	A technique to obscure the identity of persons controlling funds and to move monies away from interdiction of domestic authorities
New payment technologies	Use of emerging payment technologies for money laundering and terrorist financing. Examples include cell-phone based remittance and payment systems
Use of Professional Gatekeepers (lawyers, accountants, brokers etc)	To obscure the identity of beneficiaries and the illicit source of funds. May also include corrupt professionals who offer specialist money laundering services
Life insurance products	Can for instance be used for money laundering when they have saving or investment features which may include the options for full or partial withdrawals or early surrenders.
Virtual assets (VA)	VA and related services have the potential to spur financial innovation and efficiency, but their distinct features also create new opportunities for money launderers, terrorist financiers and other criminals to launder their proceeds or finance their illicit activities

Any Questions?

