



A-Z Money Laundering

419 Fraud

The infamous letters from Nigeria and neighbouring states offering you untold riches, named after the section in the Nigerian penal code which deals with fraud.

AML

Anti-money laundering: abbreviation now widely used when referring to relevant legislation and regulation and their enforcement.

Anonymous account

The only 'official' anonymous account available was the Sparbuch; Switzerland, for example, does not offer anonymous accounts. True anonymous accounts are where the financial institution has no idea whatsoever who holds the account and has no records concerning the client's identity. It can be effectively argued (and the accounts certainly are promoted as such) that an IBC that opens a bank account is in effect creating an anonymous account. Numerous 'anonymous' accounts and facilities are still offered via the Internet.

BCBS

Basel Committee on Banking Supervision.

Bearer shares

In very simple terms the documents that show ownership of the company: if you have them you own the company but such ownership is not recorded in any official records. A substantial facilitator of anonymity and confidentiality in company ownership.

Beneficial Owner

The person(s) who ultimately owns an asset – in KYC terms this is the key individual(s) about whom checks need to be carried out. On occasions, particularly with offshore entities, the identity of the beneficial owner may not be disclosed in the public domain. Sufficient KYC checks will not be deemed to have been carried out if the identity of the beneficial owner(s) is not established and then subjected to verification.

BMPE

Black Market Peso Exchange (See 'Peso Exchange' below).

CDD

Customer due diligence.

CFT

Combating the financing of terrorism.

Coca

The shortened version of the South American shrub *Erythroxylon coca*: the dried leaves of which are the source of cocaine.

Cocaine

Extracted from the leaves of the coca tree and the drug of choice in the United States where there are over 2 million addicts. It has limited use as a medical application mostly as a local anaesthetic. However, it is highly toxic and addictive. Crack is a derivative of cocaine.

Correspondent Bank

A perfectly legitimate banking arrangement where a bank accepts deposits and performs banking services for another bank. However, there is a specific money laundering risk where the bank using the services is a 'shell bank' (see below).

FATF

FATF stands for the Financial Action Task Force on Money Laundering (also known as GAFI: the Group d'Action Financière sur le Blanchiment de Capitaux) which was established by the Group of Seven Nations summit in Paris in July 1989 to examine methods to combat money laundering. Its secretariat is based at the OECD in Paris . The members of the FATF are: Argentina , Australia , Austria , Belgium , Brazil , Canada , Denmark , European Commission, Finland , France , Germany , Greece , Hong Kong , China , Iceland , Ireland , Italy , Japan , Luxembourg , Mexico , Netherlands , New Zealand , Norway , Portugal , Russian Federation , Singapore , Spain , Sweden , Switzerland , Turkey , United Kingdom , United States , the European Commission and the Gulf Co-operation Council. In 1990 the FATF issued 40 recommendations to control and prevent money laundering, which were revised in 1996 as a result of changing events and trends. FATF also issues annual reports and typology papers. Both of these give extremely comprehensive information on trends, issues, methods, preventative measures and other useful material. These reports and the 40 recommendations can be downloaded in their entirety from FATF's Web site (see Appendix II: Web directory).

FinCEN

The United States Department of the Treasury Financial Crimes Enforcement Network (also see Appendix II: Web directory).

FIU

Financial Intelligence Unit: the national central unit/authority as recommended by the FATF, which receives, analyses and acts upon suspicious activity reports and deals with AML matters.

Front Company

Normally a company that is a front for organized crime or other illegal activities. It is argued that by their very nature all IBC's are front companies.

IBC

International Business Company or Corporation. Can be incorporated in most offshore financial centres and although some attributes may vary typically such a company is not permitted to trade in the country of incorporation; is not taxed or only low tax is applied; and it is possible to own such an entity anonymously through nominee directors and bearer shares. Additionally there are very few corporate reporting requirements.

Integration

The final part of the money laundering process whereby the funds that were originally a direct result of, and directly associated to, criminal activity are fully integrated into the banking system and are thus now clean.

KYC

One of the fundamental precepts of global anti-money laundering regulations: Know Your Customer. The process whereby the identity of a new customer must be established before a business or financial relationship can begin or proceed.

Layering

The second stage of the money laundering process where funds are split up and given more authenticity and a better provenance by financial tools such as shares, stocks, loans and any other mechanism that pushes the criminal money further into the monetary system and disguises its origins.

ML

Money laundering.

NCCTs

Non-cooperative countries and territories; FATF abbreviation for 'blacklisted' countries and territories.

Nominee Director

When a professional (or another person) acts as a Director for a client without revealing or recording the identity of the client. In Offshore Financial Centres it is quite common for company formation agents to be Nominee Directors of thousands of companies

Numbered account

Fairly common and not to be confused with anonymous accounts. This is where a bank, to hide the identity of the customer, gives their account a number of code name. However, the bank itself should know the identity of the customer and have verified it.

OFC

See 'Offshore Financial Centre' below.

Offshore Bank

These are primarily banks that are domiciled in an offshore financial centre and conduct their business with non-residents of that jurisdiction. At their extreme, in some of the more dubious locations, they have no physical presence in the jurisdiction; very little regulation; zero or low tax rates; little or no capital reserve requirements. Because of these factors they are an ideal money laundering vehicle. However, it should be appreciated that there are many legitimate offshore banks – the real danger group are shell banks (see below).

Offshore Company

A company registered in an Offshore Financial Centre; normally but not exclusively an International Business Company.

Offshore Financial Centre

There is some ongoing discussion as to how an Offshore Financial Centre or OFC can be defined. In broad terms it is a jurisdiction where a concerted governmental effort has been made to attract foreign business and investment through tax incentives, confidentiality and investor friendly regulations. In most cases the provision of financial services in an OFC is to non-residents only.

Patriot Act

The United and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism ('USA Patriot') Act of 2001. The Money Laundering Abatement and Anti-Terrorist Financing Act of 2001 is Title III of the Patriot Act, signed into law by President Bush on 26 October 2001 . Rightly claimed by the US administration as 'the most significant legislation of its kind since 1970'.

PEP

Politically exposed person.

Peso Exchange

Has been described as the 'the single most efficient and extensive money laundering scheme in the Western Hemisphere ' involving the washing of funds from Colombia - described fully in chapter 3.

Phantom Bank

A bank which simply does not exist, as it is not registered or licensed anywhere; rather it is merely a front for criminal or laundering activity.

Placement

The initial and most difficult stage of the money laundering process where the direct results and proceeds of crime need to be inserted into the business and banking system. There is a vast variety of methods used but the key objective is to make all amounts resemble legitimate business transactions.

SAR

Suspicious activity report or reporting: generic term that may have a different title in individual countries. The report(s) submitted by financial institutions and other bodies subject to AML regulations to the FIU when suspicious money laundering activity is suspected. In the United States (as an example) there are SARs for financial institutions, SARC (Suspicious activity report for casinos) and SAR-S (Suspicious activity report for securities brokers and dealers).

Shelf Company (or off the shelf company)

A pre-formed company which has not normally started trading and can be bought from a third party provider of company management services. There is also the possibility in some jurisdictions to buy shelf companies that have previously traded but are now dormant or appear to have been legitimately in existence for a number of years because the company was established many years previously. These companies provide the easiest way to start trading but simultaneously create money laundering risks, particularly when the identity of the beneficial owner(s) is hidden.

Shell bank

A specific money laundering risk, particularly via correspondent banking relationships established by shell banks. A shell bank is generally defined as 'a foreign bank without a physical presence in any country'.

Smurfing

A technique used in the placement of funds that are being laundered, where the funds are divided into smaller amounts so that such amounts will fall below the threshold at which the relevant financial institution (or other body) is required to file a suspicious transaction report.

Sparbuch

From the German Sparen meaning save, Buch meaning book. An anonymous passbook-based account that was available in Austria, the Czech Republic and some other locations. Now officially banned or withdrawn. No identification was taken when the account was opened and the account was operated under a password: the bank did not hold details of the account holder: Cash withdrawals were allowed on production of the passbook and code word (thus the account holder did not necessarily have to be present and could send a representative).

Tax haven

A country which has a low or zero rate of taxes across the board (also see 'Offshore Financial Centre'). The OECD define a tax haven that conducts harmful tax competition as:

- any nation that imposes nominal or no tax on income;
- any nation offering preferential treatment to certain types of income at no or low tax rates;
- any nation that offers or is perceived to offer non-residents the ability to escape taxes in their country of residence.

The OECD notes further activities that identify a tax haven as:

- practices that prevent the effective exchange of relevant information with other governments on taxpayers benefiting from a low or no tax break;
- general lack of transparency
- the absence of a requirement that the activity be substantial (investment that is not purely tax driven).

Terrorist financing or terrorist funding

Two phrases that have become interchangeable and have become a "shorthand" for two separate processes: the funding of terrorism through a variety of sources and the holding/distribution of these funds to frontline terrorists. Terrorist financing/funding is not money laundering, although the laundering process can be one of the tools used to manage relevant funds (see chapter 7).

Trust

A legal structure created by a trust agreement through which the instigator or settlor transfers the legal ownership of assets to a trustee who then holds those assets under the terms of the agreement for the benefit of the beneficiaries, which may include the settlor.