

# **Anti-Money Laundering Literature Search**

**Sorted Alphabetically**

**World Bank Institute**

**<http://www.worldbank.org/wbi/governance>**

This document prepared by Christian Eigen-Zucchi, with the assistance of Erin Farnand, under the guidance of Daniel Kaufmann. It draws from a number of sources, including bibliographical information from the International Money Laundering Information Network (IMOLIN) (available at: <http://www.imolin.org/bibliogr.htm#GENERAL>), the Financial Crimes Enforcement Network (FINCEN) (<http://www.fincen.gov/>), the Organization for Economic Cooperation and Development (OECD) (<http://www1.oecd.org/daf/nocorruptionweb/moneylaundering/bib.htm>), and other sources

**Adams, James Ring and Douglas Frantz. 1992. A Full Service Bank. How BCCI Stole Millions Around the World. Simon & Schuster Inc., New York.**

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**Ajayi, O. and Ososami S. "Nigeria: On the Trail of a Spectre - Destabilisation of Developing and Transitional Economies." Journal of Money Laundering Control, Vol.1, No.4, April 1998.**

**Alba, R. M. 1998. "Panama: Bank Secrecy and Prevention of Economic Crime." Journal of Money Laundering Control, Vol.1, No.4, April.**

**Alexander, Kern. 2001. "The Need for Efficient International Financial Regulation and the Role of a Global Supervisor," Journal of Money Laundering Control, Vol. 5, No. 1: pp. 52-65.**

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**Ali, A. S. 1998. "A Gateway for Money Laundering? Financial Liberalisation in Developing and Transnational Economies." Journal of Money Laundering Control, Vol.1, No.4, April.**

**Ali, S. A. 1998. "Jamaica: Combating Money Laundering - A Review of the Money Laundering Act." Journal of Money Laundering Control, Vol.1, No.3, January.**

**Allen, Mike. 2001. "Bush Orders 2 More Groups' Assets Frozen," The Washington Post, December 21: p. A24. (Available at [www.washingtonpost.com](http://www.washingtonpost.com)).**

## **Abstract**

Blocking the financial assets of suspected terrorist organizations is a key component of the fight against terrorism, and the "executive order by Bush requires U.S. banks to seize the listed entities' funds or deny the owners access to them, and denies access to U.S. financial markets for overseas banks that do not do so" (p. 2).

**Alvarez Pastor, Daniel and Fernando Eguidazu Palacios. 1998. La prevencion del blanqueo de capitales, Pamplona: Aranzadi.**

**Andelman, D. 1994. "The Drug Money Maze," Foreign Affairs, Vol. 73, No. 4. July/August.**

**Antoine, Rose-Marie B. 1999. "Analysis : The Protection of Offshore Confidentiality: Policy Implications and Legal Trends," Journal of Financial Crime, Vol. 7, No. 1.**

**Abstract** (from article)

The principle of offshore financial confidentiality is a controversial issue in offshore law. On the one hand, offshore jurisdictions view confidentiality in financial matters as an essential ingredient in the offshore industry which deserves to be protected. On the other, onshore states are increasingly hostile to confidentiality and have been willing to take drastic measures to undermine it.

The offshore confidentiality legal principle has provided the impetus for many of the questions surrounding offshore activity and the catalyst for much litigation. The paper examines the conflicting legal issues of confidentiality and disclosure within the context of regulation of the offshore industry as a whole. It outlines the extent to which offshore investors can legitimately expect confidentiality. The need to balance these competing interests is particularly important in offshore law, given the competitiveness of the offshore sector in the world of international finance. At the same time, the paper explores what can be described as the emerging law of confidentiality in offshore law.

**Arlacchi, Pino. 1988. Mafia Business: The Mafia Ethic And the Spirit of Capitalism,** Oxford: Oxford University Press.

**Arzeno, Laura, and Ilona de la Rocha. 1996. La responsabilidad de la banca en el lavado de dinero. Santo Domingo: Banco de Reservas de la Republica Dominicana.**

**Association d'Economie Financière. 1995. Money and morals worldwide: first annual report (2nd. ed.). Association d'Economie Financière, Paris.**

**Australian Government Publication Service. 1992. Taken to the Cleaners: Money Laundering in Australia, Enfield, NSW.**

**Australian Senate Committee. 1993. "Checking the Cash: A Report on the Effectiveness of the Financial Transaction Reports Act 1988." Senate Standing Committee on Legal and Constitutional Affairs, Canberra.**

**Baity, William. 2000. "Banking on Secrecy - The Price for Unfettered Secrecy and Confidentiality in the Face of International Organised Crime and Economic Crime". Journal of Financial Crime. Vol. 8, No.1.**

**Abstract**

The rise of electronic banking is facilitating the movement of billions of dollars in illicit funds, exposing vulnerabilities stemming from:

- The speed of money movements;
- The secrecy surrounding financial dealings;
- The sheer number of agencies involved which generates jurisdictional issues;
- The failure of government mandated measures, and hence the need for private sector actors to take more responsibility.

Money laundering has been called the world's third largest industry, and is associated with all manner of crime. The approach of the US and the OECD in adopting anti-money laundering measures has been to try and erode financial secrecy and promote greater transparency, but private sector actors, banks and non-banks will need to take more responsibility to eliminate practices that encourage crime, undermine financial systems, and damage their own institutions.

**Baker, Raymond W. "The Biggest Loophole in the Free-Market System". *The Washington Quarterly*, Autumn 1999. (Available at: <http://www.twq.com/autumn99/224Baker.pdf>).**

### Summary

There are many different ways in which money laundering is actually done, including:

- “smurfing,” where random amounts of less than \$10,000 are deposited in many different bank accounts;
- shipping cash using “mules” or people who carry brief cases full of cash;
- mis-pricing imports and exports.

“The bottom line is that anti-money laundering efforts are not working” (p. 31). While estimates vary and are hard to make with any degree of confidence, between \$500 billion and \$1 trillion is laundered annually, with sources differing in the degree of illegality. Funds stemming from extortion and slave trading, for example, cannot knowingly be legally received. In contrast, when the source of the funds is corruption, tax evasion or currency smuggling (all illegal in the sending country), they funds can be legally received.

Of note: it is illegal for a US citizen or company to bribe a foreign official, but it is perfectly legal to bribe someone from the private sector. This effectively amounts to embezzlement by the private sector agent from the company. Illegal capital flight to avoid taxes is also major (paralleling money laundering), and undermines the efforts of the International Financial Institutions to foster development. For example, the World Bank reckons that about 40% of Africa's accumulated wealth resides in foreign accounts.

Addressing the money laundering challenge requires will. Five initial steps involve:

- (i) Western governments becoming more aggressive in exposing and seizing assets of corrupt foreign government officials;
- (ii) Urging multinational corporations to stop facilitating flight capital with over and under invoicing;

- (iii) The World Bank and IMF addressing flight capital more effectively;
- (iv) Requiring two signatures on routine trade documents attesting that the stated price is the actual price.
- (v) Requiring depositors “to sign a document stating that the deposit by any non-citizen, whether individual or a company, is money legally earned and legally transferred” (p. 44).  
 “The combination of criminal money laundering and illegal flight capital constitutes the biggest loophole in the free-market system” (p. 45).

**Baldwin, F.N. and Munro, R.J. 1992. Money laundering, asset forfeiture and international financial crimes, Oceana Publications, New York. (Available at: [http://www.oceanalaw.com/main\\_product\\_details.asp?ID=22&category=Criminal%20Law](http://www.oceanalaw.com/main_product_details.asp?ID=22&category=Criminal%20Law)).**

**Summary** (from the sales description on the website)

These reference materials consist of 5 volumes that are continuously updated.

More than 80 countries covered! How high is the cost of non-compliance? This handy reference guide gives you a country-by-country analysis of current Money Laundering Law -- Commentary, Treaties, Statutes and Cases for more than 100 jurisdictions. This essential reference source clearly shows financial institutions, regulators, investment bankers, and legal counsel how to prevent inadvertent non-compliance -- be clean and look clean! It provides everything you need to understand the issues and create effective legal responses in cases involving:

- Interpretation of bank reporting and structuring requirements
- Complex money laundering schemes that use multiple jurisdictions, wire transfers, and integration with legitimate business
- Forfeiture procedure under U.S., international and foreign law "Sting" operations
- The relevant law of more than 100 foreign countries, the EC, UN, OAS, Council of Europe, Interpol and FATF

The authoritative coverage is of value not only to lawyers and bankers, but also to law enforcement agents and other professionals concerned with money laundering and its economic effects.

The world's money laundering and forfeiture law, all in this easy-to-use resource. Speed through any case involving international financial crime with this set's primary documents and source materials on U.S. Federal statutes with regulations and major cases and Multilateral and Bilateral endeavors, including initiatives, mutual legal assistance treaties, and model legislation. Plus! You'll receive case law, relevant tax and customs forms, proposed legislation, a ready-to-use compliance program, an 80-page bibliography, and much more. With quarterly supplementation including monitored data from media sources and government documents worldwide, this one-stop source is your indispensable guide to successfully practicing in today's explosive and unpredictable field of international law. Recent topics include:

- Compliance for International Bankers
- U.S. Case Law

- The U.S. and Money Laundering
- U.S. Legislation
- Wire Transfers
- Overview of International and American Responses
- The British Commonwealth
- Forfeitures and Asset Freezes
- U.S. Procedures: Civil vs. Criminal A must for international bankers, investors, lawyers and government regulators facing the issues of international financial crimes.

A must for international bankers, investors, lawyers and government regulators facing the issues of international financial crimes.

**Baldwin, Fletcher N. Jr. 1994. "Laws Designed to Take the Profit Out of Crime; The United States and International Cooperation: Are There Constitutional Flaws?" Paper delivered at the Twelfth International Symposium on Economic Crime, Jesus College, Cambridge; September 11-17.**

**Baldwin, Fletcher N. Jr. 1998. "The Constitution, Forfeiture, Proportionality and Instrumentality: USA vs. Bajakajian - The U.S. Supreme Court Tries Again." Journal of Money Laundering Control, Vol.1, No.4, April.**

**Banco de la Republica (Colombia). 1997. "Cartilla de Capacitacion en Prevención al Lavado de Activos," (Alberto Lozano Vila).**

#### **Abstract**

This report (in Spanish) of the Colombian central bank emphasizes the damaging effects of money laundering in underpinning illegal activities (like drug trafficking) and the importance of anti-money laundering initiatives. It outlines the basic concept, different ways money laundering is done, the responsibilities of the financial system, the responsibilities of the Banco de la Republica, legal aspects, and principle mechanisms for combating money laundering.

**Bartlett, Brent. 2002. "The Negative Effects of Money Laundering on Economic Development," For the Asian Development Bank, Regional Technical Assistance Project No.5967, Countering Money Laundering in The Asian and Pacific Region, May. (Available at: [http://www.apgml.org/Index\\_files/ann\\_meet\\_doc\\_2002\\_public/pdf/ADB's%20Economic%20Research%20Report%20Final.pdf](http://www.apgml.org/Index_files/ann_meet_doc_2002_public/pdf/ADB's%20Economic%20Research%20Report%20Final.pdf))**

**Abstract** (From the paper)

The negative economic effects of money laundering on economic development are difficult to quantify, yet it is clear that such activity damages the financial-sector institutions that are critical to economic growth, reduces productivity in the economy's real sector by diverting resources and encouraging crime and corruption, which slow economic growth, and can distort the economy's external sector—international trade and capital flows—to the detriment of long-term economic development. Developing countries' strategies to establish offshore financial centers (OFCs) as vehicles for economic development are also impaired by significant money-laundering activity through OFC channels. Effective anti-money-laundering policies, on the other hand, reinforce a variety of other good-governance policies that help sustain economic development, particularly through the strengthening of the financial sector.

**Summary** (From the paper (p. 1-3))

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*The financial sector.* A broad range of recent economic analyses points to the conclusion that strong developing-country financial institutions—such as banks, nonbank financial institutions (NBFIs), and equity markets—are critical to economic growth. Such institutions allow for the concentration of capital resources from domestic savings—and perhaps even funds from abroad—and the efficient allocation of such resources to investment projects that generate sustained economic development.

Money laundering impairs the development of these important financial institutions for two reasons. First, money laundering erodes financial institutions themselves. Within these institutions, there is often a correlation between money laundering and fraudulent activities undertaken by employees. At higher volumes of money-laundering activity, entire financial institutions in developing countries are vulnerable to corruption by criminal elements seeking to gain further influence over their money-laundering channels. Second, particularly in developing countries, customer trust is fundamental to the growth of sound financial institutions, and the perceived risk to depositors and investors from institutional fraud and corruption is an obstacle to such trust.

By contrast, beyond protecting such institutions from the negative effects of money laundering itself, the adoption of anti-money-laundering policies by government financial supervisors and regulators, as well as by banks, NBFIs, and equity markets themselves, reinforce the other good-governance practices that are important to the development of these economically critical institutions. Indeed, several of the basic antimoney-laundering policies—such as know-your-customer rules and strong internal controls—are also fundamental, longstanding principles of prudential banking operation, supervision, and regulation.

*The real sector* . Aside from money laundering's negative effect on economic growth through its erosion of developing countries' financial sectors, money laundering has a more direct negative effect on economic growth in the real sector by diverting resources to less-productive activity, and by facilitating domestic corruption and crime, which in turn depress economic growth.

As can be seen from the various money-laundering typologies reports, money laundered through channels other than financial institutions is often placed in what are known as "sterile" investments, or investments that generate little additional productivity for the broader economy, such as real estate, art, antiques, jewelry, and luxury automobiles. For developing countries, the diversion of such scarce resources to less productive domestic assets or luxury imports is a serious detriment to economic growth. Moreover, criminal organizations can transform productive enterprises into sterile investments by operating them for the purposes of laundering illicit proceeds rather than as profit-maximizing enterprises responsive to consumer demand and worthy of legitimate investment capital.

Money laundering also facilitates crime and corruption within developing economies, which is antithetical to sustainable economic growth. Just as an efficient financial sector is a key "input" to other productive processes in a developing economy—such as manufacturing—an efficient money-laundering channel is a key "input" to crime because the financial proceeds from crime are less valuable to the criminal (in a sense, an "unfinished product") than are laundered funds. The less expensive the money-laundering "input" to crime is as a result of lax anti-money-laundering policies, the more "productive" (active) the criminal element will be, just as in any industry or business. As numerous studies have demonstrated from statistical and anecdotal evidence, substantial crime and corruption act as a brake on economic development, while other studies have shown that anti-money-laundering policies can deter such activity.

*The external sector* . Unabated money laundering can also impair a developing country's economy through the country's trade and international capital flows. The wellrecognized problem of illicit capital flight from developing countries is typically facilitated by either domestic financial institutions or by foreign financial institutions ranging from offshore financial centers to major money-center institutions such as those in New York, London, or Tokyo. Given that illicit capital flight drains scarce resources from developing economies, transnational money-laundering activity helps impair developing-country growth.

By contrast, there is little evidence that the imposition of anti-money-laundering policies in a given jurisdiction spurs a significant flight of capital to more lax jurisdictions. Moreover, just as the confidence that developing-country citizens have in their own domestic financial institutions is critical to economic growth, the confidence that foreign investors and foreign financial institutions have in a developing country's financial institutions is also important for developing economies because of the role such confidence plays in investment decisions and capital flows.

Money laundering can also be associated with significant distortions to a country's imports and exports. On the import side, criminal elements often use illicit proceeds to purchase imported luxury goods, either with laundered funds or as part of the process of laundering such funds. Such imports do not generate domestic economic activity or employment, and in some cases can artificially depress domestic prices, thus reducing the profitability of domestic enterprises.

*Offshore financial centers (OFCs) as a development strategy.* Over the past decade dozens of OFCs have been created as part of developing countries' (or territories') efforts to develop their domestic economies through the provision of international financial services. These OFCs can be classified along a spectrum from "notional" OFCs (those that provide minimal financial services other than simply being a jurisdiction in which "name plate" operations may be established) to "functional" OFCs (those that provide a wide -range of value-added financial services).

Studies of the effectiveness of establishing an OFC as an economic-development strategy have shown that notional OFCs contribute little to the surrounding economy and do not form the basis for sustained economic growth. First, notional OFCs are virtually costless to establish, and therefore competition among them for customers is severe. Second, because notional OFCs provide little value-added services, such OFCs generate almost no economic demand for the surrounding "real" economy in terms of employment, goods, or services.

On the other hand, truly functional OFCs require significant investments in infrastructure—such as communication facilities, and even a skilled labor force—thereby limiting the pool of competing OFCs and increasing the commercial returns to those OFCs that emerge as strong competitors. Moreover, functional OFCs benefit their surrounding "real" economies through their demand for goods, services, and an educated workforce to support the OFCs' value-added activities.

This distinction between notional and functional OFCs becomes critical to assessing the economic effect of money laundering on OFCs as an economic development tool. Money laundering per se does not require the more costly value-added services of a functional OFC, and therefore may gravitate to merely notional OFCs—the very type of OFC least able to contribute to the country's real economy. By contrast, legitimate international capital is more likely to require the services of a functional OFC and will be deterred from making extensive use of an OFC tainted by widespread allegations of money laundering and the associated activities of fraud and corruption. Thus, for a country to implement a successful economic-development strategy based on the establishment of an OFC, the strategy must adopt measures to control moneylaundering activity through the OFC.

Moreover, International Monetary Fund studies suggest that smaller countries can become favored by large -scale money launderers for short periods of time, causing a sharp surge in financial activity, followed by an equally sharp decline, resulting in severe macroeconomic instability as local authorities are unable to take offsetting monetary or exchange -rate measures.

**Baxter, T. C. 1997. "Breaking the billion dollar barrier - learning the lessons of BNL, Daiwa and BCCI". Journal of Money Laundering Control, Vol.1, June.**

**Bell, R. E. 2001. "Discretion and Decision Making in Money Laundering Prosecutions," Journal of Money Laundering Control, Vol. 5, No. 1: pp. 42-51.**

**Bell, R. E. 2002. "An Introductory Who's Who for Money Laundering Investigators," Journal of Money Laundering Control, Vol. 5, No. 4: pp. 287-295.**

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**Blau, Charles W. 1990. "The Right to Financial Privacy and the Criminal Referral Process: A Conflict in the Terms and Purpose of the Money Laundering Statutes." Consumer Finance Law Quarterly Report, Winter: pp. 9-21.**

**Blau, Charles W. 1990. "Taking the Starch Out of Money Laundering: Structuring an Internal Review and Training Program for Employees." Banking Law Review, Winter: pp. 20-28.**

**Blum, Jack A., Michael Levi, R. Thomas Naylor and Phil Williams. 1998. "Financial havens, banking secrecy and money laundering." A study prepared on behalf of the United Nations under the auspices of the Global Programme against Money Laundering, Office for Drug Control and Crime Prevention; Vienna, Austria. December. (Available at: <http://www.cf.ac.uk/socsi/whoswho/levi-laundering.pdf>).**

**Abstract** (from the paper (p. 6 –7))

This report examines the world of offshore financial centers and bank secrecy jurisdictions in the context of the control of money laundering and financial crime. It looks at offshore financial centers and bank secrecy jurisdictions as facilitators of money laundering and other forms of crime, elucidates the ways in which they are used by criminals and identifies a series of remedies or counter-measures that would block or at the very least diminish the attractions of these havens. Section II outlines the various stages of money laundering, warns against using the term in a loose or promiscuous manner, and identifies various kinds of secrecy that facilitate money laundering and other crimes.

Section III of the report looks at the legitimate as well as the criminal uses of offshore financial and bank secrecy jurisdictions and explains briefly how bank secrecy and offshore banking evolved. It locates offshore banking and bank secrecy jurisdictions within the global financial system, suggesting that the system is a highly congenial one for both licit businessmen and for those trying to launder and hide the proceeds of crime as well as those who typically exploit loopholes and variations in tax and other laws.

Jurisdictions which offer high levels of secrecy, and a variety of financial mechanisms and institutions providing anonymity for the beneficial owners are highly attractive to criminals for a wide variety of reasons including the potential cover and protection they offer for money laundering and various exercises in financial fraud. Not all offshore financial centers and bank secrecy jurisdictions provide the same services, however, and there are important differences in the schemes they offer to ensure anonymity, the extent of the secrecy they provide, and their willingness to cooperate with international law enforcement investigations. Consequently, this section also provides an overview of what might be termed the geography of offshore banking and bank secrecy.

Section IV looks at the way in which offshore financial centers and bank secrecy jurisdictions are used by criminals, highlighting not only the way in which money is often moved to and through offshore banks or bank secrecy jurisdictions as part of money laundering efforts, but also other ways in which offshore jurisdictions are used by criminals. Section V looks at offshore banking and bank secrecy as inhibitors and facilitators for law enforcement investigations, with attention to both de jure and de facto limits to cooperation. Section VI looks at issues for consideration in relation to preventive and control measures that might be taken to enhance compliance with the United Nations Convention against Illicit Traffic in Narcotic Drugs and Psychotropic Substances, 1988 (the '1988 Convention') and to make it more difficult for money launderers and other criminals to exploit particular banking jurisdictions with the ease and benefits they do at the moment.

### **Summary** (from the paper (p. 5-7))

The major money laundering cases coming to light in recent years share a common feature: criminal organizations are making wide use of the opportunities offered by financial havens and offshore centers to launder criminal assets, thereby creating roadblocks to criminal investigations. Financial havens offer an extensive array of facilities to the foreign investor unwilling to disclose the origin of his assets, from the registration of International Business Corporations (IBCs) or shell companies, to the services of a number of "offshore banks" which are not subject to control by regulatory authorities.

The difficulties for law enforcement agents are amplified by the fact that, in many cases, financial havens enforce very strict financial secrecy, effectively shielding foreign investors from investigations and prosecutions from their home country. While bank secrecy and financial havens are distinct issues, they have in common both a legitimate purpose and a commercial justification. At the same time, they can offer unlimited protection to criminals when they are abused for the purpose of “doing business at any cost”.

These two issues are analysed in the present study because the recent history of international money laundering control makes it clear that the indiscriminate enforcement of bank secrecy laws, as well as the rapid development of financial havens, constitute serious obstacles to criminal investigations and jeopardise efforts undertaken by the international community since the United Nations Convention against Illicit Traffic in Narcotic Drugs and Psychotropic Substances, 1988 (the '1988 Convention'), which first required the establishment of money laundering as a criminal offence.

The best example of the opportunities, and immunities, offered to money launderers by these means was BCCI - the Bank for Credit and Commerce International - which collapsed in 1991, uncovering the widest money laundering scheme ever and leading to the seizure of more than US\$12 billion. The BCCI case, which is described in more detail in Chapter IV, generated a shock wave in financial markets and among the supervisory authorities of all countries affected by the scandal, forcing them to tighten up regulations to prevent the use of financial markets for money laundering purposes.

However, six years later, another prominent case was revealed following the bankruptcy of the Antigua-based “European Union Bank”, demonstrating that the problem had gained a new dimension with the application of modern technologies. The European Union Bank was founded by two Russians, and is alleged to have been used to launder the illicit proceeds of the Russian organized crime. This bank, which was operating on the Internet, offered its clients (according to its advertisements on the net) “the strictest standards of banking privacy in offshore business” and the “financial rewards of offshore banking”. Chapter IV further analyses the case of the European Union Bank.

There are important and sobering lessons to be learned from the experience with European Union Bank. Among the more important are the following:

- Changes since BCCI have helped, but there are still important gaps in the regulation of offshore banking by bank secrecy jurisdictions that can all too easily be exploited by criminals of various kinds.
- The Internet and World Wide Web offers a whole new dimension for encouraging money laundering, fraud and various kinds of scams.

- The experience highlighted that the concept of a bank is becoming increasingly elastic, a development vividly encapsulated in the comments of one auditor that some banks are little more than “closets with computers”.

The central problem with virtual banks is that there is virtually no oversight, not least because it is not clear who has jurisdiction or where the crime is committed. As one observer noted in testimony before the US Congress, European Union Bank operated on a license from the government of Antigua. “The computer server was in Washington, DC. The man who was operating both the bank and the computer server was in Canada. And under Antiguan law, in effect, the theft of the bank's assets were not illegal. So now the problem is, where is the crime committed, who committed it, who is going to investigate it, and will anyone ever go to jail?”

The willingness of at least some offshore banking jurisdictions to encourage new financial institutions without imposing adequate safeguards or due diligence – a development characterized later in this report as the selling of sovereignty.

In short, bank secrecy and offshore banking offer multiple opportunities for money laundering and various other criminal activities. In the early and mid-1980s the Permanent Investigations Subcommittee of the Committee on Governmental Affairs in the United States Senate held a series of hearings on offshore banking and bank secrecy. The chairman, Senator William Roth, noted that “we have repeatedly heard testimony about major narcotics traffickers and other criminals who use offshore institutions to launder their ill gotten profits or to hide them from the Internal Revenue Service.

Haven secrecy laws in an ever increasing number of cases prevent U.S. law enforcement officials from obtaining the evidence they need to convict U.S. criminals and recover illegal funds. It would appear that the use of offshore haven secrecy laws is the glue that holds many U.S. criminal operations together”. If the immediate reaction to this is that little or nothing has changed in the last decade and a half, a more considered assessment might suggest that, in fact, the situation has deteriorated with a much larger cast of characters now using offshore financial centers for criminal purposes.

## **Overview**

This report examines the world of offshore financial centers and bank secrecy jurisdictions in the context of the control of money laundering and financial crime. It looks at offshore financial centers and bank secrecy jurisdictions as facilitators of money laundering and other forms of crime, elucidates the ways in which they are used by 7 criminals and identifies a series of remedies or counter-measures that would block or at the very least diminish the attractions of these havens. Section II outlines the various stages of money laundering, warns against using the term in a loose or promiscuous manner, and identifies various kinds of secrecy that facilitate money laundering and other crimes.

Section III of the report looks at the legitimate as well as the criminal uses of offshore financial and bank secrecy jurisdictions and explains briefly how bank secrecy and offshore banking evolved. It locates offshore banking and bank secrecy jurisdictions within the global financial system, suggesting that the system is a highly congenial one for both licit businessmen and for those trying to launder and hide the proceeds of crime as well as those who typically exploit loopholes and variations in tax and other laws.

Jurisdictions which offer high levels of secrecy, and a variety of financial mechanisms and institutions providing anonymity for the beneficial owners are highly attractive to criminals for a wide variety of reasons including the potential cover and protection they offer for money laundering and various exercises in financial fraud. Not all offshore financial centers and bank secrecy jurisdictions provide the same services, however, and there are important differences in the schemes they offer to ensure anonymity, the extent of the secrecy they provide, and their willingness to cooperate with international law enforcement investigations. Consequently, this section also provides an overview of what might be termed the geography of offshore banking and bank secrecy.

Section IV looks at the way in which offshore financial centers and bank secrecy jurisdictions are used by criminals, highlighting not only the way in which money is often moved to and through offshore banks or bank secrecy jurisdictions as part of money laundering efforts, but also other ways in which offshore jurisdictions are used by criminals. Section V looks at offshore banking and bank secrecy as inhibitors and facilitators for law enforcement investigations, with attention to both de jure and de facto limits to cooperation. Section VI looks at issues for consideration in relation to preventive and control measures that might be taken to enhance compliance with the United Nations Convention against Illicit Traffic in Narcotic Drugs and Psychotropic Substances, 1988 (the '1988 Convention') and to make it more difficult for money launderers and other criminals to exploit particular banking jurisdictions with the ease and benefits they do at the moment.

**Blunden, Bob. 2001. *The Money Launderers: How They Do It, and How to Catch Them at It*. Chalford, England: Management Books 2000.**

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**Bosworth-Davies, R. 1997. "The Impact of International Money Laundering Legislation," *Financial Times*.**

**Bosworth-Davis, R. 1998. "Living with the Law: A Survey of Money Laundering Reporting Officers and Their Attitudes towards the Money Laundering Regulations." *Journal of Money Laundering Control*, Vol.1, No.3, January.**

**Bridges, M. 1997. "Taking the profit out of crime." Journal of Money Laundering Control, Vol.1, June.**

**British Commonwealth. 1992. International Efforts to Combat Money Laundering. Cambridge International Document Series Vol. 4, Grotius Publishing, Cambridge, England.**

**Bruton, William F. 1999. "Money Laundering: Is It Now a Corporate Problem?" Dickinson Journal of International Law, Vol. 17. No.3. (Available at: <http://www.house.gov/judiciary/brutatt.htm>).**

### **Abstract**

Legitimate commercial activity is increasingly being used to launder money. While authorities are making it more difficult to use the financial system directly to launder and transfer cash that is perhaps 10 times the weight of the drugs that were sold to generate the funds, the use of the black market and regular trading systems are major loopholes. The Colombian peso exchange is a clear case in point. Colombian businesses who need to pay for imports from the US, for example, make an arrangement through a peso exchanger whereby the imports are paid for in the US using illicit drug money. When the goods are then sold in Colombia, the drug traffickers receive an equivalent sum, minus commissions, in Colombian pesos. There is then no record of the transaction, and virtually no way for the authorities to stop the flow.

To address this, the conclusion of the paper notes that (p. 448-449):

Corporations and businesses need to establish a "know your customer" policy. These types of policies have been established for several years by financial institutions in order to prevent criminal groups from laundering drug dollars through their institutions. Because of the success of this policy, drug organizations are moving their drug profits through the use of international commerce. The following is an example of some policies that would assist corporations:

1. Establish customer identification and documentation requirements.
2. Establish payment policies that require the payment to be received from the established bank account in the name of the customer.
3. Prohibit the use of third party checks for payment credited to customers account.
4. Develop policies requiring the reporting of suspicious payment activities.
5. Consider the establishment of a compliance officer who has broad authority to monitor and insure compliance with relevant laws. This is especially critical where products are being exported to high-risk areas.

**Busch, Gary K. 1992. Crime and Corruption: One View of a Parallel System, Mimeo: Transparency International.**

**Byrne, John J. 2000. "Know Your Customer: What Happened and What Happens Next?" Journal of Money Laundering Control - Vol 3. No.4.**

## **Abstract**

There is an essential conflict between strong know-your-customer (KYC) regulations and protecting the privacy of customers. The concept of KYC was agreed internationally as far back as 1988 in a Basel Treaty, and the US Treasury has noted that no amount of regulation can substitute for KYC. The initiative lay dormant for a time, until the issue of money laundering was addressed at a Congressional Hearing, pressing for KYC. The Federal Reserve Board, Office of the Comptroller of the Currency, Federal Deposit Insurance Corporation, and the Office of Thrift Supervision issued substantially similar KYC proposals requiring banks to:

- Determine the identity of customers.
- Determine the customer's sources of funds
- Determine normal and expected transactions
- Monitor transactions
- Identify transactions that are not normal
- Determine if transactions are unusual or suspicious

Some aspects were difficult, since it is hard to establish when a financial institution was in compliance. In addition, compliance with KYC could lead to infringements of a customer's privacy, if misused. The American Banker's Association opposed the proposals, in part due to this confusion.

**Cacheris, Plato and Eric Steven O'Malley. 2001. "Frankencrime: America's Harsh Money Laundering Penalties," Journal of Money Laundering Control, Vol. 5, No. 2: pp. 115-121.**

**Camdessus, Michel. 1998. "Money Laundering: The Importance of International Countermeasures," Address by the Managing Director of the IMF at the Plenary Meeting of the Financial Action Task Force on Money Laundering, Paris, February 10.**

**Campbell, A. 1997. "The High Street solicitor and the proceeds of criminal activity - the risks." Journal of Money Laundering Control, Vol.1, June.**

**Candler, L. J. 1998. "Commingled Funds: How to Seize Proceeds of Electronic Crime." Journal of Money Laundering Control, Vol.1, No.4, April.**

**Carpenter, W. 1994. "Reforming the civil drug forfeiture statutes: analysis and recommendations", Temple Law Review, Vol. 67: pp. 1087-1162.**

**Castle, Allan and Bruce Broomhall. 1998. "The International Money Laundering Regime and the Asia Pacific: Pairing Multilateral Co-operation with Domestic Institutional Reform," The International Centre for Criminal Law Reform & Criminal Justice Policy, Vancouver, Canada, October. (Available at: <http://www.icclr.law.ubc.ca/Publications/Reports/MoneyLaunderingRegime.PDF>)**

**Abstract** (from the paper (p. 2))

International efforts to combat money laundering have gained momentum in the past decade. One United Nations Convention and another planned convention, along with numerous multilateral governmental initiatives and bilateral agreements, have contributed to the development of a broad set of national and international legal standards. However, this emergent 'regime' has developed unevenly, the most significant advances occurring in regions dominated by the United States and its allies.

This paper explores the prospects for the expansion of the global regime into the Asia Pacific, given the heterogeneous political and economic climate of the region. It concludes that there is reason for optimism regarding the development of the regime in the Asia Pacific, despite the lack of a dominant state or alliance of states as regional advocate(s). This is due primarily to the characteristics of incrementalism and co-operation at the bureaucratic/technocratic level demonstrated in those regions where the regime is already embedded. However, progress on money laundering and the extension of the existing regime is possible only in tandem with broader movement on the question of institutional reform in the key states of the region.

**Castle, Allan and Joanne Lee. 1999. "Money Laundering in the Asia Pacific - Working Paper No. 4: Money laundering and corruption in the Asia Pacific," International Centre for Criminal Law Reform and Criminal Justice Policy, Vancouver, Canada, March. (Available at: <http://www.icclr.law.ubc.ca/Publications/Reports/Paper4.PDF>).**

**Summary** (from the paper: p. 3-6)

Crime is an increasing source of concern in the international arena. The method by which the proceeds of crime are given the appearance of legality, often referred to as 'money laundering', is intimately connected with the profitability and regeneration of criminal activities and the existence and prosperity of criminal organisations.

In the public mind, as well as in many official accounts and analyses, money laundering has obvious associations with such high revenue crimes as drug trafficking, extortion, and prostitution. There is no doubt that these activities generate a large amount of the total criminal funds laundered world wide, a sum variously estimated to be between several hundred billion and a trillion US dollars annually.

However, the need to conceal the origin, passage and beneficial ownership of funds from the scrutiny of regulators and law enforcement is not restricted to those involved in the high profile crimes mentioned above, but is shared by a variety of other actors. For instance, illegal activities that rely on the laundering process to render their practitioners a degree of profitability include tax evasion. This practice costs national governments hundreds of billions of dollars annually, depriving needy societies of desperately required revenue and altering the principles of fair redistribution that underpin the legitimacy of many states.

The need to conceal the source and ownership of revenue is also shared by groups and individuals involved in corruption, the subject of this study. A simple definition of corruption is ‘the misuse of public or private office for personal gain’.<sup>2</sup> A greater level of detail is provided by a recent study,<sup>3</sup> which subdivides the issue of corruption into four separate areas, as follows:

- a. **Bribes and ‘kick-backs’:** payments demanded or expected in return for being allowed to do legitimate business. The payment becomes the license to do business. Those who make the payments are allowed to compete or win contracts.
- b. **Election/campaign corruption:** illegal payments made at the time of elections to ensure continuing influence.
- c. **Protection:** officials accept payments (or privilege) from criminal organizations in exchange for permitting them to engage in illegitimate businesses.
- d. **Systemic top-down corruption:** national wealth is systematically siphoned off or exploited by ruling elites.

All four types of corruption suggested here, along with a fifth type – military involvement in illegal enterprise – exist in numerous contexts in the Asia Pacific, and have been discussed elsewhere in this series as sources of laundered funds. A review of existing analyses of corruption reveals that the types of corruption considered of greatest concern do indeed vary across different jurisdictions.

Corruption, though often associated with bribery of public officials, can also occur discretely within the private sector. It may involve organized crime groups, venal elites, or – at the other extreme – individuals who have previously had no contact with criminal behaviour yet are presented with an opportunity for immediate, illegal gain (through, for instance, the abuse of public office). As the information reviewed in this study reveals, while no overall figure can be established it is likely that funds derived from corrupt practices worldwide are of a magnitude to warrant similar levels of concern to those expressed with respect to transnational crime.

The relationship between corruption and money laundering is twofold and complex. As expressed above, corruption produces significant illegal revenues whose origins and ownership must be concealed through the money laundering process. But just as money laundering facilitates and renders profitable a variety of corrupt practices, so does corruption contribute to the process of money laundering. The money launderer, through the application of ‘grease payments’ or ‘kickbacks’, may procure wilful blindness on the part of banking, law enforcement, or government officials. In so doing, the corrupt official contributes to the profitability of all three social ills highlighted in Figure 1 above.

While this study suggests that the Asia Pacific is less prone to the problem of corruption than many regions of the world, the data reviewed also indicate a broad range of experience across the region. Some jurisdictions fare extremely well in independent assessments of corruption, others exhibit middling experiences, while a limited number have major problems in this area. The existence of significant criminal activity in the region, largely in the shape of the drug trade and other forms of trafficking, and the emergence of new offshore financial services centres to complement those already in existence, render the region vulnerable to money laundering activity in any event. With the overlay of significant nodes of corrupt activity, it becomes evident that moves towards greater financial transparency and public accountability are as necessary in the Asia Pacific as in any other region of the world.

**CEDEJU. 1995. “Estudio comparativo de las legislaciones y reglamentación vigente en materia de control de la producción y el tráfico ilícito de drogas en 6 países de la sub-región centroamericana.” CEDEJU, San José, Costa Rica.**

**Chan, M. 1997. “Hong Kong: Money Laundering Legislation.” Journal of Money Laundering Control, Vol.1, June.**

**Chang, A. and Herscovitz, A. 1995. "Money Laundering." American Criminal Law Review, Vol. 32, No. 27, Winter, 499-525.**

**Christensen, J. and Hampton, M. P. 1998. The capture of the State in Jersey’s Offshore Centre, University of Portsmouth, United Kingdom, September.**

**Ciancanelli, Penny & Reyes, Jose Antonio. 2000. “Corporate Governance in Banking: A Conceptual Framework.” Paper submitted for presentation at the European Financial Management Association Conference. Athens, June. (Available at: [http://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=253714](http://papers.ssrn.com/sol3/papers.cfm?abstract_id=253714)).**

**Abstract** (from the article)

In the wake of far reaching financial system reforms, almost three fourths of the member countries of the IMF experienced significant episodes of systemic crisis and associated bank failures. Notably absent in the ensuing debates on the correlation between financial system reforms and systemic crisis was discussion of corporate governance in the affected banks and the role it may have played in the provoking financial crisis.

Consideration of corporate governance in banks is, however, apparently easier said than done. While there is a great deal of empirical research on corporate governance, very little of it concerns the behaviour of owners and managers of banks; all of it assumes that banks conform to the concept of the firm used in Agency Theory.

The aim of this paper is to demonstrate the limitations of that assumption and to propose an alternative conceptual framework more suitable to its analysis. We argue that commercial banks are distinguished by a more complex structure of information asymmetry arising from the presence of regulation. We show how regulation limits the power of markets to discipline the bank, its owners and its managers and argue that regulation must be seen as an external force, which alters the parameters of governance in banks.

**Colombo, Gherardo. 1999. "The Role of Slush Funds in the Preparation of Corruption Mechanisms," TI working paper, Berlin: Transparency International.**

**Comision Interamericana para el Control de Abuso de Drogas. 2000. "Statistical Summary." (Available at: <http://www.cicad.oas.org/>).**

#### **Abstract**

Official data on drugs is compiled, and shows that drug seizures have increased in recent years. Large seizures of amphetamines and the like is also alarming. Much work remains to be done.

**Commission of the European Communities. 2002. "Report From the Commission to the Council on Controls on Cross-Border Cash Movements – Proposal for a Regulation of the European Parliament and the Council on the Prevention of Money Laundering by Means of Customs Cooperation," Brussels, June 25, COM(2002) 328 Final, 2002/0132(COD). (Available at: [http://europa.eu.int/comm/taxation\\_customs/customs/law/com2002\\_0328en01.pdf](http://europa.eu.int/comm/taxation_customs/customs/law/com2002_0328en01.pdf)).**

**Cook, Stephanie 1995. "The Money Laundering Cycle." Central European Journal. July/August: pp. 28-31.**

#### **Abstract**

When the Russian tax police sought help from their counterparts in Britain (National Criminal Intelligence Service – NCIS) in investigating the flow of illicit Russian funds to London, they were rebuffed because NCIS cannot “disclose information to tax authorities in other countries” (p. 28). The American counterpart – Financial Crimes Enforcement Network (FINCEN) believes NCIS may not be trying hard enough to investigate suspicious transactions. “The Russian interior ministry believes as much as \$50bn left Russia alone last year,” and “Western experts say that as much as 20% of the \$15bn to \$20bn of western aid money to Russian and newly independent states has been skimmed off through corruption and misappropriation” (p. 29). Authorities in other countries, such as those in Switzerland, and Eastern Europe are cooperating more fully in investigating suspected money laundering.

The OECD’s Financial Action Task Force (FATF) also issued 40 recommendations on anti-money laundering regulations, which currently exist in most OECD countries and require all entities, not just banks, to report suspicious transactions. Russia’s closest ally in its efforts, however, remains the US’s Internal Revenue Service, which shares its information on bank accounts. Apart from membership in the UN drug convention, Russia is not yet a part of the official anti-money laundering network, and the process of joining has been slow. Russia cannot join until it establishes anti-money laundering legislation. The West can help by:

- Providing resources;
- Stop politicking and infighting;
- Show more flexibility.

**Cotton, J. 1998. "Australia: Lawyers Should be Treated Like Banks, Bookmakers and Bullion Dealers." *Journal of Money Laundering Control*, Vol.1, No.3, January.**

**Cotton, J. 1997. "Australia: Taking Stock of the Financial Reporting Legislation - Senate Committee Review and Government Response." *Journal of Money Laundering Control*, Vol.1, No.2, October.**

**Council of Europe. 1991. “Explanatory report on the Convention on Laundering, Search, Seizure, and Confiscation of the Proceeds of Crime.” Council of Europe Publishing and Documentation Service, Strasbourg, France.**

**Council of Europe. 2002. “First Mutual Evaluation of Report on the Russian Federation,” European Committee on Crime Problems, Select Committee of Experts on the Evaluation of Anti-Money Laundering Measures (PC-R-EV (00) 21 Summ). (Available at: [http://www.worldbank.org/wbi/goodgovernance/amldialogue2002\\_01/pdf/PCREVSumRussiaE.pdf](http://www.worldbank.org/wbi/goodgovernance/amldialogue2002_01/pdf/PCREVSumRussiaE.pdf)).**

**Courtis, Neil. 1998. “Money Laundering Today.” *Central Banking Journal* Vol. IX, No. 1. August: pp. 19-23.**

**Abstract**

“Efforts to stop the growth of money laundering present myriad problems. While the FATF process of peer review can list successes in tightening legislation in its member countries they are not able to assert that it has reduced money laundering” (p. 19). Indeed, the author argues that despite the efforts of central banks, there is little sign of any real progress in the fight against money laundering. Furthermore, new tricks are being used, such as using the gold market: “Not only is gold the only raw material comparable with money, but also gold importation routes into Europe coincide with drug importation routes” (p. 20).

“The introduction of the euro will make laundering even easier,” since “the changeover from national currencies in January 2002 will also provide an ideal cover for exchanging holdings of old (dirty) currency for new (clean) euros” (p. 21). Moreover, considering that “Euroland have to provide 12 billion banknotes for exchange for national currency in the following six months” (p. 21), it will be very hard to monitor the high level of activity effectively.

**Crook, P. 1998. "Guernsey: International Cooperation Against the Modern International Criminal." *Journal of Money Laundering Control*, Vol.1, No.4, April.**

**De Boyre, Maria E., Pak, Simon J., & Zdanowicz, John S. (undated) “The Impact of Switzerland's Money Laundering Law on Capital Flows Through Abnormal Pricing in International Trade.” CIBER Working Paper. Center for International Business and Educational Research, Florida International University. (Available at: [http://papers.ssrn.com/sol3/papers.cfm?cfid=534688&cftoken=61702573&Abstract\\_id=268444](http://papers.ssrn.com/sol3/papers.cfm?cfid=534688&cftoken=61702573&Abstract_id=268444)).**

**Abstract** (from the paper)

Switzerland's banking institutions have historically been recognized as facilitators of the movement and the repositories of capital from other countries. In January of 1998, Switzerland adopted new and very stringent anti-money laundering statutes. Bankers and other financial institutions must now report suspicious transactions to Swiss banking authorities and block the funds from these transactions. Charles Intriago, Publisher of Money Laundering Alert stated, "The Swiss have now set the world standard for money laundering controls, and they're more advanced than the U.S." Although a vast amount of illegal and suspicious capital flows are conducted in the financial service industry, there are alternative methods of moving money and avoiding detection by government agencies.

One such technique is through the manipulation of import and export prices in international trade transactions. The objective of this research is to determine the impact of Switzerland's money laundering law on the movement of money through false invoicing in international trade. This study evaluates every reported import and export transaction between the United States and Switzerland during the period from 1995 to 2000. The study indicates that there were significant changes in the degree of abnormal international trade pricing subsequent to the enactment of Switzerland's anti-money laundering law. The study supports the view that individuals and companies will find substitute techniques and channels to launder money when central banking authorities enact legislation that only focuses on financial institutions.

**Deady, P. 1990. "Tough Money-Laundering Laws Put Increased Pressure on Banks." National Law Journal May 7: pp. 36-37.**

**D'Ingeo, Magda and Rawlings, Philip. 1998. "Yuppies, Drugs and Tesco: Should the Bank of England Blame Itself for Bank Failures?" Journal of Money Laundering Control. Institute of Advanced Legal Studies. Vol. 2, No. 1, Summer.**

**Douglass, Joseph D. 1999. "Western Banks and Russian Money-Laundering: Bank Corruption Examined," International Currency Review, Vol. 25, No. 2.**

**Drayton, Fitz-Roy. 2002. "Dirty Money, Tax and Banking: Recent Developments Concerning mutual legal Assistance and Money LAUNDERING 'Harmful' Tax Competition and the Future of Offshore Financial Centers," Journal of Money Laundering Control, Vol. 5, No. 4: pp. 302-317.**

**Duyn, P. van. 1994. "Estimates in fog," Journal of Asset Protection, Vol. 2, No. 1: pp. 58-76.**

**Dwyer, Terry. 2002. "'Harmful' Tax Competition and the Future of Offshore Financial Centers," Journal of Money Laundering Control, Vol. 5, No. 4: pp. 302-317.**

**Economist (1997) Next, cyberlaundering? The World. July 24th.  
[http://Economist.com/background/displaystory.cfm?story\\_id=152149](http://Economist.com/background/displaystory.cfm?story_id=152149)**

Noting that money launderers hate cash (logistical nightmare to move), the article wonders how electronic money systems, such as stored value cards and computer-based systems will impact efforts to control money laundering. Cards should have limits, and transactions should be logged in a central place. A Bank of International Settlements report notes that features designed to protect the new systems from fraud will also make the systems less appealing to launderers.

**Economist (1997) That infernal washing machine. World. July 24th.  
[http://Economist.com/background/displaystory.cfm?story\\_id=152141](http://Economist.com/background/displaystory.cfm?story_id=152141)**

Money Laundering is still big business, amounting to over \$500 billion a year (IMF estimate 1996). Senator Kerry argues for waging an economic war against countries that refuse to fight money laundering, including a trade ban. Vito Tanzi suggests that once a minimum standard is established, countries that refuse to abide could face punitive taxes on capital channeled through their financial system and have international legal recognition denied to financial transactions taking place on their soil.

One complication is the difficulty in identifying the crime. OECD countries have been working to toughen up their AML laws, making it a criminal offence in its own right. They have also been improving financial intelligence gathering and encouraging international cooperation.

“Stanley Morris, FINCEN’s director, says undercover operations in America show that launderers’ fees have risen from around 6% of the amount washed in the early 1980s, to 25-28% today” (p. 3). The suggestion is that laundering is getting harder. “A few well-known haunts of launderers, such as Switzerland and the Cayman Islands, have made it easier for bankers to report suspect transactions without breaking bank-secrecy laws” (p. 4).

Still, it is a major problem – infecting other businesses (insurance), and encouraging the emergence of new laundering centers. Most AML initiatives have yet to cover non-bank financial institutions.

The solution? Economic warfare is considered unpalatable. “That leaves Tanzi’s proposal as the only one with something to recommend it” (p. 5).

**Economist (1999) Crime without punishment. World. August 26th.**  
[http://Economist.com/background/displaystory.cfm?story\\_id=234642](http://Economist.com/background/displaystory.cfm?story_id=234642)

“The latest money-laundering scandal in New York confirms that the evil of organized crime is woven into Russian life – and that it is starting to infect the rest of the world” (p.1). Well connected individuals involving the Bank of New York are alleged to be involved in laundering up to \$10 billion, including about \$200 million of the IMF’s cash. Crime is nothing new in Russia – the turn away from communism has only made it more visible. Efforts to enforce the rule of law have struggled to date, and organized crime has filled the void.

**Economist (1999) Needs a wash. Finance & Economics. April 8th.**  
[http://Economist.com/background/displaystory.cfm?story\\_id=197697](http://Economist.com/background/displaystory.cfm?story_id=197697)

Antigua was not happy about being singled out for weak anti-money laundering controls, which means that all US financial institutions will need to treat transactions with Antigua as suspicious.

**Economist (2000) All havens in a storm. Business. June 29th.**  
[http://Economist.com/background/displaystory.cfm?story\\_id=3140](http://Economist.com/background/displaystory.cfm?story_id=3140)

The Bahamas and several other Caribbean financial havens have landed on three different lists – including the OECD, FATF and the Financial Stability Forum. Concern is growing that these havens are “distorting the financial system on a threatening scale” (p. 1), siphoning off \$50 billion from poor countries every year. Antigua suffered a financial drought when it was put on an advisory list by the US Treasury, and has since taken steps to tighten anti-money laundering laws. Implementation remains a major challenge.

**Economist (2000) Less secretive: Switzerland. Europe. July 27th.**  
**[http://Economist.com/background/displaystory.cfm?story\\_id=341115](http://Economist.com/background/displaystory.cfm?story_id=341115)**

Switzerland is making substantial progress in strengthening anti-money laundering provisions, led in part by Bernard Bertossa, a public prosecutor of Geneva. Foreign prosecutors are receiving much more cooperation in chasing down looted millions, and he may be close to tracking down \$1.4 billion of the IMF that was intended for Russia.

**Economist (2000) Small states, big money: The Caribbean. Latin America. September 21st.**  
**[http://Economist.com/background/displaystory.cfm?story\\_id=374290](http://Economist.com/background/displaystory.cfm?story_id=374290)**

Many of the members of the Organization of Eastern Caribbean States fear they are being unfairly targeted by international anti-money laundering efforts. The OECD included all of the OECS members in its list of tax havens, and FATF included 3 of its members. Small states have difficulty protecting themselves from international crime.

**Economist (2001) Getting to them through their money: Terrorist finances. Finance & Economics. Sep 27th.** **[http://Economist.com/displayStory.cfm?Story\\_ID=798424](http://Economist.com/displayStory.cfm?Story_ID=798424)**

“TO FOLLOW the money is a trail to the terrorists,” said George Bush, as he released a list of 27 alleged customers of the global banking industry that he called “the financial equivalent of law enforcement's most-wanted list”. Still, it will be difficult to track the funds, and indiscriminate closing of Islamic charities will hurt poor people in Islamic countries the most. Much of the terrorist financing for September 11 is thought to have used the same channels as money laundering, including techniques such as “starburst” (deposits are made in small random fragments) and the “boomerang,” where funds are sent on a long journey before returning to the country of origin. Finally, funds moved through the trust based “hawala” system are virtually untraceable.

**Economist (2001) The financial front line: Hitting terrorists' cash. Finance & Economics. Oct 25th.** **[http://Economist.com/displayStory.cfm?Story\\_ID=834452](http://Economist.com/displayStory.cfm?Story_ID=834452)**

FATF, (Financial Action Task Force) is the world's main anti-money laundering body, and is leading a campaign to agree rules that all countries must follow, or face some form of punishment.

“Governments will have to introduce a reporting system for suspicious transactions, take on legal powers to freeze terrorist assets, and extend all these rules beyond mainstream banking to money service businesses, including the *hawala* system” (p. 1). Enforcement will be difficult.

**Economist (2001) Fighting the dirt: Money laundering. Finance & Economics. June 21st.**  
**[http://Economist.com/displayStory.cfm?Story\\_ID=666362](http://Economist.com/displayStory.cfm?Story_ID=666362)**

Since the Financial Action Task Force (FATF) first appeared in 1989, it has moved from being conceived as a cooperative organization to one capable of exerting greater pressure, mainly through its name and shame function and by indicating that repeat offenders may face “counter-measures” including a ban from dealing with the financial institutions of the OECD. This has spurred many countries, like the Bahamas and Liechtenstein into action, but others, like Russia and Nauru have done virtually nothing. Adherence to the “40 recommendations” is also uneven among members, and debate continues on whether to include tax evasion as a money laundering offence.

**Economist (2001) Nauru: Paradise well and truly lost. Opinion. December 20.**  
**[http://Economist.com/displayStory.cfm?Story\\_ID=884045](http://Economist.com/displayStory.cfm?Story_ID=884045)**

“Greed, phosphate and gross incompetence in a tropical setting: the history of Nauru is really stranger than fiction.” One of the growing worries about Nauru concerns money laundering. Anyone can set up a bank in Nauru for about \$25,000, and there is no regulation and no records. Nauru also sells citizenship. The central bank of Russia reckons that \$70 billion disappeared in Nauruan accounts in 1998. The FATF has identified Nauru as one of 15 uncooperative countries in the battle to curb money laundering, and large western banks will no longer participate in dealings with Nauruan institutions.

**Economist (1999) "Cleaning Up? Money Laundering". Finance and Economics. March 20.**  
**[http://Economist.com/displayStory.cfm?Story\\_ID=319960](http://Economist.com/displayStory.cfm?Story_ID=319960)**

Britain is offering the people of its dependencies (160,000) full British citizenship with a few conditions, including cleaning up the financial sector. Under British pressure, 300 “brass-plate” banks were closed in Montserrat, and a Caribbean Financial Action Task Force was created in 1992. International pressure is also growing from the OECD and FATF. Small off-shore banking centers feel unfairly targeted, and are alarmed about talk of “harmful tax competition.”

**Edwards, Andrew. 2002. “Towards a Clean World,” Journal of Money Laundering Control, Vol. 5, No. 4: pp. 279-286.**

**Edwards, E. 1995. "Governmental abuse of forfeiture powers: three cases", Journal of Legislation, Vol. 21: pp. 229-42.**

**Edgmont Group. 2000. "FIU's in Action – 100 Cases from the Egmont Group," A compilation of 100 sanitized cases on successes and learning moments in the fight against money laundering.**

**Eggen, Dan and Kathleen Day. 2002. "U.S. Probe of Sept. 11 Financing Wraps Up," The Washington Post, January 7: p. A01.**

**Eggen, Dan and Bob Woodward. 2001. "FBI Probe of Al Qaeda Implies Wide Presence," The Washington Post, December 30: p. A01.**

**Ehrenfeld, Rachel. 1992. Evil Money: Encounters Along the Money Trail. New York: Harper Collins Publishers.**

**Abstract** (from First Search)

Examines the international network of money laundering and its corrupting effects. Discusses the legacy of Meyer Lansky, inventor of the methods used today by modern drug money launderers and other criminals. Describes the problem the Bahamas had with money laundering in the 1970s and 1980s, and considers whether the situation has really improved since the mid-1980s. Examines "La Mina," a laundering organization of Colombia's drug cartels. Discusses "Polar Cap," the largest and most complicated anti-drug-money-laundering operation undertaken by the U.S. government. Presents the story of the Bank of Credit and Commerce International, S.A. (BCCI) and the BCCI scandal. Examines the parallels between the escalating crime, public apathy, and corruption of public officials in the United States and the decline of democracy in Colombia. Ehrenfeld is a research scholar at New York University School of Law.

**Summary** (from the Barnes and Noble Website)

**From Our Editors**

Exposes the web of complicity that surrounds money laundering, now a one-trillion-dollar industry worldwide and a threat that undermines the economies of many countries, including the United States. B&W illus.

**From Library Journal**

Evil Money discusses the laundering of ill-gotten money, usually from drug trafficking via various routes (e.g., from offshore banks to U.S. banks by wire transfer). The problem, as Ehrenfeld, author of Narco-Terrorism ( LJ 10/1/90), points out, is that money laundering enables drug smugglers, mobsters, and others to legitimize their criminal proceeds and use them to expand operations, further corrupting the system. Ehrenfeld argues that Colombia has been so corrupted by illegal drugs that it is no longer a democracy but rather a drug-infested oligopoly, and she fears something similar might occur in the United States.

The author documents her case by looking at money laundering in the Bahamas and its early connections with gangster Meyer Lansky. She closely examines the various drug cartels as well as the Bank of Credit and Commerce International (BCCI) scandal, the subject of James Ring Adams and Douglas Frantz's *A Full Service Bank* ( LJ 3/1/92) and Mark Potts and others' *Dirty Money* ( LJ 5/1/92). However, she offers very few practical solutions that might correct the situation. Still, this is recommended for popular nonfiction collections in most public libraries.-- Richard Drezen, Merrill Lynch Lib., New York

#### **From The New York Review of Books**

*Evil Money* is filled with ethnic stereotypes ('a shrewd self-assured Arab merchant'), belabored sentences ('skepticism must have been painted all over my face'), questionable political judgments ('What most visitors do not realize is that Switzerland is a police state'), and breathless self-dramatization. 'Most of my friends and associates and even strangers who heard what I was doing warned me that I could be in danger,' Ehrenfeld writes in the introduction. 'Some even avoided meeting me in public places. More than a few requested that their assistance remain unacknowledged. Even my typist requested anonymity. I never doubted the importance of the work I was doing, and luckily neither did my publisher....' Unfortunately, that publisher paid little attention to such matters as veracity and plausibility.

#### **From Rich Lowry - National Review**

Miss Ehrenfeld's reporting consists of anecdotes recounted in minute detail, often to little purpose. What analysis she offers comes mostly in a final chapter warning of the 'Colombianization of the United States': Miss Ehrenfeld claims, in a metaphor that is hard to visualize, that 'Adam Smith's "invisible hand" . . . is now stabbing itself in the back' as traffickers take advantage of capitalism to transform America into a 'symbol of crime degeneracy.' Coming at the end of a book that is stuffed with accounts of money-laundering cases assiduously broken by U.S. law-enforcement agencies, the charge rings hollow.

**Ehrenstein, Michael David. 1990. "Tracking Narco-Dollars: The Evolution of a Potent Weapon in the Drug War." *University of Miami Inter-American Law Review*, Summer: pp. 637-677.**

**Elliot K. A. 1997. *Corruption and the Global Economy*. Institute for International Economics.**

**El-Sheikh, Fath El-Rahman Abdalla. 1998. "Civil Liberties and Privacy." *Journal of Money Laundering Control*. Institute of Advanced Legal Studies. Vol. 2, No. 1, Summer.**

**Evans, J. 1994. "The Proceeds of Crime: Problems of Investigation and Prosecution." Paper presented to the United Nations International Conference on Preventing and Controlling Money Laundering and the Use of the Proceeds of Crime: A Global Approach, Courmayeur Mont Blanc, Italy, 18-20 June.**

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## **Abstract**

The FATF typologies exercise provides a venue for law enforcement and regulatory experts to identify and describe current money laundering methods and trends, emerging vulnerabilities, and potential counter-measures. The discussions at the Oslo meeting were preceded by presentations and debates on a series of major money laundering issues agreed upon beforehand by the FATF Plenary. The primary focus of this exercise, as it is each year, was on developments in and observed by FATF member jurisdictions. However, given the increased participation of countries from outside the FATF, the experts also devoted part of the meeting to hearing presentations on the trends in other regions of the world.

As in previous typologies exercises, delegations and invited experts submitted written material to serve as the starting point for debate and to provide supplemental information for the report. This document is the report of the FATF-XII exercise on money laundering typologies and reflects, therefore, the ideas discussed at the experts meeting and incorporates other material as submitted by each participating country or organization.

The report is divided into two parts. The first part deals with the five major issues examined by the experts group. These include: on-line banking and Internet casinos; trusts, other non-corporate vehicles and money laundering; lawyers / notaries, accountants and other professionals; the role of cash vs. other payment methods in money laundering schemes; and terrorist related money laundering. The second part of the report focuses first on money laundering trends as they have been observed in FATF member countries and second on trends for other regions of the world. In an effort to make this report more relevant to the reader and to illustrate better some of the issues confronting authorities responsible for combating money laundering, case examples have been provided throughout the text.

**Financial Action Task Force on Money Laundering. 2001. Special Recommendations on Terrorist Financing. October. (Available at: [http://www1.oecd.org/fatf/pdf/SRecTF\\_en.pdf](http://www1.oecd.org/fatf/pdf/SRecTF_en.pdf)).**

**Abstract** (from the paper)

Recognizing the vital importance of taking action to combat the financing of terrorism, the FATF has agreed these Recommendations, which, when combined with the FATF Forty Recommendations on money laundering, set out the basic framework to detect, prevent and suppress the financing of terrorism and terrorist acts.

**Financial Action Task Force on Money Laundering. 1996. The Forty Recommendations. (Available at: [http://www1.oecd.org/fatf/pdf/40Rec\\_en.pdf](http://www1.oecd.org/fatf/pdf/40Rec_en.pdf)).**

**Abstract**

Drafted by the FATF in 1990 and revised in 1996, the Forty Recommendations are a comprehensive blueprint for action against money laundering. They encompass the financial system and regulation, the criminal justice system, law enforcement, and international co-operation. Each FATF member has made a firm political commitment to combat money laundering based on them. The Forty Recommendations have come to be recognized as the international standard for anti-money laundering programs. A number of non-FATF Member countries have also used them in developing their efforts to address money laundering.

**Financial Action Task Force on Money Laundering. 2001. Basic Facts about Money Laundering. (Available at: [http://www1.oecd.org/fatf/MLaundering\\_en.htm](http://www1.oecd.org/fatf/MLaundering_en.htm)).**

**Summary** (some of the questions from the paper)

**What is money laundering?** Money laundering is the processing of criminal proceeds to disguise their illegal origin. This process is of critical importance, as it enables the criminal to enjoy these profits without jeopardizing their source.

**What is the scale of the problem?** ...1996 statistics ... indicate that money laundering ranged between US Dollar (USD) 590 billion and USD 1.5 trillion. The lower figure is roughly equivalent to the value of the total output of an economy the size of Spain.

**Where does money laundering occur?** ... it can occur practically anywhere in the world. Generally, money launderers tend to seek out areas in which there is a low risk of detection due to weak or ineffective anti-money laundering programs. Because the objective of money laundering is to get the illegal funds back to the individual who generated them, launderers usually prefer to move funds through areas with stable financial systems.

**How does money laundering affect business?** 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.

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.

**What influence does money laundering have on economic development?** 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.

**What is the connection with society at large?** 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.

**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. 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.

**Financial Action Task Force on Money Laundering. 1999. Money Laundering. Policy Brief. July. [http://www1.oecd.org/fatf/pdf/PB9906\\_en.pdf](http://www1.oecd.org/fatf/pdf/PB9906_en.pdf)**

## Abstract

The Brief is presents the same material as in the *Basic Facts about Money Laundering* .

**Financial Action Task Force on Money on Money Laundering. 2000. “Review to Identify Non-Cooperative Countries or Territories: Increasing the Worldwide Effectiveness of Anti-Money Laundering Measures,” Paris: FATF/GAFI, June 22. (Available at: [http://www1.oecd.org/fatf/pdf/NCCT2000\\_en.pdf](http://www1.oecd.org/fatf/pdf/NCCT2000_en.pdf)).**

## Summary (from the Report)

The Forty Recommendations of the Financial Action Task Force on Money Laundering (FATF) have been established as the international standard for effective antimoney laundering measures.

FATF regularly reviews its members to check their compliance with these Forty Recommendations and to suggest areas for improvement. It does this through annual self-assessment exercises and periodic mutual evaluations of its members. The FATF also identifies emerging trends in methods used to launder money and suggests measures to combat them.

Combating money laundering is a dynamic process because the criminals who launder money are continuously seeking new ways to achieve their illegal ends. Moreover, it has become evident to the FATF through its regular typologies exercises that as its members have strengthened their systems to combat money laundering the criminals have sought to exploit weaknesses in other jurisdictions to continue their laundering activities. And so to foster truly global implementation of international anti-money laundering standards, the FATF was charged in its current mandate to promote the establishment of regional anti-money laundering groups to complement the FATF’s work and help spread the FATF philosophy throughout the world.

In order to reduce the vulnerability of the international financial system to money laundering, governments must intensify their efforts to remove any detrimental rules and practices which obstruct international co-operation against money laundering. Since the end of 1998, the FATF has been engaged in a significant initiative to identify key anti-money laundering weaknesses in jurisdictions inside and outside its membership.

In this context, on 14 February 2000, the FATF published an initial report on the issue of non-cooperative countries and territories in the international fight against money laundering. The February 2000 report set out twenty-five criteria to identify detrimental rules and practices which impede international co-operation in the fight against money laundering (see Appendix). The criteria are consistent with the FATF Forty Recommendations. The report also described a process designed to identify jurisdictions which have rules and practices that can impede the fight against money laundering and to encourage these jurisdictions to implement international standards in this area. Finally, the report contained a set of possible counter-measures that FATF members could use to protect their economies against the proceeds of crime.

The goal of the FATF's work in this area is to secure the adoption by all financial centers of international standards to prevent, detect and punish money laundering.

At its Plenary meeting on 20-22 June 2000, the FATF approved this report. Section one of this report summarizes the review process. In section two, the report briefly describes the findings with respect to the jurisdictions studied. Section three highlights issues that were raised during the process that warrant further consideration by the FATF. Section four outlines future steps to be taken and identifies 15 countries or territories which are viewed by the FATF as non-cooperative in the fight against money laundering.

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**Abstract** (from the above website)

The links between money-laundering, organized crime, drug-trafficking and terrorism are not new and continue to threaten the stability of financial institutions and, ultimately, democracy and the rule of law.

This second revised and expanded edition of Dirty money describes money-laundering activities and analyses initiatives taken in a variety of international fora, including the FATF, the Council of Europe and the European Union which aim to enhance the effectiveness of existing counter-measures. It also presents the new measures put in place to meet the fresh challenges that have arisen, ranging from Internet banking to the introduction of the euro.

Money-laundering uses new methods which make full use of the new technologies. The author describes how the laundering of criminal proceeds through the abuse of Internet banking and gambling, and the potential for abuse presented by the development of "smart cards" and cyberwallets. To combat these advances in criminal activity, existing money-laundering measures have been revised and new ones have been elaborated.

In the few years since publication of the first edition of this book (1995), there have been significant improvements in understanding the nature and extent of the money-laundering problem and important changes in international and national strategies to combat it. This work describes the various international measures being taken, such as Project Octopus and the work of individual countries, with specific updating of the situation in the Caribbean, Latin America and Asia.

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**Abstract** (from the book's Jacket)

This book opens up the secret world of tax havens and offshore finance centers (OFCs), a vast offshore business valued at over one trillion US dollars. It is a timely and original analysis of the role of OFCs in the emerging global economy. The book discusses who uses OFCs, how OFCs work, and what drives their development. Extensive use of case study material from Jersey illustrates the growth of a successful OFC and its impact on a small island.

**Harris, D. and S. Hellman. 1997. "Cayman Islands: Anti-Money Laundering Legislation - The Proceeds of Criminal Conduct Law 1996," Journal of Money Laundering Control, Vol.1, June.**

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**Hellman, Joel and Kaufmann, D. 2001. "Confronting the Challenge of State Capture in Transition Economies", IMF's Finance and Development, September.  
<http://www.imf.org/external/pubs/ft/fandd/2001/09/hellman.htm>**

**Summary** (from the introduction)

When we think about corruption, an image quickly comes to mind of a bureaucrat extorting bribes from powerless individuals and defenseless firms simply to enable them to "get things done." Behind this view lies an understanding of the state extracting rents from the economy for the exclusive benefit of politicians and bureaucrats. Such an approach has had a powerful impact on the way corruption has been analyzed and measured in recent years. The resulting policy recommendations have emphasized reducing the discretionary authority of state officials to eliminate their opportunities to extract bribes.

In transition economies, corruption has taken on a new image—that of so-called oligarchs manipulating policy formation and even shaping the emerging rules of the game to their own, very substantial advantage. We refer to this behavior as state capture. Though this form of grand corruption is increasingly being recognized as the most pernicious and intractable problem in the political economy of reform, few systematic efforts have been made to distinguish its causes and consequences from those of other forms of corruption. Moreover, there have not been any attempts to measure this specific type of corruption and to compare it across countries.

We define state capture as the efforts of firms to shape the laws, policies, and regulations of the state to their own advantage by providing illicit private gains to public officials. We develop a method to measure this form of grand corruption based on the findings and analysis of a survey of nearly 4,000 firms in 22 transition countries.

In recognizing the problem of state capture, we wish to focus attention on the complex interactions between firms and the state. In particular, we emphasize the importance of mechanisms through which firms seek to shape decisions taken by the state to gain specific advantages, often through the imposition of anticompetitive barriers that generate highly concentrated gains to selected powerful firms at a significant social cost. Because such firms use their influence to block any policy reforms that might eliminate these advantages, state capture has become not merely a symptom but also a fundamental cause of poor governance. In this view, the capture economy is trapped in a vicious circle in which the policy and institutional reforms necessary to improve governance are undermined by collusion between powerful firms and state officials who reap substantial private gains from the continuation of weak governance

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**Summary (from the Introduction)**

The International Monetary and Financial Committee (IMFC), at its September 2000, meeting, requested “the Fund to prepare a joint paper with the Bank on their respective roles in combating money laundering and financial crime, and in protecting the international financial system.” Moreover, the two institutions were asked to explore incorporating work on financial system abuse, particularly with respect to international efforts to fight against money laundering into its various activities, as relevant and appropriate.

An informal question and answer session with the Fund Board was held in February 2001 on the basis of the staff paper Financial System Abuse, Financial Crime and Money Laundering-Background Paper (SM/01/46); in September 2000, Bank staff prepared an information note for the Bank Board on The Role of the World Bank Group in Promoting the Integrity of Financial Markets (September 21, 2000). These documents provide relevant background material for this paper. A joint Fund/Bank workshop on financial abuse, with seven outside speakers (including the current President of the Financial Action Task Force (FATF)), was held at the Fund on February 27, 2001.

Although no formal conclusions were drawn from these meetings, the following propositions seemed to gain some acceptance:

- (i) while financial abuse covers a variety of activities, it would be productive at the present time to concentrate on the role of the Fund and Bank in efforts to combat money laundering;
- (ii) the Fund and the Bank are already helping countries strengthen their financial supervision and regulation, as well as legal and governance structures, contributing to the prevention of financial sector crime and money laundering;
- (iii) substantial efforts relevant to countering money laundering are undertaken by other bodies and closer international cooperation would benefit all; and
- (iv) the Fund’s and the Bank’s work on strengthening financial supervision through the application of financial standards, including the preparation of relevant Report on the Observance of Standards and Codes (ROSC), overlaps with the financial/supervisory aspects of the Financial Action Task Force 40 Recommendations (FATF 40).

This paper proposes that the Fund and the Bank strengthen their role in the global fight against financial sector abuse, and money laundering specifically, by:

- (i) publicizing, through official statements and other forms of outreach, both the need to put in place the necessary economic, financial, and legal systems designed to protect against money laundering and the role that the Bank and the Fund are playing in helping to meet this need;
- (ii) recognizing the FATF 40 as a standard for anti-money laundering useful for Fund/Bank operational work;

- (iii) when undertaking Financial Sector Assessment Program (FSAP), ROSCs and Offshore Financial Center (OFC) assessments, intensifying the focus on anti-money laundering elements in the assessment of supervisory standards-Basel Committee Principles (BCPs), International Organization of Securities Commissions' Objectives and Principles for Securities Regulation (IOSCO Principles), and the International Association of Insurance Supervisors Insurance Supervisory Principles (IAIS Principles)-and producing a detailed assessment which, with the concerned country's permission, could be published or shared with the FATF and/or the appropriate regional anti-money laundering task forces;
- (iv) working more closely with the major international anti-money laundering groups;
- (v) increasing the provision of technical assistance (TA) from the Bank and Fund in this area.

Section II discusses work currently undertaken by the Fund and Bank that is relevant to countering financial abuse, especially with respect to helping national authorities improve their systems of financial regulation and supervision so as to create the environment within financial institutions to deter financial crime and money laundering. The paper then reports in Section III on the wider international efforts, including the work of the FATF and regional anti-money laundering task forces, in combating money laundering.

Steps to enhance the Fund and Bank contributions to anti-money laundering efforts are proposed in Section IV. Section V discusses the resource implications. The key questions before Executive Directors (Section VI) are (a) whether the FATF 40 should be recognized as a standard for Fund and Bank operational work; and (b) how to enhance work on money laundering issues in Fund and Bank activities, in particular in technical assistance, including with respect to FSAP, ROSCs and OFC assessments, as well as in the context of technical assistance.

**International Monetary Fund. 2001. "Financial System Abuse, Financial Crime and Money Laundering - Background Paper." Prepared by the Monetary and Exchange Affairs and Policy Department and Review Departments in Consultation with Legal and other Department. Feb, 12. (Available at: <http://www.imf.org/external/np/ml/2001/eng/021201.pdf> ).**

### **Summary** (from the Introduction)

1. At its September, 2000, meeting the International Monetary and Financial Committee (IMFC), requested that the Fund prepare a joint paper with the World Bank on their respective roles in combating money laundering and financial crime, and in protecting the international financial system. Moreover, the Fund was specifically asked "to explore incorporating work on financial system abuse, particularly with respect to international efforts to fight against money laundering into its various activities, as relevant and appropriate." (See Annex I). The purpose of this paper is to present background information prior to the forthcoming consideration of this requested joint paper with the World Bank.

2. The IMFC recognized that the Fund has to play its role in protecting the integrity of the international financial system from abuse through its efforts, inter alia, to promote sound financial systems and good governance. The World Bank, consistent with its development mandate and areas of comparative advantage, plays an important role in assisting countries in legal reforms, often in the context of national anti-corruption programs, and in the design and implementation of capacity building programs (e.g., in the context of legal and judicial reform, establishing protection of shareholders' rights) and the promotion of governance and transparency principles and practices in the financial sector.

3. This paper is organized as follows. Section II reviews current usage and suggests interpretations of various terms such as financial system abuse, financial crime, and money laundering. The empirical evidence on the macroeconomic impact of financial system abuse, focusing on money laundering, is discussed in Section III. The work of other relevant bodies on these issues, especially the Financial Action Task Force (FATF), is presented in Section IV.

**International Monetary Fund. 2001. "Survey on Workshop on Financial Abuse and Money Laundering," March. (Available at: <http://www.imf.org/external/pubs/ft/survey/2001/031901.pdf>).**

### **Abstract**

"Fighting money laundering makes it more difficult for criminals to retain the proceeds of their crimes. On February 19, panelists participating in a joint IMF–World Bank workshop on financial abuse stressed this point and gave special attention to multinational efforts to combat money laundering" (p. 85).

The first panel addressed the negative impact of underlying crimes behind money laundering, which retard economic growth, lower foreign direct investment and decrease government resources. These effects can also be politically destabilizing. The second panel investigated the link between money laundering and other financial crimes, emphasizing that measures to combat laundering can also be helpful in addressing other crimes. Narcotics, prostitution and terrorism are the biggest sources of laundered funds. The third panel emphasized that banks are concerned about reputation and legal risks, which means paying attention to money laundering issues. It is worth noting that in developing measures, regulators must balance compliance costs with risks, because there is "a point at which the costs incurred in controlling the risk will outweigh the benefits" (p. 88).

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### **Abstract**

After illustrating several anecdotes on money laundering, the author notes that the environment the illicit practice has become more difficult, including proactive measures such as know-your-customer (KYC) provisions. Still, KYC is difficult to implement, because there is no obvious end point to the information that would be useful to a bank manager in seeking to prevent money laundering, and it will be hard to deal with third-party introducers (where the main beneficiaries wish to remain anonymous), and it can be hard to balance KYC with a customer's right to privacy.

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**Abstract** (from the introduction)

Over the past decade, a virtual consensus on the market has emerged. While debate continues between differing schools of thought, hard-line critics of liberal economic ideology have grown reticent due to the discrediting of the socialist model of economic growth. One reflection of this trend is the embrace of market reforms by developing and formerly socialist countries. The ongoing transfer of allocative influence to the market has exposed a need to ensure that reliance on market forces is not exploited by actors involved in illegal activities. This paper examines one such kind of actor: the drug-trafficking organization. It explains why the welcome reforms introduced by governments throughout the world could be exploited by those who have profited from the international drug trade. The need to safeguard the reform process from criminal elements has never been greater.

The aim of this paper is to explain why drug traffickers may be attracted to short-term investment opportunities in economies undergoing reform. It is widely accepted that drug trafficking organizations have considerable cash reserves at their disposal. With the advent of tighter banking controls, drug traffickers face increasing difficulty in laundering those funds for use in the legitimate economy, particularly in traditional money-laundering “safe havens.” It is thus significant that in reforming economies, governments have sought to achieve stability by reducing money supply growth and reining in public expenditures; as a result, both consumers and companies in these reforming economies may find difficulty in conducting business as usual. The wealthy drug trafficker faces a sectoral niche with high profit potential.

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Jimmy Gurule has a strong law enforcement reputation, and is playing an important role at the U.S. Treasury in efforts to cut off al Qaeda’s access to money. Working with Interpol, he is establishing a single database to promote real-time information sharing about terrorist groups. To date, about \$67.3 million in assets have been blocked from “more than 150 individuals, businesses and charities designated as terrorism supporters” (p. 57).

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**Abstract** (from the paper)

The purpose of this paper is to apply the tools of economic analysis to the topic of money laundering by connecting macroeconomic theory, the economic theory of crime and the theory of banking regulation. First, the macroeconomic analysis considers the hypothesis of a multiplication effect of money laundering, assessing the relationships between financial structure and real criminal businesses. Then we show the micro effects of money laundering caused by the presence of asymmetric and incomplete information in the banking industry and highlight the role of intermediaries and of the central bank.

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**Abstract** (from the introduction)

The objective of this paper is to point up the link between the effectiveness of anti-laundering regulations and the characteristics of the relative compliance costs for banks, with particular attention to the bank-customer relationships. The work is organized as follows. The second section contains the economic framework, that starts with the assumption that intermediaries have an information advantage and then demonstrates, by means of a principal-agent model, how this advantage can produce collective advantages in the war against money-laundering only if the regulations take the problem of compliance costs into due consideration.

Based on the economic results, then, section three presents an empirical part, comprising a survey conducted in conjunction with an Italian bank present in 11 of Italy's 20 regions, on how banks perceive the relationship of customers with the obligations imposed by the anti-laundering regulations. The survey provides a better understanding of the nature and extent of compliance costs within banking operations. Section four contains the concluding remarks.

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**Abstract** (from the paper)

The author argues that from Moscow to Buenos Aires, money laundering scandals sap economies and destabilize governments. Policymakers blame crime cartels, tax havens, and new techniques like cyberlaundering. But dirty money long predates such influences. Without unified rules governing global finance, outlaws will always exploit disparate legal systems to stash the proceeds of their crimes.

In the absence of effective international cooperation, there will be no realistic chance of defeating or significantly curbing money laundering. The regulatory regimes operating from country to country are at best piecemeal and often are widely ignored. Lax controls in some countries permit easy access to financial-services systems in more regulated jurisdictions, making a global minimum standard necessary for an effective reduction in laundering.

The FATF has made the best-known efforts to date toward creating such a global standard. In broad terms, its Forty Recommendations (now more of a brand name than an accurate count) on combating money laundering have formed the basis of counterlaundering legislation in its own 31 member states and in many others. FATF has spawned look-alike organizations such as the Caribbean FATF and the Asia/Pacific Group on Money Laundering.

Unfortunately, the FATF has taken on a hugely political role the last three years, attacking nonmembers that fail to comply with its demands and constraining the activities of small countries that depend on financial services, not just agriculture and tourism, for their livelihoods. Governments that fail to create financial intelligence units (FIUs)—agencies that receive, analyze, and disseminate information on possible laundering activities—risk being branded "noncooperative" jurisdictions by the FATF.

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**Abstract** (from the introduction)

The corporate disclosure decision is one of the most difficult decisions any corporation, its management and its counsel will face. If a corporation learns that it or one of its employees has engaged in fraud or crime, the corporation, through its officers and directors, must decide whether it should disclose the fraud or crime to the government. These decisions are fraught with dangers which threaten to expose the corporation and its employees to civil and criminal liability.

While some commentators have discussed the potential advantages to a partial disclosure, this paper argues that a partial disclosure is unreasonably risky and, except in the most unusual of circumstances, is very likely to backfire, causing the company to lose all the benefits it hoped to gain by disclosing.

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### **Abstract**

Osama bin Laden finances his activities less from his personal wealth than through a "formidable network of global fundraising operations involving Islamic charities, front companies, money transmitters, legitimate businesses, and criminal activity, including drug trafficking and money laundering" (p. 29). Some terrorist groups even fund their efforts from food stamps and insurance fraud schemes in the United States. About 120 countries are working together in investigating al Qaeda finances.

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### **Abstract** (from the paper)

This paper reviews the main analytical, empirical and policy issues related to the macroeconomic implications of money laundering. It discusses, how money laundering can be measured, given that it is unobservable, and reports cross-section econometric estimates of the displacement of monetary behavior in industrial countries attributed to money laundering. It then examines the various potential channels by which money laundering influences macroeconomic performance, including an econometric estimate of its effects on GDP growth rates. Also, the paper discusses macropolicy implications, particularly in the areas of exchange controls, prudential banking supervision, tax evasion, statistical reporting and legislation.

### **Summary** (from the paper)

Money laundering and measures to counter it have become the focus of an intense international effort. Evaluation of the resource costs and benefits of the countermeasures depends in part on an understanding of the macroeconomic effects of money laundering. The wide range of activities and financial instruments involved in money laundering is not directly observable, and comprehensive, microeconomic-based estimates are difficult to compile. Indirect, macroeconomic-based techniques that involve estimating the extent of money laundering are, therefore, the focus of most empirical work. This paper introduces an international cross-section econometric examination of the role of money laundering, tax evasion, and employment opportunities in determining monetary behavior, and concludes that money laundering has a significant role. A shift is detected from the use of currency in the 1980s to noncash money laundering in the 1990s.

The economic literature suggests that money laundering can distort economic data and thus distort macroeconomic analysis and policymaking. In addition, there may be direct effects on saving resulting from induced changes in income distribution and from the erosion of confidence in financial markets. The paper reports a first attempt at econometric estimation to link differences in economic growth rates among industrial countries to crime as a proxy for money laundering; some evidence is found of a depressant effect on growth.

Finally, the paper examines the implications for economic policymakers. Freedom to launder money could promote private economic welfare for some while undermining social welfare. Public policy considerations, therefore, suggest an antilaundrying role for financial institutions involved in prudential banking supervision, tax evasion monitoring, statistical reporting, and legislation. However, in order to minimize the negative consequences for macroeconomic efficiency, care must be taken in designing the form of the interventions.

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### **Abstract**

“Money laundering can have devastating economic consequences” (p. 7). Data on the size of money laundering is scant, UK and US officials estimate that “the amount of money laundered annually in the financial system worldwide was roughly \$500 billion - some 2% of global GDP” (p. 8). Moreover, crime is very important in explaining variations in “currency and money demand across industrial countries,” and “a 10% increase in crime, is associated with a 10% *reduction* in currency demand and a 6% *reduction* in overall money demand” (p. 8).

“Money laundering threatens economic and financial systems in many countries,” and has significant effects on income distribution and macroeconomic variables, because “accumulated balances of laundered assets are likely to be larger than annual flows, increasing the potential for destabilizing, economically inefficient movements, either across borders or domestically” (p. 9).

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### **Summary** (from the introduction)

The largest illegal market in the United States currently is that for illegal drugs. It may be, in terms of share of GNP, the largest ever. Given the low quality of estimates of income from any other illegal market, the statement is hard to challenge but I believe that one can make a reasonable case that, compared with the other candidates (e.g. prostitution, illegal gambling, counterfeiting) illegal drugs are likely to generate much higher total revenues to sellers. Certainly numbers are presented in a variety of fora, predominantly political, suggesting that it is a major economic activity both in the United States and globally. Figures such as \$500 billion for world sales are thrown around quite glibly.

Even brief scrutiny of the global numbers suggests that they are grossly overstated. Though drug markets are large, and involve a surprisingly large number of Americans on a part-time basis, the total value of annual sales in the United States is likely to be around \$50 billion, less than 1 percent of GDP and less than 2 percent of Personal Consumption Expenditures. The global figure is likely to be no more than twice this. One hundred billion dollars represents a large market but in the context of total global trade flows of almost \$3trillion, it is a very modest share indeed. That share declines to the trivial when account is taken of the fact that most of the value added is domestic, so that valuing the trade at import prices reduces it to probably no more than \$20 billion.

In recent years the federal government has developed systematic estimates of domestic expenditures that do indeed provide a reasonable basis for scaling the size of these markets. However, these coexist with an essentially madcap series of federal figures on international production and prices that make a mockery of the whole enterprise. These estimates and their components are so inconsistent and erratic that they demonstrate what might reasonably be called a “reckless disregard” for the truth. Moreover, though it would be surprising if the government estimates of domestic expenditures were (say) only half of the true value, the year to year fluctuations in these estimates may be wrong even in direction, let alone scale.

Does this mismeasurement matter? For those interested in the size of the underground economy, the answer is clearly yes; estimates of the largest illegal market are potentially of considerable significance. However, the estimates were not developed for those purposes but to help in the development of drug policy. If policy making with respect to drugs were rational, or at least as analytically driven as say monetary policy, then the exaggeration would be a serious problem. I shall argue that the numbers are in fact just decorations on the policy process, rhetorical conveniences for official statements without any serious consequences. Indeed, the irrelevance of these numbers is itself a condemnation of drug policy decision making.

This paper has three sections. The first examines the official estimates of drug production, both in the U.S. and the rest of the world, and sales in the United States, showing how implausible they are. The second describes the process that generates them and its bureaucratic imperatives. Finally I consider the policy interpretation of the mismeasurement.

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**Abstract** (from the paper)

This paper discusses issues of financial sector regulation and supervision in some resource-constrained Pacific Island countries. The author reviews recent international initiatives directed towards offshore financial centers and the fight against money laundering and other financial crime and explores their significance for the Pacific island countries.

**Summary** (from the Introduction)

Financial sector soundness and stability has emerged as one of the principal themes of economic policy and international cooperation in the world. It encompasses a whole range of subject areas, including in the first place the traditional concern about the appropriate regulation and effective supervision of banks. Increasing attention has over the past decade also been given to measures to ensure the soundness of nonbank financial intermediaries such as development banks, provident funds and insurance companies. More recently, the attention of both international organizations and national authorities has been drawn to the operations, financial impact and prudential issues of offshore financial centers, including their role in the growing problem of tax evasion and money laundering.

The present paper seeks to look at these issues from the perspective of the Pacific island countries (PICs) in order to inform the authorities of PICs about the nature and implications of these international developments and allow them to prepare appropriate action in their own countries and regionally to ensure that they will remain an integrated and respected part of the international financial community. In connection with this assessment, the paper will report on a recent initiative to strengthen regional cooperation and coordination in financial sector regulation and supervision and indicate a number of areas in need of further action.

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#### HOT ZILLIONS - THE LAUNDRYMEN

One day in the fall of 1981, Humberto Orozco and his brother, Eduardo, walked into the lower-Manhattan office of a well-known currency and gold dealer, Deak-Perera, to make an unusual deposit. They handed over a pile of cardboard boxes of cash weighing 233 pounds--so much that Deak's staffers needed nearly an entire day to count the \$3.4 million the boxes contained. But Deak was hardly the only house the Orozcos patronized. Between 1980 and 1982, they moved a staggering \$151 million through 11 New York banks.

As you (and federal authorities) suspected, the Orozcós were laundering cash from drug deals. They were caught, Deak eventually collapsed as a result of such practices, and Congress has since tightened its laws on money laundering. But as Jeffrey Robinson observes in his entertaining and comprehensive *The Laundrymen*, the art of hiding dirty and/or taxable money by moving it through the world financial system is anything but dead. “The good guys are seriously outgunned,” writes Robinson, the author of numerous books, including a biography of former Saudi Oil Minister Ahmed Zaki Yamani. The bad guys, meanwhile, “only need to find one country or one bank willing to do their laundry.” And, as Robinson suggests, there is no shortage of either.

*The Laundrymen* traces the business of moving dirty money back to Al Capone and mob banker Meyer Lansky and takes the reader on a stroll through the affairs of a motley crew of like-minded notables, ranging from Panamanian strongman Manuel Noriega to electronics-chain magnate “Crazy Eddie” Antar. The book is so up-to-date that it even delves into the affairs of Raul Salinas, brother of former Mexican President Carlos Salinas de Gortari.

The First Brother's hundreds of millions in offshore accounts have piqued the interest of prosecutors from Mexico to Switzerland. But Robinson's work is more than a laundry list. Impressively documented, *The Laundrymen* is also an indictment of governments and banks that are unwilling to deal decisively with an industry that the author estimates handles \$200 billion to \$500 billion a year. While the U.S. has gone after money launderers with steely determination, he notes, Canada's lax rules on reporting cash transactions make doing dirty deals a snap. And in emerging economies from Russia to Kenya, bankers ask few questions of big depositors.

Even Switzerland takes its lumps: Although Swiss prosecutors have gone to unusual lengths to help U.S. and other investigators, it's still far too easy, Robinson maintains, to find a discreet banker to help stash questionable cash. Worse yet, he says, advances in microelectronics are creating products such as rechargeable cash cards that are tailor-made for future cyberlaunderers.

Robinson has no prescription for the problem--and other than more intense global scrutiny by law enforcers and multinational financial organizations, there probably is no answer right now. But in painting a clear picture of one of the world's sleaziest industries, Robinson has put money laundering on display again. If that's the starting point for serious discussion and coordinated international action, so much the better.

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## **Abstract**

Although money laundering is impossible to measure with precision, it is estimated that US\$300 billion to US\$500 billion in proceeds from serious crime (not tax evasion) is laundered each year. Measures in major financial markets to detect and prosecute laundering are driving it toward less developed markets linked to the global financial system. If left unchecked, money laundering could criminalize the financial system and undermine development efforts in emerging markets. This Note surveys efforts by international bodies to combat money laundering. It looks in particular at the Financial Action Task Force based at the OECD, which has made the most continuous effort.

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- Abstract** (from the Book description from Amazon.com and the publisher)

This book gives a broad analysis of the legal issues raised by the international fight against money laundering. It offers extensive comparative research of the criminal and preventive law aspects from an international perspective. Most of this volume is devoted to specific legal problems that spring from the international nature of the money laundering phenomenon. It contains the most detailed overview yet published on the rules and practices of international cooperation in the fight against money laundering, and the jurisdictional questions that inevitably arise in this context. The author portrays money laundering as a new criminal trend threatening both national and international societies which must be addressed multilaterally through banking practice, international conventions, and with respect for human rights.

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**Abstract** (from Social Science Research Network Electronic Library)

How would you like the government to have access to the records of every purchase you have ever made? Part I of this paper describes the trend toward more electronic and more traceable payments over time, and identifies some of the harms that can occur when an individual's transactions records are readily accessible. Part II introduces the metaphor of data entering a 'vault 600 feet down,' and uses that metaphor to understand the range of ways that data can 'reach the surface,' or become accessible.

Part III systematically examines the advantages and disadvantages of government access to financial transactional data. Advantages come in administration of the tax system, in avoiding welfare and other benefits fraud, and in money laundering and other rules that seek to detect, deter and prove illegal activity. These advantages, however, can be offset by troublesome ways that government officials and unauthorized third parties might misuse financial data. Part IV expands the analysis to high-tech government surveillance more generally. The arguments developed in Part III apply to key escrow, tracking of cellular phone location, transaction-generated information for telephone calls, and other surveillance systems. One important conclusion is that the government should have a greater burden in order to get 'real time' access to data than to get 'audit trail' access after the fact.

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**Abstract** (from the Introduction)

The globalization of economic activities and of financial markets has had many positive impacts on the world economy. It is becoming obvious, however, that there are also some costs. The facility with which dirty/money can now be laundered internationally is one of these costs. The paper discusses the relationship between globalization and money laundering, as well as some to the economic implications of large-scale money laundering.

The paper starts with a discussion of some quantitative aspects of money laundering. Although there are no hard estimates, experts have assumed that U.S. \$300 billion to U.S. \$500 billion of dirty money enter the international capital markets every year. This money is generated by criminal activities, which directly absorb resources that could be allocated to legitimate uses. Money laundering allocates dirty money around the world not so much on the basis of expected rates of return but on the basis of ease of avoiding national controls. Dirty money tends to flow to countries with less stringent controls. As a consequence, the world allocation of resources is distorted--first, by the criminal activities themselves, and then by the way the dirty money is allocated.

The paper discusses some of the effects of dirty money on economic policy. It points to the fact that asset prices, interest rates, and exchange rates can be distorted by large movements of dirty money and that wrong signals may be sent to policymakers. It also discusses the potential instability that large movements of dirty money can bring to specific countries and to the international financial system.

The paper concludes with the discussion of a proposal that would compel countries to adopt similar rules (or similar role of conduct) aimed at controlling money laundering. The countries that would not abide by these rules would be penalized. This would be an application of a Pigouvian tax aimed at a negative externality. Pigouvian taxes have played an important role within countries. In the future they are likely to play an increasing role internationally.

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**Abstract** (from the publisher's book description (at: <http://www.securities-institute.org.uk/web/Infopool.nsf/HTML/7E26C8454B43434E80256C230031C319>))

This quick guide looks at the scale of the problem and efforts taken to overcome it: an essential reference for all who are concerned to identify attempts at money laundering within their organization.

What is money laundering?

Money laundering and the law  
How do you spot it in process, and what do you do?

A quick guide about how to prevent your organization being used by money launderers.

The Essential Elements of the Prevention of Money Laundering contains information on one of the hottest topics in the securities and investment industry.

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**Abstract** (from the foreward)

Ten years ago the United Nations Convention Against Illicit Traffic in Narcotic Drugs and Psychotropic Substances placed the issue of the proceeds of crime on the world agenda. Among the Convention's most important and innovative provisions were those that sought to overcome banking and financial secrecy laws where they presented impediments to criminal investigations.

Over the past decade, many Member States have made great efforts to increase the transparency of financial dealings and to make financial and commercial records more accessible for bona fide investigations, with a view to giving effect to the anti-money-laundering provisions of the Convention. Today we may look back at the progress made and the challenges that lie ahead. While there has been a general trend towards enacting money-laundering laws that provide for the lifting of financial secrecy in appropriate cases, such secrecy remains a barrier in many jurisdictions, including some of those that have come to be known as "financial havens". In addition, new laundering techniques have been identified, such as the increased use of professionals, corporate registration secrecy and certain types of trusts.

To give a picture of the problem today, at a time when the United Nations General Assembly, at its twentieth Special Session devoted to countering the world drug problem together, has renewed its commitment to take the profit out of crime, ... four eminent experts ... examine the issues of banking secrecy and financial havens in the context of the fight against money-laundering worldwide. The present study aims to stimulate discussion on bank secrecy and financial havens but is not necessarily intended to reflect the views of the United Nations on the issue.

**Summary** (from the Executive Summary)

Today, enterprise criminals of every sort, from drug traffickers to stock fraudsters to corporate embezzlers and commodity smugglers, must launder the money flowing from their crimes for two reasons. The first is that the money trail itself can become evidence against the perpetrators of the offence; the second is that the money per se can be the target of investigation and seizure. Regardless of who actually puts the apparatus of money-laundering to use, the operational principles are essentially the same. Money-laundering should be construed as a dynamic three-stage process that requires: firstly, moving the funds from direct association with the crime; secondly, disguising the trail to foil pursuit; and, thirdly, making the money available to the criminal once again with its occupational and geographic origins hidden from view.

Criminal money is frequently moved abroad and then cycled through the international payments system to obscure the audit trail. Despite a myriad of complications, there is a simple structure that underlies almost all international money-laundering activities during this stage of the process. The launderer often calls on one of the many jurisdictions that offer an instant-corporation manufacturing business. Many sell "offshore" corporations, which are licensed to conduct business only outside the country of incorporation, are free of tax or regulation and are protected by corporate secrecy laws.

Once the corporation is set up in the offshore jurisdiction, a bank deposit is made in the haven country in the name of that offshore company, particularly one whose owner's identity is protected by corporate secrecy laws. Thus, between the law enforcement authorities and the launderer, there is one level of bank secrecy, one level of corporate secrecy and possibly the additional protection of lawyer-client privilege if counsel in the corporate secrecy haven has been designated to establish and run the company. In addition, many laundering schemes involve a third layer of cover, that of the offshore trust, which is usually protected by secrecy laws and may have an additional level of insulation in the form of a "flee clause" that permits, indeed compels, the trustee to shift the domicile of the trust whenever the trust is threatened.

In essence, the rule in successful money-laundering is always to approximate, as closely as possible, legal transactions. As a result, the actual devices used are themselves minor variations on methods employed routinely by legitimate businesses. In the hands of criminals, transfer-pricing between affiliates of transnational corporations turns into phony invoicing; inter-affiliate real estate transactions become reverse-flip property deals; back-to-back loans turn into loan-back scams; hedge or insurance trading in stocks or options becomes matched- or cross-trading; and compensating balances develop into the so-called underground banking schemes. On the surface it may be impossible to differentiate between the legal and illegal variants; the distinction becomes clear only once a particular criminal act has been targeted and the authorities subsequently begin to unravel the money trail.

There have been a number of developments in the international financial system during recent decades that have made the three F's—finding, freezing and forfeiting of criminally derived income and assets—all the more difficult. These are the "dollarization" (i.e. the use of the United States dollar in transactions) of black markets, the general trend towards financial deregulation, the progress of the Euromarket and the proliferation of financial secrecy havens.

Fuelled by advances in technology and communications, the financial infrastructure has developed into a perpetually operating global system in which "megabyte money" (i.e. money in the form of symbols on computer screens) can move anywhere in the world with speed and ease. The world of offshore financial centres and bank secrecy jurisdictions is a key part of this but can also be understood as a system with distinct but complementary and reinforcing components, many of which are readily amenable to manipulation by criminals. These components are examined in detail in the present study.

The characteristics of offshore financial centres and bank secrecy jurisdictions can be understood as a tool kit that can be used not only to launder the proceeds of drug trafficking and other crimes but also to commit certain kinds of financial crime. Not all jurisdictions are equally lax, however, and the study provides a brief overview of the geography of the world of these financial and bank-secrecy havens. This world is in a constant flux that reflects differential responses to the complex balancing act between competitiveness, on the one hand, and high ethical business standards, on the other. The optimum competitive position is one in which the centre is neither too stringent in vetting customers nor too obviously indiscriminate in accepting all custom.

Serious efforts have been, and continue to be, made to create greater transparency in financial matters, but the offshore financial world remains for a large part a "Bermuda triangle" for financial investigations.

Law enforcement success stories presented in this study convey a sense of the imaginative, and sometimes rather crude, ways in which financial havens are used to hide, move and clean the proceeds of crime, in an area usually characterized by criminal successes and law enforcement failures. The cases highlight the advantages, from the point of view of criminals, of collusion with bank employees and the use of professional launderers. They also reveal how criminals are able to exploit what for them has, in effect, become a borderless world. It is this combination of rapid and largely anonymous transfers and protective destinations that anti-money-laundering efforts need to pierce.

In this context, some issues meriting further consideration include:

The misuse of States' sovereignty to provide safe havens for criminal proceeds.

The proliferation of international business corporations (IBCs), which are routinely used in money-laundering schemes because they provide an impenetrable layer of protection around the ownership of assets. They have few commercial or financial justifications, except to conceal the origin and destination of goods in international commerce, to circumvent arms control laws and to evade taxes by moving profits and assets out of the reach of the tax collector.

The abuse of offshore trusts.

The role played by some professionals protected by legal privileges.

The effect of the "dollarization" of the global market and likely effect, in the years to come, of the introduction of the Euro on financial markets.

The usefulness of free trade zones for legitimate purposes, since tariffs have declined.

The vulnerability of casinos to money-laundering operations and the crucial need for the industry to be more carefully regulated.

The need to develop and more efficiently exchange financial crime intelligence.

The proposal that financial centre countries publish data, including information on both the asset holdings and the flows of funds through accounts of all types, in a reasonably coordinated way to form a basis for informed answers to serious policy questions.

The quasi-absence of regulation of offshore banking, and excessive bank secrecy protection, that sometimes even block regulators in a country from effectively supervising branches of their home country's financial institutions branches located in those centres.

The importance of improving financial investigators' training in order to equip them to deal complex schemes, and the proposal of an international graduate programme for mid-career law enforcement, legal, judicial and private sector compliance officials.

The common denominator in money-laundering and a variety of financial crimes is the enabling machinery that has been created in the financial havens and offshore centres. The effectiveness of these centres in helping people and companies to hide assets is not the result of any single device. Changing bank secrecy rules alone will not help. Rather, the centres have created a tool kit composed of new corporate instruments, foundations, trusts, trust companies, banks and bank accounts.

The tools are mixed and matched with jurisdictions that have made a point of non-cooperation with the rest of the international community in criminal and tax investigations. What started as a business to service the needs of a privileged few has become an enormous hole in the international legal and fiscal system. If the international community is to develop a rule of law to match the globalization of trade and the global movement of people, the questions raised by this hole in the system will have to be addressed. The world community will have to face the issue of the use of sovereignty by some countries to give the citizens of other countries a way around the laws of their own societies.

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**Abstract** (from the Journal)

Money laundering allows crime to pay by permitting criminals to hide and legitimize proceeds derived from illegal activities. According to one recent estimate, worldwide money laundering activity amounts to roughly \$1 trillion a year. These illicit funds allow criminals to finance a range of additional criminal activities. Moreover, money laundering abets corruption, distorts economic decision-making, aggravates social ills, and threatens the integrity of financial institutions.

Money launderers now have access to the speed and ease of modern electronic finance. Given the staggering volume of this crime, broad international cooperation between law enforcement and regulatory agencies is essential in order to identify the source of illegal proceeds, trace the funds to specific criminal activities, and confiscate criminals' financial assets.

This issue of Economic Perspectives gives some idea of the scope of the problem as well as the way agencies of the U.S. government are cooperating with each other, the private sector, and foreign governments to contain this scourge.

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## **Abstract**

“When the talk turns to corruption, the news media and most international institutions (whether official or nongovernmental) focus on the demand side of the equation: on public officials who abuse their office for private gain. Frequently, the supply side is given less attention. Those who pay bribes are sometimes depicted as innocent parties, forced by ruthless officials to provide kickbacks and do special favors in return for business. The reality is that both parties to corrupt practices conspire to defraud the public, to undermine fair trade, to waste resources, to frustrate development, and often to increase human suffering” (p. 30).

“A more balanced approach, which is emerging, promises to make anticorruption efforts more effective” (p. 30). Fighting money laundering is one of the four key pillars of efforts to “challenge bribe givers and curb their activities” (p. 31). “Money laundering is the handmaiden of international corruption, and efforts to curb money laundering can help to reduce corruption. The linkage is clear: those who take bribes must find safe international financial channels through which they can bank their ill-gotten gains. Those who provide the bribes may well assist the bribe takers to establish safe financial channels and launder the cash” (p. 32).

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**Abstract:**

Financial abuses -- money laundering, tax evasion and rogue banking -- have been around for as long as there have been finances to abuse. But globalization is creating new challenges as borders dissolve. New technologies enable tiny, remote countries to make quick money through their underregulated banking systems. Recent multilateral initiatives have started to attack the problem. But if the Bush administration fails to follow through on reforms, the entire effort could fall apart.

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**Abstract (from the article)**

Lurking in reams of 2001 government trade data are thousands of such wildly mis-priced transactions, and those trades may hint at corporate tax evasion and criminal money laundering on a grand scale, according to two academic researchers who have been mining the data for more than a decade. Pak and Zdanowicz, plan today to release their latest analysis of overpriced U.S. imports and underpriced exports, estimating that corporations manipulated international trades last year to shave \$53.1 billion from their tax bills. That is a 19 percent increase from the tax cheating that Pak and Zdanowicz believe they uncovered in 2000, and an 89 percent increase from 1993.

For a decade, government officials and fellow academics have questioned such eye-popping numbers. One senior Treasury analyst bluntly dismissed the tax-avoidance totals as "much too large." The U.S. Customs Service is the only government agency that has been seriously studying the pricing schemes to prosecute money laundering and tax evasion. Customs uses its own research along with expert testimony from Pak and Zdanowicz.

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### **Abstract**

The guidelines layout the "Wolfsberg Anti-money Laundering Principles," that were agreed by 12 major international banks meeting in Wolfsberg, Switzerland, in 2000. The banks view these Principles as "important global guidance for sound business conduct in international private banking." A team from Transparency International facilitated the initiative, and the Principles are widely viewed as "an important step in the fight against money laundering, corruption and other related serious crimes."

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### **Abstract (from the paper)**

The Wolfsberg Group of International Financial Institutions has agreed that these Principles constitute global guidance on the establishment and maintenance of Correspondent Banking relationships. The Wolfsberg Group believes that adherence to these Principles will further effective risk management and enable institutions to exercise sound business judgement with respect to their clients. Furthermore, adherence to these Principles will support the aim of Wolfsberg Group members to prevent the use of their worldwide operations for criminal purposes.

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### **Summary** (from the Introduction)

Money laundering and the financing of terrorism are global problems that affect not only security, but can harm financial systems, potentially affecting economic prosperity. The global agenda to curb money laundering and the financing of terrorism calls for a cooperative approach among many different international bodies. Efforts to establish an international standard against money laundering have been led by the Financial Action Task Force (FATF) with the development of the FATF 40 Recommendations. The Boards of the Fund and the Bank have recognized these recommendations as the appropriate standard for combating money laundering. The FATF's work has now been extended to anti-terrorism financing, with the development of the eight special recommendations to combat terrorist financing.

The Fund and Bank mandate and core areas of expertise entail that it can and should help member countries strengthen defenses against the destructive activities of money laundering and financing of terrorism. The decisions by the Fund and Bank Boards first in April and later in November 2001 have resulted in greater involvement in global anti-money laundering (AML) efforts. The IMFC subsequently endorsed the Fund's action plan to intensify its work on anti-money laundering, consistent with its mandate and expertise by extending its involvement beyond anti-money laundering to efforts aimed at countering terrorism financing and expanding the anti-money laundering activities to cover legal and institutional framework.

This methodology is to guide the assessment of measures for anti-money laundering and combating the financing of terrorism (AML/CFT) in the context of the joint Fund/Bank Financial Sector Assessment Program (FSAP) and the Fund's Offshore Financial Center (OFC) initiative. Concurrent with this AML/CFT assessment effort, Fund and Bank staffs are engaged with the FATF on convergence—including the development of a ROSC module—to a global anti-money laundering standard. This document also serves as an important part in this process.

The AML/CFT methodology takes as its basis existing international standards and supporting documentation prepared by the Basel Committee on Banking Supervision (Basel), the Financial Action Task Force on Money Laundering (FATF), the International Organization of Securities Commissions (IOSCO), and the International Association of Insurance Supervisors (IAIS). This draft methodology benefits from many useful comments received from representatives of the standard setters that were provided following the release of an earlier version of the methodology issued in July 2001. The Fund and the Bank continue to seek comments for this draft methodology, which is being sent to the FATF and other standard setters for their comments.

While the methodology has been expanded to include legal and institutional framework elements it excludes the assessment of law enforcement areas, which is consistent with the direction from the Fund and Bank's Executive Boards. The Fund and the Bank do not have a mandate to apply or enforce AML/CFT laws with respect to specific or individual cases. This would mean, for example, that assessors would not review the efficacy of investigation, prosecution or extradition of criminals suspected of money laundering crime or terrorism finance. Similarly, assessors will not review the adequacy of efforts to freeze, seize and/or confiscate assets alleged to be the proceeds of money laundering crime or for the financing of terrorism.

The AML/CFT methodology has been organized in the following sections. Section II provides a Summary of the three parts to the assessment methodology, how it is to be used for assessments, and risk factors to be considered when deciding which financial services to be included in the assessment. Section III discusses the relationship between this methodology and the FATF's 40 Recommendations and eight special recommendations to combat terrorism finance. Section IV provides the detailed guidance, including criteria, to be used for the AML/CFT assessment. Annex I provides the AML/CFT assessment report template. Annex II provides a questionnaire to send to the authorities to review the institutional, legal and supervisory arrangements for anti-money laundering and combating the financing of terrorism.

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