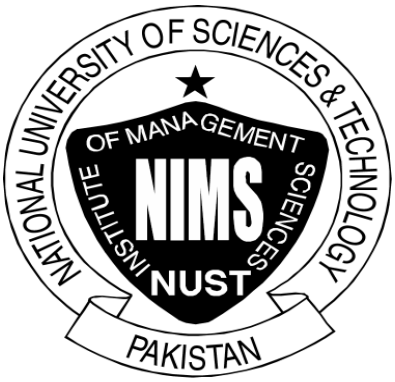

NUST INSTITUTE OF MANAGEMENT SCIENCES

FINAL RESEARCH PROJECT

"Money Laundering & AML Procedures in Pakistan"

BY
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2004 – NUST – MBA – 025

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ABSTRACT

Money Laundering is the process by which criminals attempt to conceal or disguise the true origin and ownership of the proceeds derived from criminal procedures. It is not a new concept rather it is an old and global one but its true realization and assessment followed by counter measures to curtail the phenomena is rather a modern concept. According to FATF (1997-98) Annual Report the annual money laundering estimates range from $ 100 bn-$500 bn. It is the art with which money launderers use the tools of placement, layering and integration in order to deceive the regulatory bodies and put a veil of legitimacy over their illegally earned wealth. Banks and other financial institutions are known to be the pioneers in developing a framework to counter money laundering but the process gained considerable importance after the 9/11 incident and a serious effort was launched to develop a fool proof counter mechanism or for that matter constructing a filtration plant through which every customer and his/her transaction has to pass through. The filtration plant leads to a tracking system whereby any proceed is tracked right from the start to its logical end. The phenomena of money laundering was earlier pegged with the proceeds generated by embezzlement, ransom, bribery, smuggling, illegal use of banking channels and other criminal activities that had a negative impact over the image, society and economy of a country but today money laundering is considered extremely deadly as the proceeds generated from the process are channeled to finance terrorism and extremism which has, is and will always disturb the peace of this beautiful land of ours. The igniter of corruption, money laundering and terrorism is nothing else but the deprivation, starvation and poverty created by the unjustified distribution of wealth and economic benefits. In this regard the international community comprising of many countries and international financial institutions have joined hands to jointly fight against this serious crime, cut its root causes and promote peace and harmony on earth. The developed countries using their strengths like policy framework, economic strength, compatible infrastructure, rule of law and high literacy rate etc has done a lot to counter the phenomena but it is the developing countries whose weak economic conditions, law and law enforcement agencies, porous borders, incompatible policy and infrastructure frame work, low literacy rate etc are adding fuel to fire because they are badly hurt by money laundering. First of all they are already running fragile economies which are adversely affected by productivity leakages and now their problems has become manifold since the money laundering phenomena has taken the shape of a source to finance terrorism for destroying peace. In Pakistan the beautiful land of ours the campaign against money laundering did not get momentum up till the 9/11 event but since then the regulatory authorities have put in a lot to develop a sound policy frame work and also most importantly has ensured its implementation and enforcement. The principal sources of money laundering in Pakistan are corruption, narcotics and drug trafficking, smuggling, hawala/hundi and tax evasion. It has taken a shape of an organized crime whereby a top-down channel of corruption can be visualized. In extreme cases former Prime Minister's of Pakistan have been convicted by international courts for using either directly/indirectly money laundering channels so as to put a legitimacy veil over their illegally earned wealth. This study looks at the issue and its counter measures both at the national and the international level. In the end a list of recommendations has been prepared keeping in view our strengths, weaknesses, opportunities, threats and limits to effectively control the issue and seal leakages to promote economic and social well being of the citizens and in turn of Pakistan.

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Name of Student:	Syed Sajjad Hussain
N.I.D. Card Number:	54400-9989794-3
Thesis Topic:	Money Laundering and AML Procedure in Pakistan
Target date for examination:	05-09-05
Advisor:	Mrs.Fauzia Janjua

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ABSTRACT

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MASTER'S THESIS WORK

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ACKNOWLEDGEMENTS

First of all I would like to thank Almighty Allah whose blessings made it easy for me to conduct the research work. I also want to thank my advisor Mrs. Fauzia Janjua (Branch Manager and Vice President of Bank Al Faisal) whose timely help and guidance played a key role in the completion of the project. I would like to use this opportunity to thank Mr. Syed Iftikhar Hussain (Assistant Chief Manager, SBP (Quetta)) who helped me in collecting valuable data. Lastly I would like to thank all my fellow class mates who helped me during the course of my thesis.

DEDICATION

I would like to dedicate my thesis work to my beloved father Lt Col (Dr) Syed Zulfiqar Hussain S.I, T.I (M) who till his last breath served the nation with utmost dedication, honesty, sincerity, with selfless devotion and to the best of his abilities. He still holds the honor of being the only thorough expert of explosives chemistry in the country. He made valuable contributions in the field of Nuclear and Missile Technology thereby making the defense of Pakistan unshakable. I along with millions of Pakistanis were, are and will certainly be proud of his achievements and contributions.

ABSTRACT

Money Laundering is the process by which criminals attempt to conceal or disguise the true origin and ownership of the proceeds derived from criminal procedures. It is not a new concept rather it is an old and global one but its true realization and assessment followed by counter measures to curtail the phenomena is rather a modern concept. According to FATF (1997-98) Annual Report the annual money laundering estimates range from $ 100 bn-$500 bn. It is the art with which money launderers use the tools of placement, layering and integration in order to deceive the regulatory bodies and put a veil of legitimacy over their illegally earned wealth. Banks and other financial institutions are known to be the pioneers in developing a framework to counter money laundering but the process gained considerable importance after the 9/11 incident and a serious effort was launched to develop a fool proof counter mechanism or for that matter constructing a filtration plant through which every customer and his/her transaction has to pass through. The filtration plant leads to a tracking system whereby any proceed is tracked right from the start to its logical end. The phenomena of money laundering was earlier pegged with the proceeds generated by embezzlement, ransom, bribery, smuggling, illegal use of banking channels and other criminal activities that had a negative impact over the image, society and economy of a country but today money laundering is considered extremely deadly as the proceeds generated from the process are channeled to finance terrorism and extremism which has, is and will always disturb the peace of this beautiful land of ours. The igniter of corruption, money laundering and terrorism is nothing else but the deprivation, starvation and poverty created by the unjustified distribution of wealth and economic benefits. In this regard the international community comprising of many countries and international financial institutions have joined hands to jointly fight against this serious crime, cut its root causes and promote peace and harmony on earth. The developed countries using their strengths like policy framework, economic strength, compatible infrastructure, rule of law and high literacy rate etc has done a lot to counter the phenomena but it is the developing countries whose weak economic conditions, law and law enforcement agencies, porous borders, incompatible policy and infrastructure frame work, low literacy rate etc are adding fuel to fire because they are badly hurt by money laundering. First of all they are already running fragile economies which are

adversely affected by productivity leakages and now their problems has become manifold since the money laundering phenomena has taken the shape of a source to finance terrorism for destroying peace. In Pakistan the beautiful land of ours the campaign against money laundering did not get momentum up till the 9/11 event but since then the regulatory authorities have put in a lot to develop a sound policy frame work and also most importantly has ensured its implementation and enforcement. The principal sources of money laundering in Pakistan are corruption, narcotics and drug trafficking, smuggling, hawala/hundi and tax evasion. It has taken a shape of an organized crime whereby a top-down channel of corruption can be visualized. In extreme cases former Prime Minister's of Pakistan have been convicted by international courts for using either directly/indirectly money laundering channels so as to put a legitimacy veil over their illegally earned wealth. This study looks at the issue and its counter measures both at the national and the international level. In the end a list of recommendations has been prepared keeping in view our strengths, weaknesses, opportunities, threats and limits to effectively control the issue and seal leakages to promote economic and social well being of the citizens and in turn of Pakistan.

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CHAPTER # 1 INTRODUCTION

1.1 Introduction:

Corruption is talked openly in most countries these days which is a good thing, since it provides politicians, businesses, trade unions, journalists and ordinary citizens with a rare opportunity: that of agreeing on the urgency of stamping it out. But agreeing on what exactly is meant by corruption is another matter. Even the most widely used definition, which is "the abuse of public office for private gain", may err on the side of over-simplification. Corruption comes in many guises in fact. Bribery, kick backs, funding of corrupt politicians during their campaign in order to reap benefits later on extortion, fraud, trafficking, embezzlement -but also nepotism and cronyism- are all different manifestations of it that lead to nothing else than money laundering. Even the most straightforward acts of corruption need not always involve money. Other gifts or advantages, such as membership of an exclusive club, are used as "sweeteners" to clinch deals. Corruption is very harmful since it wastes resources by distorting government policy against the interests of the majority and away from its specific goals. It turns the energies and efforts of public officials and citizens away from productive activities. It also imposes costs on foreign and domestic entrepreneurs, hampers the growth of competitiveness and threatens economic development. Corruption also contributes to an organized crime such as money laundering by undermining the rule of law thereby leading to a loss of public interest and trust in state and private institutions. Finally it generates apathy and cynicism besides endangering the basics of democracy. By and large corruption certainly leads to money laundering whereby an effort is being made on the part of the launderer to put the illegal proceeds derived from corruption, embezzlement, misuse and abuse of power, drug trafficking, kidnapping ransom, bribery, forgery, prostitution, fraud and extortion etc in a legal envelope so as to pose them as a legal one. This forces us to look at the proper definition of money laundering in order to be better equipped in understanding the issue and in order to smoothly peal off layers of this organized crime (Ancorr web, OECD anticorruption ring online).

Money laundering is the practice of engaging in financial transactions in order to conceal the identity, source and destination of the money in question. In the past, the term "money laundering" was applied only to financial transactions related to otherwise criminal activity but today its definition is often expanded by government regulators to encompass any financial transaction which is not transparent based on law. As a result, the illegal activity of money laundering is now commonly practiced by average individuals, small and large business, corrupt officials, and members of organized crime, such as drug dealers or Mafia members. (Wikipedia- an online encyclopedia).

1.2 Brief History:

The term "money laundering" is said to originate from Mafia ownership of Laundromats in the United States. These gangsters were earning huge sums in cash from extortion, prostitution, gambling and bootleg liquor. They needed to show a legitimate source for these monies. One of the ways in which they were able to do this was by purchasing outwardly legitimate businesses and to mix their illicit earnings with the legitimate earnings they received from these businesses. Laundromats were chosen by these gangsters because they were cash businesses and this was an undoubted advantage to people like Al Capone who purchased them.

Al Capone, however, was prosecuted and convicted in October, 1931 for tax evasion. It was this that he was sent to prison for rather than the predicate crimes which generated his illicit income and according to **Robinson** this tale that the term originated from this time is a myth. He states that:

"Money laundering is called what it is because that perfectly describes what takes place - illegal, or dirty, money is put through a cycle of transactions, or washed, so that it comes out the other end as legal, or clean, money. In other words, the source of illegally obtained funds is obscured through a succession of transfers and deals in

order that those same funds can eventually be made to appear as legitimate income".

It would seem, however, that the conviction of Al Capone for tax evasion may have been the trigger for getting the money laundering business off the ground.

Meyer Lansky (affectionately called 'the Mob's Accountant') was particularly affected by the conviction of Capone for something as obvious as tax evasion. Determined that the same fate would not befall him he set about searching for ways to hide money. Before the year was out he had discovered the benefits of numbered Swiss Bank Accounts. This is where money laundering would seem to have started and according to **Lacey** Lansky was one of the most influential money launderers ever. The use of the Swiss facilities gave Lansky the means to incorporate one of the first real laundering techniques, the use of the 'loan-back' concept, which meant that hitherto illegal money could now be disguised by 'loans' provided by compliant foreign banks, which could be declared to the 'revenue' if necessary, and a tax-deduction obtained into the bargain.

'Money laundering' as an expression is one of fairly recent origin. The original sighting was in newspapers reporting the Watergate scandal in the United States in 1973. The expression first appeared in a judicial or legal context in 1982 in America in the case **US v $4,255,625.39 (1982) 551 F Supp.314.**

Since then, the term has been widely accepted and is in popular usage throughout the world.

There are three main sources of money laundering:

- Tax Evasion
- Organized Crime e.g. Drugs dealing, prostitution, other sorts of trafficking, fraud and other crimes etc
- Corruption- it is the third pillar of money laundering and involves embezzlement, state involvement in criminal activities of enterprises, bribery and kick backs and misappropriation of public funds etc

Now looking at the red flags of money laundering process we can identify the global regions where the concentration of laundering proceeds rests and these are where:

- Tax evasion is high and are considered as tax heavens
- Weak rule and role of law in society
- Banking secrecy is questionable
- Inadequate oversight over allocation and use of funds or over criminal activities
- Existence of a number of anonymous Corporations
- Low accountability and transparency
- In compatible infrastructure
-

The consequences of money laundering could be:

- Increased opportunity for criminal activity
- Increased profit from illegal and criminal activities
- Decreased public faith in regime legitimacy
- Loss of state revenue and inequitable shift of the tax burden to compensate for the loss
- Destruction of idea of peaceful coexistence and calm atmosphere
- Increased corruption and criminal activities

- Expansion of delta between the rich and the poor or for that matter between power hubs and terminals
- Increased poverty and injustice also leads to terrorism and extremism

1.3 Background:

Money laundering as a crime only attracted interest in the 1980s, essentially within a drug trafficking context. It was from an increasing awareness of the huge profits generated from this criminal activity and a concern at the massive drug abuse problem in western society which created the impetus for governments to act against the drug dealers by creating legislation that would deprive them of their illicit gains. Governments also recognized that criminal organizations, through the huge profits they earned from drugs, could contaminate and corrupt the structures of the state at all levels.

Money laundering is a truly global phenomenon, helped by the International financial community which is a 24hrs a day business. When one financial centre closes business for the day, another one is opening or open for business. In 1993 UN Report noted: The basic characteristics of the laundering of the proceeds of crime, which to a large extent also mark the operations of organized and transnational crime, are its global nature, the flexibility and adaptability of its operations, the use of the latest technological means and professional assistance, the ingenuity of its operators and the vast resources at their disposal. In addition, a characteristic that should not be overlooked is the constant pursuit of profits and the expansion into new areas of criminal activity. The international dimension of money laundering was evident in a careful study of the Canadian Money Laundering files which revealed that nearly 80 % of all laundering schemes had an international dimension.

More recently "Operation Green Ice" and "Operation Dinero" (1992) showed essentially the transnational nature of modern money laundering process (Billy's money laundering information website)

In Operation Green Ice, law enforcement from Italy, Colombia, the United Kingdom, Canada, Spain, Costa Rica, the Cayman Islands, and the United States co-operated together to expose the financial infrastructure of the Cali mafia. During the first phase of Operation Green Ice, over $50 million in cash and property were seized and almost 200 people were arrested world-wide, including seven of Cali's top money managers. In addition, valuable information was obtained when investigators gained access to financial books and records, as well as computer hard drives and discs containing financial transactions and bank account information. During the second phase of Green Ice, nearly 14, 000 pounds of cocaine, 16 pounds of heroin, almost $16 million in cash were seized, and over 40 people were arrested.

During Operation Dinero--a two-and-a-half year undercover investigation involving the DEA and the IRS, as well as law enforcement and police organizations in Italy, Spain, Canada, and the United Kingdom—together they penetrated the drug money laundering networks and followed the money trails that led the agencies to the top echelons of the Cali cocaine organizations. Through this investigation we further established direct links among the criminal organizations of the Italian Mafia and the Colombian cocaine Mafia. This was a historical operation also because it was the first time a law enforcement agency established a private bank--operated by undercover agents--as an investigative tool to gain insight into the seamy netherworld of drug money laundering.

The reason why it has become a global concern and specially now has come in the lime light is the 9/11 incident whereby the US and its other allies and partners in the global war on terror have now made quite stringent laws to curtail money laundering and to deny terrorist groups any access to secret funds. Secondly there is a global concern among countries to develop their financial institutions, to grow their economy and to put a lid over the loopholes by virtue of which loss of resources occur. Money laundering phenomena has directly affected Pakistan in the form of drug trafficking, arms smuggling, funding for extremists groups etc, therefore one must assess the situation and try to give his input in rectifying and shortcomings in the development of our financial institutions (link page from Billy’s money laundering information website).

Chapter # 2 LITERATURE REVIEW

2.1 What is Money Laundering?

If you were to conduct a survey in the streets asking the question what is money laundering, the general response from most people would be that they had no idea. This typical response is one of the problems the Government has in combating this type of crime. It seems to be a victimless crime. It has none of the drama associated with a robbery or any of the fear that violent crime imprints upon people's psyche and yet, money laundering can only take place after a predicate crime (such as a robbery or housebreaking or drug dealing) has taken place. It is the lack of information about money laundering that is available to the person on the street, which makes it an invisible problem and hence difficult to tackle.

There are various definitions available which describe the phrase 'Money Laundering'. Article 1 of the draft of European Communities (EC) Directive of March 1990 defines it as:

The conversion or transfer of property, knowing that such property is derived from serious crime, for the purpose of concealing or disguising the illicit origin of the property or of assisting any person who is involved in committing such an offence or offences to evade the legal consequences of his action, and the concealment/disguise of the true nature, source, location, disposition, movement, rights with respect to, or ownership of property, knowing that such property is derived from serious crime.

Yet another definition for money laundering could be:

Money laundering is the process by which large amounts of illegally obtained money (from drug trafficking, terrorist activity or other serious crimes) is given the appearance of having originated from a legitimate source.

If done successfully, it allows the criminals to maintain control over their proceeds and ultimately to provide a legitimate cover for their source of income. Money laundering plays a fundamental role in facilitating the ambitions of the drug trafficker, the terrorist, the organized criminal, the insider dealer, the tax evader as well as the many others who need to avoid the kind of attention from the authorities that sudden wealth brings from illegal activities. By engaging in this type of activity it is hoped to place the proceeds beyond the reach of any asset forfeiture laws.

Estimates of the size of the money laundering problem totals more than $500 billion annually world - wide. This is a staggering amount and detrimental by any calculation to the financial systems involved. Clearly the problem is enormous and it is also clear that money laundering goes far beyond hiding drug profits.

2.2 Process of Money Laundering:

Money laundering is not a single act but is in fact a process that is accomplished in three basic steps. These steps can be taken at the same time in the course of a single transaction, but they can also appear in well separable forms one by one as well. The steps are:-

a. Placement;
b. Layering; and
c. Integration.

There are also common factors regarding the wide range of methods used by money launderers when they attempt to launder their criminal proceeds. Three common factors identified in laundering operations are;

- The need to conceal the origin and true ownership of the proceeds;
- The need to maintain control of the proceeds
- The need to change the form of the proceeds in order to shrink the huge volumes of cash generated by the initial criminal activity.

2.3 Stages of Money Laundering:

The proceeds or for that matter the process of money laundering passes through three distinct stages that are:

- Placement
- Layering
- Integration

2.3.1 Placement:

This is the first stage in the washing cycle. Money laundering is a "cash-intensive" business, generating vast amounts of cash from illegal activities (for example, street dealing of drugs where payment takes the form of cash in small denominations). The monies are placed into the financial system or retail economy or are smuggled out of the country. The aims of the launderer are to remove the cash from the location of acquisition so as to avoid detection from the authorities and to then transform it into other asset forms; for example: travelers cheques, postal orders, etc.

2.3.2 Layering:

In the course of layering, there is the first attempt at concealment or disguise of the source of the ownership of the funds by creating complex layers of financial transactions designed to disguise the audit trail and provide anonymity. The purpose of layering is to disassociate the illegal monies from the source of the crime by purposely creating a complex web of financial transactions aimed at concealing any audit trail as well as the source and ownership of funds.

Typically, layers are created by moving monies in and out of the offshore bank accounts of bearer share shell companies through electronic funds' transfer (**EFT**). Given that there are over 500,000 wire transfers - representing in excess of $1 trillion - electronically circling the globe daily, most of which is legitimate, there isn’t enough information disclosed on any single wire transfer to know how clean or dirty the money is, therefore providing an excellent way for launderers to move their dirty money. Other forms used by launderers are complex dealings with stock, commodity and futures brokers. Given the sheer volume of daily transactions, and the high

degree of anonymity available, the chances of transactions being traced is insignificant (Billy's money laundering information website).

EFT is a preferable method for layering of criminal proceeds aided by the introduction of new innovative payment technologies like smart cards, e-cash and online banking etc, these all certainly increases the opportunities for laundering. In the absence of consistent standards and suitable monitoring by the supervisory authorities these new innovations can easily fall a prey to launderers. Further global movements of funds are hidden by the strict bank secrecy afforded by a number of offshore and traditional financial centers.

The fast development of communications technology in the last decades has created opportunities to commit traditional types of crime, such as corruption and money laundering, in non-traditional ways. Due to the lack of sufficient national and international control mechanisms, computers and other new communication and payment techniques are among the favorite tools to conceal proceeds of fraud. This new crime typology is usually referred to as **electronic crime** or e-crime.

Secrecy is the common characteristic of criminal activities such as corruption and money laundering, especially for the purpose of concealing the illegal profits of such activities. The favorite method of concealing economic transactions in the world market consists in having recourse to the so-called offshore countries, namely countries which endeavor by all means to attract capital from other countries. In so doing, the numerous offshore countries offer foreign investors and traders a degree of confidentiality which often amounts to total anonymity with regard to both the market and the national authorities of the foreign countries concerned (Ancorr web, OECD anticorruption ring online).

2.3.3 Integration:

The final stage in the process. It is this stage at which the money is integrated into the legitimate economic and financial system and is assimilated with all other assets in the system. Integration of the "cleaned" money into the economy is accomplished by the launderer making it appear to have been legally earned. By this stage, it is exceedingly difficult to distinguish legal and illegal wealth.

Methods popular to money launderers at this stage of the game are:

a. The establishment of anonymous companies in countries where the right to secrecy is guaranteed. They are then able to grant themselves loans out of the laundered money in the course of a future legal transaction. Furthermore, to increase their profits, they will also claim tax relief on the loan repayments and charge themselves interest on the loan.

b. The sending of false export-import invoices overvaluing goods allows the launderer to move money from one company and country to another with the invoices serving to verify the origin of the monies placed with financial institutions.

c. A simpler method is to transfer the money (via **EFT**) to a legitimate bank from a bank owned by the launderers, as 'off the shelf banks' are easily purchased in many tax havens.

2.3.4 Recent Trends:

The recent trends courtesy to the fast growing technologies in laundering money effectively so as to disguise the regulators and the law enforcement agencies by remaining inside the legal cover and creating space for oxygen much needed for laundering purposes. These are as under:

- People try in the placement stage to put illegally earned money in small amount in different bank accounts so as to remain outside the legal boundaries by not exceeding the limits of deposit.
- As we know that personal anonymity is a key in laundering money, hence people use fake and shell/cover companies and individuals for such purposes
- By the very nature of speed, anonymity, high level encryption etc on line banking and e-cash are most vulnerable industries
- Increased level of anonymity calls for keeping a constant eye over the "introducer' segment before extending any financial services by financial institutions to customers
- The very term "Collection A/C" is very dangerous because in this case foreigners residing in another country use legal banking channels for depositing and outward remitting to their home countries
- The certain types of privileges in terms of personalized banking services extended to high income and valued customers calls for keeping a constant eye over their activities because such individuals during the whole year actively use their accounts by depositing, withdrawing and remitting huge sums of money but before audit they leave very little sum so as to bluff the auditors in legal terms as everyone is allowed to maintain what ever balance he/she wants in his/her account at any point in time
- Back-to-back loans are also an area of great concern for the bankers
- EFT is a modern and secure way of sending huge sum of money through legal channels outside a country's jurisdiction within seconds (www.finance.gov/fatf.pdf)

2.3.5 How can it be prevented?

The primary purpose of organized crime is to make profits. Like any business, the purposes of profit are to enjoy it and re-invest it in future activity. For the organized criminal, however, profit close to the source of the crime represents a particular vulnerability and unless the criminal can effectively distance himself or herself from the crime which is the source of the profit they remain susceptible to detection and prosecution. Hence the need to launder their illicit profits to make them appear legitimate appears quite strongly.

The biggest source of illicit profits comes from the drugs' trade and it was drug trafficking that provided the initial catalyst for concerted international efforts against money laundering. The drugs' industry is a highly cash intensive business and "in the case of cocaine and heroin the physical volume of notes received is much larger than the volume of drugs themselves". In order to rid themselves of this large burden it is necessary to use the financial services industry and in particular, deposit-taking institutions.

The Financial Action Task Force (**FATF**) on Money Laundering has identified certain 'choke' points in the money laundering process that the launderer finds difficult to avoid and where he is vulnerable to detection. The initial focus has to be on these areas if the war against the launderer is to proceed successfully.

The choke points identified are:

a. Entry of cash into the financial system.

b. Transfers to and from the financial system; and

c. Cross-border flows of cash.

The entry of cash into the financial system, known as the 'placement' stage is where the launderer is most vulnerable to detection. Because of the large amounts of cash involved it is extremely hard to place it into a bank account legitimately (Billy's money laundering information website).

CHAPTER # 3 ANALYSIS AND FINDINGS

3.1 Fundamental Laws of Money Laundering:

- The more successful a money laundering apparatus is in imitating the patterns and behavior of legitimate transactions, the less the likelihood of it being exposed.
- The more deeply embedded illegal activities are within the legal economy and the less their institutional and functional separation, the more difficult it is to detect money laundering.
- The lower the ratio of illegal to legal financial flows through any given business institution, the more difficult it is to detect money laundering.
- The higher the ratio of illegal "services" to physical goods production in any economy, the more easily money laundering can be conducted in that economy.
- The more the business structure of production and distribution of non-financial goods and services is dominated by small and independent firms or self-employed individuals, the more difficult the job of separating legal from illegal transactions.
- The greater the facility of using cheques, credit cards and other non-cash instruments for effecting illegal financial transactions, the more difficult it is to detect money laundering.
- The greater the degree of financial deregulation for legitimate transactions, the more difficult it is to trace and neutralize criminal money.
- The lower the ratio of illegally to legally earned income entering any given economy from outside, the harder the job of separating criminal from legal money.

- The greater the progress towards the financial services supermarket and the greater the degree to which all manner of financial services can be met within one integrated multi-divisional institution, the more difficult it is to detect money laundering.

- The greater the contradiction between global operation and national regulation of financial markets, the more difficult the detection of money laundering (Official website of UNODC).

3.2 Proposed methodology for assessing global money Laundering:

Known incidents of money laundering involving large amounts of money generated from crime, are of tremendous public interest and are consequently given wide publicity. A wide range of national and international agencies have attempted to quantify organized crime and components of money laundering in their particular sphere of interest, and their assessments are frequently made available in public statements. A comparatively simple crime-economic model, constructed from readily available international databases, closely predicts a range of such expert assessments, and appears to offer a framework for determining and monitoring the size of money laundering flows around the world. Further research is required to complete the model, but the nature of that research is made clear, and it appears that existing data sources are likely to be in adequate. Initial output from the model suggests a global money laundering total of **$2.85 trillion** per year, heavily concentrated in Europe and North America. Here is a general overview of the methodology and some interim results.

3.2.1 Background:

In early 1998, the retiring chairman of the O.E.C.D.'s Financial Action Task Force (FATF) Working Group on Statistics and Methods, Mr. Stanley Morris, stated that "the need to estimate the size of money laundering and quantify its constituent parts has been a concern of the FATF since its initial report."

His report identified at least four areas of legitimate demand for quantitative measures of money laundering:

- Understanding the magnitude of the crime, so that law enforcement authorities, national legislators, and international organizations can reach agreement on the place of counter-money laundering programs within national and international enforcement and regulatory agendas.
- Understanding the effectiveness of counter-money laundering efforts, by providing a baseline and a scale for measurement and enabling evaluation of particular programs or approaches.
- Understanding the macro-economic effects of money laundering, particularly the adverse effects of money laundering on financial institutions and economies. E.g. changes in demand for money; exchange and interest rate volatility; heightened risks to asset quality for financial institutions; adverse effects on tax collection and, ultimately, on fiscal policy projections; contamination effects on particular transactions or sectors and behavioral expectations of market actors; and country-specific distributional effects or asset price bubbles.
- Understanding money laundering, since even the rigorous examination of the components of measurement should produce a deepened understanding of the relationships among, and the differences between, various parts of the phenomena that are grouped together when we speak of money laundering.

He concluded however that "There is not at present any economic *deus ex machina* that will allow the accurate measurement of money laundering world-wide, or even within most large nations. The basis for such estimations simply does not exist". Almost two years after FATF's quest for quantification began, the Working Group and its economists – as if trying to prove the old theory about laying economists end-to-end - have yet to reach a conclusion on a methodology.

3.2.2 Introduction:

The proposed solution for the assessment of global money laundering proceeds rests in a crime-economic model that resembles an inter-regional input-output model and that uses a range of publicly available data and crime statistics to estimate the amount of money generated by crime in each country around the world, and then uses various socio-economic indices to estimate the proportions of these funds that will be laundered, and to which countries these funds will be attracted for laundering. By aggregating these estimates, an assessment can be made of the likely extent of global money laundering, and comparisons can be made of each country's contribution to the overall global problem. The structure of the model, together with some of the key output data, will be discussed later. It is not claimed that the model, thus far, produces accurate estimates of money laundering flows.

What is defined as a crime in one country may not necessarily be criminal in another. The most profitable crimes in some countries may not be profitable in others. Criminals in some countries might choose to launder their profits, while those in other countries might simply spend them. To this extent, Morris's conclusion that there is no single model that explains money laundering may be correct. However, there may be only a relatively small number of variants of a basic formula. One might be able to say, for example, that "in countries like X, the average profit per recorded fraud is probably around $20,000, but in countries like Y the figure is more like $2,000". Or "in countries like A, around 60% of the proceeds of crime will be laundered, while in countries like B it is likely to be only around 20%".

There is a surprising amount of information about global trends in crime and in money laundering. For example:

- United Nations Crime and Justice databases, describing crimes officially recorded at the national level in over eighty countries;
- International Crime Victims Surveys, that provide insights into the relationships between crime (including crimes not officially recorded) and national socio-economic characteristics in over sixty countries;
- Estimates of the proceeds of crimes – particularly drug-related and other trans-national crimes
- Indices of corruption and susceptibility to money laundering, such as those compiled by Transparency International or the Australian Office of Strategic Crime Assessments in Canberra;
- Geographic, demographic, economic, trade and finance data at the national and international levels.

More is in the pipeline, since the United Nations Centre for International Crime Prevention is currently pilot-testing a survey of trans-national crime, including questions on international linkages between crime groups.

The model, as envisaged in the 1995 AUSTRAC publication that estimated the extent of money laundering in and through Australia, has something of the style of an international input-output model. It proceeds by estimating the quantity of money that could be generated by crime and made available for laundering in each of 226 countries. It then addresses the question of what proportion of this money is likely to be laundered within the same country or sent to another country for laundering, and finally determines which destination countries will receive the funds exported and in what proportions. When this process is complete, the total estimated flows into and out of each of the individual countries can be added up to provide global aggregates, and country profiles can be derived, highlighting where the greatest flows of hot money are, and identifying the key global problem areas.

3.2.3 The Model:

To begin with, it needs to be remembered that money laundering is a flow of funds. There is essentially a place where the money is generated, and a place where it is laundered. Even where crime is organized on a transnational basis, the proceeds of crime can be allocated to the countries in which the various victims of crime live. The money may then, of course, be laundered in the same country in which it was generated, or be sent to another country (or other countries) for laundering. It may, furthermore, flow on from its first placement to other countries, and may often return eventually to the originating country so that the offenders can invest their money into legitimate enterprises in their home country.

However, for the purpose of quantifying money laundering, we do not need to follow the money trails beyond the initial point of laundering, because the transactions from that point onwards have all the legitimacy of ordinary monetary flows. In statistical terms, we would be double counting if we followed hot money all the way round its monetary flows. In statistical terms, we would be double counting if we followed hot money all the way round its circuitous path from the scene of the crime to the final investment, and counted the same money each time it moved. If $1 million is earned from crime in Australia and sent, say, to a Hong Kong bank for laundering, and from there via Switzerland to the Cayman Islands, from where it is returned "cleansed" to Australia, it is a nonsense to say that these four moves amount to $4 million of money laundering. If a thief sells a stolen bicycle to a second hand retail shop, we do not count another theft when the bicycle is purchased from the shop, and each time it subsequently changes hands, yet this sort of muddled thinking is apparent even in the most influential of reports on money laundering.

In this model, the quantity of money laundering *generated* in each country is described as dependent principally upon:

- the nature and extent of crime in that country,
- an estimated amount of money laundered per reported crime, for each type of crime, and
- The economic environment in which the crime and the laundering takes place.

A country that does not have a lot of crime, or whose economy does not provide significant profits to criminal enterprises cannot generate large amounts of money to be laundered. In countries with high crime rates **and** significant criminal proceeds, the potential for money laundering is clearly higher.

The quantity being *attracted* to each country is described as dependent upon, inter alia:

- the presence or absence of banking secrecy provisions,
- government attitudes to money laundering,
- levels of corruption and regional conflict, and
- Geographical, ethnic or trading proximities between the origin and destination countries.

One would expect initial flows of laundered money to favor countries that have secretive banking practices or poor government control over banking. By contrast, subsequent movements of this laundered money may be expected to favor countries with more respectable and controlled, and therefore safer, banking regimes, but as pointed out above, these secondary flows should not concern us. One would also expect money launderers to take advantage of high levels of corruption, if the corrupt behavior favors their activities, but to avoid those countries in which there are dangerous levels of conflict or where the corruption is of a form that might put their money at risk. One would further expect higher flows of laundered money between places where geographic proximity or strong trading or community links such as linguistic or ethnic ties simplify business transactions.

With the flexibility and power of modern spreadsheets, it is possible to build in a large number of complex hypotheses such following, and modify them as new data comes to light. Further development of the theories behind the model could result in the creation of a range of new crime-economic indices, leading to a better understanding of the determinants of criminal profitability and the effectiveness of regulatory crime prevention efforts.

3.2.4 Stepwise through the model:

- 1. As a starting point, the United Nations Centre for International Crime Prevention database of recorded crime statistics – the 'UN Survey on Crime Trends and the Operations of Criminal Justice Systems' – contains data on numbers of crimes recorded per year in almost a hundred countries. These relate to the crime categories of Homicide, Assault, Rape, Robbery, Bribery, Embezzlement, Fraud, Burglary, Theft, Drug Possession and Drug Trafficking.

- 2. It is no secret that there are differences in the ways countries classify and count criminal incidents, and that there are significant differences in the extent that police get to know about crimes. But research has also shown how to read between the lines of official crime statistics, by using crime victims surveys of the kind pioneered since 1988 by the Dutch Ministry of Justice and by the United Nations Inter-regional Crime Research Institute in Rome (UNICRI). Enough is known to "see through" major discrepancies in official crime statistics, and make the necessary adjustments. The results presented later in this report do not yet, however, incorporate any such adjustments, as this requires in-depth research because of the large number of countries involved and the complexity and huge volume of laundering proceeds.

- 3. There are, in addition, a number of countries – mostly smaller, less developed countries – for which we have neither official crime statistics nor crime victim's surveys. They are mostly, by definition, not major players in the system. Some, however, are regarded as attractive to those seeking to launder money. No country, therefore, can be left out of the model but it is a reality that some countries like Nigeria, Myanmar and Nauru which are part of NCCT (Non-cooperative countries and territories) from (FATF on global. Using knowledge of the prevailing socio-economic circumstances of each of these countries, per capita crime rates from similar or neighboring countries can be applied to their demographic data to estimate likely recorded crime figures. The model, at this stage, simply computes average crime rates per capita for each of twelve world regions, and these values are applied to the population figures for all countries without crime data, but there is considerable scope for more considered analysis.

So, at this stage in the process, estimates have been produced for the numbers of crimes recorded by police in each country in each of the eleven crime types. The accuracy and the comparability of these estimates are currently open to question, but in future versions of the model adjustments can be made where sufficient knowledge exists.

The model then proceeds to estimate the total amount of money that is laundered, for each recorded crime in each country. This is not necessarily the same as the average proceeds per crime, although it would be true if all crimes were recorded and if the total amount being laundered from this type of crime were known. Because we acknowledge the fact that not all crimes (particularly in the very important categories of major frauds and drug crimes) are recorded by the police or other authorities, the best way to calculate this figure is by estimating the overall proceeds of crime, for **all** crimes of this type, and then dividing this figure by the number of crimes **recorded**.

- 4. The model's starting point for this stage is the crime-specific estimates of money laundering, obtained in the 1995 AUSTRAC report on Australia. The best Australian estimate of total laundered money for each type of crime is divided by the numbers of those types of crimes recorded per year in Australia – to give an average amount of laundered money generated *per recorded crime* in Australia. Analysis of the Australian report produces the following approximate figures for money laundered per reported crime:

    - 50,000 per recorded fraud offence
    - $100,000 per recorded drug trafficking offence
    - $400 per recorded theft
    - $600 per recorded burglary
    - $1400 per recorded robbery
    - $225 per recorded homicide, and
    - $2 per recorded assault and sexual assault.

    It is worth repeating that these figures are not estimates of the average amount of money laundered per **actual** crime, but per **recorded** crime. This inflates the figure considerably, and will differ from country to country depending on the extent to which crimes are recorded by the authorities – a particularly difficult issue to resolve in the cases of drug crimes and frauds. These estimates for Australia so far have very few equivalents from other countries, but similar methods can eventually be used in other countries to broaden the picture.

    The figures, applied to the estimated numbers of crimes recorded in each country (obtainable from the United Nations Crime and Justice databases, op. cit.), result in preliminary estimates of the generation of hot money in each of these other countries.

- 5. The figures initially resulting from step 4 take no account of the differences between countries in the 'profitability' of crime. Two factors are built into the model: - the overall economic situation, as measured by the Gross National Product per capita, and a hypothesized relationship between the level of corruption in a country and the profitability of frauds.

- On the question of the effect of the GNP, it is unreasonable to assume that, other things being equal, poor countries are as likely to generate high levels of criminal proceeds as richer countries. To take account of this, each country's figures from step 4 are factored up or down by data on *gross national product per capita*. To maintain consistency with the 1995 AUSTRAC report, Australia's GNP per capita is taken as 1.00, and others are pro-rated accordingly. Benchmarking studies are required to determine the nature of the relationship between GNP per capita and the proceeds of crime – it is quite probable that a linear relationship is not appropriate. For the time being, however, a linear proportionality is assumed in the model. That is, the proceeds per crime in any given country are assumed to be proportional to that country's GNP per capita.

Addressing the hypothesis that high levels of corruption may increase the amount of money laundered from frauds, even in countries with relatively low GNPs per capita, the Transparency International Corruption Index, transposed to a scale of 1 (low corruption) to 5 (high corruption), is used to factor up the fraud component of money laundering. For example, while low corruption countries use the Australian-based figure of $50,000 per recorded fraud offence, countries with very high levels of corruption, as measured by the T.I. Index, are effectively given a figure of up to five times this dollar amount. Again, this is an area in which significant new research is required.

At this point in the process, steps 1-5 have generated an estimate, for each country in the model, of the total amount of money, generated by crime in that country, and made available for laundering. The next step is to estimate the proportion of this money that will be laundered within the country – the remainder, of course, would be laundered in other countries.

- 6. In the current model, the proportion laundered internally is calculated using the same 1-5 scale of corruption based on the Transparency International index, assuming that countries with high levels of corruption will allow money to be readily laundered in their own economy and thereby reduce the need to launder in foreign countries. The formula incorporated into the model simply assumes that, for each point on this corruption scale, an additional 20% of the money generated from crime is laundered locally. This results in highly corrupt countries (values approaching 5 on the scale) have 80-100% laundered locally, while those with the lowest corruption scores (values only slightly above 1) have only 20-30% laundered locally. Countries without any score on the TI index have been allocated a score equal to the average for their world trade region.

The assumptions currently used in Step 6 needs to be further addressed from a theoretical standpoint. The logic behind the decision to launder locally or launder in a foreign market does not appear to be well known or quantified. Other indicators, such as whether the country has any "suspect transaction" legislation or monitoring agency, would perhaps be appropriate for inclusion in this formula.

- 7. Finally, the model estimates how the foreign-laundered part of the total generated in each country is distributed amongst the over-200 other countries around the world. The current assumption builds in four likely tendencies: -

- [i] that foreign countries with a tolerant attitude towards money laundering (e.g. those with banking secrecy laws or uncooperative government attitudes towards the prevention of money laundering) will attract a greater proportion of the funds than more vigilant countries,
- [ii] that high levels of corruption and/or conflict will deter money launderers, because of the risks of losing their funds,
- [iii] that countries with high levels of GNP/capita will be preferred by money launderers, since it would be easier to 'hide' their transaction, and
- [iv] That, other things being equal, geographic distance, and linguistic or cultural differences, works as deterrents to money launderers.

It is interesting to see the results of the first three of these assumptions, as they can be combined to form an 'index of attractiveness' to money launderers. The formula, in algebraic terms is:

Attractiveness to money launderers= (GNP per capita)*3((bank secrecy) +

Govt attitude+ SWIFT member-3*

Conflict-Corruption+15)

Where *GNP per capita* is measured in US$,

Bank Secrecy is a scale from 0 (no secrecy laws) to 5 (bank secrecy laws enforced),

Govt Attitude is a scale from 0 (government anti-laundering) to 4 (tolerant of laundering),

SWIFT (Society for world wide inter bank financial telecommunication) member is 0 for non-member countries and 1 for members of the SWIFT international fund transfer network,

Conflict is a scale from 0 (no conflict situation) to 4 (conflict situation exists),

Corruption is the modified Transparency International index (1=low, 5=high corruption),

And the constant '15' is included to ensure that all scores are greater than zero.

The scores on this index, as they result from the assumptions used in the current model, are presented in the following table. It is important to note that a high score on this index does not necessarily reflect poorly on that country's banking regime or government stance regarding money laundering. High scores on the index can be achieved by providing a secure environment for investments generally, as well as by providing a benign environment for money launderers. Bearing in mind that these scores are based on a very simple formula derived from publicly available information and the researcher's own intuition as to the relative importance of the various factors, most of the country rankings appear to be quite logical.

Table 1. Attractiveness to Money Launderers - Rank Order

[the higher the score, the greater the attractiveness for money launderers]

COUNTRY	**Score**
Luxembourg	686
United States	634
Switzerland	617

Cayman Islands	600
Austria	497
Netherlands	476
Liechtenstein	466
Vatican City	449
United Kingdom	439
Singapore	429
Hong Kong	397
Ireland	356
Bermuda	313
Bahamas, Andorra, Brunei, Norway, Iceland, Canada	250-299
Portugal, Denmark, Sweden, Monaco, Japan, Finland, Germany, New Zealand, Australia, Belgium	200-249
Bahrain, Qatar, Italy, Taiwan, United Arab Emirates, Barbados, Malta, France, Cyprus	150-199
Gibraltar, Azores (Spain), Canary Islands, Greenland, Belarus, Spain, Israel	100-149
Czech Rep, Latvia, St Vincent, Malaysia, Estonia, Oman, Lithuania, N. Mariana Isls, Greece, South Korea, Seychelles, Azerbaijan, Anguilla, Aruba (Neth.), Kuwait, Hungary, Saudi Arabia, British Virgin Islands, Guam, Brazil, Panama, Russia, Costa Rica, Mauritius, Gabon, Armenia, Thailand, Macedonia, Grenada	50-99
Poland, Slovakia, Georgia, St. Kitts-Nevis, Dominica, St. Lucia, Belize, Guadeloupe, Martinique, Puerto Rico, U.S. Virgin Islands, Argentina, Croatia, Uruguay, Midway Islands, Barbuda,	25-49

Slovenia, Suriname, Botswana, Romania, Chile, Bulgaria, French Polynesia, New Caledonia, Yugoslavia, Trinidad, Libya, Turkey, Albania, Lebanon, Guatemala, Ecuador, Moldova, South Africa, French Guiana	
Falkland Islands, Vanuatu, Venezuela, Ukraine, Cook Islands, Philippines, Turks And Caicos Islands, Fiji, Marshall Islands, Mexico, Nauru, Algeria, Antigua, Bolivia, Uzbekistan, Syria, Western Samoa, Morocco, Indonesia, Colombia, Cuba, Bosnia and Herzegovina, Tunisia, Jordan, Paraguay, Jamaica, San Marino, Mayotte, Palau Islands, Honduras, Niue, Reunion, Namibia, Somalia, Congo, Tonga, Iraq, Swaziland, Dominican Republic, Kazakhstan, Kyrgyzstan, Turkmenistan, El Salvador	10-24
Cameroon, Bhutan, North Korea, Ivory Coast, Fed States Micronesia, Kiribati, Tuvalu, Papua New Guinea, Zimbabwe, Western Sahara, Iran, Cape Verde, Senegal, Egypt, Peru, Sri Lanka, Djibouti, Mongolia, Solomon Islands, Zambia, Lesotho, Yemen, Comoros, Sao Tome, Maldives, Benin, Nicaragua, Pakistan, Guyana, Burkina, Nigeria, Equatorial Guinea, Mauritania, Gambia, Myanmar, Guinea, China, Ghana, Haiti, Vietnam, Madagascar, Kenya, Togo, Tadzhikistan, India, Central African Republic, Sudan, Tanzania, Mali, Laos, Niger, Malawi, Uganda, Guinea Bissau, Nepal, Angola, Bangladesh, Liberia,	0-9

Zaire, Kampuchea, Rwanda, Mozambique, Ethiopia, Afghanistan, Burundi, Sierra Leone, Chad, Antarctica, Europa Island	

The final step in this process is to incorporate a 'distance deterrence' assumption into the formula to determine how each country's outgoing money laundering is distributed amongst the 225 other countries. The formula used is:

$$\text{Proportion of outgoing ML from Country x-y} = \frac{\text{Attractiveness score of y}}{\text{(Distance between x and y)}}$$

The distances between countries were estimated using a feature of the Mapinfo software, identifying the latitudes and longitudes of the approximate population centroids of each country and using simple geometry to calculate the distances between them. The use of the distances squared as a measure of deterrence uses empirically-based regional economic analysis conventions, by which interactions between communities reduce according to the square of the distance between them.

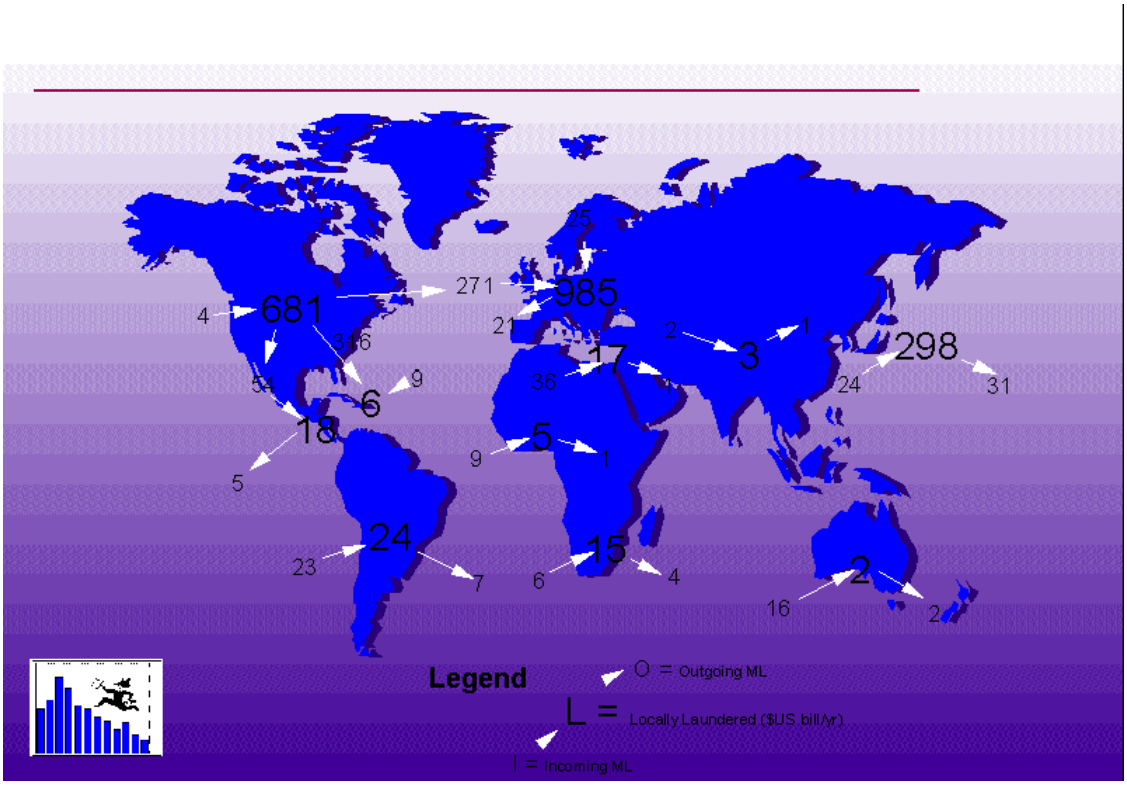
The geographic distance formula should, after further research, be replaced by a more complex "Index of Trading Proximity", using a formula that would include, in addition to the geographic information, data on bilateral trade and finance, currency transaction reporting statistics, cross-border currency movement reporting figures, and on ethnic and linguistic linkages between countries. In addition, more sensitive measures of corruption, conflict and tolerance of money laundering, including perhaps suspicious activity report statistics, need to be developed.

3.2.5 The Results of the Model:

The figures generated by the assumptions described above are presented in the figure below. A total of over **$US2.8 trillion** is obtained for global money laundering, which is within the range of estimates reported by the IMF (op. cit.).

Figure 1 summaries the estimated international flows of laundered money at the global level. Note that, in these figures, flows of money generated and laundered in the same region of the world may actually involve international transfers (e.g. a flow from the U.K. to Switzerland would be included in the internal figure of $985 billion for money generated and laundered in Europe).

Figure 1. Estimates of the Major Money Laundering Flows around the World.($USbillion/year)



The model actually produces estimates at the level of individual countries. It is very important to reiterate that these figures represent only an interim set of results and not the author's best and final estimates of money laundering around the world. They are included to show the types of output that would be derived from a fully developed model, and cannot yet be regarded as serious measures of money laundering flows.

Readers may note, for example, that some of the figures of money laundering currently derived by the model amount to rather more than the entire recorded GNP of some countries, and while this may in fact not be impossible, it indicates that, as

discussed earlier, the model probably needs to pay more attention to constraints involving *actual* economic and financial transaction data.

More work is definitely required before the output of this model may be considered to be an adequate response to the question of quantifying global money laundering, but the approach appears to be feasible and capable of further refining.

Table 2 shows the top twenty countries of origin for laundered money, as estimated by the model. Note that most are developed countries.

Table 2. Top 20 Origins of Laundered Money

Rank	Origin	Amount ($Usmill/yr)	% of Total
1	United States	1320228	46.3%
2	Italy	150054	5.3%
3	Russia	147187	5.2%
4	China	131360	4.6%
5	Germany	128266	4.5%
6	France	124748	4.4%
7	Romania	115585	4.1%
8	Canada	82374	2.9%
9	United Kingdom	68740	2.4%
10	Hong Kong	62856	2.2%
11	Spain	56287	2.0%
12	Thailand	32834	1.2%
13	South Korea	21240	0.7%
14	Mexico	21119	0.7%
15	Austria	20231	0.7%
16	Poland	19714	0.7%
17	Philippines	18867	0.7%

18	Netherlands	18362	0.6%
19	Japan	16975	0.6%
20	Brazil	16786	0.76
Total	All Countries	2850470	100.0%

The model then tries to estimate where these amounts of hot money will go for laundering, using the assumptions described above. Estimates of the top twenty flows are presented in Table 3, including flows of funds within the generating countries themselves.

Table 3. Top 20 Flows of Laundered Money

Rank	Origin	Destination	Amount ($Usmill/yr)	% of Total
1	United States	United States	528091	18.5%
2	United States	Cayman Islands	129755	4.6%
3	Russia	Russia	118927	4.2%
4	Italy	Italy	94834	3.3%
5	China	China	94579	3.3%
6	Romania	Romania	87845	3.1%
7	United States	Canada	63087	2.2%
8	United States	Bahamas	61378	2.2%
9	France	France	57883	2.0%
10	Italy	Vatican City	55056	1.9%
11	Germany	Germany	47202	1.7%
12	United States	Bermuda	46745	1.6%
13	Spain	Spain	28819	1.0%
14	Thailand	Thailand	24953	0.9%
15	Hong Kong	Hong Kong	23634	0.8%
16	Canada	Canada	21747	0.8%
17	United Kingdom	United Kingdom	20897	0.7%
18	United States	Luxembourg	19514	0.7%

19	Germany	Luxembourg	18804	0.7%
20	Hong Kong	Taiwan	18796	0.7%
Total	All Countries	All Countries	2850470	100.0%

Finally, it is possible to aggregate these flows according to their destinations. Table 4 presents the top twenty destination countries for money laundering, according to the assumptions currently incorporated in the model.

Table 4. Top 20 Destinations of Laundered Money

Rank	Destination	Amount ($USmill/yr)	% of Total
1	United States	538145	18.9%
2	Cayman Islands	138329	4.9%
3	Russia	120493	4.2%
4	Italy	105688	3.7%
5	China	94726	3.3%
6	Romania	89595	3.1%
7	Canada	85444	3.0%
8	Vatican City	80596	2.8%
9	Luxembourg	78468	2.8%
10	France	68471	2.4%
11	Bahamas	66398	2.3%
12	Germany	61315	2.2%
13	Switzerland	58993	2.1%
14	Bermuda	52887	1.9%
15	Netherlands	49591	1.7%
16	Liechtenstein	48949	1.7%
17	Austria	48376	1.7%
18	Hong Kong	44519	1.6%
19	United Kingdom	44478	1.6%
20	Spain	35461	1.2%

It is interesting again to note how much of the laundered money, using these assumptions, flows to already developed countries – particularly the United States and Europe. The potential of money laundering to widen the gap between rich countries and poor countries is another important issue that can be tested using a model of this kind (paper written by John Walker @ www.uplink.com.au/lawlibrary/Documents/Docs/Doc50.html)

3.3 Business areas prone to money laundering:

3.3.1 Banking:

"If you want to steal, then buy a bank" (Bertolt Brecht)

The best method of both stealing and laundering money is to own a bank. And though banks are an at risk group in relation to their main functions of deposit taker and opening of accounts, what can be done against this crime if the bank is international and in complicity with vast numbers of its depositors. When the CIA moved money via the BCCI it called it "facilitating the national interest". When the Mafia and the Libyans do it, it is called money laundering. This also signals the dual standards and hypocrisy of the west towards the less developed countries or which are substantially dependent over the U.S for trade.

The BCCI affair was a major scandal involving allegations of corruption, bribery, money laundering, etc... One investigator quotes in the Kerry Report:

"It had 3,000 criminal customers and every one of those 3,000 criminal customers is a page 1 story. So if you pick up any one of [BCCI's] accounts you could find

financing from nuclear weapons, gun running, narcotics dealing and you will find all manner and means of crime around the world in the records of this bank".

As Powis (1992) said, "money laundering becomes a relatively easy thing to do when a banking institution and a number of its key officials co-operate in the laundering activity".

3.3.2 Underground/Parallel Banking:

Sometimes called 'parallel' banking. These systems tend to mirror more conventional bank practices, but are highly efficient and wholly unauthorized methods of transferring money around the world. The best known among them are the Chop, Hundi, and Hawallah banking within various ethnic communities, which enables the avoidance of any conventional paper record of the financial transaction. Such methods do not require the actual movement of money but nonetheless facilitate the payment of funds to another party in another country in local currency, drawn on the reserves of the overseas partner(s) of the Hawallah banker. The system is dependant on considerable trust and considerable simplicity - the money launderer places an amount with the underground bank - the identifying receipt for a transaction being something as innocuous as a playing card or post-card torn in half, half being held by the customer and half being forwarded to the overseas Hawallah banker. The launderer then presents his receipt in the target country to obtain his money, thus avoiding exporting cash out of the country and limiting the risk of detection.

3.3.3 Futures:

The UK experience showed that the futures market, through Capcom Commodities, a BCCI-related institution was another area that money launderers were taking

advantage of for their money laundering schemes. Because of the 'anonymous' nature of the trading strategies, all brokers trading as principals and not in their client's name, the true identity of the beneficial owner is not known. Commodities therefore are a 'zero sum' game, which means you can only buy if someone is willing to sell, and vice versa. Launderers can take advantage by a strategy of buying and selling the same commodity, thereby taking a small hit for the commission charged by the broker. They pay the losing contract out of dirty money and receive a cheque that legitimizes their profits and creates a paper trail for any one who asks where the money came from.

3.3.4 Professional Advisors:

Accountants/Solicitors/Stockbrokers

If involved in investment activity, this group is covered in the Regulations. For example, their clients' account can be used as a bank account by clients and can put him at risk under s93 CJA93. See Michael Relton - Solicitor convicted in relation to money laundering proceeds from Brinks Mat robbery.

3.3.5 Finance Houses/Building Societies:

As with banks, any suspicious transactions must be reported. Money deposits in these institutions are where the placement stage usually takes place so vigilance is called for by staff. Any unusual change in regular customers depositing habits need to be investigated and lenders also have to be aware that money laundering techniques can also involve paying off a debt faster than income would support. You would already know a customer's declared income on the loan application.

3.3.6 Financial Transmitters:

International money transmitters/money changers and travel agents

All offer a wide range of services that can be used by the money launderer. Airline tickets, foreign currency exchanges in the form of cash and travelers cheques, are recognized as being widely used techniques. Money transmitting services in the form of wire, fax, draft, cheque or by courier exist for people unable to use traditional financial institutions. Customer anonymity is a primary feature of such transmissions which identifies the inherent level of risk. Covered under the Regulations if they offer currency exchange facilities.

3.3.7 Casinos:

Casinos and gambling establishments are particularly attractive to money launderers. Cash can be deposited with a casino in exchange for chips or tokens. After a few turns at the table the player can cash in the remainder for a cashier's cheque which can be deposited in their account. Another method is to buy winning tickets from people in bookmakers and saying you have won making bookmakers vulnerable to being used.

3.3.8 Antique dealers/designer goods suppliers:

Any area that possesses the characteristics which represent high value goods that possess great portability and in many cases are used to being paid in cash is an attractive area for money launderers. All the above satisfy these criteria and owners and staff have to be aware of their obligations under the legislation if they are to avoid being unwittingly used in a money laundering scheme (Billy's money laundering information website).

3.4 Cyber Laundering:

3.4.1 Risks to Online Banking and e-commerce:

The level of disclosure of ML proceeds have increased substantially as we can see from the Annual Report of the NCIS (National Crime Intelligence Services) which deals with the Money Laundering issue in the U.K reported a 27% increase in terms of disclosures in 2001 which has reached this point from an only 2.6% increase in the era between 1998-00 (www.ncis.co.uk/annrep_2001.asp).

This increase of 27 % might have got momentum after 9/11 event because after that international concerns rose and the need for audit trails and tracking of transactions got a heightened attention. Out of all the surveys two aspects are of great significance:

- Online transactions predicted to reach **$3 bn** in gross profit by 2006
- Even at this early stage of e-commerce, cyber laundering is running at an estimated **$50 bn** per year figure.

We all say that every new discovery or invention has its merits and demerits it is the person who has do decide how to maximize the utility and minimize adverse effects. The features of the internet that makes it fall an easy prey to money laundering are:

Speed, cheap access, anonymity, connectivity, global nature of transactions over the internet etc

It is due to these features that cyber launderers benefit the most via:

- Inability to identify and authenticate parties

- Inadequacy of audit trails and record keeping or suspicious transactions reporting by the technology provider
- Use of high level of encryption to rule out any law enforcement by denying any clues
- Transactions fall outside current regulations structure

3.4.2 Assistance of Technology in ML:

The transformation of hard cash into electronic/digital form of cash called digital or e-cash (Digital cash has been defined as a series of numbers that have an intrinsic value in some form of currency) in the form of smart cards, debit and credit cards, ATM's etc have on one hand made the life of a customer pretty easy but on the other hand it has increased the work load of the regulators of Banking and non banking financial institutions as they have to be more vigilant and active in monitoring the financial system. The new innovations as a result of technological breakthroughs are a potential source of money laundering because they offer the launderer the features necessary for an illegal transaction such as speed, anonymity, cheap access, connectivity and non existent regulatory framework to curb such activities. For example e-cash can help in the ML Process because after the Placement stage in which we have adequately placed the black/dirty money in the next stage of layering the online banks offer the ease of setting up of an online banking account without face to face contact and without judging the track record of the customer. This is the point from which the cancer cells of ML start to multiply because now he/she can use his/her account, he/she can control his/her transactions from her PC from any par of the world, he/ she can force authorities to abandon the transactions tracking campaign by involving into a series of transactions while being mobile from one area to another because now handheld computers and mobiles offer full GPRS, MMS and WAP services, in this way he/she cannot fall into the net of a particular jurisdiction of an area.

Secondly at the integration stage where the need to recycle the proceeds back into the financial system through legal means is also fulfilled via e-commerce because traditional way of false import/export invoicing the owner has to indulge in extensive paperwork that might result in his arrest, secondly geographical restrictions and inability to justify substantial turnover or manipulations in invoicing can be hazardous for the launderer. So in pursuit of his goals a launderer uses the e-way of laundering by virtue of which he uses the facilities provided by an ISP (Internet service provider) for posing a legal use of money by paying the ISP for the services rendered. In this case the launderer owns an online banking account in the name of a fictitious person or a cover/shell company and pays from that account to the ISP for the services rendered which could be used for running an online Casino or a betting facility. In essence the services would never be delivered and hence no net payment goes to the launderer's account but the payment made appears as a profit in the books of the ISP as remuneration for the services rendered, thereby is a legal one.

In the above example one can easily avoid detection by the intermediaries via the tools provided by online trading such as anonymity, high level encryption, incompatible legal umbrella, speed, cheap access and global nature of transactions.

To summarize the issue of e-cash we can see that it offers:

Advances in three technological areas have made the widespread use of electronic cash economically viable, spurring interest in e-money. These advances are:

- reliable, quick networked communications with a low cost per transaction;
- better computer technology, allowing for the mass production of computer chip cards; and
- powerful public domain cryptography, to help ensure privacy and prevent fraud

Some of the possible benefits of e-money to consumers include:

- faster, more efficient transactions;
- less need to carry pocket money;
- loyalty and frequent user plans;
- automatic personal financial record-keeping;
- possible financial anonymity;
- possible security from theft;
- access to electronic commerce; and
- More personalized banking services and instruments.

The potential benefits of e-money to business are extensive. They include:

- instant transactions;
- substantial cost savings because of the reduction in the physical handling of currency;
- easier collection of marketing information on customers; and
- Promotion of 'free banking'.

Traditionally, the two most important constraints on trade were time and distance. E-money systems effectively erase both. They will almost certainly help to globalize trade.

However, a number of barriers may halt or slow the widespread acceptance of e-money if they are not overcome. These include:

- for the operator, the cost of installing the technological infrastructure may be substantial;
- competing e-money systems will have to be compatible and integrated with current methods of payment;
- the cost of using the system will have to be kept lower than the cost of using current payment systems;
- the risk of losing cards and their charged value could intimidate some consumers;
- because security is a major concern, full convertibility, receipted transactions and high levels of security may all become features of e-money systems; and
- Privacy of personal information will also be an important issue.

Solutions will probably be found to all these problems. All things considered, it seems likely that e-money will be an important part of everyday life in the very near future (E-money laundering: an environmental scanning, Department of Justice Canada, Solicitor General Canada, October 1998).

3.4.3 Vulnerable Industries:

The most vulnerable industries whose financial health, reputation, trust and growing customer base due to acceptance by masses can be adversely affected by cyber laundering are online banks, casinos and internet gambling centers as casinos and gambling are not banned all across the globe rather they are accepted by the society and law authorities in many western countries. The sole virus of money laundering can tarnish their image because the proceeds might enter the vicious cycle of

placement, layering and integration courtesy the tools provided by e-commerce that have been discussed earlier and eventually destroy the financial health of that bank and in turn the economy of that country.

3.4.4 Legislation for Cyber Laundering:

Amendments to the Bank Secrecy Act of 1970, commonly referred to as the Money Laundering Control Act of 1986 in the U.S applies to cyber space and cyber laundering whereby any customer who deliberately transfers sums of money less than $10,000 from regular to online banks which is FDIC insured than any suspicion could call for filing of a CTR but the problem is that e-cash accounts are not always FDIC insured. Even if a CTR is filed the reports will be virtually useless, as the banks have no knowledge as to which funds are whose and for what purpose they have been mobilized and channelized .A lack of federal insurance protection is understandable for the reason that digital money is currently created by private vendors, rather than the Federal Reserve. Thus, digital cash does not enter into the marketplace of hard currency thereby affecting monetary supply or policy, yet other facilities provided by e-cash are quite strong reasons for the growth of e-banks. The basic problem for regulatory authorities to curb any illegal activity is the degree of anonymity and concealment of true identity. In this way drug dealers, real estate agents and auto dealers can channelize their illegal proceeds from illegal to legal one.

3.4.4.1 Struggle for Privacy:

To be or not to be... anonymous digital cash! That is the question! The battle that emerges is between the rights to privacy by means of anonymous digital cash verses the desire of law enforcement to ferret out crime. The fact of complete anonymity guarantees that some money laundering will be easier to pull off. On the other hand, the lack of anonymity means that every move made on the Internet will be traceable. Thus, whether money laundering becomes rampant under the guise of

anonymous e-cash may be one of the first tests of the practical aspects of Digi-Cash's future. Any discussion of privacy rights would be woefully incomplete without mentioning the famous privacy article published by Samuel Warren and Louis Brandeis in 1890. This article, barely a century after the Constitutional Convention, professed that the "right to be let alone" was of the utmost importance. Almost two hundred years after the Constitution was initially ratified, the Supreme Court defined the scope of privacy for an individual's financial information in two landmark decisions.

In California Bankers Association v. Schultz, the Court held that bank record keeping requirements do not violate the Fourth Amendment right to privacy and do not amount to an illegal search and seizure. In United States v. Miller, the Court held that a criminal defendant had no Fourth Amendment right to protection of his bank records, and did not have a legitimate expectation of privacy regarding these papers.

Concluding over two centuries of Constitutional erosion, it is apparent that an individual's right to financial privacy is limited. While the Supreme Court has sliced financial privacy rights on several, previously mentioned, occasions, Congress has attempted to restore financial and informational privacy rights to the individual which are;

The Privacy Act of 1974, the Right to Financial Privacy Act of 1982, and The Electronic Communications Privacy Act of 1986 are currently the three best hopes for individual financial privacy.

First, The Privacy Act of 1974 regulates the practices of federal agencies regarding personal information and they are not allowed to share personal information without prior consent.

Next, The Right to Financial Privacy Act of 1982 ("RFPA") attempted to further protect financial records. Under RFPA, in order to obtain a customer's financial records from a financial institution, the federal government must serve a subpoena on the customer before or concurrently with service on the bank. The government must show that the records are related to a "legitimate law enforcement inquiry," and notify the customer that it can take steps to block the bank's disclosure of the records.

Finally, The Electronic Communications Privacy Act of 1986 ("ECPA") attempts to protect the individual against the unauthorized interception of electronic communications. Applying current law to the Internet, the result is inadequate protection of individual financial privacy. The combination of The Privacy Act and RFPA prevent the government from groundless searches of individual financial records. However, the standard required for a search is only that there exists some evidence that the records are related to a "legitimate law enforcement inquiry." Due to this relaxed standard, individual financial privacy may be violated without any probable cause. A "legitimate law enforcement inquiry" is clearly an easier requirement to meet than a Fourth Amendment probable cause standard.

Expanding into cyberspace, if the Internet falls under the protection of the ECPA, as it is an electronic communication, and then individual financial privacy in cyberspace is afforded as little protection as financial privacy in the tangible world. Essentially, the government need only claim that it requires access to financial records due to a "legitimate law enforcement inquiry."

Taking one step further, the application of current financial privacy laws to Digi Cash's e-cash may be the eulogy for completely anonymous digital cash. If the government believes that e-cash is overflowing with money launderers, a "legitimate law enforcement inquiry" into the situation would likely allow access to e-cash

account records. Since even the bank can not trace e-cash to a user, pressure would be placed on various agencies to solve the problem.

First, the Federal Reserve would likely announce that all cyber banks accepting anonymous e-cash conform to FDIC regulations. Thus, these banks would be subject to federal scrutiny and pressured into insuring anonymous e-cash deposits. Since insuring anonymous e-cash might prove unprofitable, it is probable that many timid cyber banks will succumb to federal intimidation and abandon anonymous e-cash altogether.

Second, cyber banks could be convinced to implement special "investigatory software" into their computer systems so as to flag suspicious e-cash accounts. While the technical aspects of such a system are beyond the scope of this article, it is fair to say that if such programming is both possible and practical, then no e-cash account would be safe from the "legitimate law enforcement inquiring" software.

Finally, if e-cash accounts become subject to greater scrutiny, the IRS and FinCen will capitalize on the additional information being unearthed. Since there is no requirement of probable cause to search an individual's financial account, the IRS and FinCen could use the preliminary information obtained from the "legitimate law enforcement inquiry" so as to have sufficient facts to establish probable cause, enabling a full scale search and seizure of an individual's financial records (www.osaka.law.miami.edu/~froomkin/seminar/papers/bortner.htm).

3.5 Effects of Money Laundering:

The effects of money laundering are manifold and the magnitude is greater than one would expect because it not only disturbs the balance of the institutions especially

financial institutions followed by disturbance of peace in the society with the new version of money laundering used to finance terrorism and lastly badly affects the overall economy of the country by loosening security valves. It not only has an economic version but also a psychological version whereby it tarnishes the image of a country, its men and its institutions and ridicules the rule of law in any country.

Money laundering has far-reaching consequences:

- **It makes crime pay.** It allows drug traffickers, smugglers and other criminals to expand their operations. This drives up the cost of law enforcement and health care (e.g., treatment of drug addictions).
- It has the potential to **undermine the financial community** because of the sheer magnitude of the sums involved. The potential for corruption increases with the vast amounts of illegally obtained money in circulation.
- Laundering **diminishes government tax revenue** and therefore indirectly harms honest taxpayers and reduces legitimate job opportunities.
- Perceived ease of entry to our country **attracts an undesirable element** across our borders, degrading our quality of life and raising concerns about our national security as it has taken the new shape of terrorist financing (e-money laundering: an environmental scanning, Department of Justice Canada, Solicitor General Canada, October 1998).

3.5.1 Exposed Emerging Markets:

The main damage done through the courtesy of money laundering is the exposition of the emerging markets which are striving hard to enter the global competitive arena on the basis of their strong credentials but the phenomena of money

laundering serves as a tumor for them because these markets as per the word are emerging and are in the stage of evolution, they have not fully ripened and so their regulatory environment , social and economic infrastructure is also not fully developed- it is because of this the launderers take full advantage and exploit their shortcomings and cause productivity losses thereby instead of encouraging they rather discourage and hamper their growth.

3.5.2 Economic Development:

Launderers are continuously looking for new routes for laundering their funds. Economies with growing or developing financial centers, but inadequate controls are particularly vulnerable as established financial centre countries implement comprehensive anti-money laundering regimes.

Differences between national anti-money laundering systems will be exploited by launderers, who tend to move their networks to countries and financial systems with weak or ineffective countermeasures.

Some might argue that developing economies cannot afford to be too selective about the sources of capital they attract. But postponing action is dangerous. The more it is deferred, the more entrenched organized crime can become.

As with the damaged integrity of an individual financial institution, there is a damping effect on foreign direct investment when a country’s commercial and financial sectors are perceived to be subject to the control and influence of organized crime.

The integrity of the banking and financial services marketplace depends heavily on the perception that it functions within a framework of high legal, professional and ethical standards. A reputation for integrity is the one of the most valuable assets of a financial institution or for that matter for any country.

If funds from criminal activity can be easily processed through a particular institution – either because its employees or directors have been bribed or because the institution turns a blind eye to the criminal nature of such funds – the institution could be drawn into active complicity with criminals and become part of the criminal network itself. Evidence of such complicity will have a damaging effect on the attitudes of other financial intermediaries and of regulatory authorities, as well as ordinary customers.

As for the potential negative macroeconomic consequences of unchecked money laundering, the International Monetary Fund has cited inexplicable changes in money demand, prudential risks to bank soundness, contamination effects on legal financial transactions, and increased volatility of international capital flows and exchange rates due to unanticipated cross-border asset transfers.

Besides above all money laundering adversely affects the private and the public sector of any country by challenging their legitimacy, by disturbing the trust of masses over these institutions. It also undermines the integrity of the financial markets of any country by using the regular and trusted channels of business such as banks, real estate companies, insurance companies, online banks, auto dealers and investment banks etc. The integrity of financial institutions is challenged in many ways.

First, these channels are used for most of the stages off money laundering process and it creates a bad name for the company, its employees and it also hurts its

market standing. Secondly the major source of any institutional stability and the country's stability is the growing trust among the masses with regard to the services provided by the financial institutions and the increased likelihood of FDI coming into a country thereafter (e.g. by virtue of privatization) etc. Now any news regarding the betrayal of trust would break the hard earned pillar of trust into pieces followed by lost customer base and in turn drought of revenues because the reason for a bank's existence i.e. to satisfy customer needs and earn for the services rendered is now challenged. Next affect in the pipeline is the loss of the Government writ in the conduct of its economic policy be it monetary or fiscal, because in the case of fiscal policy the "tax heavens" concept emerges and call for a tax evasion thereby hurting Government revenues while in the area of monetary policy the concentration of money in few hands which are already involved in fraudulent activities and which does not enjoy a commercial or social honor would try to manipulate the financial markets of a country to their liking and as they have by virtue of their wealth greater access to the top officials they can use insider information and can exploit the market, in short they can really change the market fundamentals in their favor and by very nature of their personality corrupt a company, a society and in turn a country. To continue with the discussion as in the start of the topic the reason of money laundering is rightly identified as due to concentration of money in few hands, inequitable distribution of wealth, inequitable access to basic necessities of life, widening delta between the rich and the poor or for that matter between the power hub and the person at the terminal with little/ no power. This leads to first of all an urge to shift gears and move up in the society, to exploit your position in the organization for your favor, enjoy kick backs at the expense of company's productivity, it initiates abuse of power and embezzlement- two of the basic ingredients of corruption etc. The sporadic spread of the money laundering campaign further deteriorates the situation and increases the economic distortion and instability by increasing the people's frustration. The element of frustration is extremely important because it is the inner frustration that leads to suicides, drug addiction and other crimes. Such frustrated people easily fall a prey to the evils in the society which brain wash them while promising to care their families and force them to adopt the new and lethal weapon of terrorism i.e. suicide bombing which in turn is a potential threat to global peace.

3.5.3 Social Costs:

The possible social and political costs of money laundering, if left unchecked or dealt with ineffectively, are serious. Organized crime can infiltrate financial institutions, acquire control of large sectors of the economy through investment, or offer bribes to public officials and indeed governments.

The economic and political influence of criminal organizations can weaken the social fabric, collective ethical standards, and ultimately the democratic institutions of society. In countries transitioning to democratic systems, this criminal influence can undermine the transition. Most fundamentally, money laundering is inextricably linked to the underlying criminal activity that has generated it. Laundering enables criminal activity to continue until checked.

3.5.4 How does fighting money laundering help fight crime?

Money laundering is a threat to the good functioning of a financial system; however, it can also be the Achilles heel of criminal activity.

In law enforcement investigations into organized criminal activity, it is often the connections made through financial transaction records that allow hidden assets to be located and that establish the identity of the criminals and the criminal organization responsible.

When criminal funds are derived from robbery, extortion, embezzlement or fraud, a money laundering investigation is frequently the only way to locate the stolen funds and restore them to the victims.

Most importantly, however, targeting the money laundering aspect of criminal activity and depriving the criminal of his ill-gotten gains means hitting him where he is vulnerable. Without a usable profit, the criminal activity will not continue.

3.5.5 What should individual governments be doing about it?

A great deal can be done to fight money laundering, and, indeed, many governments have already established comprehensive anti-money laundering regimes. These regimes aim to increase awareness of the phenomenon – both within the government and the private business sector – and then to provide the necessary legal or regulatory tools to the authorities charged with combating the problem.

Some of these tools include making the act of money laundering a crime; giving investigative agencies the authority to trace, seize and ultimately confiscate criminally derived assets; and building the necessary framework for permitting the agencies involved to exchange information among themselves and with counterparts in other countries.

It is critically important that governments include all relevant voices in developing a national anti-money laundering programme. They should, for example, bring law enforcement and financial regulatory authorities together with the private sector to enable financial institutions to play a role in dealing with the problem. This means, among other things, involving the relevant authorities in establishing financial

transaction reporting systems, customer identification, record keeping standards and a means for verifying compliance.

3.5.6 Should governments with measures in place still be concerned?

Money launderers have shown themselves through time to be extremely imaginative in creating new schemes to circumvent a particular government's countermeasures. A national system must be flexible enough to be able to detect and respond to new money laundering schemes.

Anti-money laundering measures often force launderers to move to parts of the economy with weak or ineffective measures to deal with the problem. Again, a national system must be flexible enough to be able to extend countermeasures to new areas of its own economy. Finally, national governments need to work with other jurisdictions to ensure that launderers are not able to continue to operate merely by moving to another location in which money laundering is tolerated.

3.5.7 What about multilateral initiatives?

Large-scale money laundering schemes invariably contain cross-border elements. Since money laundering is an international problem, international co-operation is a critical necessity in the fight against it. A number of initiatives have been established for dealing with the problem at the international level.

International organizations, such as the United Nations or the Bank for International Settlements, took some initial steps at the end of the 1980s to address the problem.

Following the creation of the FATF in 1989, regional groupings – the European Union, Council of Europe, Organization of American States, to name just a few – established anti-money laundering standards for their member countries. The Caribbean, Asia, Europe and southern Africa have created regional anti-money laundering task force-like organizations, and similar groupings are planned for western Africa and Latin America in the coming years.

3.5.8 What role does FATF play?

The FATF is a multi-disciplinary body that brings together the policy-making power of legal, financial and law enforcement experts from its members. The FATF monitors members' progress in implementing anti-money laundering measures; reviews and reports on laundering trends, techniques and counter-measures; and promotes the adoption and implementation of FATF anti-money laundering standards globally. To see a list of the countries, jurisdictions, and regional organizations that belongs to or participates in the FATF (FATF official website).

3.6 Examples of Money Laundering and Case indictments affecting Commercial Institutions:

3.6.1 Citibank and Asif Ali Zardari:

Well as the study is conducted in Pakistan with a particular focus on the affects of money laundering and developments of its counter measures across the globe especially Pakistan hence it is appropriate to involve the example of a related to Pakistan case because it would serve as an eye opener for all who vote for such corrupt leadership in the country that not only plays with their future but also maligns the overall image of Pakistan. Lets see the facts:

3.6.1.1 The Facts:

This case history involves Mr. Asif Ali Zardari, the husband of Ms. Benazir Bhutto, the former Prime Minister of Pakistan. Ms. Bhutto was elected Prime Minister in 1988, dismissed by the then President of Pakistan in August 1990 for alleged corruption and inability to maintain law and order in the country, she got re-elected as the Prime Minister again in October 1993, and dismissed by the then President again in November 1996 with the charge sheet showing more or less same allegations with major emphasis on corruption. At various times, Mr. Zardari served as Senator, Environment Minister and Minister for Investment in the Bhutto government. In between the two Bhutto administrations, he was incarcerated in 1990 and 1991 on charges of corruption; the charges were eventually dropped. During Ms. Bhutto's second term there were increasing allegations of corruption in her government, and a major target of those allegations was Mr. Zardari. It has been reported that the government of Pakistan claims that Ms. Bhutto and Mr. Zardari stole over $1 billion from the country.

During the period from 1994 to1997, Citibank opened and maintained three private bank accounts in Switzerland and a consumer account in Dubai for three corporations under Mr. Zardari's control. There are allegations that some of these accounts were used to disguise $10 million in kickbacks for a gold importing contract to Pakistan.

3.6.1.1.1 Structure of Private Bank Relationship:

Mr. Zardari's relationship with Citibank began in October 1994, through the services of Kamran Amouzegar, a private banker at Citibank private bank in Switzerland, and Jens Schlegelmilch, a Swiss lawyer who was the Bhutto family's attorney in Europe and close personal friend for more than 20 years. According to Citibank, Mr. Schlegelmilch represented to Mr. Amouzegar that he was working for the Dubai royal

family and he wanted to open some accounts at the Citibank branch office in Dubai. Mr. Schlegelmilch had a Dubai residency permit and a visa signed by a member of the Dubai royal family. Mr. Amouzegar agreed to introduce Mr. Schlegelmilch to a banker in the Citibank branch office in Dubai.

According to Citicorp, Mr. Schlegelmilch told the Citibank Dubai banker that he wanted to open an account in the name of M.S. Capricorn Trading, a British Virgin Island PIC. The stated purpose of the account was to receive money and transfer it to Switzerland. The account was opened in early October 1994.

According to Citibank, Mr. Schlegelmilch informed the Dubai banker that he would serve as the representative of the account and the signatory on the account. Under Dubai law, a bank is not required to know an account's beneficial owner, only the signatory. Citibank told the Subcommittee staff that Mr. Schlegelmilch did not reveal to the Dubai banker that Mr. Zardari was the beneficial owner of the PIC, and the account manager never asked him the identity of the beneficial owner of the account. Instead, according to Citibank, she assumed the beneficial owner of the account was the member of the royal family who had signed Mr. Schlegelmilch 's visa. According to Citibank, the account manager actually performed some due diligence on the royal family member whom she believed to be the beneficial owner of the account.

Shortly after opening the account in Dubai, Mr. Schlegelmilch signed a standard referral agreement with Citibank Switzerland private bank guaranteeing him 20% of the first three years of client net revenues earned by the bank from each client he referred to the private bank.

On February 27, 1995, Mr. Schlegelmilch, working with Mr. Amouzegar, opened three accounts at the Citibank Switzerland private bank. The accounts were opened in the name of M.S. Capricorn Trading, which already had an account at Citibank's Dubai branch, as well as Marvel and Bomer Finance, two other British Virgin Island

PICs established by Mr. Schlegelmilch, according to Citibank. Each private bank account listed Mr. Schlegelmilch as the account contact and signatory. Citibank informed the Subcommittee that the Swiss Form A, a government-required beneficial owner identification form, identified Mr. Zardari as the beneficial owner of each PIC.

3.6.1.1.2 Lack of Due Diligence:

The decision to allow Mr. Schlegelmilch to open the three accounts on behalf of Mr. Zardari, according to Citibank, involved officials at the highest levels of the private bank. The officials were: (a) Mr. Amouzegar, the private banker; (b) Deepak Sharma, then head of private bank operations in Pakistan; (c) Phillipe Holderbeke, then head of private bank operations in Switzerland (who became head of the Europe, Middle East, Africa Division in February 1996); (d) Salim Raza, then head of the EMEA Division of the private bank; and (e) Hubertus Rukavina, then head of the Citibank private bank. Mr. Rukavina told the Subcommittee staff that when he was asked about opening the Zardari accounts, he did not make the decision to open them, but rather directed that the matter be discussed with Mr. Sharma. According to Mr. Rukavina, he never heard whether the accounts were ultimately opened. Mr. Rukavina left the private bank in 1996 and left Citibank in 1999.

Citibank informed the Subcommittee staff that the private bank was aware of the allegations of corruption against Mr. Zardari at the time it opened the accounts in Switzerland. However, Citibank reasoned that if the charges for which Mr. Zardari had been incarcerated for two years had any merit, they would not have been dropped. Bank officials also believed that the family wealth of Ms. Bhutto and Mr. Zardari was large enough to support a large private bank account, even though Citibank was not able to specify what actions were taken to verify the amount and source of their wealth. Citibank said that bank officials were also aware of the M.S. Capricorn Trading account in Dubai, and they were comforted by the fact that there had been no problems with that account. According to Citibank, Mr. Amouzegar informed his superiors that Mr. Zardari was the beneficial owner of the Capricorn account in Dubai when they were considering the request to open the accounts in

Switzerland. Inexplicably, however, the Dubai account manager was apparently still operating under the assumption that the beneficial owner of the Dubai Capricorn account was a member of the Dubai royal family. Subcommittee staff has been unable to determine whether Citibank officials were unaware of or inattentive to the serious inconsistency between Citibank Switzerland and Citibank Dubai with respect to the Capricorn Trading account. Citibank also informed the Subcommittee staff that bank officials had some concerns that if they turned down the accounts, their actions may have implications for the corporation's operations in Pakistan; however, they said they never received any threats on that issue.

Citibank told the Subcommittee staff that private bank decided to allow Mr. Schlegelmilch to open the three accounts for Mr. Zardari on the condition that the private bank would not be the primary accounts for Mr. Zardari's assets and the accounts would function as passive investment accounts. Citibank told the Subcommittee staff that Mr. Holderbeke signed a memo delineating the restrictions placed on the accounts, including a $40 million aggregate limit on the size of the three accounts, and transaction restrictions requiring the accounts to function as passive, stable investments, without multiple transactions or funding pass-throughs. None of the Citibank personnel interviewed by Subcommittee staff could identify any other private bank account with these types of restrictions. Other private banks interviewed by the Subcommittee staff were asked if they had ever accepted a client on the condition that certain restrictions were imposed on the account. The unified answer was “not”. One bank representative explained that if the bank felt that it needed to place restrictions on the client's account, it didn't want that type of client. The existence of the restrictions are in themselves proof of the private bank's awareness of Mr. Zardari's poor reputation and concerns regarding the sources of his wealth.

3.6.1.1.3 Movement of Funds:

Citibank told the Subcommittee staff that once opened; only three deposits were made into the M.S. Capricorn Trading account in Dubai. Two deposits, totaling $10 million were made into the account almost immediately after it was opened. Citibank records show that one $5 million deposit was made on October 5, 1994, and another

was made on October 6, 1994. The source of both deposits was A.R.Y. International Exchange, a company owned by Abdul Razzak Yaqub, a Pakistani gold bullion trader living in Dubai.

According to the New York Times, in December 1994, the Bhutto government awarded Mr. Razzak an exclusive gold import license. In an interview with the New York Times, Mr. Razzak acknowledged that he had used the exclusive license to import more than $500 million worth of gold into Pakistan. Mr. Razzak denies, however, making any payments to Mr. Zardari. Citibank could not explain the two $5 million payments. Ms. Bhutto told the Subcommittee staff that since A.R.Y. International Exchange is a foreign exchange business, the payments did not necessarily come from Mr. Razzak, but could have come from a third party who was merely making use of A.R.Y.'s exchange services. The staff invited Ms. Bhutto to provide additional information on the M.S. Capricorn Trading accounts, but she has not yet done so.

On February 25, 1995, a third deposit of $8 million was made into the Dubai M.S. Capricorn Trading account. Records show that the payment was made through American Express, with the originator of the account listed as "Morgan NYC." Citibank indicated it does not know who Morgan NYC is, nor does it know the source of the $8 million.

All of the funds in the Dubai account of M.S. Capricorn Trading were moved to the Swiss accounts in the spring of 1995. On March 6, 1995, $8.1 million was transferred; and on May 5, 1995, another $10.2 million was transferred. Both transfers involved U.S. dollars and were routed through Citibank's New York offices. Citibank informed the Subcommittee staff that M.S. Capricorn Trading closed its Dubai account shortly after the last transfer was completed.

Citibank has indicated that significant amounts of other funds were also deposited into the Swiss accounts. As described below, the $40 million cap was reached, and millions of additional dollars also passed through those accounts. However, Swiss

bank secrecy law has prevented the Subcommittee from obtaining the details on the transactions in the Zardari accounts.

3.6.1.1.4 Account Monitoring:

Citibank told the Subcommittee staff that, in 1996, the Swiss office of the private bank conducted a number of reviews of the Zardari Swiss accounts, finally deciding in October to close them.

The first review was allegedly in early 1996, triggered by increasing publicity about allegations of corruption against Mr. Zardari. Citibank told the Subcommittee staff that Messrs. Holderbeke, Raza, Sharma and Amouzegar participated in the review, and apparently concluded that the allegations were politically motivated and that the accounts should remain open. The Subcommittee staff was told that the review did not include looking at the accounts' transaction activity.

In March or April, 1996, Mr. Amouzegar asked that the overall limit on the Zardari accounts be increased from $40 million to $60 million, apparently because the accounts had reached the previously imposed limit of $40 million. Citibank told the Subcommittee staff that Mr. Holderbeke considered the request, but declined to increase the $40 million limit.

In June, press reports in the United Kingdom that Mr. Zardari had purchased real estate in London triggered still another review of the Zardari accounts. Citibank private bank told the Subcommittee staff that its Swiss office internally discussed the source of the funds for the property purchase. Mr. Amouzegar and Mr. Raza then met with Mr. Schlegelmilch, who allegedly informed them that funds had been deposited into the Citibank accounts, transferred to another PIC account outside of Citibank and used to purchase the property. Mr. Schlegelmilch allegedly indicated the

funds had come from the sale of some sugar mills and were legitimate. Citibank told the Subcommittee staff it is not sure if anyone at the private bank attempted to validate the information about the sale of the sugar mills. In addition, even though this account activity violated the condition imposed by Citibank that the accounts were not to be used as a pass through for funds, the accounts were kept open.

3.6.1.1.5 Closing the Accounts:

In July 1996, after Mr. Amouzegar left the private bank to open his own company, another private banker, Cedric Grant, took over management of the Zardari accounts. Citibank told the Subcommittee staff that Mr. Grant began to review the Zardari accounts about one month later to familiarize him with them. He also reviewed the transactions that had taken place within the accounts.

In September and October 1996, press accounts in Pakistan repeatedly raised questions about corruption by Mr. Zardari and Ms. Bhutto, as Ms. Bhutto's re-election campaign increased its activities prior to a February election date. In September, Ms. Bhutto's only surviving brother, Murtaza Bhutto, was assassinated, and Ms. Bhutto's mother accused Ms. Bhutto and Mr. Zardari of masterminding the murder, because the brother had been leading opposition to Ms. Bhutto.

In October, Mr. Grant completed his review of the Zardari accounts and provided a written analysis to Messrs. Holderbeke, Sharma and Raza, according to Citibank. Mr. Grant had found numerous violations of the account restrictions imposed by Citibank, including multiple transactions and funding pass-throughs. Citibank told the Subcommittee staff that the accounts had functioned more as checking accounts than passive investment accounts, directly contrary to the private bank's restrictions. Apparently, well over $40 million had flowed through the accounts, though Subcommittee staff was unable to ascertain the actual amount because Swiss bank secrecy law prohibits Citibank from sharing that information with the Subcommittee. Citibank indicated that Mr. Amouzegar had either ignored or did not pay attention to

the account activity. Mr. Grant recommended closing the accounts, and they were closed by January 1997.

3.6.1.1.6 Legal Proceedings:

On September 8, 1997, the Swiss government issued orders freezing the Zardari and Bhutto accounts at Citibank and three other banks in Switzerland at the request of the Pakistani government. Since Citibank had closed its Zardari accounts in January 1997, it took no action nor did it make any effort to inform U.S. authorities of the accounts until late November 1997. Citibank contacted the Federal Reserve and OCC about the Zardari accounts in late November, in anticipation of a New York Times article that eventually ran in January 1998, alleging that Mr. Zardari had accepted bribes, and that he held Citibank accounts in Dubai and Switzerland. On December 8 and 11, 1997, Citibank briefed the OCC and the Federal Reserve, respectively, about the accounts and the steps it had taken as a result of the Zardari matter.

These steps included: closing all of the accounts that had been referred by Mr. Schlegelmilch to the private bank and terminating his referral agreement; reviewing all of the accounts opened in the Dubai office; and tightening up account opening procedures in Dubai, including requiring the Dubai office to identify the beneficial owner of all Dubai accounts. Citibank did not identify any changes made or planned for the Swiss office, even though the majority of the activity with respect to the Zardari accounts had taken place in Switzerland.

On December 5, 1997, Citibank prepared a Suspicious Activity Report on the Zardari accounts and filed it with the Financial Crimes Enforcement Network at the U.S. Department of Treasury. The filing was made fourteen months after its decision to close the Zardari accounts; thirteen months after Mr. Zardari was arrested a second time for corruption in November 1996; and nearly two months after the Swiss

government had ordered four Swiss banks (including Citibank Switzerland) to freeze all Zardari accounts.

In June 1998, Switzerland indicted Mr. Schlegelmilch and two Swiss businessmen, the former senior executive vice president of SGS and the managing director of Cotecna, for money laundering in connection with kickbacks paid by the Swiss companies for the award of a government contract by Pakistan. In July 1998, Mr. Zardari was indicted for violation of Swiss money laundering law in connection with the same incident. Ms. Bhutto was indicted in Switzerland for the same offense in August 1998. A trial on the charges was expected and it certainly took off but Ms.Bhutto's persistent attitude of not appearing before the court for legal proceedings has resulted in a perpetual never ending case.

In October 1998, Pakistan indicted Mr. Zardari and Ms. Bhutto for accepting kickbacks from the two Swiss companies in exchange for the award of a government contract. On April 15, 1999, after an 18-month trial, Pakistan's Lahore High Court convicted Ms. Bhutto and Mr. Zardari of accepting the kickbacks and sentenced them to 5 years in prison, fined them $8.6 million and disqualified them from holding public office. Ms. Bhutto, who now lives in Dubai, denounced the decision. Mr. Zardari remained in jail for quite sometime but is now released after Government, regulatory authorities and law enforcement agencies failure to provide evidences of corruption against Mr.Zardari. Additional criminal charges are pending against both in Pakistani courts.

On December 11, 1997, Citicorp's Chairman John Reed wrote the following to the Board of Directors:

"We have another issue with the husband of Ex-Prime Minister Bhutto of Pakistan. I do not yet understand the facts but I am inclined to think that we made a mistake. More reason than ever to rework our Private Bank."

Mr. Reed told the Subcommittee staff that it was the combination of the Salinas and Zardari accounts that made him charge Mr. Aziz, the new private bank head, with taking a hard look at the bank's public figure policy and public figure accounts.

3.6.1.1.7 The Issues:

The Zardari case history raises issues involving due diligence, secrecy and public figure accounts. The Zardari case history begins with the Citibank Dubai branch's failure to identify the true beneficial owner of the M.S. Capricorn Trading account. As a result, the account officer in Dubai performed due diligence on an individual who had no relationship to the account being opened. In Switzerland, Citibank officials opened three private bank accounts despite evidence of impropriety on the part of Mr. Zardari. In an interview with Subcommittee staff, Citigroup Co- Chair John Reed informed the Subcommittee staff that he had been advised by Citibank officials in preparation for a trip to Pakistan in February 1994, that there were troubling accusations concerning corruption surrounding Mr. Zardari, that he should stay away from him, and that he was not a man with whom the bank wanted to be associated. Yet one year later, the private bank opened three accounts for Mr. Zardari in Switzerland. Mr. Reed told the Subcommittee staff that when he learned of the Zardari accounts he thought the account officer must have been "an idiot."

Citibank has been unable to confirm that bank employees verified that Mr. Zardari had a level of wealth sufficient to support the size of the accounts that he was opening. In addition, the Swiss private banker took no action to validate the legitimacy of the source of the funds that were deposited into the account. For example, there was no effort made to verify the claims that some of the funds derived from the sale of sugar mills.

Citibank also performed no due diligence on the client owned and managed PICs that were the named accountholders. Because the PICs were client-created, the bank's failure to perform due diligence on the PICs meant that it had no knowledge of the activities, assets or entities involved with the corporations. One of the PICs, Bomer

Finance, has been determined to have been a repository for kickbacks paid to Mr. Zardari, and those kickbacks tainted funds deposited at the Geneva branch of Union Bank of Switzerland. Documentation has not been made available to determine whether Bomer Finance also used its Citibank account for illicit funds.

Another due diligence lapse was the private bank's failure to monitor the Zardari accounts to ensure that the account restrictions imposed on them were being followed. When officials were presented with evidence in 1996 that the restrictions were being violated, they nevertheless allowed the accounts to continue.

The Zardari accounts in Switzerland were opened one day before Raul Salinas was arrested. The account was repeatedly reviewed in 1996, after the Salinas scandal became public. Yet there is no evidence that anyone in the private bank had been sensitized to the problems associated with handling an account of a person suspected of corruption.

The Zardari example also demonstrates the practical consequences of secrecy in private banking. Citibank claims that its decision making in the Zardari matter cannot be fully explained or documented, since all Citibank officials are subject to Swiss secrecy laws prohibiting discussion of client-specific information. In light of the fact that U.S. banks are supposed to oversee their foreign branches and enforce U.S. law, including anti-money laundering requirements, this inability to produce documentation related to a troubling case again highlights the problems with U.S. banks choosing to operate in secrecy jurisdictions.

3.6.1.1.8 Pattern of Poor Account Management:

The Zardari case history took place during a series of critical internal and federal audits between 1992 and 1997 of the Swiss office which, during most of that time,

served as the headquarters of the private bank. The shortcomings identified in the audits included policies, procedures, and problems that affected the management of the Zardari accounts. They included:

* failure of the "corporate culture" in the Swiss office to foster " 'a climate of integrity, ethical conduct and prudent risk taking' by U.S. standards";
* inadequate due diligence;
* "less than acceptable internal controls";
* lack of oversight and control of third party referral agents such as Schlegelmilch; and
* inadequate monitoring of accounts;

all of which resulted in "unacceptable" internal audit ratings. In December 1995, the Swiss office received the lowest audit score received by any office in the private bank during the 1990s. These audit scores indicate the office's poor handling of the Zardari accounts was part of an ongoing pattern of poor account management (Mr.Asif Ali Zardari Case History presented by the Citibank before the US Senate Sub-Committee),
(www.stribune.com/archives/july20_26_02/zardaricasehistory.htm).

3.6.2 Money Laundering by Franklin Jurado:

Franklin Jurado, a Harvard-educated Colombian economist, pleaded guilty to a single count of money laundering in a New York federal court in April 1996 and was sentenced to seven and a half years in prison. Using the tools he learned at America's top university, he moved $36 million in profits, from US cocaine sales for the late Colombian drug lord Jose Santacruz-Londono, in and out of banks and companies in an effort to make the assets appear to be of legitimate origin.

Jurado laundered the $36 million by wiring it out of Panama, through the offices of Merrill Lynch and other financial institutions, to Europe. In three years, he opened more than 100 accounts in 68 banks in nine countries: Austria, Denmark, the United Kingdom, France, Germany, Hungary, Italy, Luxembourg, and Monaco. Some of the accounts were opened in the names of Santacruz's mistresses and relatives, others under assumed European-sounding names.

Keeping balances below $10,000 to avoid investigation, Jurado shifted the funds between the various accounts. He established European front companies with the eventual aim of transferring the "clean" money back to Colombia, to be invested in Santacruz's restaurants, construction companies, pharmacies and real estate holdings.

The scheme was interrupted when a bank failure in Monaco exposed several accounts linked to Jurado. And in Luxembourg, endless noise from a money-counting machine in Jurado's house prompted a neighbour to alert the local police. Empowered by new laws against money laundering, the police initiated a wiretap in April 1990. Jurado was arrested two months later, convicted of money laundering in a Luxembourg court in 1992 and a few years later extradited to the United States.

The Jurado case is an example of the increasingly sophisticated means drug cartels employ to secure assets. But it also indicates that the very profits that motivate drug organizations are an Achilles heel and that national legislator, law enforcement agencies and international bodies are stepping up efforts against money laundering (UN General Assembly Special Session on the **World Drug Problem** 8-10 June, 1998).

3.6.3 THE COLOMBIAN BLACK MARKET PESO EXCHANGE:

Background:

Money is a commodity. As with any other commodity, money can be bought, sold or traded. The U.S. dollar is the preferred currency worldwide. The demand for U.S. dollars can translate to huge profits for illegitimate money transmitters and brokers involved in the movement of narcotics proceeds throughout the world.

The BMPE process starts with a peso broker. For a fee, these brokers arrange the financial transactions necessary to launder the drug cartels' money. Broker activities include receiving and coordinating orders for money, locating sources of U.S. dollars, arranging pickups and directing placement of funds. Within the broker's network are others who perform various services for a percentage of the broker's earnings. Those working for the brokers pick up cash, buy money orders and checks, open checking accounts, transport and smuggle money, among other things.

The primary market in Colombia for large blocks of U.S. dollars is Colombian importers. In order to purchase goods for import, the Colombian importer must first acquire U.S. dollars, which are the recognized instrument of trade in the Western Hemisphere. Access to U.S. dollars is regulated by Colombian law and administered by their central bank. Before the Colombian central bank would convert pesos to dollars they require certification that government import permits be obtained, thereby insuring that the requisite Colombian duties and taxes are collected.

3.6.4 Operation Casablanca:

Operation Casablanca resulted in the arrest of 168 individuals, the indictment of 3 Mexican banks, two of which plead guilty to criminal money laundering charges, and

the seizure of over $100 million in cash and monetary instruments. During Operation Casablanca, U.S. Customs undercover agents dealt directly with peso brokers to arrange for money pickups. The drug money was placed into accounts opened by corrupt Mexican bankers. From there, it moved through the banks' correspondent accounts in the U.S. before being sold through the BMPE and deposited in foreign and domestic accounts

Money Laundering Countermeasures:

International Response:

A wide array of international bodies are involved in international measures to counter money laundering. An examination of some of the major international documents relating to money laundering countermeasures demonstrates that there is a significant unity of purpose internationally, and common agreement on a number of proposed actions to deny criminals the benefit of their illicit proceeds or access to the world's financial services industry. There is a marked consistency in which these documents recognize and endorse each other. Each new convention or agreement builds on the foundation of those that preceded it. Many of these agreements propose measures which fall into three main categories:

☐☐ Legal

☐☐ Financial and Regulatory

☐☐ Law Enforcement

Legal:

A significant aspect of most of these agreements is the call for the criminalization of money laundering (in some cases this refers solely to drug proceeds, but more recently includes proceeds from all serious offences). One of the most notable agreements in this regard is the 1988 Vienna Convention, which requires signatories to criminalize the laundering of drug proceeds.

A number of bodies have assisted in the drafting of model money laundering laws.

These include the UN Drug Control Programme (UNDCP), the Organisation of American States (OAS) and the Commonwealth group of countries. The model laws have been used by a number of countries in drafting their own laws. Other legal initiatives include a call for measures for the identification, tracing and seizing of proceeds; legislation to enable competent authorities to confiscate laundered monies and property acquired from illicit sources; and legislation to permit extradition of individuals charged with money laundering offence or related offence.

Financial and Regulatory:

A number of financial and regulatory measures have been proposed, most significantly in the '40 Recommendations' of the Financial Action Task Force.30 These include:

☐☐ An end to anonymous accounts in financial institutions and a requirement that they record and maintain records of the identity of their clients (commonly known as the 'know your customer' policy).

☐☐ special attention to be paid to complex, unusual and large transactions with some proposing that institutions be required to report such transactions to competent authorities;

☐☐ Countries to consider implementing measures to detect or monitor cash at national borders; and

☐☐ The development of programmes in financial institutions to guard against money laundering including internal controls and employee training.

Law Enforcement:

Law enforcement initiatives include calls for increased international cooperation by affording the widest range of possible assistance to other countries in money laundering investigations and prosecutions and the use of mutual assistance in criminal matters. This has resulted in the negotiation of a wide ranging international network of bilateral Mutual Legal Assistance Treaties formalizing the methods and means by which one country may assist another in investigations, prosecutions and confiscation.

The Financial Action Task Force (FATF):

The first international initiative to counter money laundering was the creation of the Financial Action Task Force. The FATF began as an initiative of the Group of Seven countries in 1989. Membership originally consisted of 26 countries and two international organizations but now the number has improved (33). The main purpose of FATF is the development, adoption and promotion of policies and measures to combat money laundering and specifically to prevent proceeds of crime from being utilized in future criminal activities and from affecting legitimate economic activities. At its heart lie the Forty Recommendations - measures which set out the basic framework for anti-money laundering efforts and are designed to be of universal application. These recommendations generally cover the initiatives described above. The recommendations have been widely accepted as an international standard for anti-money laundering measures.

Regional Response:

The Asia Pacific Region:

In February 1997 a group called the Asia/Pacific Group on Money Laundering (APG) was established. Membership (21) is open to any jurisdiction in the Asia/Pacific region which commits itself to introducing anti-money laundering measures. Initially it consisted of 13 jurisdictions. Its purpose is to:

1. Provide a focus for co-operative anti-money laundering efforts in the region;

2. Provide a forum in which:

(a) Regional issues can be discussed and experience shared,
(b) Through exchange of information, the study and analysis of the problems caused by money laundering can be facilitated, and
(c) The issue of illegal proceeds is handled and the criminal realities in the region can be taken into account;

3. Encourage the adoption, throughout the region, of international anti-money laundering standards;

4. Enable regional factors to be taken into account in the implementation of international anti-money laundering measures;

5. Encourage jurisdictions to implement anti-money laundering initiatives including more effective mutual legal assistance; and

6. Co-ordinate or provide practical support, where possible, to jurisdictions in the region which request it.

In March 1998 the APG held its first annual meeting in Tokyo, Japan, attended by members and observer jurisdictions as well as international bodies. At that meeting the membership was expanded to 16 jurisdictions with the likelihood that others will join. The Terms of Reference for the group were revised and expanded and an Action Plan adopted.

Future Initiatives:

It is the effort to create a common standard of response which has been the focus of the countermeasures described above. It is clear that the main future initiative will be to continue in this endeavor. There is concern, however, with the speed at which this effort is progressing. Some have provided suggestions for ways of increasing the pace of reforms. US Senator John Kerry (Presidential Candidate in recent Elections) has gone so far as to argue that America and its allies should wage economic war against countries that refuse to fight laundering. He even suggests that these countries should ban their citizens from trading with laundering havens. Vito Tanzi, from the IMF, has suggested an alternative approach. That is that the world financial community should negotiate a minimum world-wide standard of statistical, banking, prudential and financial rules that would be binding on all countries. Countries which refuse to enact these standards should face punitive taxes on capital flows to and from their financial centers and have international legal recognition denied to financial transactions taking place on their soil. Irrespective of any reaction to those views there is an increasing consensus emerging in the international financial and banking community about the need for international money laundering standards to protect the reputation and integrity of financial systems. It has been recognized that damage to reputations can have a significant negative effect on a financial institution and even on the system itself and hence there is growing "peer group" pressure to introduce effective counter measures. Attention must also be given to changes in methods used for money laundering. Although our understanding of the methods of money laundering that are being used has increased in recent years but the main emphasis still remains on the placement of illegal *cash* into the system. Research has indicated, however, the relationship between crime and currency demand has

changed. This suggests that laundering methods have changed, moving away from the banking system and cash and toward parallel financial markets, sophisticated non monetary instruments, and possibly barter (even to debits and credits booked by organized criminal quasi-banks, for example, over the Internet). If this assessment is accurate then there is a need for the development of new counter-measures that will identify these mechanisms. Continued and improved sharing of information and intelligence on money laundering methods is also crucial. This will necessitate the expansion of cooperative arrangements through mutual legal assistance agreements and the establishment of Financial Intelligence Units to collect information about suspicious and illegal transactions. It would also seem desirable that a detailed training and technical assistance strategy be put in place globally and regionally for those countries which express a need for assistance in this area. Those countries which have already gained substantial experience in implementing antimony laundering measures could provide valuable experience, especially in the area of providing training for law enforcement investigators, the establishment of suspicious transaction reporting regimes, and the development of internal controls and staff training for financial and non-financial institutions subject to money laundering schemes. The importance of money laundering issues in the Asia Pacific region, and the need for an integrated international response has been endorsed by the APEC Finance Ministers. The Joint Ministerial Statement produced at their fourth meeting on 5-6 April 1997 included the following:

Money laundering remains a priority concern because of the threat it can pose to the integrity of legitimate financial institutions. In this regard, we welcome the establishment of the Asia-Pacific Group on Money Laundering of which several APEC economies are members. We pointed out however that money laundering is a global phenomenon and in this regard, we encourage all other economies to join in a determined global effort to effectively address it. We ask the assistance of the relevant international organizations to integrate support for anti-money laundering activities in their operations to strengthen the integrity of financial systems. This is a significant endorsement for anti-money laundering initiatives in the Asia/Pacific region and a number of jurisdictions have introduced money laundering laws while others are in the process of doing so. There is also a general consensus for a cooperative regional effort through a cohesive

Asia/Pacific Group on Money Laundering. The challenge therefore is to ensure that the APG comprehensively represents the region so that it can properly consider and respond to regional issues to the benefit of each jurisdiction and the region as a whole(Money laundering- International and a Regional Response), APG on Money laundering Secretariat, Sydney 2001, Australia)

3.7 Money Laundering in Pakistan:

Narrowing down our research approach now we will focus on the money laundering and anti-money laundering situation in Pakistan both the pre and post 9/11 scenario. First of all we will look at the activities which help generating illicit wealth are. Generally speaking the commonly know activities are:

1) Tax evasion
2) Smuggling
3) Under and over invoicing particularly in international trade.
4) Crime which includes white collar crimes, thefts, burglaries, hold- ups, car jacking, kidnapping, bribes, etc.,
5) Real estate deals and similar other transactions.
6) Lax or liberal laws encouraging bearer transactions or no questions asked on remittances or foreign exchange transfers etc.

Notwithstanding our inadequacies in terms of judicial, regulatory, fiscal systems we still have certain schemes which provide sanctuary to such monies. To give you a few examples here is a list with some popular forms of hiding such money.

i) Bearer Schemes (Bearer Bonds).Bearer schemes of Post Office, NIT, etc
ii) Bainamee Accounts.
iii) Liberal/unregulated foreign currency sale purchase
iv) Prize Bonds.

Major money laundering methods in Pakistan are as under:

- Hawala/Hundi
- Bearer Investment Schemes
- Investment and Speculation in Real Estate

- Expenditure on Luxury Goods
- EFT
- Over/Under Invoicing of Imports/Exports
- Bogus businesses of Imports/Exports
- Loan Back Methods
- Prize Bond Racketeering
- Currency Smuggling
- Drugs Smuggling
- Electronics goods smuggling
- Cars Smuggling
- Money as legal proceeds of agriculture or other businesses etc

Launderers normally invest in following tools in order to disguise the law enforcement agencies about their illegally earned money:

- Bearer National Bond Fund (no more)
- Foreign Exchange Bearer Certificates
- NIT bearer Units
- WAPDA bearer Bonds
- Bearer COI/Growth Certificates
- Bearer COD
- Foreign Currency Bearer Certificates
- Prize Bond Schemes etc

Most Famous way of Laundering: The Hawala System:

Among the methods terrorists world-wide use to move money from regions that finance them to target countries some hardly leave any traceable trail. As regulators learned recently, one of the weak points in the payments chain through which illicit

funds can enter is a system of traditional trust-based banking originating in southern Asia which is known as hawala.

The word hawala is Hindi meaning "trust" or "exchange". Often used in relation with the word hundi which stands for "bill of exchange" hawala is an unofficial alternative remittance and money exchange system enabling the transfer of funds without their actual physical move. Traditional financial institutions may be involved but more often the system is used to bypass banks. There are an estimated 3000 international hawala brokers operating in Asia. Allegedly the business is monopolised by migrants from India who mostly operate from countries in the Gulf and South East Asia. Networks include trading points in the financial centers of Singapore and Hong Kong, and some of the biggest family-based money-dealers are based in London.

In principle, hawala works as follows: Individual "brokers" or "operators" , known as hawaladars, collect funds at one end of the payment chain and others distribute the funds at the other. For example, an expatriate working in America or Kuwait who wants to send money back to his family in Pakistan or Syria turns to a moneylender or trader with contacts in both countries giving him the money. The trader calls a trusted partner in the home country who delivers the amount to the family, minus a commission. For identification and the details of the trade often a code is used. The two traders settle accounts either through reciprocal remittances, trade invoice manipulations, gold and precious gem smuggling, the conventional banking system, or by physical movement of currency. Usually, hawaladars operate independently of each other rather than as part of a larger organization. In general, they are merchants or small business owners that operate hawala activities alongside their normal business.

For Asian immigrants the hawala system provides a speedy, reliable and trustworthy method to remit money home. In principle, it allows cash delivered in one place to be made available elsewhere in the time it takes to make a telephone call or send a fax. The system proves superior to any Western banking operation: No identification needs to be presented, commissions are very low, transmission is very fast, and the system is in operation 24 hours a day and every day of the year even in regions where no banks or other financial institutions exist. The latter also explains why the system is not only used by expatriates, drug barons and terrorists, but in some countries is quite common in rural areas. For example, in the 1980s, about 70% of

total credit outstanding in Pakistan were estimated to be in the informal sector, and about 80% of all informal credit were in agriculture.

Hawala has been a traditional method of moving money in south Asia long before Western banking became established in the region protecting early merchants along the silk road against robbery. In ancient China it was known as "fei qian" or "flying coins". The system spread throughout the world – to other Asian regions, the Middle East, eastern and southern Africa, Europe and North and South America – following immigration patterns. Based on a man's word there is a strong market segmentation in that, for example, a Pashtun is trusting only a Pashtun hawaladar, a Sikh only a Sikh one, and so on.

These days, although mainly used for legitimate transfers and often operating in conjunction with Western banking operations, the hawala system is regarded as a key factor in money laundering, other financial crimes and financing of illegal organizations committed in and associated with South Asia. Hawaladars in Dubai, India and Pakistan are said to be forming a "hawala triangle" responsible for significant international money laundering activities that spread far beyond the region.

Hawala is illegal in many countries. However, Islamic and Western banks all over the world, and even central banks, make use of the system. For instance, in May and June 2001 the State Bank of Pakistan was said to have turned to hawala shops in Islamabad to buy dollars in order to support the own currency. Even top-ranking Western corporations turn to hawaladars for transactions to regions without a modern western-style banking system. In several OECD member countries, licensed traders legally perform hawala. In Germany, some dozens of hawaladers have been granted a license to provide financial services under §32 Banking Act. In the United Kingdom, on the other hand, Money Services Businesses such as Bureaux de Change, money transmission agents and cheque cashers still operate widely unregulated. A regulation for Money Services Businesses is under way only since June 2001.

Regarding the economic impact of hawala, above all, there are two aspects. One is the macroeconomic effect it has on individual economies and state sovereignty. For example, according to Pakistan estimates amounts reaching the equivalent of billions

of US dollars are channelled past the country's tax authorities in this way every year. In India, there are estimates that, although forbidden, up to 50 % of the economy uses the hawala system for moving funds. Another aspect is the impact on international financial markets, financial regulation and monetary policy. In principle, informal money transfer systems tend to reduce the effectiveness of traditional instruments of monetary policy in making it more difficult to judge the need for money balances in an economy and the reactions to changes in rates and prices. Beside, they hamper the supervision of money and capital flows and the fight against risky or illegal financial practices. This is the reason why, for example, the Financial Action Task Force (FATF) and the Asia/Pacific Group on Money Laundering (APG) pay close attention to the system.

On the other hand, there are two aspects which help to put in perspective the importance of hawala: First, with an estimated annual volume of $200bn it is a rather minor phenomenon amid the vast amounts of cash flowing through the global markets each day. For instance, average daily turnover in traditional foreign exchange markets world-wide is estimated at $1,210bn. Annual transaction values in the US CHIPS and Fedwire payment systems, the British CHAPS or the German EAF reach up to hundreds of trillion dollars. Second considering the intranets used by large multinational firms operating world-wide, hawala is only one among many informal payment systems bypassing traditional banks(Hawala system by by Beate Reszat).

The above is not something very peculiar to Pakistan as many countries of the world went through this phase but what is not very apparent is sometimes the reluctance to change or more correctly to improve our response with the change in requirements. There is a history behind such attitudes and every one here knows that Banks had always an emphasis on deposit gathering. The more deposit you can bring, the more were the chances of your going up the ladder in the Bank. But now it has to change and this is the time for all of us to understand this change.

Deposits are even today the lifeline of Banks and have great importance, which shall continue. The anti-money laundering campaign throughout the world has now

brought new focus on the process of customer due diligence before acceptance of deposits/cash and then on a consistent basis monitoring his activities in the account. Banks are now to accept deposit, which is legitimate, and to protect the Bank from being used by customers who have money derived from illegal sources. It has also to watch constantly that the activities of his customer commensurate with his business profile.

It is not known as to the exact amount of money which is laundered through banks annually but there are certainly indications which give us an idea as to the scale of this problem. It is estimated that in 1996 according to some estimates US $590 billion to US $1.5 trillion were annually being laundered and out of this drug related was around US $400 billion.

The ill effects of money laundering are many. To name a few, it creates social unrest, law and order situation, helps & abets organized crime and terrorism, which can ignite serious confrontations amongst different groups within and outsides countries. Its misuse for terrorist activities has certainly created a situation of unprecedented security measures by certain countries.

Anti-money laundering measures or laws affect the Banks perhaps the most, as Bank is the place where the money lives. The international concern that the money laundering is now being used for purposes of arms acquisition, carrying of illegal killing and spreading terror, etc., in near and far places has brought greater responsibilities on us. Banks from countries like us are clearly handicapped, as we do not have the advantage of use of technology to help us as the developed countries have. We have much lesser resources to fund a full-blown effort to take all corrective steps together. We have a bigger challenge and lesser tools to handle it. With penalties being high our task becomes more difficult and brings us under greater pressure and risk.

Many developed countries have therefore brought in very strict anti-money laws to control money laundering. Not only such customer's money is confiscated and they are given punishment but Banks are also fined heavily and staff involved in dealt with very strongly. There is now-a-days zero tolerance of such a crime. Banks in Pakistan has also taken note of this and has issued circulars and Prudential Regulation No. XI (Revised on 29.3.03) & XII. Now comes the question as to what steps checks we should be building? Obviously, to beef up our existing systems and procedures to cater to new requirements, all international banks have developed policies and procedure for establishing relationships with customers and they call it Know Your Customer Policy In fact this is the best defense for a Bank to be in compliance of all anti-money laundering laws.

To save itself from heavy penalties and action against Board/Management Committee, Banks do have a Know Your Customer Policy. This sets out general rules to verify the genuineness of the customer and some sort of monitoring of his dealing. With an effective KYC policy, the additional requirement is for proper training to the staff. The addition of new regulations, every now and then need a continuous up gradation of KYC policy as well as, revision in training curriculum of banks.

What Remedial steps are being taken?

Know Your Customer: SBP Prudential Regulations XI:

All banks must know their own customers. This means that each bank must be able to establish the identity and a basic background of their customers. Each bank must establish its own KYC program, tailored to suit the size, nature and complexity of its operation and business where it operates.

Know Your Customer policies may differ slightly from one bank to the other

according to the client base they have but generally such a policy should have sharp focus on the following:

1) It should help the detection of suspicious activities in a timely manner.
2) It should strengthen procedures for compliance with local and international laws.
3) It should minimize if not eliminate the risk for the bank to be used for any illegal activity.
4) Protect the reputation of the bank.
5) Reduce the risk of any punitive action from the government or regulators.
6) It should not impact relationship with bank's old and trusted customers.
7) It should ensure that the monitoring process internally is strong and the audit function covers it at a regular interval.
8) It should ensure that the policies and procedures have a strong under pinning by a dynamic training program.

Learn To Refuse To Conduct Significant Business Where True Identity Not Provided:

It should be an explicit policy of every bank not to conduct any significant business with a customer (prospective or otherwise) who fails or refuses to provide basic information necessary to establish the customer's true identity or the background of the transaction the bank, is asked to carry out.

Additional Verification After Account Opened:

A bank shall take further measures to verify the identity of the customer or the beneficial owner of the account, in the course of the business relationship, if it has reasonable doubt about:

- The veracity (or truthfulness) of the information relating to the customer's identity.
- Whether the customer is the beneficial owner of the account.
- The veracity of the intermediary's declaration relating to the beneficial ownership of the accounts; or
- The transactions being inconsistent with the customer's transaction profile.

In carrying out the verification of these matters, a bank should take all necessary measures to ensure its observation and compliance of its duty of confidentiality to its customer.

Establishing Identity of Customer:

Opening a new account is the most important point in the Banker customer relationship. Here besides precautions which come later we draw your attention to SBP 's Prudential Regulation No. XI & XII.

Prudential Regulation XI issued by SBP relates to the identification' of a customer at the time of opening an account and reads as follows:

> "Banks shall make all reasonable efforts to determine the true identity of every customer would be account holder. Towards this end, banks shall institute effective procedures and methods for obtaining proper identification from new customers."

Prudential Regulations XII:

Prudential Regulation XII provides following guidelines to determine the true identity of the customers to ensure that banking business is conducted in conformity with high ethical standards and adhere to banking laws and regulations.

a) Before extending banking services, bank shall make reasonable efforts to determine the true identity of customer. Particular care should be taken to identify ownership of all accounts and those using safe custody facilities. Effective procedures should be instituted for obtaining identification from new customer. An explicit policy should be devised to ensure that significant business transactions are not conducted with customers who fail to provide evidence of their identity.

b) Banks shall ensure that banking business is conducted in conformity with high ethical standards and that banking laws and regulations are adhered to. It is accepted that banks normally do not have effective means of knowing whether a transaction stems from or .forms part of wrongful activity. Similarly in an international context it may be difficult to ensure that cross border transaction on behalf of customers are in compliance with the regulations of another country. Nevertheless banks should not set out to offer services or provide active assistance in transactions which in their opinion are associated with money derived from illegal activities

c) Specific procedures be established for ascertaining customer status and his source of earning, for monitoring of accounts on a regular basis, for checking identities and bonafides of remitters and beneficiaries, for retaining internal record of transactions for future reference. The transactions which are out of character with the normal operation of the account involving heavy deposits / withdrawals / transfers should be viewed with suspicion and properly investigated.

These are SBP guidelines which are mandatory and therefore to be followed in letter and spirit. Banks however have more elaborated procedures for their branches whose example account category wise is as follows:

1. Personal Customers:

a. Basic Identification information:

All banks shall obtain from their prospective customers the following information before opening an account with the intent of establishing a banking relationship with the customer:

- Full name (including father's names)
- National Identity Card Number or Passport Number
- Complete Permanent and mailing addresses (follow-up of any returned mail particularly letter of thanks balance confirmations etc.,)
- Date of Birth
- Nationality/Permanent Residence
- Occupation
  (if employed, detail of employer. His salary etc., If a business then details of his business, volume of transactions expected etc.,)
- (any other relevant information to complete customer profile such as salary certificate, employer's certificate).

In fact the most important factor at the time of opening of an account is the interview which the Bank Officer holds with the customer. At this stage Bank Officer tries to know the sources of customer's funds, his business details, likely turnover in account and reasons for coming at a particular bank to have an account etc. Bank Officer should document such information for their reference.

b) To Sight Original Document of Identification:

Each bank shall establish the identity of its prospective customer by sighting the original document of his or her identity card or passport.
Each bank shall retain a photocopy of the customer's identification document in its files. The bank may record down the identity card or passport particulars necessary to identify the customer.

2. Joint Account:

In the case of joint accounts, the identities of all the joint account holders must be verified. This shall also apply to joint accounts where the surnames and addresses of the joint-holders are the same.

3. Corporate Customers:

Except for public listed companies, all banks must identify the owners of the companies or firms and ascertain the status of their legal existence before establishing any banking relationship with such business entities.

Verification of documents:

(a) For incorporated companies and registered firms (partnerships and sole-proprietorships), every bank shall obtain from the prospective customer the following original documents (or photocopies of documents certified by the

director or company secretary, in the case of an incorporated company; or a partner; or a sole proprietor; or a solicitor, in the case of a firm):

- Certified or incorporation (for companies)
- Certified or Registration (for firms)
- Board of Directors' resolution authorizing the opening of the company's account together with specimen signatures.

In the event of doubt as to the identity of the company, it directors, its business; or sole proprietor; or partners; each bank shall conduct its own searches with the Registrar of Companies.

(b) For foreign-incorporated or foreign-registered business entities, comparable document sin subparagraph (ii) (a) above should be obtained. Each bank shall similarly make all necessary efforts to verify the veracity of the documents supplied by the prospective customer. Such verification by its branches/affiliates overseas or other financial institution acceptable to the bank in accordance with its internal policy and procedure shall be acceptable.

Non-listed companies/ firms:

With the exception of a listed company, a bank shall verify the principal shareholders, directors, partners or sole proprietor of the prospective customer.

Special instructions contained in SBP Circular Letter No.10 of 29.3.03.

INTRODUCTION:

The Banks shall obtain **"Introduction"** on the new account to assess the prospective customer's account holder's integrity, respectability and the nature of business etc. Any laxity in this regard may result in serious consequences for the banker. The following guidelines are to be followed in this regard.

(i) Where the introducer is an existing account holder of the same branch, his introduction should be accepted, after due verification of signature by the official of the branch. In case the introducer is an account holder of another branch of the same bank, the account should only be opened after proper verification of the signature from the concerned branch.

(ii) Where the introducer happens to be an account holder of another bank, the introduction should be accepted after complete verification of the signature and other particulars of the introducer from that bank.

(iii) The introduction by the employees of the bank may also be acceptable. However, he or she will have to establish that sufficient information has been collected on the new account holder for making the introduction and that they believe that **"Introduction"** from a person other than the bank's employee is not necessary. (The introduction of a person other than by the branch employee is being stressed to ensure maximum authenticity on the status of the would-be account holder customer, beside minimizing the chances of undesirable accounts which may be opened on the introduction of the bank employees in their pursuit to achieve targets of opening maximum number of accounts and treating the **"Introduction"** a mere formality in the process).

Corporate accounts laundering vehicles may be used as money laundering vehicles:

Banks should recognize that because corporate accounts generally generate a bigger volume of activities and larger balances, they may be likely vehicles for money laundering is because of the difficulty in identifying the beneficial owner of the account. Therefore, it is essential that banks should make efforts to determine the beneficial ownership (if any) of a corporate account.

Change in Ownership:

Banks should take note of any significant or complete change in the structure or ownership of a business entity. Having laundered their money, criminals ultimately, for long term purposes, would like to invest such proceeds into the economy as legitimate enterprises.

4. Clubs, Societies and other Non-Profit Organizations:

a. Account opening documents:

Before opening an account for a club, society and such other non-profit organization, bank shall obtain the following documents.

- Constitutive document (or certified true copy signed by the chairman or secretary.
- Certificate of Registration (or certified true copy signed by a solicitor, President/Chairman or Secretary).
- Committee /board resolution or extracts of minutes of the

meeting authorizing the opening of bank account.

b. Verification of Signatories:

A bank must verify the identities of the signatories. Where there is a change in the signatories, the identity of the new signatory / signatories should be verified.

5. Trustee, Nominee and Agent Account:

a. Ascertain Trusteeship and Agency:

It is essential for banks to adopt, in their account opening documentation, procedures to ascertain whether an applicant is acting as a trustee, nominee or an agent on behalf of a third party before establishing a banking relationship with the applicant.

b. Establish identity of underlying principal and beneficiary:

Besides establishing the identity of the trustee, nominee or agent, it is imperative that a bank must also establish the identity of the underlying principal or beneficiary and the nature of the business to be transacted by the bank.

6. Casual Customers:

A *"casual customer"* is a "walk-in" customer who requests a bank for its services who has no account opened with the branch.

Where transactions are undertaken for casual customers, in particular where such transactions involve cash, it becomes necessary to carefully review the transaction. The customer shall be required to produce positive evidence of identity in case the transaction does not make economic sense or is not commensurate with his financial status. Copies of the documents of identity or a record of the relevant details shall be treated as part of the financial transaction documents and shall be retained by the branch.

Front-Line Staff:

A money laundering transaction is more vulnerable to detection at the account opening stage of a banking relationship. Hence, the role of a bank's front-line staff member in detecting the bank's money laundering activities is vital. It is essential that all "frontline" staff members are adequately trained (a) to detect money laundering and (b) to equip themselves with inquiry skills.

Suspicious Transactions:

1. Meaning of "Suspicious Transactions":

A transaction or a series of transactions shall be considered as "suspicious" if the transaction/transactions in question:

(a) Is/are inconsistent with the customer's known transaction profile.

OR

(b) There are some activities that may create suspicion and should alert a financial institution about the potential of a customer to conduct illegal activity. These categories can be broadly classified as under:

- Insufficient/false or suspicious information provided by a customer
- Cash deposits are not consistent with the business activities of the customer
- Purchase or deposit of monetary instruments, via transfer activity and receipt of funds from abroad, do not commensurate with the business activities of the customer or have inadequate details.
- Customer opens a number of accounts under one or similar names.
- Customer exchanges large amount of currency from small to big denomination notes.
- Customer makes series of deposits into an account and almost immediately requests transfer to another city or country.
- Customer receives overseas remittances for accounts with no history of such transfers or where the stated business of the customer does not justify such an activity.
- Customer requests for loans secured by obligation of third parties.
- Borrower pays a large problem loan suddenly with little justification or explanation regarding source of funds.
- Loan proceeds are immediately remitted out.

2. Clarify Economic Backgrounds:

Each bank shall clarify the economic background and purpose of transactions that are inconsistent with the customer's transaction profile or where the economic purpose or the legality of the transactions is not immediately evident. In determining whether it is a suspicious transaction, a bank must consider the totality of the transactions put together and not each transaction (which, on its own, may be perfectly legitimate) in isolation.

3. Internal Investigation:

A bank must fully investigate and evaluate, according to its internal procedures, an apparent potentially suspicious transaction and satisfy itself that it is a suspicious transaction before reporting to their Compliance Department. In investigating into an apparent suspicious transaction, a bank shall give adequate opportunity to the customer (or prospective customer) to explain the concerns raised by the bank, but should be careful not to indulge in any tipping off offence.

Compliance Program:

1. Person to advise Management and Staff:

Each bank shall appoint one or more senior persons, or an appropriate unit, to advise management and staff on the issuance and enforcement of in-house instructions to promote the Guidelines, including personnel training, suspicious transaction reporting and generally all questions relating to the prevention of money laundering.

2. Compliance Department:

A bank shall appoint a senior officer as its compliance officer or to head its compliance department to deal with all money-laundering matters. It should be publicized among all Branches and periodic information may be released through them to keep Branches informed.

3. Internal Money Laundering Control Program:

Each bank shall set its own internal anti-money laundering guidelines and put in place an effective money laundering control programmed suited to the size, nature and complexity of its operation and business.

(i) KYC Program:

The KYC Program is central to a bank's money laundering control system. A bank must train its staff to familiarize themselves and to faithfully implement the bank's KYC program. The bank's KYC program should not only cover customer identification but also customer transaction profiling to anticipate the kind of business activities the customer is likely to generate. The latter is a useful way of detecting a suspicious transaction.

(ii) Internal reporting:

Each bank shall put in place an internal reporting system to deal with the investigation and reporting of suspicious transactions and to train its staff to ensure that they are familiar with the bank's internal reporting system.

4. Monitoring Program of Money Laundering Control:

Every bank's money laundering control programme shall be regularly monitored by the bank's internal audit to ensure it is functioning effectively. It should have close coordination with all departments particularly the internal auditors.

"Refresher Courses":

Refresher training courses should be provided at regular intervals to ensure that staff is reminded of their responsibilities and are kept informed of new developments.

TRAINING:

Importance of Training:

Banks are prime targets of money laundering activities. Therefore, it is imperative that banks must train their employees, at various levels, to detect money-laundering activities. This will help banks to reduce (if not, to prevent) the incidences of money laundering activities that may take place in their banks. Training is also important in ensuring a bank's legal compliance with the anti money laundering laws in the country of operation. This will help a bank and its employees to avoid prosecution for money laundering and other related offences. To ensure that an all-round training is provided for management and staff at all levels, different training programs are recommended below. Each bank must adopt a training program suited to its size, nature and the complexity of its business and operation in the Country.

Cashiers/Tellers/FAX Operators and Advisory Staff:

"Front-line" staff, like the cashiers, tellers, foreign exchange operators, and advisory staff must be trained to detect money laundering transactions. Training for such staff members should include the following:

- Three stages of money laundering.
- Money laundering offences and penalty
- * Identification of suspicious transactions and internal reporting p
- KYC Program.
- Workshop on detection of money laundering and
- Money laundering inquiry skills.

(Institute of Bankers, Pakistan One Day Course on "Effects Checks on ML", Saturday, 19th April, 2003 at Quetta), Discussion paper by Kh. Waheed Raza Sr.EVP, ABP Ltd.

Latest Measures:

Most recently in his welcome speech at the Anti-money laundering seminar in Islamabad, March 2005 Dr. Ishrat Hussain the Governor of the State Bank of Pakistan emphasized the need to counter money laundering and its new version of terrorist financing because although every one is badly hit by it but it is the developing nations which suffer a lot and whose problems have increased. He said that money laundering is bad for all segments of the society, its ill effects on society, institutions and governments have been enormous. The tainted money adversely affects productive sectors of the economy in multifarious ways. The financial sector is particularly hurt if used for laundering of ill-gotten proceeds. The adverse consequences for financial institutions include reputational risk, operational risk, legal and concentration risks. It costs the financial institutions in the following ways:

- Loss of profitable business
- Liquidity problems through sudden withdrawal of funds
- Termination of correspondent banking services
- Investigations costs and fines/penalties
- Aassets seizures
- Loan losses
- Use of senior management's time in doing damage control
- Declines in the stock value of the financial institution concerned.

Society, as a whole bears the costs of ML in multiple ways. Unchecked ML enables criminals to enjoy the profits of their crimes who in turn commit more crimes. When there are more frauds and robberies in banks, depositors will receive less return on their deposits and will have to pay high rates on their loans. When public projects are inflated by corruption, citizens have to pay in the form of taxes. These acts further distort equitable distribution of wealth and, hence, increase in the incidence of poverty.

Terrorism in its all forms and facets is one of the greatest challenges of today's world. One of the key measures to check terrorism is to choke of financial resources flowing toward perpetrators of terrorist acts i.e. counter finance terrorism. Terrorist financing is in a way a case of "reverse ML" because in ML crime precedes the process of laundering while in terrorist financing clean or dirty money is pooled to support a violent act in future.

The tackling of the issue is by no means an isolated activity rather it needs a more coordinated effort of host of stakeholders including financial institutions, regulators, law enforcement agencies and active involvement of host of other governmental functionaries to frustrate ML and terrorist financing. However, financial sector is believed to be at the core of the problem.

The steps taken by the SBP in this regard are as follows:

- Introduction of a comprehensive regulatory framework by issuing prudential regulations for banks and DFI's. These regulations cover the overall necessary features of AML regime for financial institutions as required under the FATF recommendations. Implementation of these regulations is ensured via on-site and off-site surveillance and inspection. Our inspectors specifically verify the compliance to the new "KYC" Model, adequacy of its policies and other AML procedures being followed.

- Another major step is the replacement of money changers with properly regulated Exchange Companies, hence, formalizing the business of money changing and the underlying transactions

- SBP has been instrumental in freezing bank accounts of prescribed entities and individuals by the UNSC resolutions. Report of freezing accounts is called from banks and proper record of frozen accounts is being maintained

- SBP has been instrumental in itself and directing other banks in the country in freezing bank accounts of Banned Extremist Organizations thereby curtailing Terrorist financing to a greater extent

- SBP has signed MOU's with a number of Central banks for the exchange of information and expertise, which also covers the AML and Terrorist financing areas

- Regular training, up gradation and polishing of the skills of banking and other financial sector employees is being done via conduct of periodic training sessions across the country

- SBP achieved a landmark when it introduced a comprehensive set of principles and rules and regulations for Corporate Governance which include a broad spectrum corporate reforms

- Improved productivity of NAB

- The banks in Pakistan were issuing Traveler's Cheques in local Currency called "Rupee traveler Cheques" (RTC's) in exceptionally high denominations of up to Rs.500,000/- which was not in line with the true spirit and purpose of Traveler Cheques. Instead of using RTC's to meet the needs of travelers, the holder of these instruments often used them as a mode of settling undocumented transactions thereby, defeating the objective of the Govt. of documentation of the economy. SBP, therefore prohibited the issuance of RTC's in denominations exceeding Rs.10,000/- In May,2002

- SBP in its strategic plan for 2005-10 has aimed at setting up of a Financial Intelligence Unit (FIU)

- Various kinds of bearer instruments were previously available in the markets which have been gradually phased out in collaboration with the Federal Government. The measure is helping the Government's efforts towards documentation of the economy (Dr. Ishrat Hussain Governor SBP; Seminar on AML, March, 2005, Islamabad).

CHAPTER # 4 RECOMMENDATIONS:

Keeping in view the adverse impact of money laundering on economy, society and on the country as a whole coupled with its global nature with newer version of becoming a vehicle for terrorist financing, following are the recommendations prepared by the FATF on money laundering :

4.4.1 FINANCIAL ACTION TASK FORCE ON MONEY LAUNDERING:

4.4.1.1 THE FORTY RECOMMENDATIONS OF THE FINANCIAL ACTION TASK FORCE ON MONEY LAUNDERING:

4.4.1.1.1 Introduction:

1. The Financial Action Task Force on Money Laundering (FATF) is an inter-governmental body whose purpose is the development and promotion of policies to combat money laundering -- the processing of criminal proceeds in order to disguise their illegal origin. These policies aim to prevent such proceeds from being utilized in future criminal activities and from affecting legitimate economic activities.

2. The FATF earlier consisted of 26 countries and two international organizations but now the number has improved. Its membership includes the major financial centre countries of Europe, North America and Asia. It is a multidisciplinary body as is essential in dealing with money laundering bringing together the policymaking power of legal, financial and law enforcement experts of the member countries.

3. This need to cover all relevant aspects of the fight against money laundering is reflected in the scope of the forty FATF Recommendations -- the measures which the Task Force has agreed to implement and which all countries are encouraged to adopt. The Recommendations were originally drawn up in 1990. In 1996 the forty Recommendations were revised to take into account the experience gained over the last six years and to reflect the changes which have occurred in the money laundering problem and now the latest version of the forty updated recommendations are discussed below in detail.

4. These forty Recommendations set out the basic framework for anti money laundering efforts and they are designed to be of universal application. They cover the criminal justice system and law enforcement; the financial system and its regulation, and international cooperation.

5. It was recognized from the outset of the FATF that countries have diverse legal and financial systems and so all cannot take identical measures. The Recommendations are therefore the principles for action in this field, for countries to implement according to their particular circumstances and constitutional frameworks allowing countries a measure of flexibility rather than prescribing every detail. The measures are not particularly complex or difficult, provided there is the political will to act. Nor do they compromise the freedom to engage in legitimate transactions or threaten economic development.

6. FATF countries are clearly committed to accept the discipline of being subjected to multilateral surveillance and peer review. All member countries have their implementation of the forty Recommendations monitored through a two-pronged approach: an annual self-assessment exercise and the more detailed mutual evaluation process under which each member country is subject to an on-site

examination. In addition, the FATF carries out cross-country reviews of measures taken to implement particular Recommendations.

7. These measures are essential for the creation of an effective anti money laundering framework.

4.4.1.2 THE FORTY RECOMMENDATIONS OF THE FINANCIAL ACTION TASK FORCE ON MONEY LAUNDERING:

A. GENERAL FRAMEWORK OF THE RECOMMENDATIONS:

1. Each country should take immediate steps to ratify and to implement fully, the 1988 United Nations Convention against Illicit Traffic in Narcotic Drugs and Psychotropic Substances (the Vienna Convention).

2. Financial institution secrecy laws should be conceived so as not to inhibit implementation of these recommendations.

3. An effective money laundering enforcement program should include increased multilateral co-operation and mutual legal assistance in money laundering investigations and prosecutions and extradition in money laundering cases, where possible.

B. ROLE OF NATIONAL LEGAL SYSTEMS IN COMBATING MONEY LAUNDERING:

B.1 Scope of the Criminal Offence of Money Laundering:

4. Each country should take such measures as may be necessary, including legislative ones, to enable it to criminalize money laundering as set forth in the Vienna Convention. Each country should extend the offence of drug money laundering to one based on serious offences. Each country would determine which serious crimes would be designated as money laundering predicate offences.

5. As provided in the Vienna Convention, the offence of money laundering should apply at least to knowing money laundering activity, including the concept that knowledge may be inferred from objective factual circumstances.

6. Where possible, corporations themselves - not only their employees - should be subject to criminal liability.

B.2 Provisional Measures and Confiscation:

7. Countries should adopt measures similar to those set forth in the Vienna Convention, as may be necessary, including legislative ones, to enable their competent authorities to confiscate property laundered, proceeds from, instrumentalities used in or intended for use in the commission of any money

laundering offence, or property of corresponding value, without prejudicing the rights of bona fide third parties.

Such measures should include the authority to: 1) identify, trace and evaluate property which is subject to confiscation; 2) carry out provisional measures, such as freezing and seizing, to prevent any dealing, transfer or disposal of such property; and 3) take any appropriate investigative measures.

In addition to confiscation and criminal sanctions, countries also should consider monetary and civil penalties, and/or proceedings including civil proceedings, to void contracts entered into by parties, where parties knew or should have known that as a result of the contract, the State would be prejudiced in its ability to recover financial claims, e.g. through confiscation or collection of fines and penalties.

C. ROLE OF THE FINANCIAL SYSTEM IN COMBATING MONEY LAUNDERING:

8. Recommendations 10 to 29 should apply not only to banks, but also to non-bank financial institutions. Even for those non-bank financial institutions which are not subject to a formal prudential supervisory regime in all countries, for example bureaux de change, governments should ensure that these institutions are subject to the same anti-money laundering laws or regulations as all other financial institutions and that these laws or regulations are implemented effectively.

9. The appropriate national authorities should consider applying Recommendations 10 to 21 and 23 to the conduct of financial activities as a commercial undertaking by businesses or professions which are not financial institutions, where such conduct is

allowed or not prohibited. Financial activities include, but are not limited to, those listed in the attached annex. It is left to each country to decide whether special situations should be defined where the application of anti-money laundering measures is not necessary, for example, when a financial activity is carried out on an occasional or limited basis.

C.1 Customer Identification and Record-keeping Rules:

10. Financial institutions should not keep anonymous accounts or accounts in obviously fictitious names: they should be required (by law, by regulations, by agreements between supervisory authorities and financial institutions or by self-regulatory agreements among financial institutions) to identify, on the basis of an official or other reliable identifying document, and record the identity of their clients, either occasional or usual, when establishing business relations or conducting transactions (in particular opening of accounts or passbooks, entering into fiduciary transactions, renting of safe deposit boxes, performing large cash transactions).

In order to fulfill identification requirements concerning legal entities, financial institutions should, when necessary, take measures:

(i) To verify the legal existence and structure of the customer by obtaining either from a public register or from the customer or both, proof of incorporation, including information concerning the customer's name, legal form, address, directors and provisions regulating the power to bind the entity.

(ii) To verify that any person purporting to act on behalf of the customer is so authorized and identify that person.

11. Financial institutions should take reasonable measures to obtain information about the true identity of the persons on whose behalf an account is opened or a transaction conducted if there are any doubts as to whether these clients or customers are acting on their own behalf, for example, in the case of domiciliary companies (i.e. institutions, corporations, foundations, trusts, etc. that do not conduct any commercial or manufacturing business or any other form of commercial operation in the country where their registered office is located).

12. Financial institutions should maintain, for at least five years, all necessary records on transactions, both domestic and international, to enable them to comply swiftly with information requests from the competent authorities. Such records must be sufficient to permit reconstruction of individual transactions (including the amounts and types of currency involved if any) so as to provide, if necessary, evidence for prosecution of criminal behavior.

Financial institutions should keep records on customer identification (e.g. copies or records of official identification documents like passports, identity cards, driving licenses or similar documents), account files and business correspondence for at least five years after the account is closed.

These documents should be available to domestic competent authorities in the context of relevant criminal prosecutions and investigations.

13. Countries should pay special attention to money laundering threats inherent in new or developing technologies that might favor anonymity, and take measures, if needed, to prevent their use in money laundering schemes.

C.2 Increased Diligence of Financial Institutions:

14. Financial institutions should pay special attention to all complex, unusual large transactions, and all unusual patterns of transactions, which have no apparent economic or visible lawful purpose. The background and purpose of such transactions should, as far as possible, be examined, the findings established in writing, and be available to help supervisors, auditors and law enforcement agencies.

15. If financial institutions suspect that funds stem from a criminal activity, they should be required to report promptly their suspicions to the competent authorities.

16. Financial institutions, their directors, officers and employees should be protected by legal provisions from criminal or civil liability for breach of any restriction on disclosure of information imposed by contract or by any legislative, regulatory or administrative provision, if they report their suspicions in good faith to the competent authorities, even if they did not know precisely what the underlying criminal activity was, and regardless of whether illegal activity actually occurred.

17. Financial institutions, their directors, officers and employees, should not, or, where appropriate, should not be allowed to, warn their customers when information relating to them is being reported to the competent authorities.

18. Financial institutions reporting their suspicions should comply with instructions from the competent authorities.

19. Financial institutions should develop programs against money laundering. These programs should include, as a minimum:

1. the development of internal policies, procedures and controls, including the designation of compliance officers at management level, and adequate screening procedures to ensure high standards when hiring employees;
2. an ongoing employee training programme;
3. Audits function to test the system.

C.3 Measures to Cope with the Problem of Countries with No or Insufficient Anti-Money Laundering Measures:

20. Financial institutions should ensure that the principles mentioned above are also applied to branches and majority owned subsidiaries located abroad, especially in countries which do not or insufficiently apply these Recommendations, to the extent that local applicable laws and regulations permit. When local applicable laws and regulations prohibit this implementation, competent authorities in the country of the mother institution should be informed by the financial institutions that they cannot apply these Recommendations.

21. Financial institutions should give special attention to business relations and transactions with persons, including companies and financial institutions, from countries which do not or insufficiently apply these Recommendations. Whenever these transactions have no apparent economic or visible lawful purpose, their background and purpose should, as far as possible, be examined, the findings established in writing, and be available to help supervisors, auditors and law enforcement agencies.

C.4 Other Measures to Avoid Money Laundering:

22. Countries should consider implementing feasible measures to detect or monitor the physical cross-border transportation of cash and bearer negotiable instruments, subject to strict safeguards to ensure proper use of information and without impeding in any way the freedom of capital movements.

23. Countries should consider the feasibility and utility of a system where banks and other financial institutions and intermediaries would report all domestic and international currency transactions above a fixed amount, to a national central agency with a computerized data base, available to competent authorities for use in money laundering cases, subject to strict safeguards to ensure proper use of the information.

24. Countries should further encourage in general the development of modern and secure techniques of money management, including increased use of checks, payment cards, direct deposit of salary checks, and book entry recording of securities, as a means to encourage the replacement of cash transfers.

25. Countries should take notice of the potential for abuse of shell corporations by money launderers and should consider whether additional measures are required to prevent unlawful use of such entities.

C.5 Implementation, and Role of Regulatory and other Administrative Authorities:

26. The competent authorities supervising banks or other financial institutions or intermediaries, or other competent authorities, should ensure that the supervised institutions have adequate programs to guard against money laundering. These authorities should co-operate and lend expertise spontaneously or on request with other domestic judicial or law enforcement authorities in money laundering investigations and prosecutions.

27. Competent authorities should be designated to ensure an effective implementation of all these Recommendations, through administrative supervision and regulation, in other professions dealing with cash as defined by each country.

28. The competent authorities should establish guidelines which will assist financial institutions in detecting suspicious patterns of behavior by their customers. It is understood that such guidelines must develop over time, and will never be exhaustive. It is further understood that such guidelines will primarily serve as an educational tool for financial institutions' personnel.

29. The competent authorities regulating or supervising financial institutions should take the necessary legal or regulatory measures to guard against control or acquisition of a significant participation in financial institutions by criminals or their confederates.

D. STRENGTHENING OF INTERNATIONAL CO-OPERATION:

D.1 Administrative Co-operation:

D.1.1 Exchange of general information:

30. National administrations should consider recording, at least in the aggregate, international flows of cash in whatever currency, so that estimates can be made of cash flows and reflows from various sources abroad, when this is combined with central bank information. Such information should be made available to the International Monetary Fund and the Bank for International Settlements to facilitate international studies.

31. International competent authorities, perhaps Interpol and the World Customs Organization, should be given responsibility for gathering and disseminating information to competent authorities about the latest developments in money laundering and money laundering techniques. Central banks and bank regulators could do the same on their network. National authorities in various spheres, in consultation with trade associations, could then disseminate this to financial institutions in individual countries.

D.1.2 Exchange of information relating to suspicious transactions:

32. Each country should make efforts to improve a spontaneous or "upon request" international information exchange relating to suspicious transactions, persons and corporations involved in those transactions between competent authorities. Strict safeguards should be established to ensure that this exchange of information is consistent with national and international provisions on privacy and data protection.

D.2 Other forms of Co-operation:

D.2.1 Basis and means for co-operation in confiscation, mutual assistance and extradition:

33. Countries should try to ensure, on a bilateral or multilateral basis, that different knowledge standards in national definitions - i.e. different standards concerning the intentional element of the infraction - do not affect the ability or willingness of countries to provide each other with mutual legal assistance.

34. International co-operation should be supported by a network of bilateral and multilateral agreements and arrangements based on generally shared legal concepts with the aim of providing practical measures to affect the widest possible range of mutual assistance.

35. Countries should be encouraged to ratify and implement relevant international conventions on money laundering such as the 1990 Council of Europe Convention on Laundering, Search, Seizure and Confiscation of the Proceeds from Crime.

D.2.2 Focus of improved mutual assistance on money laundering issues:

36. Co-operative investigations among countries' appropriate competent authorities should be encouraged. One valid and effective investigative technique in this respect is controlled delivery related to assets known or suspected to be the proceeds of crime. Countries are encouraged to support this technique, where possible.

37. There should be procedures for mutual assistance in criminal matters regarding the use of compulsory measures including the production of records by financial institutions and other persons, the search of persons and premises, seizure and obtaining of evidence for use in money laundering investigations and prosecutions and in related actions in foreign jurisdictions.

38. There should be authority to take expeditious action in response to requests by foreign countries to identify, freeze, seize and confiscate proceeds or other property of corresponding value to such proceeds, based on money laundering or the crimes underlying the laundering activity. There should also be arrangements for coordinating seizure and confiscation proceedings which may include the sharing of confiscated assets.

39. To avoid conflicts of jurisdiction, consideration should be given to devising and applying mechanisms for determining the best venue for prosecution of defendants in the interests of justice in cases that are subject to prosecution in more than one country. Similarly, there should be arrangements for coordinating seizure and confiscation proceedings which may include the sharing of confiscated assets.

40. Countries should have procedures in place to extradite, where possible, individuals charged with money laundering offence or related offences. With respect to its national legal system, each country should recognize money laundering as an extraditable offence. Subject to their legal frameworks, countries may consider simplifying extradition by allowing direct transmission of extradition requests between appropriate ministries, extraditing persons based only on warrants of arrests or judgments, extraditing their nationals, and/or introducing a simplified extradition of consenting persons who waive formal extradition proceedings.

(Annex to Recommendation 9): List of Financial Activities undertaken by businesses or professions which are not financial institutions:

1. Acceptance of deposits and other repayable funds from the public.

2. Lending.1

3. Financial leasing.

4. Money transmission services.

5. Issuing and managing means of payment (e.g. credit and debit cards, cheques, traveler's cheques and bankers' drafts...).

6. Financial guarantees and commitments.

7. Trading for account of customers (spot, forward, swaps, futures, options...) in:

(a) Money market instruments (cheques, bills, CDs, etc.) ;

(b) Foreign exchange;

(c) Exchange, interest rate and index instruments;

(d) Transferable securities;

(e) Commodity futures trading.

8. Participation in securities issues and the provision of financial services related to such issues.

9. Individual and collective portfolio management.

10. Safekeeping and administration of cash or liquid securities on behalf of clients.

11. Life insurance and other investment related insurance.

12. Money changing.

4.4.1.3 FINANCIAL ACTION TASK FORCE ON MONEY LAUNDERING:

4.4.1.4 INTERPRETATIVE NOTES ** TO THE FORTY RECOMMENDATIONS OF THE FATF ON MONEY LAUNDERING:

** During the period 1990 to 1995, the FATF elaborated various Interpretative Notes which are designed to clarify the application of specific Recommendations. Some of these Interpretative Notes have been updated in the Stocktaking Review to reflect changes in the Recommendations.

4.4.1.5 INTERPRETATIVE NOTES:

Recommendation 4:

Countries should consider introducing an offence of money laundering based on all serious offences and/or on all offences that generate a significant amount of proceeds.

Recommendation 8:

The FATF Recommendations should be applied in particular to life insurance and other investment products offered by insurance companies, whereas Recommendation 29 applies to the whole of the insurance sector.

Recommendations 8 and 9 (Bureaux de Change):

1. Introduction:

2. Bureaux de change are an important link in the money laundering chain since it is difficult to trace the origin of the money once it has been exchanged. Typologies exercises conducted by the FATF have indicated increasing use of bureaux de change in laundering operations. Hence it is important that there should be effective counter-measures in this area. This Interpretative Note clarifies the application of FATF Recommendations concerning the financial sector in relation to bureaux de change and, where appropriate, sets out options for their implementation.

2. Definition of Bureaux de Change:

2. For the purpose of this Note, bureaux de change is defined as institutions which carry out retail foreign exchange operations (in cash, by cheque or credit card). Money changing operations which are conducted only as an ancillary to the main activity of a business have already been covered in Recommendation 9. Such operations are therefore excluded from the scope of this Note.

3. Necessary Counter-Measures Applicable to Bureaux de Change:

3. To counter the use of bureaux de change for money laundering purposes, the relevant authorities should take measures to know the existence of all natural and legal persons who, in a professional capacity, perform foreign exchange transactions.

4. As a minimum requirement, FATF members should have an effective system whereby the bureaux de change are known or declared to the relevant authorities (whether regulatory or law enforcement). One method by which this could be achieved would be a requirement on bureaux de change to submit to a designated authority, a simple declaration containing adequate information on the institution itself and its management. The authority could either issue a receipt or give a tacit authorization: failure to voice an objection being considered as approval.

5. FATF members could also consider the introduction of a formal authorization procedure. Those wishing to establish bureaux de change would have to submit an application to a designated authority empowered to grant authorization on a case-by-case basis. The request for authorization would need to contain such information as lay down by the authorities but should at least provide details of the applicant institution and its management. Authorization would be granted, subject to the bureau de change meeting the specified conditions relating to its management and the shareholders, including the application of a "fit and proper test".

6. Another option which could be considered would be a combination of declaration and authorization procedures. Bureaux de change would have to notify their existence to a designated authority but would not need to be authorized before they could start business. It would be open to the authority to apply a 'fit and proper' test to the management of bureaux de change after the bureau had commenced its

activity, and to prohibit the bureau de change from continuing its business, if appropriate.

7. Where bureaux are required to submit a declaration of activity or an application for registration, the designated authority (which could be either a public body or a self-regulatory organization) could be empowered to publish the list of registered bureaux de change. As a minimum, it should maintain a (computerized) file of bureaux de change. There should also be powers to take action against bureaux de change conducting business without having made a declaration of activity or having been registered.

8. As envisaged under FATF Recommendations 8 and 9, bureaux de change should be subject to the same anti-money laundering regulations as any other financial institution. The FATF Recommendations on financial matters should therefore be applied to bureaux de change. Of particular importance are those on identification requirements, suspicious transactions reporting, due diligence and record-keeping.

9. To ensure effective implementation of anti-money laundering requirements by bureaux de change, compliance monitoring mechanisms should be established and maintained. Where there is a registration authority for bureaux de change or a body which receives declarations of activity by bureaux de change, it could carry out this function. But the monitoring could also be done by other designated authorities (whether directly or through the agency of third parties such as private audit firms). Appropriate steps would need to be taken against bureaux de change which failed to comply with the anti-laundering requirements.

10. The bureaux de change sector tends to be an unstructured one without (unlike banks) national representative bodies which can act as a channel of communication with the authorities. Hence it is important that FATF members should establish

effective means to ensure that bureaux de change are aware of their anti-money laundering responsibilities and to relay information, such as guidelines on suspicious transactions, to the profession. In this respect it would be useful to encourage the development of professional associations.

Recommendations 11, 15 through 18:

Whenever it is necessary in order to know the true identity of the customer and to ensure that legal entities cannot be used by natural persons as a method of operating in reality anonymous accounts, financial institutions should, if the information is not otherwise available through public registers or other reliable sources, request information - and update that information - from the customer concerning principal owners and beneficiaries. If the customer does not have such information, the financial institution should request information from the customer on whoever has actual control.

If adequate information is not obtainable, financial institutions should give special attention to business relations and transactions with the customer.

If, based on information supplied from the customer or from other sources, the financial institution has reason to believe that the customer's account is being utilized in money laundering transactions; the financial institution must comply with the relevant legislation, regulations, directives or agreements concerning reporting of suspicious transactions or termination of business with such customers.

Recommendation 11:

A bank or other financial institution should know the identity of its own customers, even if these are represented by lawyers, in order to detect and prevent suspicious transactions as well as to enable it to comply swiftly to information or seizure requests by the competent authorities. Accordingly Recommendation 11 also applies to the situation where an attorney is acting as an intermediary for financial services.

Recommendation 14:

(a) In the interpretation of this requirement, special attention is required not only to transactions between financial institutions and their clients, but also to transactions and/or shipments especially of currency and equivalent instruments between financial institutions themselves or even to transactions within financial groups. As the wording of Recommendation 14 suggests that indeed "all" transactions are covered, it must be read to incorporate these inter bank transactions.

(b) The word "transactions" should be understood to refer to the insurance product itself, the premium payment and the benefits.

Recommendation 22:

(a) To facilitate detection and monitoring of cash transactions, without impeding in any way the freedom of capital movements, members could consider the feasibility of subjecting all cross-border transfers, above a given threshold, to verification, administrative monitoring, declaration or record keeping requirements.

(b) If a country discovers an unusual international shipment of currency, monetary instruments, precious metals, or gems, etc., it should consider notifying, as appropriate, the Customs Service or other competent authorities of the countries from which the shipment originated and/or to which it is destined, and should co-operate with a view toward establishing the source, destination, and purpose of such shipment and toward the taking of appropriate action.

Recommendation 26:

In respect of this requirement, it should be noted that it would be useful to actively detect money laundering if the competent authorities make relevant statistical information available to the investigative authorities, especially if this information contains specific indicators of money laundering activity. For instance, if the competent authorities' statistics show an imbalance between the development of the financial services industry in a certain geographical area within a country and the development of the local economy, this imbalance might be indicative of money laundering activity in the region. Another example would be manifest changes in domestic currency flows without an apparent legitimate economic cause. However, prudent analysis of these statistical data is warranted, especially as there is not necessarily a direct relationship between financial flows and economic activity (e.g. the financial flows in an international financial centre with a high proportion of investment management services provided for foreign customers or a large inter bank market not linked with local economic activity).

Recommendation 29:

Recommendation 29 should not be read as to require the introduction of a system of regular review of licensing of controlling interests in financial institutions merely for anti-money laundering purposes, but as to stress the desirability of suitability review

for controlling shareholders in financial institutions (banks and non-banks in particular) from a FATF point of view. Hence, where shareholder suitability (or "fit and proper") tests exist, the attention of supervisors should be drawn to their relevance for anti-money laundering purposes.

Recommendation 33:

Subject to principles of domestic law, countries should endeavor to ensure that differences in the national definitions of the money laundering offences -- e.g., different standards concerning the intentional element of the infraction, differences in the predicate offences, differences with regard to charging the perpetrator of the underlying offence with money laundering -- do not affect the ability or willingness of countries to provide each other with mutual legal assistance.

Recommendation 36 (Controlled delivery):

The controlled delivery of funds known or suspected to be the proceeds of crime is a valid and effective law enforcement technique for obtaining information and evidence in particular on international money laundering operations. In certain countries, controlled delivery techniques may also include the monitoring of funds. It can be of great value in pursuing particular criminal investigations and can also help in obtaining more general intelligence on money laundering activities. The use of these techniques should be strongly encouraged. The appropriate steps should therefore be taken so that no obstacles exist in legal systems preventing the use of controlled delivery techniques, subject to any legal requisites, including judicial authorization for the conduct of such operations. The FATF welcomes and supports the undertakings by the World Customs Organization and Interpol to encourage their members to take all appropriate steps to further the use of these techniques.

Recommendation 38:

(a) Each country shall consider, when possible, establishing an asset forfeiture fund in its respective country into which all or a portion of confiscated property will be deposited for law enforcement, health, education, or other appropriate purposes.

(b) Each country should consider, when possible, taking such measures as may be necessary to enable it to share among or between other countries confiscated property, in particular, when confiscation is directly or indirectly a result of co-coordinated law enforcement actions.

Deferred Arrest and Seizure:

Countries should consider taking measures, including legislative ones, at the national level, to allow their competent authorities investigating money laundering cases to postpone or waive the arrest of suspected persons and/or the seizure of the money for the purpose of identifying persons involved in such activities or for evidence gathering. Without such measures the use of procedures such as controlled deliveries and undercover operations are precluded (FATF on money laundering).

Before proposing the set of recommendations for Pakistan, one must look at the current scenario and the prevailing conditions in the country. By careful examination we see that:

- Adhocism prevails in Pakistan
- Incompatible infrastructure
- Weak rule and enforcement of law e.g. latest stock market clash
- Deficiency of skilled HR
- Low literacy rate
- Great number of settlers
- Inconsistent Policies
- Incompetent and insincere leadership
- Increased corruption
- Inequitable distribution of wealth and other facilities
- Widening delta between the rich and the poor
- Concentration of money in few hands
- Bribery, kick backs
- Top-down chain of corruption
- Inequitable distribution of power
- Increased unemployment
- Porous borders hence increased smuggling
- Alarming rate for drug addicts
- Exploitation of the deprived by evils of society hence promoting terrorist financing
- Tax evasion hence a tax heaven
- Inappropriate tax culture because Government put the burden of their inefficiencies over citizens in the form of new taxes
- Culture of avoiding traditional banking channels
- Real estate and stock market speculation
- Unfair trading as powerful investors have better access to insider information
- In sincere politicians and bureaucrats thereby increasing red tapism and corruption
- Exchange rate instability caused by money laundering
- In a state of fix between western and Islamic system etc.

Now keeping in view the recommendations of the FATF on money laundering a well thought out set of recommendations for Pakistan is being prepared which is as under:

- Focus on root causes
- Avoid adhocism, go for long term solutions to issues
- Improve the tax culture, encourage self assessment, generate awareness among masses and help understand the tax payer that the tax paid will eventually benefit him after the tax revenue enters the economic and financial cycle.
- Banking channels and financial institutions must strengthen their own internal controls
- Banking channels and financial institutions must look at the off balance sheet items and special condition transactions
- Banking channels and financial institutions must arrange for the training of their employees about new technologies and to help them better equip for the future.
- Banking channels and financial institutions must enforce strict "KYC"- Know Your Customer by virtue of which they must gather complete information about their customer for future correspondence and for efficient and effective ongoing monitoring and to kill the virus of misdeeds right at the spot.
- Banking channels and financial institutions must verify and confirm the customer details
- Banking channels and financial institutions must generate awareness among masses to use and not to avoid traditional banking channels for the betterment of themselves and for the betterment of their country
- Banking channels and financial institutions must pay attention to the famous 5 C's i.e. Character, Capacity, Collateral, Cash and Control before extending their services to customers
- Banking channels and financial institutions must keep an eye over customer activities and immediately report any abnormality; in this regard they must ask the customer to justify any income and to show the purpose and aim of the remittance.

- Banking channels and financial institutions must keep an eye over the "introduction" element in opening of account and before availing the services of the institutions.
- Government has done a lot in terms of Hawala/Hundi system and against money changers but lot more is to be done.
- Government must maintain its writ, strengthen the law and improve law enforcement besides updating the law to keep it abreast with the global changes and new types of crimes like cyber laundering.
- Government must be open in exchanging information with international concerned institutions regarding money laundering like Interpol, IMF and BIS etc
- Government must participate in international effort to develop a legal system whereby any launderer fails to get away with jurisdiction advantage by being mobile in moving the illegally earned money
- Government must set examples, encourage and reward transparency, accountability especially in public offices.
- Equitable distribution of wealth and economic benefits is must.
- Equitable distribution of power is a must
- Due diligence on part of banking and financial institutions
- Focus on financial and power devolution to grass root level.
- Focus on means rather than ends
- Improve the scenario by looking at the system as a whole and not partial improvement.
- Government and other private institutions must establish a code of conduct, encourage merit, improve equitable distribution of power, empower people, encourage fairness, create equal opportunities for all, power fully enforce rules.
- Make examples of corrupt individuals by severely punishing them.
- Encourage periodic disclosure of assets by masses.
- Promote whistle blowing but also pay heed to their voice.
- Provide timely and unbiased justice.
- Actively participate in international conventions to reap the benefits of anti-money laundering efforts globally.
- Seal porous borders and force locals to improve the quality of their products by virtue of which smuggling will reach its logical death.

- Strengthen the role of Public Accounts Committee, Accountant and Auditor Generals.
- Enforce outside/impartial audits for fair/prudent audit trails for different companies.
- Regularly update regulatory environment to meet growing challenges.
- Institutionalize proper systems in organizations like standardizing the procurement department
- Create an environment for institutional and leadership development
- Create a legal system which provides fair/unbiased and speedy justice
- Arrange for these recommendations a popular and a political sincere will etc.

CHAPTER # 5 CONCLUSIONS:

Money laundering is the crime of the `90s'.

Money laundering is sleight of hand… a magic trick for wealth creation… the lifeblood of drug dealers, fraudsters, smugglers, arms dealers, terrorists, extortionists and tax-evaders. It is also the world's third largest business. Though a relatively new and in vogue subject, it [money laundering] has in fact been around for centuries. Criminals throughout history have had to hide the source of newly acquired wealth in order to escape prosecution for the predicate crime. However, the scale of the problem has escalated out of all proportion. Former US Secretary of State George Shultz summed it up when he stated:

"Today's criminals make the Capone crowd and the old Mafia look like small time crooks".

Money laundering is one of the ongoing problems facing the international economy, and from the evidence studied while researching this work, it can be seen that while the fundamentals of this crime remains largely the same, technology has offered, and will continue to offer a more sophisticated and circuitous means to convert ill-gotten proceeds into legal tender and assets. The largely unchecked growth of the Internet presents what has been described as the "Armageddon scenario of banking on the `Net - criminals could have money transferred without any audit trail". There is a total absence of regulation of the Internet and it has been recognized that authorities need to ensure that legislation keeps abreast of technology in order to understand and pick up on any new techniques that professional money launderers may come up with.

There is also a growing realization about the extent that money laundering and its relationship with organized crime are interlinked. The huge profits that accrue to these criminals from such areas as drug trafficking, international fraud, advance fee fraud, long firm fraud, arms dealing, trafficking in human organs and tissue, etc., will be used not only to facilitate ongoing operations, but to consolidate the wealth, prestige and respectability of those in control of the criminal business. Drug trafficking remains the largest single generator of illegal proceeds: Robinson (1994) stated that more money is spent world-wide on illicit drugs than on food. However, non-drug related crime is increasingly significant.

The characteristics of organized crime are evident in money laundering:

- it is a group activity, in that it is carried out often by more than one person;
- it is a criminal activity which is long term and continuing;
- it is a criminal activity which is carried out irrespective of national boundaries;
- it is large scale; and
- it generates proceeds which are often made available for licit use.

These characteristics define a very particular kind of serious criminal activity which, at its most developed, is highly sophisticated and complex. The degree of organization that is displayed in money laundering is therefore of particular concern because of its scale, its capacity to exploit and influence the legitimate business world and its capacity for internationalization. These concerns have led to concerted international action for a solution to combat this growing menace called Money Laundering. This is particularly evident, not only in the formation of the FATF but also in international agreements and legislation. In fact, a watershed in the fight against money laundering was the publication of the FATF 40 Recommendations in 1990 - recently updated in 1996. General observation, given the global nature of money laundering, is that geographic borders have become increasingly irrelevant. Launderers tend to move their activity to jurisdictions where there are few or weak anti-money laundering countermeasures. Moving money electronically to these

locations is instantaneous and gives rise to a particular concern for the authorities. That is, the number of electronic payment instructions that fail to include the names and addresses of both senders and beneficiaries when these are not financial institutions.

Other fears identified have been the dissolution of the Warsaw Pact and the disintegration of the Soviet Union. This has led to a significant increase in crime in these countries, with the resultant emergence of powerful organized crime groups who are exploiting their national economies, infiltrating their banking industry and forging links with organized criminals in other countries. These crime groups are regarded as transnational as their activities (trafficking in drugs, arms, industrial metals and nuclear material, extortion, prostitution, car theft, bank fraud and kidnapping) are not confined within their own borders. It does not take a giant leap of the imagination to realize that these crime groups have also added money laundering to their repertoire, a fact recognized by the FATF, which has discussed ways to assist the authorities there.

Reasons to fight money laundering are increasing, as the threats posed by this activity are significant. The FATF has identified four major threats represented by money laundering activity. Firstly, that failure to prevent laundering makes it easier for criminals to profit from their illicit activities. Secondly, that such a failure permits criminal organizations to finance further illicit activities. Thirdly, that the ready use of the financial system by launderers risks undermining individual financial institutions and the entire system. Finally, that the accumulation of power and wealth by criminals and crime groups which is facilitated by laundering can eventually pose a threat to national economies and democratic systems.

Money laundering represents a serious threat then, not just to sound economic and financial development but to the political integrity and stability of our nation. The Bahamas are a prime example of corrupt investment leading to disaster. In the 1980s, money laundering and drug trafficking resulted in the government being

labeled corrupt: the financial services companies took flight, and the tourism industry went from upscale to down market. Developing nations are a particular area of concern - they crave investment in their nations and are more willing to accept suspicious transactions. As a result, the guidelines for combating the laundering process need to be put in place now.

As is the case with all crime, money is the motivating factor. For enforcement to be effective, we must attack the money of these multibillion-dollar criminal enterprises. E.A. Nadelmann made a strong point when he said;

"Confiscation provides a neat way to make law enforcement pay for itself".

Money laundering is carried out primarily through financial institutions and it is therefore only right that they are at the forefront of the battle against money launderers. (This is fully illustrated in the FATF 40 Recommendations (points 8-29)). However, investigations have uncovered members of an emerging criminal class - professional money launderers. They are accountants, solicitors, money brokers and members of other legitimate professions. They are attracted by greed, as for them, money laundering is an easy route to almost limitless wealth. This has attracted notice from the authorities and legislation has been enacted so that now no financial institution or professional advisor will be immune from the provisions contained in this legislation.

Money laundering law is concerned primarily with denying the criminal access to the financial system. Confiscation is concerned with depriving him of the proceeds of crime. For these both to be effective: We must place increased emphasis on identifying the proceeds of crime and to deterring criminals from using the financial system. Only by these deterrents being effective will money laundering become a more risky activity and ultimately one seen to be not worth the risk. Gilmore (1993)

states: "the ultimate prize, that of being in a position, for the first time, to take co-coordinated and effective world-wide action to undermine the financial power of drug trafficking networks and other criminal organizations, is now in sight if not, as yet, fully within our reach" (Billy's money laundering information website).

ACRONYMS:

A/C: Account
AUSTRAC: Australian Transaction Report and Analysis Center
ATM: Auto teller machine
AG: Accountant General
AG: Auditor General
APG: Asia/Pacific Group on Money Laundering
APEC: Asia/Pacific Economic Cooperation
AML; Anti-money Laundering
BN: Billion
BCCI: Bank of Credit and Commercial International
BIS: Bank for International Settlements
CIA: Central Intelligence Agency
CTR: Currency Transaction Report
COI: Certificate of Investment
COD: Certificate of Deposit
DEA: Drug Enforcement Administration
DFI: Developing Financial Institution
EC: European Communities
EFT: Electronic Funds Transfer
EU: European Union
ECPA: Electronic Communication Privacy Act
FinCen: Financial Crimes Enforcement Network
FDI: Foreign Direct Investment
FDIC: Federal Deposit Insurance Corporation
FATF: Financial Action Task Force
GNP: Gross National Product
GOVT: Government
GPRS: General Packet Radio Service
HR: Human Resource
IRS: International Revenue Service
IMF: International Monetary Fund
ISP: Internet Service Provider
Interpol: International Police
KYC: Know Your Customer
ML: Money Laundering
MN: Million
MOU: Memorandum of Understanding
NAB: National Accountability Bureau
NIT: National Investment Trust
NY: NewYork
NCCT: Non-cooperative Countries and Territories
NCIS: National Crimes Intelligence Services
OCC: Office of the Comptroller of Currency

OECD: Organization for Economic Cooperation and Development
OAS: Organization of American States
PC: Personal Computer
RFPA: Right to Financial Privacy Act
RTC: Rupee Traveler Cheque
SBP: State Bank of Pakistan
SWIFT: Society for Worldwide inter bank financial telecommunication
TN: Trillion
U.K: United Kingdom
UNICRI: United Nations Inter Regional Crime Research Institute
UNODC: United Nations Office on Drugs and Crime
US: United States of America
UN: United Nations
UNSC: United Nation Security Council
UNDCP: United Nation Drug Control Program
WAP: Wireless Application Protocol
WAPDA: Water and Power Development Authority

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ANNEXURES

Table 1. Attractiveness to Money Launderers - Rank Order **[the higher the score, the greater the attractiveness for money launderers]**	
COUNTRY	**Score**
Luxembourg	686
United States	634
Switzerland	617
Cayman Islands	600
Austria	497
Netherlands	476
Liechtenstein	466
Vatican City	449
United Kingdom	439
Singapore	429
Hong Kong	397
Ireland	356
Bermuda	313
Bahamas, Andorra, Brunei, Norway, Iceland, Canada	250-299
Portugal, Denmark, Sweden, Monaco, Japan, Finland, Germany, New Zealand, Australia, Belgium	200-249
Bahrain, Qatar, Italy, Taiwan, United Arab Emirates, Barbados, Malta, France, Cyprus	150-199
Gibraltar, Azores (Spain), Canary Islands, Greenland, Belarus, Spain, Israel	100-149
Czech Rep, Latvia, St Vincent, Malaysia, Estonia, Oman, Lithuania, N. Mariana	50-99

Isls, Greece, South Korea, Seychelles, Azerbaijan, Anguilla, Aruba (Neth.), Kuwait, Hungary, Saudi Arabia, British Virgin Islands, Guam, Brazil, Panama, Russia, Costa Rica, Mauritius, Gabon, Armenia, Thailand, Macedonia, Grenada	
Poland, Slovakia, Georgia, St. Kitts-Nevis, Dominica, St. Lucia, Belize, Guadeloupe, Martinique, Puerto Rico, U.S. Virgin Islands, Argentina, Croatia, Uruguay, Midway Islands, Barbuda, Slovenia, Suriname, Botswana, Romania, Chile, Bulgaria, French Polynesia, New Caledonia, Yugoslavia, Trinidad, Libya, Turkey, Albania, Lebanon, Guatemala, Ecuador, Moldova, South Africa, French Guiana	25-49
Falkland Islands, Vanuatu, Venezuela, Ukraine, Cook Islands, Philippines, Turks And Caicos Islands, Fiji, Marshall Islands, Mexico, Nauru, Algeria, Antigua, Bolivia, Uzbekistan, Syria, Western Samoa, Morocco, Indonesia, Colombia, Cuba, Bosnia and Herzegovina, Tunisia, Jordan, Paraguay, Jamaica, San Marino, Mayotte, Palau Islands, Honduras, Niue, Reunion, Namibia, Somalia, Congo, Tonga, Iraq, Swaziland, Dominican Republic, Kazakhstan, Kyrgyzstan, Turkmenistan, El Salvador	10-24
Cameroon, Bhutan, North Korea, Ivory Coast, Fed States Micronesia, Kiribati, Tuvalu, Papua New Guinea, Zimbabwe, Western Sahara, Iran, Cape Verde, Senegal, Egypt, Peru, Sri Lanka,	0-9

Djibouti, Mongolia, Solomon Islands, Zambia, Lesotho, Yemen, Comoros, Sao Tome, Maldives, Benin, Nicaragua, Pakistan, Guyana, Burkina, Nigeria, Equatorial Guinea, Mauritania, Gambia, Myanmar, Guinea, China, Ghana, Haiti, Vietnam, Madagascar, Kenya, Togo, Tadzhikistan, India, Central African Republic, Sudan, Tanzania, Mali, Laos, Niger, Malawi, Uganda, Guinea Bissau, Nepal, Angola, Bangladesh, Liberia, Zaire, Kampuchea, Rwanda, Mozambique, Ethiopia, Afghanistan, Burundi, Sierra Leone, Chad, Antarctica, Europa Island	

(paper written by John Walker @ www.uplink.com.au/lawlibrary/Documents/Docs/Doc50.html)

Table 2. Top 20 Origins of Laundered Money			
Rank	**Origin**	**Amount ($Usmill/yr)**	**% of Total**
1	United States	1320228	46.3%
2	Italy	150054	5.3%
3	Russia	147187	5.2%
4	China	131360	4.6%
5	Germany	128266	4.5%
6	France	124748	4.4%
7	Romania	115585	4.1%
8	Canada	82374	2.9%
9	United Kingdom	68740	2.4%
10	Hong Kong	62856	2.2%
11	Spain	56287	2.0%
12	Thailand	32834	1.2%
13	South Korea	21240	0.7%
14	Mexico	21119	0.7%
15	Austria	20231	0.7%
16	Poland	19714	0.7%
17	Philippines	18867	0.7%
18	Netherlands	18362	0.6%
19	Japan	16975	0.6%
20	Brazil	16786	0.76
Total	All Countries	2850470	100.0%

(paper written by John Walker @ www.uplink.com.au/lawlibrary/Documents/Docs/Doc50.html)

Table 3. Top 20 Flows of Laundered Money				
Rank	**Origin**	**Destination**	**Amount ($Usmill/yr)**	**% of Total**
1	United States	United States	528091	18.5%
2	United States	Cayman Islands	129755	4.6%
3	Russia	Russia	118927	4.2%
4	Italy	Italy	94834	3.3%
5	China	China	94579	3.3%
6	Romania	Romania	87845	3.1%
7	United States	Canada	63087	2.2%
8	United States	Bahamas	61378	2.2%
9	France	France	57883	2.0%
10	Italy	Vatican City	55056	1.9%
11	Germany	Germany	47202	1.7%
12	United States	Bermuda	46745	1.6%
13	Spain	Spain	28819	1.0%
14	Thailand	Thailand	24953	0.9%
15	Hong Kong	Hong Kong	23634	0.8%
16	Canada	Canada	21747	0.8%
17	United Kingdom	United Kingdom	20897	0.7%
18	United States	Luxembourg	19514	0.7%
19	Germany	Luxembourg	18804	0.7%
20	Hong Kong	Taiwan	18796	0.7%
Total	All Countries	All Countries	2850470	100.0%

(paper written by John Walker @ www.uplink.com.au/lawlibrary/Documents/Docs/Doc50.html)

Table 4. Top 20 Destinations of Laundered Money			
Rank	**Destination**	**Amount ($USmill/yr)**	**% of Total**
1	United States	538145	18.9%
2	Cayman Islands	138329	4.9%
3	Russia	120493	4.2%
4	Italy	105688	3.7%
5	China	94726	3.3%
6	Romania	89595	3.1%
7	Canada	85444	3.0%
8	Vatican City	80596	2.8%
9	Luxembourg	78468	2.8%
10	France	68471	2.4%
11	Bahamas	66398	2.3%
12	Germany	61315	2.2%
13	Switzerland	58993	2.1%
14	Bermuda	52887	1.9%
15	Netherlands	49591	1.7%
16	Liechtenstein	48949	1.7%
17	Austria	48376	1.7%
18	Hong Kong	44519	1.6%
19	United Kingdom	44478	1.6%
20	Spain	35461	1.2%

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Ishrat Husain: Seminar on anti-money laundering

Welcome speech by Mr Ishrat Husain, Governor of the State Bank of Pakistan, at the Anti-Money Laundering Seminar, Islamabad, 29-30 March 2005.

* * *

Mr. Prime Minister,

Distinguished Guests,

Ladies and Gentlemen:

Good morning. I am honoured to welcome you all to this international seminar on anti-money laundering. I am grateful to the Prime Minister for taking time out of his busy schedule and inaugurate this seminar. I would like to extend a special welcome to the foreign visitors and wish them a pleasant and productive stay in our country. The topic of the seminar is of great importance in today's world. One of the main objectives of this seminar is to discuss the core issues, which significantly involve financial sector in the fight against money laundering and terrorist financing. I hope the seminar comes up with practical suggestions for effective tackling of money laundering and terrorist financing. While the speakers would be highlighting the technical aspects of money laundering and terrorist financing, I would like to mention a few general observations about the menaces. The process of laundering dirty money by way of placement, layering and integration is harmful for each and every segment of the society. Its ill effects on society, institutions and governments have been enormous. The tainted money adversely affects productive sectors of the economy in multifarious ways. The financial sector is particularly hurt if used for laundering of ill-gotten proceeds. The adverse consequences for financial institutions include reputational risk, operational risk, legal and concentration risks. It costs the financial institutions, in the following ways:

- Loss of profitable business
- Liquidity problems through sudden withdrawal of funds
- Termination of correspondent banking facilities
- Investigations costs and fines/ penalties
- Assets seizures
- Loans losses

- Use of senior management's time in doing damage control.
- Declines in the stock value of the financial institution concerned.

Society, as a whole, bears the costs of money laundering in multiple ways. Unchecked money laundering enables criminals to enjoy the profits of their crimes who in turn commit more crimes. When there are more frauds and robberies in banks, depositors will receive less return on their deposits and will have to pay high rates on their loans. When public projects are inflated by corruption, citizens have to pay in the form of more taxes. These acts further distort equitable distribution of wealth and, hence, increase in the incidence of poverty. Terrorism in its all forms and facets is one of the greatest challenges of today's world. One of the key measures to check terrorism is to choke of financial resources flowing toward perpetrators of terrorist acts i.e. counter finance terrorism. Terrorist financing is in a way a case of "reverse money laundering". In money laundering, crime precedes the process of laundering whereas in terrorist financing clean or dirty money is pooled to support a violent act in future.

The tackling of the issues is by no means an isolated activity. It needs coordinated effort of host of stakeholders including financial institutions, regulators, law enforcement agencies and active involvement of host of other government functionaries to frustrate money laundering and terrorist financing. However, financial sector is believed to be at the core of the problem.
Let me briefly mention some of the steps which State bank of Pakistan has taken to prevent use of banking sector from crime proceeds.

- Introduced a comprehensive regulatory framework by issuing prudential regulations for banks/ DFIs. These regulations cover the necessary features of AML regime for financial institutions as required under FATF recommendations. Implementation of these regulations is ensured through on-site examination and off-site surveillance. Our inspectors specifically verify the adequacy of KYC policies and other Antimony laundering safeguards.

- Another major step is the replacement of Money Changers with properly regulated Exchange Companies, hence, formalizing the business of money changing and the underlying transactions.

- State Bank of Pakistan has been instrumental in freezing bank accounts of proscribed entities and individuals as per UNSC Resolutions. Report of freezing accounts is called from banks and proper record of frozen accounts maintained.
- State Bank of Pakistan has signed MOUs with a number of Central banks for exchange of information and expertise, which also covers the anti-money laundering and terrorist-financing areas.
- The banks in Pakistan were issuing Traveller Cheques in local currency called "Rupee Travellers Cheques" (RTCs) in exceptionally high denomination of up to Rs.500,000 which was not in line with the true spirit and purpose of Traveller Cheques. Instead of using RTCs to meet the needs of travellers, the holder of these instruments often used them as a mode of settling undocumented transactions thereby, defeating the objective of the Government of documentation of the economy. SBP, therefore, prohibited the issuance of RTCs in denominations exceeding Rs.10,000/- in May, 2002.
- Various kinds of bearer instruments were previously available in the market which have been gradually phased out in collaboration with the Federal Government. The measure is helping the Government's efforts towards documentation of the economy.

I would urge upon the leaders of the banking community present here, to avail this opportunity of learning from the international and regional experiences and highlight concerns, if any. Your involvement is vital for success of the seminar and the subject matter itself. We are fortunate to have with us today resource persons who are professionals of international repute. At the same time, State Bank, in its capacity of regulator, welcomes suggestions and recommendations for improving regulatory and supervisory systems for a clean and healthy banking sector.

In conclusion, I would like to acknowledge that the Prime Minister's presence has provided us tremendous support and confidence. This is reflective of the government's resolve and priority in tackling the issues of money laundering and terrorist financing. I would like to acknowledge the support and cooperation of World Bank and IMF in hosting this seminar.

Ishrat Husain: Seminar on anti-money laundering

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