



Money Laundering & Financing of Terrorism

GOPAC/APNAC Workshop

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Presentation will focus on:

- Impact of ML & FT on financial system and economy
- ML & FT - Stages, activities and crimes
- ML - Financial sector context
- Risks to financial institutions
- Corrective measures

Why combat ML & FT

ML & FT activities:

- Undermine the stability of the financial system and the integrity of markets
- Corrupt institutions, government officials, and private sector
- Undermine the rule of law, economy, and national security



Financial stability and market integrity

- Why are these two concepts so important?
- Financial stability can be endangered
 - If market integrity is compromised
- Market integrity can be compromised
 - If financial institutions are compromised



Factors that undermine market integrity

- Deficient accounting practices
- Ineffective internal audit/independence of external audit
- Ineffective internal control systems
- Inadequate disclosure requirements
- Disregard for legal and ethical standards and practices
- Self-dealing and financial crimes

Money Laundering and Financing of Terrorism

- 'Any act or attempted act to conceal or disguise the identity of illegally obtained proceeds so that they appear to have originated from legitimate sources'.
 - **Money Laundering - Interpol's Definition**
- The financing of terrorism involves the processing of funds (often legitimately acquired) to be used in future crimes.
 - IMF (November 5, 2001)



Money Laundering vs Financing of Terrorism


- Source of funds
- Use of funds

- But the funds go through the same stages to obscure the trail

Stages of Money Laundering

- Placement
- Layering
- Integration
- Bringing the money into the financial system
 - Conversion of currency or denominations
 - Depositing cash into an account or multiple accounts
 - Smurfing
 - Conversion into checks, gold, bearer paper

Stages of Money Laundering

- Placement
- Layering 
- Integration
- Obscuring the trail
 - Transactions between financial institutions, both domestic and foreign
 - Splitting funds up and bringing them together again
 - Loans, deposits, securities
 - Front/shell companies

Stages of Money Laundering

- Placement
- Investing in the legal economy
 - Securities
 - Real estate
 - Luxury goods
 - Precious metals and stones
 - Art, antiques, etc.
- Layering
- Integration 

Money Laundering Cycle



Money Laundering Cycle

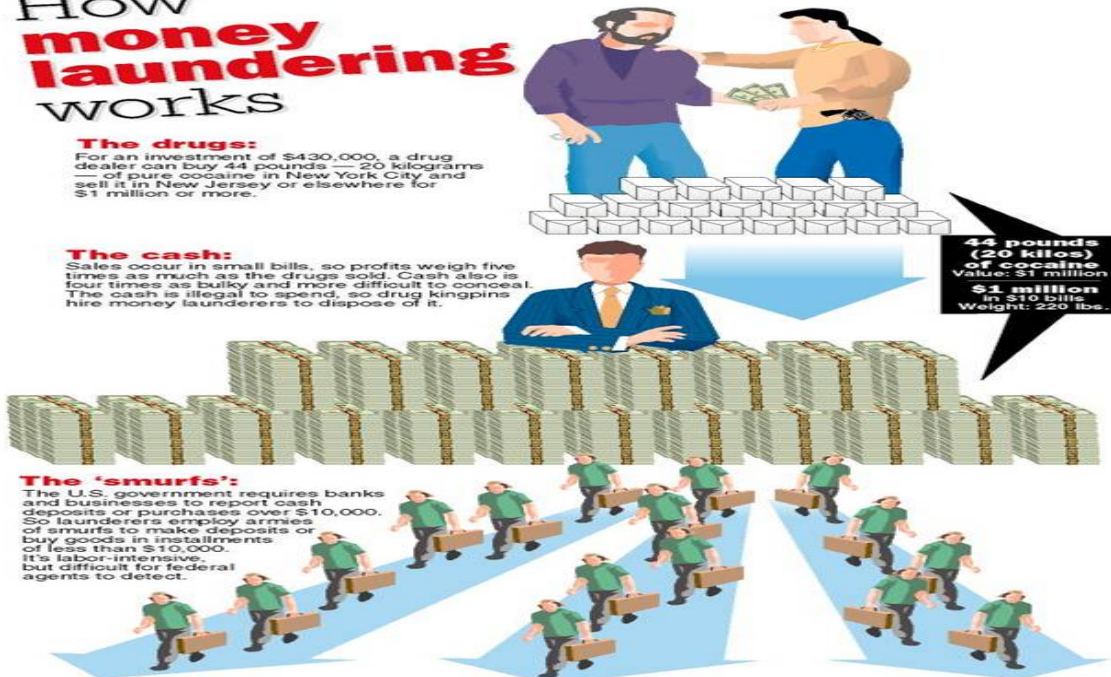
How money laundering works

The drugs:

For an investment of \$430,000, a drug dealer can buy 44 pounds — 20 kilograms — of pure cocaine in New York City and sell it in New Jersey or elsewhere for \$1 million or more.

The cash:

Cocaine is sold in small bills, so profits weigh five times as much as the drugs sold. Cash also is four times as bulky and more difficult to conceal. The cash is illegal to spend, so drug kingpins hire money launderers to dispose of it.



The 'smurfs':

The U.S. government requires banks and businesses to report cash deposits or purchases over \$10,000. So launderers employ armies of smurfs to make deposits or buy goods in installments of less than \$10,000. It's labor-intensive, but difficult for federal agents to detect.

The smurfs have three options in disposing of the cash:

Currency smuggling

Most commonly, smurfs mail or smuggle blocks of cash out of the United States hidden inside luggage, cargo containers, children's toys or glued inside books and magazines. The cash is later deposited in South American banks, then wired into accounts in the United States, Japan, and Europe for stock and real estate investment.



Hard goods

Increasingly, smurfs spend drug dollars on cars, jewelry, appliances, even farm equipment, then ship or truck the goods out of the United States for resale abroad. Drug barons make even greater profits, while controlling part of a legitimate import market.



Financial services

Includes banks, casinos, money order and check-cashing outlets, and wire transfer stores. Smurfs make deposits under \$10,000, then quickly transmit funds overseas or write checks to cover large purchases. Also, smurfs use these to boil down troves of small bills into \$100s and money orders.



Sources: IRS, Customs, Financial Crimes Enforcement Network, Department of Justice, NYPD.

JERRY LUCIANI / STAFF ARTIST



Types of financial crimes

- Money laundering
- Financial fraud (e.g., check, credit card, loans or insurance fraud)
- Tax evasion
- Circumvention of exchange restrictions
- Sale of fictitious financial instruments or insurance policies
- Embezzlement
- Stock manipulation
- Connected party lending



Misuse of the Financial Sector

- Financial institutions
- Foreign exchange bureaus/offices
- Remittance offices
- Insurance companies
- Securities companies



Misuse of Other Sectors

- Trade in precious metals and stones (gold, diamonds)
- Casinos
- Car and boat dealers
- Charities and non-government organizations (NGOs)
- Trust and company service providers
- Lawyers, accountants, notaries, real estate agents



Money laundering risks

- Financial system
 - Integrity
 - Stability
- Economic development
 - Lower tax revenues
 - Skews investment to nonproductive sectors??
- Reputation
 - Discourage foreign direct investment
- Corruption
 - Introduction of criminal element/organized crime



Risks to financial institutions

- Reputational damage
 - Loss of depositors and public confidence
 - Loss of shareholders/investors
- Restricted access to international banking system
 - Limited transactions with foreign banks
 - Higher cost of operation
- Liquidity
 - Deposits runoff
 - Limited access to capital markets or other sources of liquidity



Risks to financial institutions

- Legal

- Regulatory and supervisory enforcement actions
- Asset seizure, freezing, and confiscation
- Fines, imprisonment



Measures to minimize ML & FT risks

- Legal framework
- Supervisory capacity
- Institutional awareness



Minimize money laundering risks

- Supervisory Capacity
 - Role of regulators
 - Training



Minimize money laundering risks

- Institutional awareness

- Role of Institutions

- Political commitment
 - Board of directors & senior management commitment
 - KYC policies and procedures for customer identification (KYC) and due diligence
 - Staff training at all levels
 - Effective compliance programs

In conclusion

- Why do we need to prevent money laundering and combat the financing of terrorism?
 - Because it can undermine market integrity, which can harm economic outcome
- Is this a “global problem”?
 - If one country takes adequate measures then the activity will move to a country which is not prepared
- Financial institutions – “first line of defense”
 - Key players: financial institutions; supervisors, legal system, law enforcement
 - All play an important role in ML and FT