

# CENMUN 2019



## UNITED NATIONS GENERAL ASSEMBLY 2 ECONOMIC & FINANCIAL

Working towards an International Effort to  
Combat Money Laundering.

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# What is Money Laundering?

- Money laundering is the method by which criminals ***disguise the illegal origins of their wealth and protect their asset bases***, so as to ***avoid the suspicion of law enforcement agencies*** and ***prevent leaving evidence*** which would make them appear guilty of a crime or wrongdoing.
- It is ***hiding or diluting the identity of illegally obtained money or assets*** so that they ***appear to have originated from legitimate sources***. It is frequently a component of other much more serious crimes such as drug trafficking, robbery or extortion.
- Money laundering is widespread and found in areas where it might be least expected, such as environmental crimes. The ***arrival of cryptocurrency such as bitcoins has worsened this problem***.

## How is Money Laundering done?

Money laundering essentially involves ***three main steps*** and they are

### ***1. Placement***

In the first step, the money launderer ***introduces his illegal profits into the financial system***. This might be done by breaking up large amounts of cash into less conspicuous smaller sums that are then deposited directly into a bank account or by purchasing a series of monetary instruments such as cheques, money orders, etc. that are then ***collected and deposited into accounts at another location***.

## 2. Layering

In the second step, the launderer engages in a ***series of conversions or movements of the funds to distance them from their source.*** The funds might be transferred through the purchase and sales of investment instruments or the launderer might simply transfer the funds through a series of accounts at various banks across the globe. This use of widely scattered accounts for laundering is especially ***prevalent in those countries that do not cooperate in anti-money laundering investigations.*** In some instances, the launderer might disguise the transfers as payments for goods or services, thus giving them a legitimate appearance.

## 3. Integration

In the third and last step, ***the illegal funds re-enter the legitimate economy.*** The launderer might choose to ***invest the funds into real estate, luxury assets, or business ventures.***

## Ways of Money Laundering

There are ***six main ways*** in which money laundering is done

### 1. Hiding money under Shell Companies

Shell companies ***exist only on paper and have no active business operations.*** They are easy and cheap to set up and ***effective at ownership keeping unknown.*** They're key to the layering phase of money laundering in which funds are transferred around multiple times to make them harder to track. Shell companies are found in ***offshore tax havens such as Panama and the Bahamas but the U.S. states of Delaware and Nevada also permit corporations to be set up in anonymity.***

## 2. Finding Weak Leaks

After the chaotic collapse of Soviet Union, launderers searched out weak spots in Europe where ***institutions monitoring money laundering and other related activities were ill-equipped***. They looked for banks that might be poorly supervised or even open to being complicit. Large amounts of cash were channeled into banks in Cyprus and Malta. Baltic nations such as Estonia and Latvia became passageways for dirty money to enter the Western European countries. When compared to Western European banks, ***funds in these countries could be cleansed and moved around with less scrutiny***. Denmark's Danske Bank A/S has itself acknowledged that most of the \$230 billion that flowed through its tiny Estonian outpost may have been dirty. Therefore, money launderers try find countries where ***institutions supervising financial activities are weak and where money can be easily transferred without much risk of leaving criminalising evidence***.

## 3. Trade based Money Laundering

Criminals can move funds across borders by ***engaging in legitimate international trading of goods and falsifying bills to disguise their true value***. This method is widely used to enable outflows from developing economies. Global Financial Integrity, a Washington based research organization, estimates that ***trade misinvoicing accounts for 18 percent of developing nations' trade with developed economies***.

## 4. Back to Back Deal

In a back-to-back deal, the launderer takes ***a loan in one country that's secured by a deposit in another country***. The launderer defaults on the loan, the bank seizes the deposit and the money looks clean. The fact that this type of transaction has ***legitimate applications makes it harder to stop***.

## 5. Mixing Clean and Dirty Money

It's difficult to tell the difference between legitimate business and illicit flows from criminal activity. Launderers sometimes ***work with real companies that generate lots of cash, merging their funds before they head to the bank.*** Casinos and other cash-based operations such as restaurants are attractive targets. A common scheme involving casinos is to ***buy large amounts of chips in cash, gamble just a tiny share, then call the rest winnings and redeem the funds.*** Even more effective is owning the whole casino. The expansion of online gaming and sports betting ***where identities are easy to hide provide new opportunities to easily launder money.***

## 6. Smurfing

To avoid leaving criminalising doubts, money launderers will ***break down a large amount of money into smaller chunks*** and have associates known as smurfs and deposit the funds in different accounts in different places. U.S. banks are required to report to regulatory authorities any transaction of more than \$10,000, so launderers often avoid hitting that limit. Banks must continuously ***track customer transactions to look for any criminalising evidence and if they have good reason to suspect something suspicious, they must alert authorities.*** Failure to do so can bring stiff fines.

## Financial Action Task Force

The Financial Action Task Force (FATF) is an inter-governmental body established in 1989. The objectives of the FATF are to set standards and promote ***effective implementation of legal, regulatory and operational measures for combating money laundering, terrorist financing and other related threats to the***

***integrity of the international financial system.*** Starting with its own members, the FATF monitors countries' progress in implementing the FATF recommendations that is ***reviews money laundering and terrorist financing techniques and counter-measures.*** It also ***promotes the adoption and implementation of the FATF recommendations globally.***

## Financing of Terrorism

Terrorism activities take place in many different forms ranging from isolated acts to planned activities of organised groups. The forms of financing of terrorism therefore vary accordingly. It comprises ***not only the financing of terrorist acts as such, but also any support to the criminal network.*** Terrorist organisations require significant funding, both for the actual ***undertaking of terrorist acts,*** but also to other issues : to ***maintain the functioning of the organisation, to provide for its basic technical necessities, as well as to cover costs related to spreading related ideologies.***

The funding of terrorist activities often requires funds to be ***moved within or across jurisdictions.*** There's a ***clear similarity between terrorist financing and money laundering as in both cases efforts are made to hide the funds from the scrutiny of state authorities.***

## Sources of Terrorist Funding

### ***1. Illegal Activities***

Funds may originate from illegal activities ranging from **low-scale criminality to organised crime** like trafficking in drugs, weapons or human beings.

## 2. Legitimate Origins

The origin of the funds however might also be legitimate, being provided for example by the **members of the organisation (usually the newcomers) or obtained through the abuse of non-profit organisations.**

## 3. New Techniques

New funding techniques of terrorist organisations were recently identified by the FATF in respect of the Islamic State. Given the way of its functioning, the Islamic State resorted to **new methods of funding which could be considered more inherent for a state** such as leveraging taxes or exploiting natural resources (such as in this case natural gas and oil).

## Important Conventions on Money Laundering

- **Council of Europe Convention on Laundering, Search, Seizure and Confiscation of the Proceeds from Crime**

The aim of this Convention is to facilitate international cooperation and mutual assistance in **investigating crime, tracking down, seizing and thus confiscating the assets obtained due to criminal activities.** Countries undertake efforts in particular to **criminalise the laundering of the proceeds of crime** and to **confiscate instrumentalities and proceeds which are the assets obtained**

*due to criminal activities* (or property the value of which corresponds to such proceeds).

- ***International Convention for the Suppression of the Financing of Terrorism***

The International Convention for the Suppression of the Financing of Terrorism is a 1999 United Nations treaty designed to ***criminalize acts of financing acts of terrorism***. The convention also seeks to ***promote police and judicial co-operation to prevent, investigate and punish the financing of such acts***. As of October 2018, the treaty has been ***ratified by 188 states***.

- ***The United Nations Convention Against Illicit Traffic in Narcotic Drugs and Psychotropic Substances***

This convention which is also known as the Vienna Convention was the first international instrument to address the ***issue of money or assets gained by criminals during the course of their criminal activity*** and to require states to establish ***money laundering as a criminal offence***.

- ***Basel Committee Statement of Principles***

In December 1988, the G-10's Basel Committee on Banking Supervision issued a statement of principles with which the ***international banks of member states are expected to comply***. These principles cover ***identifying customers, avoiding suspicious transactions, and cooperating with law enforcement agencies***. In issuing these principles, the committee noted the ***risk to public confidence in banks and their stability*** if they accidentally become associated with money laundering.

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