

**MONEY LAUNDERING  
AND  
FINANCIAL CRIMES**



## Introduction

The terrorist attacks of September 11 vividly illuminated the importance of anti-money laundering laws and controls. The attacks fostered an even greater recognition of the importance of anti-money laundering cooperation around the world. This recognition galvanized international cooperation and led to significant modifications to anti-money laundering laws. The framework of laws and regulations enacted during the last decade to address money laundering paid prompt dividends in the world community's ability to trace the funds of those who finance international terrorism. The developments that have taken place since September 11 will further enhance global efforts against terrorist financing and the full range of money laundering challenges.

2001 was a year of domestic and international advances in the fight against money laundering. The terrorist attacks of September 11 added urgency and intensity to a robust process already underway. In 2001, the United States continued its vigorous inter-agency international anti-money laundering training program, totaling more than \$3.5 million, to improve worldwide efforts to combat money laundering and financial crime. Other governments and international organizations also strengthened anti-money laundering programs in 2001. The European Union broadened its anti-money laundering directive and imposed anti-money laundering obligations on "gatekeepers"—professionals such as lawyers and accountants who help place dirty money into the financial system. Regional anti-money laundering bodies in Europe, Asia and the Caribbean continued working effectively, and nascent anti-money laundering regional organizations in South America and Africa became operational.

A major money laundering focus of the year was the work of the Financial Action Task Force (FATF), the world's preeminent multilateral anti-money laundering body, which continued its non-cooperative countries and territories exercise. By year's end, all fifteen jurisdictions on the original list had passed anti-money laundering legislation and four jurisdictions were removed from the list, while eight additional jurisdictions were identified as being non-cooperative.

Thanks largely to the anti-money laundering experience and expertise accumulated by FATF over the past dozen years, many jurisdictions were well-positioned to react quickly to the threat of terrorist financing. FATF moved quickly after September 11 to convene an extraordinary Plenary on the Financing of Terrorism. At this October Plenary in Washington, the FATF decided to expand its mission beyond money laundering, and to focus its energy and expertise on the worldwide effort to combat terrorist financing. The FATF adopted eight special recommendations regarding terrorist financing and prepared an extensive questionnaire that requested members to describe what legislation they have in place, or intend to pass, to thwart terrorist financing. FATF agreed to distribute the questionnaire to all countries worldwide and analyze their responses in 2002.

Anti-money laundering measures played a critical role in efforts by law enforcement officials immediately after the September 11 attacks to help identify the perpetrators and determine who organized and financed them. The FBI, recognizing the important role of financial records, established an interagency review group to focus on the financial aspects of the terrorist network. The regulatory and investigative systems established over the past ten years were key to unraveling this network. As the terrorists were identified, various records, including credit card transactions, provided immediate information in retracing the terrorists' movements prior to the attacks, as well as the links between them. Banks in the United States worked with law enforcement to provide swift access to information about bank accounts that were linked to the credit card accounts.

Simultaneous with the establishment of the FBI Financial Review Group and a Treasury task force, the Department of State convened an interagency task force to determine which countries' financial systems were most heavily involved with funding these terrorists. Diplomatic outreach to those countries ensued. Teams comprised of U.S. Government technical experts were formed to assess the capabilities and

technical assistance needs of those countries that exhibited the political will to block terrorist financing and to develop viable anti-money laundering regimes.

The September 11 attacks led the world's international organizations to take prompt action against terrorist financing. On September 28, 2001, the United Nations Security Council (UNSC) adopted Resolution 1373 which reaffirmed earlier UN counterterrorism resolutions 1269 and 1368 and requires states to take prescribed actions to combat terrorism and the financing of terrorism.

The Egmont Group of Financial Intelligence Units (FIUs) provides a network for sending out leads and requests for information to FIUs around the world. Cooperation among the Egmont Group's 58 members and their prompt responses to these requests were unprecedented.

The terrorist attacks gave strong impetus to many countries to amend and strengthen their money laundering laws. In the United States, Congress passed the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism ("USA PATRIOT") Act of 2001 on October 26, 2001. This landmark piece of legislation made major changes to the U.S. anti-money laundering regime. The broad new authorities provided in the USA PATRIOT Act will have significant influence on the relationships between U.S. financial institutions and their individual and institutional customers.

While the investigations of the financial links underlying the September 11 attacks demonstrate the value of measures that have been taken to identify, prevent and attack money laundering, they also reveal shortcomings. For example, after years of discussion, far too many countries still do not require identifying information about originators of international funds transfers. While most developed countries of the world now require banks to file suspicious activity reports, many still do not require non-bank financial institutions to do so. Some countries have yet to criminalize money laundering beyond drug-related offenses and many more do not have laws that address terrorist financing. September 11 demonstrated the need to do both. And many new initiatives that will be featured in anti-money laundering efforts in 2002 are now underway to try to overcome all of these deficiencies.

## **Why We Must Combat Money Laundering**

Money laundering is organized crime's way of trying to disprove the adage that "crime doesn't pay." It is an attempt to assure drug dealers, illegal arms dealers, corrupt public officials and other criminals that they can hide their profits and to provide them the fuel to operate and expand their criminal enterprises. Fighting money launderers and strengthening anti-money laundering regimes globally will reduce financial crime by depriving criminals of the means to commit other serious crimes. To a lesser but real extent, strengthening anti-money laundering regimes, particularly in the areas of identifying the originators of international wire transfers, will impact terrorist financing as well. At a minimum, strong anti-money laundering measures help to create a body of evidence that exposes criminal behavior and help law enforcement identify perpetrators and build cases against them that lead to their arrests and convictions.

As the tragic events of September 11 graphically demonstrated, crime has become global, and the financial aspects of crime have become more complex, due to rapid advances in technology and the globalization of the financial services industry. Modern financial systems, in addition to facilitating legitimate commerce, permit criminals to transfer millions of dollars instantly, using personal computers and satellite dishes. Only his or her creativity limits the criminal's choice of money laundering vehicles. Money is laundered through currency exchange houses, stock brokerage houses, gold dealers, casinos, automobile dealerships, insurance companies, and trading companies. Private banking facilities, offshore banking, shell corporations, free trade zones, wire systems, and trade financing all have the ability to mask illegal activities. In so doing, criminals manipulate financial systems throughout the world.

Money laundering generally involves a series of multiple transactions used to disguise the source of financial assets so that those assets may be used without compromising the criminals who seek to use the

funds. These transactions typically fall into three stages: (1) Placement, the process of placing, through deposits, wire transfers, or other means, unlawful proceeds into financial institutions; (2) Layering, the process of separating the proceeds of criminal activity from their origin through the use of layers of complex financial transactions; and (3) Integration, the process of using an apparently legitimate transaction to disguise the illicit proceeds. Through this process the criminal tries to transform the monetary proceeds derived from illicit activities into funds with an apparently legal source.

The United States and other nations are also victims of tax evasion schemes that use various financial centers around the world and their bank secrecy laws to hide money from tax authorities, undermining legitimate tax collection. Financial centers that have strong bank secrecy laws and weak corporate formation regulations, and that do not cooperate in tax inquiries from foreign governments, are found worldwide. These financial centers, known as “tax havens,” thrive in providing sanctuary for the deposit of monies from individuals and businesses that evade the payment of taxes in their home jurisdictions and allow them to keep the money they have deposited from the knowledge of tax authorities.

Unchecked, money laundering can erode the integrity of a nation’s financial institutions. Due to the high integration of capital markets, money laundering adversely affects currencies and interest rates as launderers reinvest funds where their schemes are less likely to be detected, rather than where rates of return are higher. Money launderers also negatively impact jurisdictions by reducing tax revenues through underground economies, competing unfairly with legitimate businesses, damaging financial systems, and disrupting economic development. Ultimately, laundered money flows into global financial systems where it can work to undermine national economies and currencies.

There is now worldwide recognition that we must deal firmly and effectively with increasingly elusive, well-financed and technologically adept criminals and terrorists who are determined to use every means available to subvert the financial systems that are the cornerstone of legitimate international commerce. The continued abuse of some offshore financial centers, the proliferation of on-line Internet banking and the widespread use of underground banks and money-changers highlight the importance of using new technologies and strong strategies to combat money laundering schemes and terrorist financing schemes.

## **International Terrorism Financing**

Terrorist groups differ from other criminal networks in the motive behind their crimes. While drug traffickers and organized crime groups primarily seek monetary gain, terrorist groups usually seek non-financial goals, such as publicity and political influence. Terrorism is a means to these ends. Terrorist financing also differs from money laundering in other respects. Ordinarily, criminal activity produces the funds and other proceeds that money launderers disguise so that the funds can be used for legitimate or criminal purposes. Funds that support terrorist activity are generated primarily through fundraising—often through legal non-profit entities, although terrorist groups often obtain some funds from criminal activities as well. Because terrorist activity requires very little money (the attacks on the World Trade Center and the Pentagon are estimated to have cost a little more than half a million dollars), the amounts of money that individual terrorist cells or their members seek to disguise is substantially less compared to that laundered by organized crime and drug kingpins. And it is the latter for which anti-money laundering tools were initially created. For example, the U.S. reporting requirement of cash transactions above \$10,000 may not be useful in detecting terrorist financing. This may require modification of existing laws and regulations. The investigation of terrorist financing is requiring law enforcement and regulatory officials to use existing anti-money laundering laws in altogether new ways. And it will require stronger international anti-money laundering enforcement regimes.

## *Small Sums With Big Effects*

While they do not seek financial gain as a sole end, international terrorist groups need money to attract adherents and to support their activities. Some terrorist organizations also need funds for media campaigns, to buy political influence, and to undertake social projects aimed at maintaining membership and attracting sympathetic supporters. Often, terrorists also rely in part on funds gained from traditional crime such as robbery, kidnapping for ransom, drug trafficking, extortion, document forgery, currency and merchandise counterfeiting, and smuggling. Terrorists can then divert some of the proceeds of these criminal activities to their terrorist efforts.

Terrorists typically derive only relatively small sums from the proceeds of traditional illegal activities. A substantial portion of the terrorists' funding comes from contributors, some of whom know the intended purpose of their contribution and some of whom do not. In this key respect, terrorism financing contrasts with the financing of a drug trafficking network, which obtains virtually all of its funding from illegal activities.

## *Origins of Financial Support*

Terrorist groups commingle illicit revenues with legitimate funds drawn from profits from commercial enterprises and donations from witting and unwitting sympathizers. They tap a range of sources for their financial support including:

- **Otherwise Legitimate Commercial Enterprises.** Terrorist groups earn profits from businesses they own. They also secure donations from sympathetic entrepreneurs.
- **Social and Religious Organizations.** Since the early 1990s, terrorist groups have relied increasingly on donations from social and religious organizations for financial support.
- **State Sponsors.** Several rogue nations—Cuba, Iran, Iraq, Libya, North Korea, Sudan, and Syria—have provided material assistance, financial support or other resources to terrorists.

## *Moving Terrorist Money*

Tracking terrorist financial transactions is more difficult than following the money trails of mainstream criminal groups. While many organized crime groups are adept at concealing their wealth and cash flows for long periods of time, their involvement in the physical trade of illicit drugs, arms, and other commodities often exposes the revenues and expenditures connected to these illegal dealings. In contrast, terrorist actions generally are comparatively inexpensive and their financing is often overshadowed by the larger financial resources allocated for the group's political and social activities, making it more difficult to uncover the illicit nexus.

Terrorist groups use a variety of means to move their funds, including:

- **Currency Transport.** Cash couriered by operatives is difficult to track because there is no paper trail.
- **Traditional Financial Institutions.** The international nature of most foreign terrorist groups forces them to rely on banks and other financial institutions.
- **Islamic Banks.** Banks that operate in line with Islamic law, which prohibits the payment of interest and certain other activities, have proliferated throughout Africa, Asia and the Middle East since the mid-1970s. In most instances, these banks simply are

not required to adhere to a wide range of regulations normally imposed on commercial banks. Islamic banks are often not subject to any regulatory and supervisory scrutiny by bank regulators, and thus, do not undergo periodic bank examinations or inspections. While these banks may voluntarily comply with banking regulations and in particular, anti-money laundering guidelines, there is often no control mechanism to ensure such compliance. Some of the largest Islamic financial institutions now operate investment houses in Europe and elsewhere.

- **Money Changers.** Money changers play a major role in transferring funds in Asia, the Americas, the Middle East, and other regions. Their presence is largest in countries where cash is an accepted means to finalize business deals and where large numbers of expatriates work to remit funds to family abroad.
- **Underground Bankers.** Commonly referred to as alternative remittance systems, such as the Hawala or Hundi, underground bankers are prevalent throughout Asia and the Middle East.

## *The United States' Response*

**Legislation:** The U.S. enacted legislation specifically to address the problem of terrorist financing. Title 18 U.S.C. § 2339A, enacted in 1994, amended in 1996, and strengthened again most recently in 2001 by the USA PATRIOT Act, makes it a crime for persons within the U.S. to provide, conceal or disguise the nature, location, source, or ownership of “material support or resources” to be used in a violation of any of the predicate enumerated crimes. There are further statutes directly related to the fight against terrorist financing such as the Antiterrorism and Effective Death Penalty Act (AEDPA) and the International Emergency Economic Powers Act (IEEPA) that give the President broad authority to regulate international transactions under certain specified circumstances.

**Prosecution:** Funds involved in traditional money laundering are usually the proceeds of a specific prior crime. Funds used to finance terrorism generally are not related to the proceeds of a specific prior crime. Terrorist funds acquire their criminal “taint” from the intent to assist in an act of terrorism or to fund a designated foreign terrorist organization. Despite this difference, the money laundering statutes provide numerous opportunities for United States prosecutors in terrorist financing cases. For example, where a violation of the money laundering statutes can be charged, the prosecution can seek criminal and civil asset forfeiture.

There are several, terrorism-related, alternative crimes that can serve as predicate crimes to money laundering, including the charges of laundering of monetary instruments and engaging in monetary transactions in property derived from specified unlawful activity. Providing material support to terrorists and other such terrorist-related offenses are also crimes that can involve money laundering. The money laundering charge most commonly applied to financiers of terrorism is available where funds are transmitted internationally with the intent to promote a specified unlawful activity such as providing material support to terrorists, an offense against a foreign nation involving murder, kidnapping, robbery, extortion, or destruction of property by means of explosive or fire, or other terrorism-related specified crimes. In addition, the International Emergency Economic Powers Act authorizes the imposition of criminal and civil penalties against any person who engages in transactions prohibited by executive orders and implementing regulations issued under that Act.

## *The International Response*

The international consensus to fight terrorist financing has never been stronger. The international community is equipping itself with increasingly more effective tools to prevent and respond to terrorist financing. The Group of Eight (G-8) nations, the United Nations, the European Union, the Financial

Action Task Force on Money Laundering (FATF), and the Organization of American States have all sponsored conferences and crafted recommendations designed to produce enhanced cooperation and strengthened measures to combat terrorist financing. As further evidence of international resolve, on September 28, 2001, the United Nations Security Council (UNSC) adopted Resolution 1373 which reaffirms earlier UN counter-terrorism resolutions and requires states to combat terrorism and the financing of terrorism.

## Offshore Financial Centers

Although there is little consensus regarding the exact definition of an offshore financial center (OFC), certain characteristics distinguish traditional onshore financial centers from those termed “offshore”. Offshore financial centers are, in the vast majority of cases, segregated from the traditional banking structure of the jurisdiction. At least 90 percent of all jurisdictions offering offshore financial services restrict access to the offshore sector to non-residents, thereby creating a highly confidential and parallel financial system within their own borders. Many jurisdictions with OFCs conduct financial transactions only in currencies other than the local currency. OFCs also differ from onshore jurisdictions in their regulatory regimes and legal frameworks. Many OFCs lack the stringent regulatory and supervisory regimes found in developed onshore jurisdictions. In the majority of OFCs, banks are not required to adhere to a wide range of regulations normally imposed on onshore banks. In most OFCs, non-bank financial industries, such as the insurance and securities industries, are subject to even less, if any, regulation than is the banking industry.

OFCs maintain that their carefully crafted laws and regulations provide beneficial business and financial planning options for their clients. These include, but are not limited to: sophisticated trade financing; estate planning for high net worth individuals; tax mitigation for individuals and corporations; avoidance of exchange controls; liability containment for ships and airplanes; sophisticated insurance management options; investment opportunities that transcend home country marketing regulations; preservation of assets; investment of overnight funds; and freedom from certain home country regulatory requirements.

Freedom from certain home country regulatory requirements provides opportunities to those with criminal intent. In many OFCs, a bank can be formed, registered and its ownership placed in the hands of nominee directors via the Internet. However formed, there are few, if any, disclosure requirements, bank transactions are free of exchange and interest rate restrictions, minimal or no capital reserve requirements are required and transactions are mostly tax-free. Some OFCs permit the licensing and registration of “shell banks”—generally understood as banks that exist on paper only and do not have a physical presence in any jurisdiction. Of the more than 4000 offshore banks thought to exist, the number of shell banks remains unknown.

A principal attraction of the OFCs is often the existence of legal frameworks designed to obscure the identity of the beneficial owner, to promote regulatory and supervisory arbitrage, and to provide mitigation or evasion of home-country tax regimes. Some of these OFCs offer the ability to form and manage confidentiality of a variety of international business companies (IBCs) and exempt companies, trusts, investment funds and insurance companies, many with nominee directors, nominee officeholders and nominee shareholders.<sup>1</sup> When combined with the use of bearer shares (shares that do not name the owner) and “mini-trusts” (the latter are instruments used to further insulate the beneficial owner while bridging the ownership and management of the corporate entity), IBCs can present impenetrable barriers to law enforcement.

---

<sup>1</sup> “IBC” is the term used to describe a variety of offshore corporate entities, which are almost always restricted to transacting business outside the jurisdiction in which they are formed. IBCs are characterized by rapid formation, at low cost, with broad powers, low to no taxation, minimal or non-existent reporting requirements and secrecy. Many OFCs permit IBCs to issue bearer shares. The Enron Corporation, for example, reportedly registered IBCs in the Cayman Islands and the Turks and Caicos OFCs.

## Money Laundering and Financial Crimes

---

This lack of transparency and the ability to engage in regulatory arbitrage, coupled with a concomitant reluctance or refusal of many OFCs to cooperate with regulators and law enforcement officials from other jurisdictions, attract those with both legitimate and illegitimate purposes. Drug traffickers, terrorists, money launderers, tax evaders and other criminals have found the OFCs a particularly inviting venue in which to conduct and conceal their activities. With the advent of the Internet and other technological advances, funds can be transferred around the globe instantaneously, providing further opportunities to engage in the placement and layering of illicitly gained funds. There is also a growing concern that terrorists and other criminals are increasingly enlisting the services of unethical lawyers, accountants and other professionals to help them discover and manipulate new money laundering and terrorist financing opportunities afforded by the new technologies. The attraction for small states in the offshore financial services market is a dependable source of income that in some instances exceeds 50 percent of a jurisdiction's GDP.

Although IBCs have served as the predominant instruments for committing financial crimes in OFCs, a variety of types of trusts play important roles as well. One form of trust, the Asset Protection Trust (APT), protects the assets of individuals from civil judgments in their home countries. A common provision of APTs is that challenges or claims against the assets of the trust must be brought before the courts of the jurisdiction of the APT domicile within a relatively short period of time (usually two years). Many APTs contain "flee clauses" providing for funds to be immediately transferred to another OFC if the APT is threatened by inquiry. Used in combination, IBCs, mini-trusts, bearer shares and APTs make it nearly impossible for competent authorities to generate paper trails or to identify beneficial owners of companies, while they simultaneously protect those engaging in serious financial crime from civil or criminal prosecution.

Other practices found in some OFCs cause problems for law enforcement. One such practice, well advertised on the Internet, is the selling of "economic citizenship"—a practice that, if improperly controlled, can enable individuals suspected of committing crimes to purchase citizenship in an OFC jurisdiction that may not have an extradition agreement with the purchaser's original home country. Purchasers of economic citizenships can change their names to go along with their new passports, creating yet another impediment to law enforcement. During 2001, three Caribbean Basin OFCs sold inadequately controlled economic citizenships: Belize, Dominica and St. Kitts & Nevis. Grenada suspended selling improperly controlled economic citizenships in 2001. In the Pacific region, Nauru sells improperly controlled economic citizenships.

Not only criminals purchase economic citizenships. Terrorists do as well. In December, two individuals purchased economic citizenships from Belize for \$25,000 apiece. They then attempted to obtain visas to enter the United States as citizens of Belize. They were denied entry visas by the consular staff of the American embassy in Belize because the two applicants were members of a proscribed Middle Eastern terrorist group. The government of Belize subsequently announced that it would cease selling economic citizenships in January 2002.

Internet gaming executed via the use of credit cards and offshore banks represents yet another powerful vehicle for criminals to launder funds from illicit sources as well as to evade taxes. Advertised on the Internet as being located primarily in the Caribbean Basin, virtual casinos can be extremely profitable for governments that sell the licenses and likely share in the operators profits. At the beginning of 2001, Antigua and Barbuda, for example, reportedly had licensed more than 80 Internet gaming websites at a cost of \$75,000–\$85,000 per license for a sports betting shop and \$100,000 for virtual casinos. As the Offshore Financial Services chart at the end of this section illustrates, St. Kitts/Nevis is the only Caribbean OFC to sell "economic citizenships" and license virtual casinos. In the Pacific region, only the Palau and Vanuatu OFCs are reported to sell gaming licenses, although neither sells economic citizenships.

## *Initiatives Targeting Financial Abuse*

In recent years, various bodies have examined the threats presented by a lack of transparency and oversight posed to an increasingly interdependent global financial system. Two 2000 initiatives, described in detail in the 2001 International Narcotics Control Strategy Report, have had a direct impact on the offshore financial services industry: The Financial Stability Forum (FSF) and the Financial Action Task Force Non-Cooperative Countries and Territories exercise (FATF NCCT).

### *The Financial Stability Forum*

The FSF concluded that a number of the OFCs were perceived as having weaknesses in financial supervision, cross-border cooperation and transparency. Divided into three groups, eight OFCs (Group I) were described as “largely of a good quality”; nine Group II OFCs were found to be of lower quality than Group I OFCs but apparently somewhat more cooperative, more transparent and somewhat better supervised than the twenty-six OFCs in Group III. All thirty-five OFCs in Group II and III were found to have regulatory deficiencies that could allow financial market participants to engage in regulatory arbitrage of several forms, thereby undermining efforts to strengthen the global financial system.<sup>1</sup>

The FSF requested the International Monetary Fund (IMF) to develop, organize and conduct assessments of OFC adherence to international financial standards, including several of the FATF 40 Recommendations that involved supervision and regulatory matters. The FSF recommended giving “highest priority to those in Group II” and “high priority to those OFCs in Group III whose scale of financial activity has the greatest potential impact on global financial stability.”

The IMF agreed to conduct assessments only of those OFCs that volunteered and first completed a self-assessment of their supervisory regimes, focused principally on the supervisory and regulatory arrangements in place for banking, securities and insurance activities. The self-assessment would be followed by an IMF-led assessment (Module II Assessment). A third broader and more complex IMF-led assessment (Module III) of those OFCs previously assessed by the IMF would follow. The IMF will make no assessments public unless the assessed jurisdiction voluntarily consents. During 2001, the IMF had completed Module II assessments of Cyprus, Gibraltar, Panama, Macau, Belize and Aruba.

### *The Financial Action Task Force on Money Laundering Non-Cooperative Countries and Territories Exercise*

The FATF Non-Cooperative Countries and Territories exercise measured jurisdictions’ anti-money laundering regimes against twenty-five criteria for the purpose of determining which jurisdictions weakened the global effort to combat money laundering. These criteria encompass four broad areas: loopholes in financial regulations; obstacles raised by other regulatory requirements; obstacles to international cooperation; and, inadequate resources for preventing and detecting money laundering activities.

---

<sup>1</sup> Financial Stability Forum press release, May 26, 2000. *The Report of the Working Group on Offshore Financial Centers* is located at the FSF’s website: <http://www.fsforum.org>. Group I OFCs: Hong Kong, Luxembourg, Singapore and Switzerland, Guernsey, Ireland, the Isle of Man and Jersey. Group II OFCs: Andorra, Bahrain, Barbados, Bermuda, Gibraltar, Labuan (Malaysia), Macao, Malta and Monaco; Group III OFCs: Anguilla, Antigua and Barbuda, Aruba, Belize, British Virgin Islands, Cayman Islands, Cook Islands, Costa Rica, Cyprus, Lebanon, Liechtenstein, Marshall Islands, Mauritius, Nauru, Netherlands Antilles, Niue, Panama, St. Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines, Samoa, Seychelles, the Bahamas, Turks and Caicos, and Vanuatu.

At its June 2000 Plenary, the FATF identified fifteen jurisdictions as non-cooperative in the international fight against money laundering. All but four were OFCs.<sup>1</sup> At the June 2001 Plenary, the FATF determined that four OFC jurisdictions—the Bahamas, the Cayman Islands, Panama and Liechtenstein—had made sufficient progress in remedying the noted deficiencies in their anti-money laundering regimes to be removed from the non-cooperative list. In 2001, the FATF added the OFCs of Grenada and Guatemala to the list of Non-Cooperative Countries and Territories (NCCT), as well as the non-OFC jurisdictions of Burma, Egypt, Hungary, Indonesia, Nigeria and Ukraine.

By year's end, seven of the eight remaining OFCs on the original NCCT list had passed adequate anti-money laundering legislation to avoid the imposition of countermeasures by FATF. Nauru was the only delinquent OFC. FATF reviewed Nauru's legislation, deemed it insufficient, and warned Nauru that the law would have to be amended by the end of November or it would have to face countermeasures by the 29 member state FATF. Nauru did not comply and FATF members agreed to invoke countermeasures against it. The United States issued its countermeasures in January 2002.

## *The United States Congress*

As effective as the FATF NCCT exercise has proven to be in convincing recalcitrant OFCs to pass anti-money laundering legislation and regulations, legislation passed by the United States Congress may prove to have a more fundamental impact on criminals and terrorists who have used poorly regulated OFCs to launder criminally derived money or to disguise assets derived from allegedly legitimate sources. On October 26, 2001, President George W. Bush signed a new anti-terrorism bill, the Uniting and Strengthening America Act by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism (USA PATRIOT) Act of 2001. The new Act generally prohibits covered U.S. financial institutions from maintaining a correspondent account in the United States for a foreign shell bank. The Act also generally requires covered U.S. financial institutions to take reasonable steps to ensure that their correspondent account holders (foreign banks) do not use those accounts to indirectly provide banking services to a foreign shell bank.

The Act also requires that U.S. financial institutions that establish, maintain, administer or manage a private banking account or correspondent account for a non-U.S. person to apply due diligence policies, procedures and controls reasonably designed to detect and report instances of money laundering through those accounts. The Act imposes additional standards for such accounts held by foreign banks operating under offshore licenses or licenses from certain jurisdictions.

The USA PATRIOT Act also required U.S. financial institutions to take “reasonable steps” to ensure that their correspondent account holders (foreign banks) are not using those accounts to provide banking services to foreign shell banks indirectly in violation of the USA PATRIOT Act. U.S. Treasury Department regulations suggested that one “reasonable step” would be for U.S. financial institutions to obtain written notification from their corresponding banking clients certifying that none of their account holders are shell banks as defined by the Act.

In Nauru, for example, it is believed that nearly all, if not all, 400 banks registered in Nauru are shell banks—banks that exist on paper only for the purpose of “booking” monies through them. In many cases, the beneficial owners of the shell bank are anonymous and have established equally anonymous IBCs that are aggressively employed to move funds through their fictional shell banks.

While Nauru might be the extreme example, the number of banks currently registered in jurisdictions that offer offshore services (as noted on the Offshore Services chart that follows this section) may decrease dramatically in 2002 as shell banks come under closer scrutiny.

---

<sup>1</sup> FATF identified the following OFCs as “non-cooperative” in June 2000: the Bahamas, the Cayman Islands, Cook Islands, Dominica, Liechtenstein, Marshall Islands, Nauru, Niue, Panama, St. Kitts and Nevis and St. Vincent and the Grenadines. Other jurisdictions identified as non-cooperative were Israel, Lebanon, the Philippines and Russia.

The USA PATRIOT Act also allows the U.S. Government to seize funds held by foreign banks in U.S. correspondent accounts to satisfy certain types of seizure orders against funds deposited in the foreign bank abroad. The first such seizure of this nature occurred December 2001 with respect to forfeitable funds deposited by two U.S. citizens in the OFC of Belize.

The continuation of the IMF assessments, the FATF NCCT exercise and the adherence to and enforcement of the USA PATRIOT Act will not only continue to distinguish well regulated offshore jurisdictions from those that are not, but will diminish the capacity of OFCs to cater to criminals attempting to launder money or finance terrorist activities through U.S. financial institutions.

## Explanatory Notes To the Offshore Financial Services Chart

Public information regarding offshore financial centers can be difficult to obtain. Industry publications, discussions with regulators of the OFCs, foreign government finance officials, embassy reports, analyses from United States Government (USG) agencies, international organizations, and secondary sources provided the data for the chart.

Excluded are jurisdictions that provide low or no taxes to individuals but offer no other services or products normally associated with the offshore financial service sector. Also excluded are jurisdictions that have established OFCs but for which the USG has little or no information regarding the operations of the OFC. Within most categories presented on the chart, the designations Y and N are used to denote the existence (Y) or the non-existence (N) of the entity or service in a specific jurisdiction. *Where there is no information regarding specific categories, or available information is inconclusive, the corresponding cells on the chart are left blank.* In some categories, symbols other than or in addition to Y or N are used. Explanations for additional symbols are provided below.

Explanations of the categories themselves are either provided in the preceding text, are considered to be self-evident, or are provided below.

## Category Designations on the Offshore Financial Services Chart

**Offshore Banks:** The number is provided if known. A Y indicates that although a jurisdiction that offers offshore financial services (OFC) licenses offshore banks, the number of such banks is not known. An N indicates that no offshore banks are known to be licensed in the jurisdiction. A blank cell indicates no or inconclusive information regarding whether offshore banks are offered within the OFC.

**Trust and Management Companies:** These are companies that provide fiduciary services, as well as serving as marketing agents, representatives, lawyers, accountants, trustees, nominee shareholders, directors, and officers of international business companies.

**International Business Companies (IBCs) & Restricted Companies:** Numbers are provided when known and public; in many cases, the numbers are significantly underreported. A P indicates that the jurisdiction does not publicize the number of IBCs registered within it.

**Bearer Shares:** Share certificates can be issued without the name of the beneficial owner. A Y indicates that the OFC offers bearer shares; an N indicates that it does not; and a blank cell indicates that the USG does not know if bearer shares are offered within the OFC.

**Asset Protection Trusts (APT's):** Trusts that protect assets from civil judgment. A Y indicates that the OFC offers APT's; an N indicates that it does not; and a blank cell indicates no or inconclusive information regarding whether APT's are offered within the OFC.

**Insurance and Re-insurance Company Formation:** A Y indicates that the OFC allows formation of insurance and re-insurance companies; an N indicates that it does not; and a blank cell indicates no or inconclusive information regarding whether insurance and re-insurance companies are allowed within the OFC.

**Sells "Economic Citizenship":** A Y indicates that the OFC sells economic citizenships; an N indicates that it does not; and a blank cell indicates no or inconclusive information regarding whether the OFC sells economic citizenships. An S indicates that an OFC has suspended or ceased sales in 2001.

**Internet Gaming:** Licenses granted by jurisdictions that enable grantees to establish "virtual casinos" on the Internet, in which customers can pay via credit card. A Y indicates that the OFC licenses Internet gaming; an N indicates that it does not; and a blank cell indicates no or inconclusive information regarding whether Internet gaming is offered within the OFC.

**Criminalized Drug Money Laundering:** A D indicates that the OFC has a law criminalizing narcotics-related money laundering only. A BD indicates that crimes other than those related to narcotics are considered to be predicate crimes for money laundering in the OFC. An N indicates that there is no legislation criminalizing money laundering in the OFC.

**Financial Action Task Force (FATF) Non-Cooperative Exercise:** This column provides the FATF finding. NC indicates the jurisdiction was determined to be non-cooperative; R indicates that the jurisdiction was reviewed and was not identified as non-cooperative; a blank cell indicates that the jurisdiction was not reviewed. RM indicates that FATF removed the jurisdiction from the NCCT list.

**Membership in International Organizations:** This cell lists the multinational organizations that have been formed to combat money laundering and/or to establish a sound supervisory regime in which the OFC participates.

## Offshore Financial Services Chart

Jurisdictions	Offshore Banks	Trust & Management Companies	IBCs/Exempt and/or Restricted Companies	Bearer Shares	Asset Protection Trusts	Insurance and Re-insurance	Sells Economic Citizenship	Internet Gaming	Criminalized Drug Money Laundering (D) & Beyond Drugs (BD)	FATF Noncooperative Exercise	Membership in International Organizations (A,C,CE,F,O,OC, I, S)
<b>The Americas</b>											
Anguilla	2	Y	2,792	Y	Y	Y	N	N	BD		C, I* <sup>1</sup>
Antigua and Barbuda	21	Y	12,000	Y	Y	Y	N	Y	BD	R	C, OC
Aruba	2	Y	4,000	Y	N	Y	N	N	BD		C, F, O, I*
Bahamas	Y	Y	100,000	N	Y	Y	N	N	BD	RM	C, O, OC, I, S
Barbados	55	Y	4,000	N	Y	Y	N	N	BD		C, O, OC, S
Belize	2	Y	15,000	Y	Y	Y	S	Y	BD	R	C, OC, S, I*
Bermuda	N	Y	12,000	N	Y	Y	N	N	BD	R	C, O
British Virgin Islands	13	Y	360,000	Y	Y	Y	N	N	BD	R	C
Cayman Islands	570	Y	45,000	Y	Y	Y	N	N	BD	RM	C, O, I
Costa Rica	44	Y	20	N	N		N	Y	BD	R	C, OC, S
Dominica	3	Y	1,100	N	Y	Y	S	Y	BD	NC	C, OC
Grenada	16	Y	4,000	Y	Y	Y	S	Y	BD	NC	C, OC
Guatemala	Y	N		Y	N			N	BD	NC	OC
Montserrat	15		22	Y		N	N	N	BD		C
Netherlands Antilles	33	Y	20,000	Y	N		N	Y	BD		C, F, O, I
Panama	34	Y	370,000		Y	Y	N	N	BD	RM	C, O, OC, S

<sup>1</sup> A = Asia/Pacific Group; C = Caribbean Financial Action Task Force; CE = Council of Europe Select Committee on Money Laundering; E = Eastern and Southern Africa Anti-Money Laundering Group; F = Financial Action Task Force; I = Offshore Group of Insurance Supervisors (OGIS); I\* = Observer to the OGIS; O = Offshore Group of Banking Supervisors; OC = OAS/Inter-American Drug Abuse Control Commission; S = International Organization of Security Commissioners.

## Money Laundering and Financial Crimes

Jurisdictions	Offshore Banks	Trust & Management Companies	IBCs/Exempt and/or Restricted Companies	Bearer Shares	Asset Protection Trusts	Insurance and Re-insurance	Sells Economic Citizenship	Internet Gaming	Criminalized Drug Money Laundering (D) & Beyond Drugs (BD)	FATF Noncooperative Exercise	Membership in International Organizations (A, C, CE, F, O, OC, I, S)
St. Kitts & Nevis				Y	Y	N	Y	Y	BD	NC	C, OC
(St. Kitts)	N	Y	500								
(Nevis)	1	Y	22,000								
St. Lucia	1	Y	100	N	Y	Y	N	N	BD	R	C, OC
St. Vincent & The Grenadines	33	Y	10,135	Y	Y	Y	N	Y	BD	NC	C, OC
Turks and Caicos	8	Y	13,000	Y	Y	Y	N	N	BD	R	C, I
Uruguay	12	N	Y	Y	N	Y	N	N	BD	R	OC, S
<b>Europe</b>											
Cyprus	29	Y	52,000	N	Y	Y	N	N	BD	R	CE, O, S
Gibraltar	21	Y	8,300	Y	Y	Y	N	Y	BD	R	O, I
Guernsey <sup>2</sup>	71	Y	7,500	N	N	Y	N	N	BD	R	O, I, S
Alderney	N	Y	455		N		N	Y			
Sark	N	Y			N		N	N			
Hungary	N	N	600	Y	N	N	N	N	BD	NC	CE
Ireland	N	Y	40,000	N	N	Y	N	N	BD		F, S
Isle of Man <sup>2</sup>	Y	Y	24,300	Y	N	Y	N	N	BD	R	O, I, S
Jersey <sup>2</sup>	Y	Y	20,000	N	N	Y	N	N	BD	R	O, I, S
Liechtenstein <sup>1</sup>	17	Y	75,000	Y	N	Y	N	N	BD	RM	CE
Luxembourg <sup>2</sup>	200	Y	68,000	Y	N	Y	N	N	BD		F, S
Malta	3	Y	417	N	N	Y	N	N	BD	R	CE, O, S

<sup>1</sup> Jersey, Guernsey, the Isle of Man, Liechtenstein, Luxembourg and Switzerland are unique. Residents are able to avail themselves of many OFC services and products normally reserved for nonresidents.

Jurisdictions	Offshore Banks	Trust & Management Companies	IBCs/Exempt and/or Restricted Companies	Bearer Shares	Asset Protection Trusts	Insurance and Re-insurance	Sells Economic Citizenship	Internet Gaming	Criminalized Drug Money Laundering (D) & Beyond Drugs (BD)	FATF Noncooperative Exercise	Membership in International Organizations (A, C, CE, F, O, OC, I, S)
Monaco	N		Y		N		N	N	BD	R	
Switzerland <sup>1</sup>	500	Y	Y	Y	N		N	N	BD		F, S
"Turkish Republic of No. Cyprus"	40	N	12		N	N	N	N	D		
<b>Africa &amp; Middle East</b>											
Botswana	Y		Y								
Bahrain	48	Y	Y	N	N	N	N		BD		O, S
Liberia			Y	Y	Y		N	N	N		
Mauritius	11	Y	10,700	Y	Y		N	N	N	R	E, O, S
Madeira (Portugal)	27	Y	4,000	N	N	Y	N	N	BD		
Seychelles	Y		4,800	Y		Y	N	Y	BD	R	
Tunisia	12		1,200		N		N	N	N		S
<b>Asia</b>											
Brunei	N		Y								
Hong Kong	Y	Y	474,500	N	N	Y	N	N	BD		A, F, O, S
Labuan (Malaysia)	54	Y	2,300	N	Y	Y	N	N	BD		A, I, O, S
Macau	Y		Y		N		N	N	BD		A, O
Philippines	15								BD	NC	A, S

<sup>1</sup> Jersey, Guernsey, the Isle of Man, Liechtenstein, Luxembourg and Switzerland are unique. Residents are able to avail themselves of many OFC services and products normally reserved for nonresidents.

## Money Laundering and Financial Crimes

Jurisdictions	Offshore Banks	Trust & Management Companies	IBCs/Exempt and/or Restricted Companies	Bearer Shares	Asset Protection Trusts	Insurance and Re-insurance	Sells Economic Citizenship	Internet Gaming	Criminalized Drug Money Laundering (D) & Beyond Drugs (BD)	FATF Noncooperative Exercise	Membership in International Organizations (A, C, CE, F, O, OC, I, S)
Singapore	83	N	Y	N	N	Y	N	N	BD		A, F, O, S
Thailand	44		N		N		N	N	BD		A, S
<b>Pacific</b>											
Cook Islands	25	Y	1,200	Y	Y	Y	N	N	BD	NC	A
Marshall Islands	N	Y	4,000	Y	N	N	N	N	BD	NC	
Nauru	400	Y	Y	Y	N	Y	Y	N	N	NC	
Niue	1	Y	6,000	Y	Y	Y	N	N	BD	NC	A
Palau	N	N	N			N	N	Y		R	
Samoa	8	Y	4,551	Y	Y	Y	N	N	BD	R	A, I*
Vanuatu	55	Y	2,500	Y	N	Y	N	Y	BD	R	A, O

## Money Laundering Trends and Typologies

As in previous years, money launderers have demonstrated great creativity in combining traditional money laundering techniques into complex money laundering schemes designed to thwart the ability of authorities to prevent, detect and prosecute money laundering. Below are some of examples of the various money laundering typologies and a review of U.S. money laundering trends in 2001.

### *Statistical Overview of U.S. Money Laundering Trends in 2001*

The U.S. Suspicious Activity Report System (SARs) plays a critical role in U.S. anti-money laundering efforts. Similar types of reporting throughout the world are key to global efforts to combat money laundering. The aggregate totals for U.S. SARs help illustrate the nature of illegal proceeds and relative scale of the problem. The following statistics provide aggregate totals for SARs) filed by depository institutions (i.e., banks, thrifts, savings and loans, and credit unions) since implementation of the U.S. SAR system in April 1, 1996 through April 30, 2001. A small part of the total volume relates to reports filed by affiliates of depository institutions or, in some cases, filed voluntarily by brokers and dealers in securities who are not affiliated with banks, money services businesses, or gaming businesses, that, at this time, are not yet required under the Bank Secrecy Act (BSA) to file SARs.

**Chart 1: SAR Filings by Year and Month**

Month	Number of Filings					
	1996	1997	1998	1999	2000	2001
January		6,123	6,832	8,621	13,399	13,767
February		5,519	7,055	9,949	13,633	14,660
March		6,850	8,938	11,492	15,154	16,084
April	2,170	7,148	8,057	9,478	11,498	15,355
May	4,404	6,754	7,409	10,400	13,363	
June	6,070	6,696	8,737	10,956	13,915	
July	6,907	7,175	8,757	8,518	12,032	
August	6,567	6,322	8,532	10,484	14,853	
September	6,938	7,561	7,577	8,471	13,514	
October	7,474	7,439	8,165	9,842	12,662	
November	5,029	5,960	7,848	11,243	14,145	
December	6,510	7,604	8,614	11,050	14,546	
<b>Subtotal</b>	<b>52,069</b>	<b>81,151</b>	<b>96,521</b>	<b>120,504</b>	<b>162,714</b>	<b>59,866</b>
Total Filings	<b>572,825</b>					

Chart 2 provides a rank ordering of the underlying suspicious activity identified in the SAR data between April 1996 and April 2001.

# Money Laundering and Financial Crimes

**Chart 2: Frequency Distribution of SAR Filings by Characterization of Suspicious Activity**

**April 1, 1996 Through April 30, 2001**

Violation Type	1996	1997	1998	1999	2000	2001
BSA/Structuring/Money Laundering	21,655	35,625	47,223	60,983	90,606	31,980
Bribery/Gratuity	94	109	92	101	150	60
Check Fraud	9,078	13,245	13,767	16,232	19,637	7,933
Check Kiting	2,902	4,294	4,032	4,058	6,163	2,497
Commercial Loan Fraud	583	960	905	1,080	1,320	393
Computer Intrusion	0	0	0	0	65	62
Consumer Loan Fraud	1,190	2,048	2,183	2,548	3,432	1,391
Counterfeit Check	2,405	4,226	5,897	7,392	9,033	3,072
Counterfeit Credit/Debit Card	391	387	182	351	664	378
Counterfeit Instrument (Other)	219	294	263	320	474	171
Credit Card Fraud	3,340	5,075	4,377	4,936	6,275	2,358
Debit Card Fraud	261	612	565	721	1,210	516
Defalcation/Embezzlement	3,286	5,284	5,252	5,178	6,117	2,137
False Statement	1,880	2,200	1,970	2,376	3,051	818
Misuse of Position or Self Dealing	952	1,532	1,640	2,064	2,186	735
Mortgage Loan Fraud	1,318	1,720	2,269	2,934	3,515	1,446
Mysterious Disappearance	1,216	1,765	1,855	1,854	2,225	728
Wire Transfer Fraud	302	509	593	771	972	467
Other	4,836	6,675	8,583	8,739	11,148	4,719
Unknown/Blank	1,539	2,317	2,691	6,961	6,971	2,900

## *Money Laundering Trends in 2001*

The following were some of the key trends and areas of high activity in money laundering in 2001:

### **Wire Transfer and Shell Company Activity**

Suspicious Activity Reports (SARs) filed by U.S. based banks have cited suspicious wire transfer activity transpiring through U.S. correspondent accounts maintained by foreign banks. The SARs typically reference possible shell entities as parties to the wire transfer activity. Many of these shell companies are domestically based.

Reports filed on correspondent accounts revealed large dollar volumes of suspicious wire transfer activity transpiring through U.S. correspondent accounts maintained by foreign banks. This activity has often involved so-called “unsubstantiated entities” (companies who do not appear as listed on the Internet or through other research). These “unsubstantiated” entities have been involved as parties to the suspicious

wire transfer activity transpiring through the correspondent accounts maintained by foreign banks with the U.S. reporting bank.

Some reports also referenced suspected “shell banks” as parties to the suspicious wire transfer activity through foreign correspondent bank accounts. Other suspicious factors cited by the reporting banks, beyond the detection of suspected shell entities, include: large dollar volume wire transfers; repetitive patterns of frequent wire transfers; and unusual directional flows considered by the reporting banks to be deviations from normal legitimate business transaction flows.

Several U.S. based banks have the ability to detect and report this suspicious activity through monitoring of the correspondent accounts that they maintain for foreign banks. Some U.S. based banks have also closed correspondent accounts maintained by foreign banks due to continuous suspicions that many of the foreign banks’ customers are possible shell entities.

### **Computer Intrusion**

Law enforcement has identified computer intrusion as a new type of suspicious activity as a result of reports from financial institutions regarding possible attempts to intrude into their computer systems. Computer Intrusion is defined as gaining access to a computer system of a financial institution to: remove, steal, procure or otherwise affect funds of the institution or the institution’s customers; remove, steal, procure or otherwise affect critical information of the institution including customer account information; or damage, disable or otherwise affect critical systems of the institution. For purposes of this reporting, computer intrusion does not mean attempted intrusions of web-sites or other non-critical information systems of the institution that provide no access to institution or customer financial data or other critical information.

From June 1, 2000 to May 31, 2001, 147 suspicious activity reports on computer intrusion were filed by financial institutions in 34 states and Puerto Rico. All were filed by depository institutions, with those in New York, California and Illinois accounting for nearly 30 percent.

### **Money Transmitters**

The majority of companies in the United States that make up the money services businesses (MSB) industry recognize that the products and services that they provide may be vulnerable to abuse. Some of the national MSBs, including the leading money transmission services, money order and travelers’ checks issuers, check cashing businesses and currency exchange providers have developed internal systems to detect suspicious activity.

Reports filed by money transmitter companies, both primary companies (companies that own a money transmitter business) and agent businesses (companies that act as agents), indicate that there are many varied patterns of suspicious activity involving money transmitter companies. Primary among those are customer attempts to disperse transactions and circumvent record keeping dollar amount thresholds.

### **Identity Theft**

Identity theft and related fraudulent activities have been reported by financial institutions since 1996. In the June 2001 Issue of the SAR Activity Review, identity theft was selected as the Highlighted Trend based on the financial industry’s perception of increases in both the incidence of identity theft-based fraud and increased SAR reporting.

Since December 1, 2000, filing of reports related to identity theft have increased by 50 percent from the same period a year before. Because the rate of identity theft incidents continues to increase, the Federal Trade Commission has developed a pamphlet to assist consumers in avoiding identity theft and, in

instances of abuse, to give steps to take in addressing stolen identities. Federal bank supervisors also recently released guidance to banking organizations on identity theft.

## **Terrorist Financing**

U.S. law enforcement conducted a review of investigative case files to provide guidance to financial institutions on indicators of activity that could be linked to various criminal activities including terrorism. The following patterns of activity indicate collection and movement of funds that could be associated with terrorist financing:

- Use of multiple personal and business accounts to collect and funnel funds to a small number of foreign beneficiaries;
- Deposits are followed within a short period of time by wire transfers of funds;
- Beneficiaries are located in a problematic foreign jurisdiction;
- Structuring of cash deposits in small amounts in an apparent attempt to circumvent Federal Currency Transaction Report requirements;
- Mixing of cash deposits and monetary instruments;
- Deposits of a combination of monetary instruments atypical of legitimate business activity (business checks, payroll checks and social security checks);
- Stated occupations of those engaging in transactions that are not commensurate with the level of activity (e.g., student, unemployed, self-employed);
- Large currency withdrawals from a business account not normally associated with cash transactions.
- Movement of funds through a FATF “non-cooperative country or territory”; and,
- Involvement of multiple individuals from the same country or community.

## *Other Money Laundering Trends and Typologies*

### **Alternative Money Remittance Systems**

Alternative remittance systems, sometimes also referred to as informal value transfer systems (IVTS), are a family of monetary remittance systems that provide for the transfer of value outside of the regulated financial industry. These systems are known by a variety of names reflecting ethnic and national origins, predominantly South Asian and Chinese. They operate throughout the world, especially in countries with large expatriate populations from Africa and Asia. Included, among others, are such systems as hawala (India), hundi (Pakistan), fei ch’ien (China), phoe kuan (Thailand), hui k’uan (Mandarin Chinese), ch’iao hui (Mandarin Chinese) and nging sing kek (Cantonese Chinese). Most of these systems pre-date the emergence of modern banking and other financial institutions. The Colombian Black Market Peso Exchange can also be characterized as a form of alternative remittance system.

These systems provide mechanisms for the remittance of currency or other forms of monetary value—most commonly gold—without physical transportation or use of contemporary monetary instruments. These systems are used extensively as a means for expatriates, such as foreign laborers, to have funds delivered to families in the home country without contact with authorities on either the sending or receiving end. The systems rely on a pairing of brokers, one who orders a disbursement on behalf of a sender and another that makes the disbursement to the receiver, followed at some point in time with a

clearing process to settle account imbalances between the brokers. The systems operate on the basis of a trusted relationship established in the context of narrowly defined ethnic and national ties. Records are not typically kept about the identities of the transactors or details of the transactions.

Because of the anonymity and secrecy of the remittance transactions, these systems are known to have been used in a variety of criminal activities including money laundering, terrorist financing, alien smuggling, drug trafficking, arms trafficking, corruption of government officials, currency controls evasion and tax evasion. Although these systems operate outside of the regulated financial industry, they may intersect with banks and other traditional financial institutions in order to either obtain currency needed to make disbursements, or as links in the account clearing process involving wire transfers, imports and exports of goods such as electronics, securities transactions etc. It is at these links that the brokers or their representatives may become known to financial institutions, and their transactions reviewed for indications of unusual activity in countries that require the reporting of suspicious transactions.

### **Black Market Peso Exchange System**

The Black Market Peso Exchange System (BMPE) is a trade-based system that depends on commercial traffic between the U.S. and Colombia to launder profits from the sale of illegal drugs in the United States. The BMPE is a significant money laundering conduit used by Colombian narcotics traffickers in repatriating revenues to Colombia. The process begins when a Colombian drug organization arranges the shipment of drugs to the United States. The drugs are sold in the U.S. in exchange for U.S. currency that is then sold to a Colombian black market peso broker's agent in the United States. The U.S. currency is sold at a discount because the broker and his agent must assume the risk of evading the Bank Secrecy Act reporting requirements when later placing the dollars into the U.S. financial system.

Once the dollars are delivered to the U.S.-based agent of the peso broker, the peso broker in Colombia deposits the agreed upon equivalent in Colombian pesos into the organization's account in Colombia. At this point, the organization has laundered its money because it has successfully converted its drug dollars into pesos, and the Colombian broker and his agent now assume the risk for introducing the laundered drug dollars into the U.S. banking system, usually through a variety of surreptitious transactions. Having introduced the dollars into the U.S. banking system, the Colombian black market peso broker now has a pool of laundered dollars to sell to Colombian importers. These importers then use the dollars to purchase goods, either from the U.S. or from other markets, which are transported to Colombia, often via smuggling in order to avoid applicable Colombian law.

The exact size and structure of the BMPE system cannot be determined with any degree of precision. However, based on anecdotal law enforcement evidence, informants' statements, and Colombian law enforcement and intelligence officials, it is believed that between \$3 billion and \$6 billion is laundered annually. Other sources of demand for BMPE dollars include capital outflows by Colombian residents, who seek either to conceal the funds from the Colombian authorities or simply to take advantage of the favorable BMPE exchange rate.

To combat the BMPE, the U.S. Department of Treasury instituted an interagency working group whose aggressive attack on this problem has resulted in enhanced coordination of anti-BMPE investigations and increased successful prosecutions. Treasury's outreach programs to educate U.S. exporters of the operations of and their vulnerability to the BMPE have also achieved success. During the past year, high-level U.S. Government officials met with senior officials of U.S. companies whose products are vulnerable to the BMPE to explain the system and to encourage them to develop programs to counter the BMPE. Subsequently, company officials and government experts developed draft best practice guidelines to help U.S. importers and exporters identify BMPE-related transactions and institute protective measures. These draft guidelines are now under study by U.S. companies and are being adapted to fit business practices in various industries. These guidelines are expected to be implemented by June 2002.

In addition to domestic outreach efforts, the United States, Colombia, Panama, Venezuela and Aruba formed an international working group of experts to combat this money laundering system. This working group is to study the BMPE, report its findings, and recommend policy options and actions that can be taken by the governments against the BMPE.

On October 21, 2000, U.S. Treasury Department and Department of Justice officials and government officials from Aruba, Colombia, Panama, and Venezuela participated in the first meeting of this working group. At the meeting, the 30 experts discussed how the BMPE money laundering system affected each of their respective countries. Topics of discussion included the BMPE steps, documentation of international commercial transactions, the problems with existing paper trails and laws, and ways to improve international cooperation.

During 2001, the BMPE Multilateral Working Group met in Panama, Colombia, and the United States and conducted studies of day-to-day operations and regulation of free trade zones, the relationship between merchants in and operators of these zones and zone authorities including Customs. As a result of these meetings, experts from the participating countries formulated policies and actions as recommendations to their respective governments.

These wide ranging recommendations included improving international cooperation through the design and implementation of standardized recording and reporting of international shipments to facilitate information exchange between governments, The Experts Group also recommended adequate screening and regulation of free trade zone merchants and operators, and expanded efforts to educate international commerce merchants to the risks of trade-based money laundering and methods to combat it. Recognizing that contraband trade and related money laundering is endemic to the economies of certain regions, the experts of the Multilateral Group also recommended conducting studies of economic, social, political and/or legal issues to find comprehensive responses to problems. The Multilateral Working Group is expected to reconvene in 2003 to review progress in implementing these recommendations and to report on results achieved in combating trade-based money laundering,

## **The Hawala System**

The hawala (or hundi) alternative remittance system (sometimes also known as parallel or underground banking) continues to be a key factor in money laundering and financial crimes associated with South Asia. It is used in both the huge “underground” economies of the region and is also widely used in everyday transactions involving legitimate commerce. Hawala has been called “the poor man’s banking system.” Unfortunately, criminal organizations take advantage of hawala networks to launder illegally derived proceeds or transfer funds for the financing of criminal activities. In 2001, the use of hawala was noted in terrorist financing investigations. Moreover, because of changing immigration patterns, the use of hawala is no longer confined to South Asia but has spread around the world.

Hawala operates on trust and connections. In fact “trust” is one of several meanings associated with the word hawala. Customers trust hawala operators or “hawaladars” to use their connections to facilitate money movement or more accurately transfer value around the world. The hawala money transfer system is generally much more rapid and inexpensive than the use of traditional banking institutions. Hawala transactions are often based on the trade of a commodity such as electronics or gold. Fictitious, under-or over-invoicing are often used to “balance the books.” The actual hawala records themselves provide little paper trail and often the records are written in code. Most hawala networks are based on ethnic and family ties. This facilitates the trust necessary for hawala, and also makes it very difficult for law enforcement to penetrate the networks.

Dubai in the United Arab Emirates has often surfaced as the conduit for hawala transfers involving India, Pakistan, Afghanistan, Somalia, and other countries in the region. The UAE is beginning to study possible countermeasures to hawala transactions. However, any solution must also address the underlying causes of

hawala in South Asia such as severe foreign exchange restrictions, inefficient and costly banking channels, and tax and duty policies.

### **Lawyers/Notaries, Accountants and Other Non-Financial Professionals**

United States law enforcement authorities have observed that as money laundering schemes become more complex, the perpetrators turn to the learned expertise of attorneys, accountants, consultants and agent representatives to aid them in the movement of illegal currency. These professionals, using shell corporations, nominees and fictitious records, devise elaborate paper trails to disguise the true source of illegal income.

### **The Market for Gold and Other Precious Metals**

Gold is known to play a significant role in international money laundering. Gold, just like certain currencies (e.g., the U.S. dollar, Swiss franc, and British pound, the Euro) is a nearly universal commodity for international commerce. The attractiveness and value of a particular currency depend on a complex and often unstable variety of political and economic conditions. Gold has been a key medium of exchange since antiquity and will, in fact, most likely always enjoy this position, as it appears nearly immune to the consequences of changing global fortunes.

Gold serves as both a commodity and, to a lesser extent, a medium of exchange in money laundering conducted in Latin America, the United States, Europe and Asia. In this cycle, for example, gold bullion makes its way to Italy via Swiss brokers. There it is made into jewelry, much of which is then shipped to Latin America. In Latin America, this jewelry (or the raw gold from which it was made) then becomes one, if not the most important, of the commodities in the black market peso exchange.

### **Use of Traveler's Checks to Disguise Identities**

Criminals may be using traveler's checks as a money laundering tool. Although traveler's checks can be the preferred mechanism for conducting large business transactions in some countries, the use of traveler's checks can offer the opportunity to commingle illicit funds with legitimate funds. Several major U.S. banks and traveler's check issuers have detected and reported suspicious practices involving the use of hundreds of thousands of dollars in traveler's checks per instance, often in strings of sequentially numbered thousand-dollar traveler's checks. In some cases, the payee was a numbered account in a foreign bank. Frequently the name and/or address on the purchase agreement were left blank, unverifiable, illegible, or not matching the signature name on the corresponding traveler's checks.

Mexico, Nigeria, Israel, and a number of East Asian countries have been frequently cited as the point of origin or negotiation for instruments involved in this type of activity. An example was the purchase of traveler's checks from an investment house/travel agency in Asia, where one employee of the traveler's check seller personally signed the purchase agreements for \$27 million worth of traveler's checks. When the traveler's check issuer told the seller to have the buyer sign the purchase agreement, the traveler's check seller started producing purchase agreements with many different names, but frequent similarities in handwriting.

### **Pre-paid Telephone Cards as Cover for Money Laundering**

Increased reporting on the sale of pre-paid telephone cards led to the May 2001 issuance of FinCEN's Bulletin on suspicious activity related to phone card businesses. Over 160 reports indicating suspicious financial activity were filed related to businesses involved in phone card sales. Some of the companies or businesses involved in the reported activity offer other services such as check cashing, money orders, beepers, cellular phones, faxes, lottery tickets, and travel tickets. Financial institutions in fourteen states, particularly in New York, New Jersey, Texas, California and Florida, reported this suspicious activity.

Phone card sale businesses routinely generate significant legitimate cash flow. Information reported by financial institutions shows problematic transactions suggestive of money laundering or other illicit financial activity such as large and unexplained cash flow increases or transactions structured to stay below CTR reporting requirements associated with illegitimate use of these businesses. Additionally, law enforcement information suggests the use of phone cards may be a possible mechanism to launder illicit funds. The reported dollar volumes associated with this activity range from \$300,000 to \$50 million. In one instance, a bank reported 370 cash deposits by a prepaid phone card business totaling more than \$3 million in approximately three months, exceeding the business' expected cash flow.

## **U.S. Money Laundering Countermeasures**

### *National Money Laundering Strategy*

On October 15, 1998, Congress passed the Money Laundering and Financial Crimes Strategy Act of 1998. The Act called upon the President, acting through the Secretary of the Treasury and in consultation with the Attorney General, to develop a national strategy for combating money laundering and related financial crimes. The Act called for the first national strategy to be sent to Congress in 1999, and updated annually for the following four consecutive years. The 2001 National Money Laundering Strategy was released in September 2001.

The 2001 Strategy identifies five goals: (1) focus law enforcement efforts on the prosecution of major money laundering organizations and systems; (2) measure the effectiveness of anti-money laundering efforts; (3) prevent money laundering through cooperative public-private efforts and necessary regulatory measures; (4) coordinate law enforcement efforts with state and local governments to fight money laundering throughout the United States; and (5) strengthen international cooperation to combat the global problem of money laundering.

### *Significant Priority Items*

The following are summaries of the most significant priority issues:

- **Refocus Efforts of High Intensity Financial Crime Areas (HIFCAs).** HIFCAs are special, high-risk areas or sectors where law enforcement will concentrate its resources and energy to combat money laundering. The 2001 Strategy mandated that the HIFCA task forces become operational and conduct investigations designed to result in indictments, convictions, and seizures, rather than focus primarily on intelligence gathering. Each of the six HIFCA Task Forces is now actively working cases. HIFCA Task Forces are composed of, and draw upon, all relevant federal, state, and local agencies. The Departments of Treasury and Justice jointly supervise the HIFCA Task Forces, and the 2001 Strategy primarily tasks the Federal Law Enforcement Training Center (FLETC) and Justice's Asset Forfeiture and Money Laundering Section to develop an advanced money laundering training program to enhance the HIFCA Task Forces' ability to investigate sophisticated money laundering schemes.
- **Broker-Dealers in Securities Suspicious Activity Report Reporting.** Although banks are subject to the suspicious activity reporting requirements of the Bank Secrecy Act (BSA), many non-bank financial institutions—including brokers and dealers in securities—have not been subject to the reporting provisions of the BSA. On December 31, 2001, Treasury's Financial Crimes Enforcement Network (FinCEN) issued a proposed rule that would "level the playing field" by requiring securities brokers and dealers to file suspicious activity reports in connection with customer activity that

indicates possible violations of law or regulation, including violations of the Bank Secrecy Act. The SAR broker-dealer rule closely mirrors the reporting regime currently in place for banks, and sets the SAR reporting level at \$5,000.

- **Money Service Business Suspicious Activity Report Reporting.** The Treasury Department issued final regulations, effective December 31, 2001, mandating that money transmitters, issuers, sellers, and redeemers of money orders and traveler's checks must report suspicious transactions to the Treasury Department beginning January 1, 2002. The principal focus will be to ensure that law enforcement fully utilizes reported information. The 2001 Strategy requires that law enforcement agencies using SAR information evaluate the usefulness of this information and provide FinCEN with operational feedback. FinCEN will use the feedback to increase the usefulness of reported information to law enforcement agencies.
- **Reduce the threat of money laundering posed by foreign correspondent banks.** On December 20, 2001, Treasury issued a proposed rule to codify interim guidance Treasury issued in November pursuant to the USA PATRIOT Act concerning how financial institutions could make sure that their correspondent accounts were not being used to move proceeds directly or indirectly from foreign "shell banks." For purposes of the proposed rule, foreign shell banks are defined, with a limited exception, as foreign banks without a physical presence in any country. The proposed rule also covers securities brokers and dealers, and broadens the existing definition of correspondent accounts to include "any account (broker-dealers) provide in the U.S. to a foreign bank that permits the foreign bank to engage in securities transactions, funds transfers, or other financial transactions through that account." The proposed rule also requires banks that offer correspondent accounts to foreign banks to require those banks to appoint an agent with authority to accept service of legal process for information relating to the correspondent account in the U.S. and keep records of the identity of the agent as well as the owner of the foreign bank.
- **International.** The Strategy seeks to remove all barriers that inhibit international cooperation, and called on appropriate U.S. Government officials to review extradition and mutual legal assistance relationships that are key for money laundering investigations and prosecutions and to recommend that coverage of money laundering offenses be considered an important objective in assessing U.S. Government priorities for future treaty negotiations. The 2001 Strategy sets as its goal increased use of the international asset-sharing program, which provides an incentive for international cooperation. Further, the Departments of the Treasury and Justice will explore the feasibility of establishing model international financial task forces to plan and coordinate significant multilateral money laundering investigations. The United States will continue to actively participate within the Financial Action Task Force (FATF), and seek to revise the Forty Recommendations to reflect new issues and concerns.
- **Evaluation and Accountability.** The 2001 Strategy seeks to institutionalize systems to measure the success of money laundering enforcement efforts and results to provide law enforcement with an accurate picture of its anti-money laundering programs. Measured evaluation will allow for the identification of money laundering "hot spots," indicate areas where law enforcement must enhance or prioritize its investigations and prosecutions, and allow law enforcement to articulate measurable goals. Treasury has convened a high-level working group to consider the establishment of standardized reporting procedures for each federal law enforcement agency involved in money laundering investigations and prosecutions.

- **Legislation.** An aggressive anti-money laundering attack requires that law enforcement utilize all available statutory authorities to dismantle large-scale criminal enterprises. Treasury, the White House, and Department of Justice worked closely with the Congress on a variety of anti-money laundering proposals that were contained in Title III of the USA PATRIOT Act, which Congress passed and the President signed into law in October 2001. The anti-money laundering provisions of the USA PATRIOT Act addressed various deficiencies in current money laundering laws and enhanced criminal money laundering enforcement and asset forfeiture capabilities. A number of interagency task forces are working to implement the various provisions of the USA PATRIOT Act.
- **Financial Crime-Free Communities Support Program.** The 2000 Strategy announced the launching of the Financial Crime-Free Communities Support (C-FIC) Program. The C-FIC program is the result of a legislative mandate to establish a federal grant program to provide seed capital for emerging state and local anti-money laundering enforcement efforts. The Bureau of Justice Assistance (BJA) assists the Treasury Department in administering this grant program. In September 2001 Treasury awarded \$2.1 million in grant funds to a variety of programs proposed by eight state and local law enforcement agencies in New York, Illinois, Wisconsin, Iowa, Washington, and California. The 2001 Strategy calls for Treasury to conduct evaluations of existing C-FIC grant recipients to assess their progress.

## *The USA PATRIOT Act of 2001*

Prior to the September 11 terrorist attacks, efforts to enhance the federal government's ability to combat international money laundering were already underway. The Senate and House were considering money laundering legislation, and the Bush Administration was hinting at increasing prosecutorial and regulatory resources to fight significant money laundering organizations and complicit financial institutions. The events of September 11 launched anti-money laundering, as well as terrorist financing initiatives, as top priorities in the war on terrorism.

On October 26, 2001 the President signed into law the Money Laundering Abatement and Anti-Terrorist Financing Act of 2001, as Title III of the "United and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism ("USA PATRIOT") Act of 2001." The most significant legislation of its kind since 1970, Title III contains comprehensive regulatory and enforcement provisions that will impact financial institutions' daily operations. The legislation both systematically targets known risks to the financial system as well as provides the U.S. Government with new authority and tools to identify and eliminate specific problems as they arise.

Key provisions of Title III include:

**Section 311** provides the United States with authority to apply graduated, proportionate measures against a foreign jurisdiction, foreign financial institution, type of transaction, or account that the Secretary of the Treasury determines to be a "primary money laundering concern." (A finding by the Secretary of the Treasury pursuant to this section that a jurisdiction is of "primary money laundering concern" is wholly distinct from and should not be confused with the INCSR characterization of countries or jurisdictions as being of "primary money laundering concern") The five special measures include such steps as requiring domestic financial institutions to keep records and report certain transactions, take reasonable steps to obtain beneficial ownership information, obtain information about certain types of accounts, including correspondent accounts, and, if necessary terminate such accounts. The designation of primary money laundering concerns, the selection of particular special measures, and the imposition of certain of the special measures, require consultation with various agencies and departments including in all cases the Department of State. Treasury will issue regulations defining key terms.

**Section 312** requires financial institutions that establish, maintain, administer, or manage a private banking account or a correspondent account for a non-U.S. person to apply appropriate, specific and, where necessary, enhanced due diligence policies, procedures and controls reasonably designed to detect and report instances of money laundering through those accounts. The provision imposes additional requirements for such accounts held by foreign banks operating under offshore licenses or licenses from jurisdictions designated as non-cooperative with international anti-money laundering principles or procedures by an intergovernmental group or organization of which the United States is a member, with which designation the United States representative to the group or organization concurs, or by the Secretary of the Treasury as warranting special measures due to money laundering concerns. Treasury will issue regulations further defining the due diligence required.

**Section 313** generally prohibits U.S. financial institutions from maintaining a correspondent account in the United States for a foreign shell bank, that is, a foreign bank that does not have a physical presence in any country. The provision also generally requires financial institutions to take reasonable steps to ensure that foreign banks with correspondent accounts do not use those accounts to indirectly provide banking services to a foreign shell bank. Limited exceptions apply to both requirements. Treasury has issued interim guidance and a proposed rule outlining methods for financial institutions to comply with this provision.

**Section 314** requires Treasury to adopt regulations encouraging information sharing between law enforcement, regulators, and financial institutions concerning known or suspected terrorists or money launderers. Also permits financial institutions, after providing notice to Treasury, to share information with each other regarding suspected terrorists or money launderers.

**Section 315** adds additional predicate offenses to the U.S. money laundering statutes, including foreign official corruption and certain foreign smuggling and export control violations.

**Section 319** authorizes the seizure of funds held by foreign banks in U.S. correspondent accounts to satisfy certain types of seizure orders against funds deposited in the foreign bank, regardless of whether those funds can be traced to the foreign bank's correspondent account in the United States. Section 319 also allows the Secretary of the Treasury or the Attorney General to subpoena records of a foreign bank that maintains a correspondent account in the United States. The subpoena can request any records relating to the account, including records located in a foreign country relating to the deposit of funds into the foreign bank. To facilitate the service of subpoenas, foreign banks must designate a registered agent in the U.S. to accept service, and U.S. financial institutions maintaining such accounts must keep records of the identity of the agent as well as the owners of the foreign bank. If the foreign bank fails to comply with or contest the subpoena, the Secretary or the Attorney General can order the U.S. financial institution to close the correspondent account. Treasury has issued interim guidance and a proposed rule concerning the record-keeping requirements.

**Section 325** permits but does not require the Secretary of the Treasury to promulgate regulations governing maintenance of concentration accounts, that is, accounts used to aggregate funds from different clients' accounts for various transactions. If funds are commingled and not linked to individual clients, this presents a money laundering risk.

**Section 326** requires the Secretary of the Treasury to issue regulations establishing minimum standards for the identification of customers of financial institutions during the opening of an account. The provision also requires the Secretary to report to Congress on ways to enable domestic financial institutions to confirm the identity of foreign nationals who seek to open accounts.

**Section 352** requires all financial institutions to have an anti-money laundering program by April 24, 2002. The provision permits the Secretary of the Treasury to issue regulations prescribing minimum standards for the programs and to exempt certain financial institutions from the requirement. The Secretary must also issue regulations evaluating whether the requirement of an anti-money laundering program is commensurate with the size, location, and activities of the financial institution to which it applies.

**Section 356** requires the Secretary of the Treasury to issue a final rule requiring brokers and dealers to file SARs by July 1, 2002. Treasury issued a proposed rule as directed on December 31, 2001. The provision also authorizes the Secretary to require futures commission merchants and other commodities investment advisors to file SARs. Finally, it requires Treasury to draft a report along with the SEC and the CFTC recommending ways to apply the Bank Secrecy Act to investment companies.

**Section 358** includes three provisions facilitating the sharing of information to combat international terrorism:

*(1) Permits the sharing of Bank Secrecy Act material with intelligence agencies for intelligence or counterintelligence activities to protect against international terrorism.*

*(2) Amends the Right to Financial Privacy Act to permit greater government access to consumer financial information held by financial institutions when the inquiry relates to international terrorism.*

*(3) Amends the Fair Credit Reporting Act to permit greater governmental access to credit reports when the inquiry relates to international terrorism.*

**Section 359** brings informal banking systems, such as hawalas, under the Bank Secrecy Act.

**Section 362** requires the Secretary of the Treasury to establish a secure network in FinCEN to allow financial institutions to file Bank Secrecy Act reports electronically through the secure network and provide financial institutions with alerts regarding suspicious activities.

**Section 365** requires non-financial businesses to file transaction reports with FinCEN for all transactions involving the receipt of more than \$10,000 in coins or currency. Treasury issued an interim final rule in December implementing this provision. Because this rule is nearly identical to the reporting provision of the Internal Revenue Code, Treasury's rule permits the filing of a single form to satisfy both reporting requirements.

**Section 371** criminalizes the smuggling of more than \$10,000 in bulk currency across U.S. borders, and makes the property involved in the offense subject to civil and criminal forfeiture.

**Section 1006** amends the Immigration and Nationality Act to exclude aliens engaged or seeking to engage in money laundering as described in U.S. law, or those that aid, abet, assist or collude in such activity. This section also requires the Secretary of State to establish a watch list identifying persons worldwide who are known or suspected of money laundering. In developing the required watch list, the State Department consulted with the CIA and relevant offices within the Departments of Justice and Treasury. In January 2002, the Secretary of State certified to the Congress that such a list had been put into place.

## *Enforcement Cases*

### **Black Market Peso Exchange: Operation Broker II**

An investigation conducted by the Colombian Departamento de Investigaciones (DAS) with DEA targeted a Colombian money laundering organization connected to the Colon Free Zone, Panama. This organization was allegedly involved in the black market peso exchange through importation of precious metal and jewels into Colombia in exchange for drug related proceeds.

On February 1, 2001, acting on DEA information, the DAS arrested four pilots and seized two airplanes in of Medellin, Colombia, upon their arrival from Panama. A search of the aircraft revealed approximately \$600,000 worth of gold and silver concealed within the planes.

On February 19, 2001, the DAS conducted a roundup of defendants implicated in money laundering violations as a result of this investigation. Twenty-one persons were arrested with seizures of two additional airplanes, approximately \$100,000 in currency, \$110,000 worth of jewelry and 12 weapons.

## **Asset Forfeiture: First Application of the Patriot Act-Seizing Funds of Foreign Bank Through Its Correspondent Bank in the United States**

On December 18, 2001, the United States Postal Service seized \$1,637,574.21 in connection with the prosecution of James R. Gibson and Marjorie Gibson on fraud and money laundering charges. This seizure, together with a related seizure of \$54,000 in November, resulted from the first successful application of new authority under Section 319(a) of the USA PATRIOT Act (18 U.S.C. §981(k)) to seize for forfeiture funds a foreign bank has on deposit in a correspondent account at a financial institution in the United States in order to satisfy a seizure order against funds held on deposit in the bank abroad.

Gibson's criminal scheme involved the diversion of approximately \$37 million from structured settlement agreements for roughly 150 victims, including widows, orphans and persons in need of expensive, ongoing medical care. Gibson and his wife fled to Belize with \$2.4 million and a luxury yacht. Despite repeated efforts, the USG had previously been unable to get custody of assets Gibson had removed to Belize due to local statutory limitations on the ability of the Government of Belize to provide international assistance to the United States. The decision to use Section 319(a) authority by the Department of Justice occurred after inquiries to the Departments of Treasury and State.

## **Cocaine Trafficking Ring/Cash Smuggling**

Sixteen members of a cocaine trafficking ring were charged in a nine-count indictment for conspiracy, possession and distribution of controlled substances and money laundering as a result of a criminal investigation by the Internal Revenue Service. According to the indictment, the operation was as follows:

The group participated in the distribution of narcotics from Los Angeles to Milwaukee and Chicago. The flow of cash moved from Chicago and Milwaukee back to Los Angeles.

The organization used couriers to transport the cash to Los Angeles. The cash was packed within clothing and hidden in the couriers' luggage. Often the accumulated cash was concealed in commercial storage sheds in the Chicago area before it was spent on personal items.

To facilitate the cocaine distribution and to conceal the nature, source and ownership of the narcotics proceeds, the group employed several methods to disguise the financial transactions: obtaining false driver's licenses; using nominee names to purchase personal items; creating false loan documents; and using artificial business names.

Several members of the group used fake business names to obtain corporate credit cards. Automobiles were purchased and financed under false identities. Several individuals and couriers applied for and received frequent flyer benefit cards under the false identities.

Cash parcels, containing more than \$50,000, were also mailed through the U.S. Postal Service with the bulk cash transported exceeding \$6 million dollars.

After two years of investigation, the government seized over \$1 million dollars, charged the 16 individuals and was seeking forfeiture of an additional \$5 million in assets. The lead defendant later admitted a leading role and was sentenced to 25 years in prison and an additional 5 years of supervised release.

## **Charitable Fund Raising Activity Used to Support Foreign Terrorism**

Solicitors at the Los Angeles International Airport ("LAX") asked travelers and others to donate money to the Committee for Human Rights ("CHR"), an entity which the solicitors are alleged to have known was a front organization for the Mujahedin-e Khalq ("MEK"), a designated foreign terrorist organization. Based on the results of a federal investigation, it is believed that the funds were collected on behalf of and for the purpose of financing the activities of the MEK. Seven individuals, including those who are believed to have knowingly donated and raised money for the MEK, were charged in a 59-count indictment with

providing and conspiring to provide material support or resources to a foreign terrorist organization in violation of Title 18 U.S.C. §2339B(a)(1).

The indictment alleges that:

- One defendant coordinated the fundraising activities for the MEK.
- Several defendants solicited donations to the CHR, a front organization for the MEK, at LAX, knowing and intending that those donated funds would go to the MEK.
- Other defendants donated money to the MEK.
- One defendant wire transferred money from a CHR bank account to bank accounts in Turkey for the benefit of the MEK.
- Several defendants participated in conference calls during which fundraising for the MEK was discussed. During one such conference call with an MEK leader, several defendants learned that the MEK had been designated as a foreign terrorist organization and were nonetheless instructed to and did continue to raise funds for the MEK.

The trial in this matter is scheduled to commence on May 28, 2002.

## **Illegal Casa de Cambio Lauanders More than \$5 Million**

In January 1999, the Financial Crimes Division (FCD) of the Texas Office of Attorney General (OAG) initiated an investigation into money laundering allegations based on information received from a Suspicious Activity Report (SAR) filed by a Texas bank. This investigation centered on the operation of an illegal casa de cambio in Dallas and Kaufman Counties, Texas. The subjects of the investigation allegedly operated an illegal currency exchange business in violation of the Texas Financial Code, a third degree felony.

Currency exchange and transmission businesses like casas de cambio may be used by criminals to launder funds in connection with exchanging U.S. dollars for currencies of other countries prior to the funds being transmitted. Money orders in U.S. dollars that are sent to other countries can be difficult to redeem. Many currency exchange and transmission businesses are not licensed to conduct wire transmissions, as is required in many states.

Texas OAG, FCD, researched Bank Secrecy Act reports and located a total of 115 Currency Transaction Reports (CTRs), 14 Reports of International Transportation of Currency or Monetary Instruments (CMIRs), two Currency Transaction Reports by Casino (CTRCs) and 11 Suspicious Activity Reports (SARs). The documents helped the investigator by providing specific banking transactions and account information. That information was added to search warrants to establish probable cause and presented to a state grand jury.

The investigation concluded that money orders were received from various senders across the U.S. at the home addresses or post office boxes of the subject. According to the investigation, the subject then deposited the money orders into one or more local bank accounts and the banks were then instructed to wire transfer the funds to another out-of-state bank. Information gathered through the use of search warrants indicated that from August 1998 through March 1999, banking activity by the casa de cambio included deposits of \$5,593,185 and wire transmissions of \$5,122,460.

## **SAR Filing Leads to Identification of Elaborate Fraud Schemes**

A multi-agency investigation, led by the U.S. Customs Service, of several subjects allegedly engaged in a fraud scheme, in which 5,000 investors were defrauded of \$67 million, was aided by the filing of a Suspicious Activity Report by a financial institution in Hawaii. According to investigators, proceeds of the

scheme were deposited into numerous accounts at various business locations in Hawaii and then wire transferred to offshore accounts in Antigua, Bahamas and Vanuatu. Investors were told that their money would be invested with the Cayman Islands Government, which would pay the principals 20 percent interest per week. The principals, in turn, promised a return of 8 percent per week, plus 3 percent referral fee for investors who enrolled new investors. The investment was to run on a 13-week cycle. In reality, there was no such investment with the Cayman Government, and the defendants kept substantial profits.

One of the defendants deposited \$100,000 that was subsequently wire transferred to Ireland. The cash consisted of \$95,000 in one hundred dollar bills and \$5,000 in twenty dollar bills. The customer represented himself as an investment consultant and a self-employed educational systems marketer. The customer provided bank officials with useful identification documents, and even inquired of bank employees if they wanted to invest with him promising to pay them a high rate of return. The transaction indicated that the customer was working as a middle person to hide illegitimate income from investors who may have been under his control.

Thus far \$1,473,536 has been seized. One defendant pled guilty to six counts of money laundering, mail fraud, wire fraud, conspiracy to launder monetary instruments, and conspiracy to defraud the United States. Six additional defendants were named in a 100-count indictment charging them with mail fraud, wire fraud, money laundering, structuring, and conspiracy.

## **Bilateral Activities**

### *Training and Technical Assistance*

During 2001, a number of U.S. law enforcement and regulatory agencies provided training and technical assistance on money laundering countermeasures and financial investigations to their law enforcement, financial regulatory, and prosecutorial counterparts around the globe. These courses have been designed to give financial investigators, bank regulators, and prosecutors the necessary tools to recognize, investigate, and prosecute money laundering, financial crimes, and related criminal activity. Courses have been provided in the U.S. as well as in the jurisdictions where the programs are targeted.

### *Department of State*

The Department of State's Bureau for International Narcotics and Law Enforcement Affairs (INL) developed a \$2.7 million program for fiscal year 2001 to provide law enforcement, prosecutorial and central bank training to countries around the globe. A prime focus of the training program was a multi-agency approach to develop or enhance financial crime and anti-money laundering regimes in selected jurisdictions. Supported by and in coordination with INL, the Department of Justice, Treasury Department component agencies, the Office of the Comptroller of the Currency, the Board of Governors of the Federal Reserve, and non-government organizations offered law enforcement, regulatory and criminal justice programs worldwide.

During 2001, INL funded over 26 programs to combat international financial crimes and money laundering in 25 countries. Nearly every federal law enforcement agency assisted in this effort by providing basic and advanced training courses in all aspects of financial criminal activity. In addition, funds were made available for intermittent posting of financial advisors at selected overseas locations. These advisors work directly with host governments to assist in the creation, implementation, and enforcement of anti-money laundering and financial crime legislation. Further, several federal agencies were provided funding to conduct multi-agency financial crime training assessments and develop specialized training in specific jurisdictions worldwide to combat money laundering.

INL continues to fund the Caribbean Anti-Money Laundering Programme (CALP) along with funding from the European Union and the Government of the United Kingdom. The objectives of CALP are to reduce the incidence of the laundering of the proceeds of all serious crime by facilitating the prevention, investigation, and prosecution of money laundering. CALP also seeks to develop a sustainable institutional capacity in the Caribbean region to address the issues related to anti-money laundering efforts at a local, regional and international level.

INL also continued funding the United Nations Global Program Against Money Laundering (GPML). In addition to sponsoring money laundering conferences and providing short-term training courses, the GPML instituted a unique longer-term technical assistance initiative through its mentoring program. The mentoring program provides advisors on a year-long basis to specific countries or regions. In 2001, GPML mentors in the Caribbean assisted the Bahamas and Barbados in constructing a viable financial intelligence unit. A GPML mentor also provided advice on money laundering and asset forfeiture legislation to Antigua and Barbuda. INL continues to provide significant financial support for many of the anti-money laundering bodies around the globe. During 2000, support was furnished to the Asia/Pacific Group on Money Laundering, the Council of Europe PC-R—EV, CFATF, and the FATF. INL also provided financial support to the evolving Eastern and South African Anti-Money Laundering Group and to GAFISUD, the FATF-like body in South America.

As in previous years, INL training programs continue to focus on an interagency approach and on bringing together, where possible, foreign law enforcement, judicial and central bank authorities in assessments and training programs. This allows for an extensive dialogue and exchange of information. This approach has been used successfully in Asia, Central and South America, Russia, the New Independent States (NIS) of the former Soviet Union, and Central Europe. INL also provides funding for many of the regional training and technical assistance programs offered by the various law enforcement agencies, including those at the International Law Enforcement Academies (ILEAs).

## *International Law Enforcement Academies (ILEAs)*

The Department of State's International Law Enforcement Academies (ILEAs) are an entirely different concept in the area of international assistance programs. These academies offer a core law enforcement management program for mid-level officials in the police and criminal justice services of strategic countries throughout the world. The ILEAs will develop an extensive network of alumni, who will become the leaders and decision-makers in their respective countries, to exchange information with their U.S. counterparts and assist in transnational investigations. The Department of State works with the Departments of Justice and Treasury, and with foreign governments to implement the ILEA programs. To date, the combined ILEAs have trained over 8000 officials from 50 countries. ILEA expenditures for FY 2002 are budgeted at \$19.5 million.

### **Europe**

ILEA Budapest (Hungary) opened in 1995 to provide assistance to the Newly Independent States (NIS) of the former Soviet Union and Eastern European countries mainly former members of the Warsaw Pact. Trainers from the United States, Hungary, Canada, Germany, Great Britain, Holland, Ireland, Italy, Russia, INTERPOL and the Council of Europe provide instruction.

### **Asia**

ILEA Bangkok (Thailand) opened in March 1999. The curriculum and structure of this Academy is similar to Budapest, except for the shorter duration of the core course and an added emphasis in narcotics matters. Participation is opened to members of the Association of South East Asian Nations and the PRC. Trainers from the United States, Thailand, Japan, Holland, Australia and Hong Kong provide instruction.

### **Africa**

ILEA Gaborone (Botswana) opened in September 2001. Its overall instructional format is similar to Budapest and Bangkok, but adjusted to suit the needs of the region. Participation is opened to members of Southern African Development Community with expectations of future expansion to other countries in sub-Saharan Africa.

### **Global**

ILEA Roswell (New Mexico) opened in September 2001. It offers a curriculum similar to that of a Criminal Justice university. The courses have been designed and are taught by academicians, for graduates of the regional ILEAs. This Academy is unique in its format and composition, with an academic focus targeted to a worldwide audience.

### **Latin America**

ILEA South offered a Core course similar to Bangkok's—tailored to regional needs—for officials from Central America and the Dominican Republic. Two pilot courses were conducted in 1997 at a temporary site in Panama. All activities of this Academy have been temporarily suspended, pending a review to determine its permanent location.

The following summary provides a glimpse of training activities undertaken in 2001 by U.S. law enforcement agencies.

### ***Board of Governors of the Federal Reserve System***

The Federal Reserve has a long-standing commitment to combating money laundering and ensuring compliance with the Bank Secrecy Act and related suspicious activity reporting requirements by the domestic and foreign banking organizations that it supervises. Federal Reserve staff has provided training in anti-money laundering procedures to foreign law enforcement officials and central bank supervisory personnel in several jurisdictions each year. Some examples from 2001 include: Argentina, Bahamas, Chile, Costa Rica, Dominican Republic, Ecuador, Guatemala, India and Russia.

In addition, training was provided by Federal Reserve staff to U.S. law enforcement agencies including programs at the U.S. Department of the Treasury's Federal Law Enforcement Training Center and at the FBI Academy, as well as regular and frequent training for the U.S. Drug Enforcement Administration, U.S. Secret Service and the U.S. Customs Service.

### ***Drug Enforcement Administration (DEA)***

International Asset Forfeiture and Money Laundering Seminars are a part of the U.S. Department of Justice Asset Forfeiture Program conducted by the Drug Enforcement Administration's Office of Training, International Training Section. The intent of these seminars is to share, compare, and contrast U.S. legislation with that of other countries, building relationships and fostering communications with foreign narcotics enforcement and prosecutorial personnel. On average, the yearly budget allotted is \$420,000 to complete five seminars. Each seminar provides instruction to 35 to 50 high-level foreign drug law enforcement and money-laundering specialists.

DEA's primary focus for its training courses includes specialized training for foreign central bank regulators, police and customs officials, and prosecutors. Course materials include training in U.S. asset forfeiture laws, asset and financial gathering techniques, financial investigation techniques, case studies, document exploitation, and international banking.

Training is designed for one-week seminars involving lectures, presentations, case studies, and practical application exercises. Guest lecturers from various areas of the U.S. Government participate, including from the Department of Justice, the U.S. Customs Service, the U.S. Marshal Service, Board of Governors of the Federal Reserve as well as from various divisional offices of DEA.

This training is focused on cultures with economic systems developed enough to accommodate money laundering activities. All seminars are conducted in the host country. In 2001, training was conducted in Canada, the Dominican Republic and India. In addition, a regional Asset Forfeiture and Money laundering Seminar was conducted with State Department funds in Latvia with attendees from Latvia, Estonia, Finland and Lithuania.

### *Financial Crimes Enforcement Network*

FinCEN, the U.S. financial intelligence unit (FIU), has an international training program that focuses on providing training and technical assistance to a broad spectrum of foreign government officials, financial regulators, law enforcement personnel, and bankers. This training covers a wide variety of topics, including money laundering typologies, the creation and operation of FIUs, assistance in the establishment of comprehensive anti-money laundering regimes, computer systems architecture and operations, and assessments of country-specific money laundering regimes and regulations. FinCEN also works closely with the Egmont Group of FIUs to provide training and technical assistance to various jurisdictions for establishing and operating their own FIUs.

On March 26, 2001, legislators from Macau concerned with gaming issues and money laundering visited FinCEN to discuss U.S. gaming legislation.

In April 2001, FinCEN hosted a delegation of high-level economic officers from Russia for a financial analysis seminar. The seminar included courses in financial investigation and analysis, the U.S. anti-money laundering program, asset forfeiture, and money laundering prosecutions. Additionally, the Russian delegation briefed FinCEN on its country's efforts in combating financial crime. The intent of the program was to provide the delegation with a clearer understanding of the requirements of current anti-money laundering international standards and to develop an understanding of the political climate and legislative processes in its country.

In May 2001, FinCEN participated in a weeklong anti-money laundering seminar at the International Law Enforcement Academy (ILEA) in Budapest, Hungary. The seminar was sponsored by DOJ's Office of Overseas Prosecutorial Development, Assistance and Training. FinCEN gave presentations on FIU development, financial secrecy, and international anti-money laundering initiatives to the audience of 30 senior-level law enforcement, judicial, regulatory, and parliamentary officials from five Eastern European countries.

From May 14-18, 2001, FinCEN hosted a training seminar for members of the FIUs from El Salvador, Paraguay, Colombia, and Panama. The seminar included courses on data analysis, report writing, analytical software, and financial investigation and analysis, asset forfeiture, and money laundering prosecutions. Additionally, the delegation provided briefings to FinCEN and the other seminar participants on its country's efforts in combating financial crime.

On May 28-30, 2001, FinCEN visited the Anti-Money Laundering and Royal Thai Offices to conduct a financial intelligence unit and technology needs assessment. Discussions with the United Nations office in Bangkok also took place concerning development of a training and technical assistance CD-ROM.

During June 2001, a FinCEN delegation visited the Republic of the Marshall Islands to conduct a financial intelligence unit assessment. FinCEN also visited the newly established financial intelligence unit in Poland. Discussions with government officials included a review of recently enacted money laundering legislation and training and technical assistance needs.

In July 2001, FinCEN participated in an interagency money laundering training assessment of Romania's financial intelligence unit and provided financial analysis, investigative and regulatory training to members of the Bulgarian financial intelligence unit.

During September 2001, FinCEN attended a workshop on money laundering in Brussels, Belgium, sponsored by the Egmont Group of FIUs. The topic of the workshop was money transmitters and how they may be used to launder money. FinCEN did a presentation on U.S. efforts to regulate money service businesses and hosted a delegation from the Republic of Korea to discuss the passage of new anti-money laundering legislation.

On October 10-12, 2001, FinCEN participated in a University of Lima's seminar "Organized Crime and Money Laundering" along with other U.S. officials from Drug Enforcement Agency, officials of the Organization of American States, and Peruvian Government officials. The U.S. team also met with Peruvian officials to discuss proposed legislation to establish a financial analysis unit.

FinCEN sponsored a basic analytical training course in Nassau, Bahamas October 15-18, 2001. The purpose of the training was to provide analytical training to recently developed and established financial intelligence units (FIUs) in the Caribbean region. The invited analysts were from the FIUs of Aruba, Bahamas, Jamaica, Netherlands-Antilles, and Trinidad and Tobago. The seminar included courses in financial investigation and analysis, the U.S. anti-money laundering program, analytical software, asset forfeiture, and money laundering prosecutions.

During the week of October 22-26, FinCEN hosted four analysts of the Colombian FIU, the Unidad de Informacion y Analisis Financiero (UIAF) for a financial analysis seminar. The seminar included courses in the analytic process of problem definition, data extraction, analysis, synthesis, and hypothesis, financial investigations, the U.S. anti-money laundering program, the analytical software, asset forfeiture, and money laundering prosecutions.

On November 1, 2001, FinCEN hosted a seminar presented by the Government of Colombia's UIAF wherein Colombia shared its experience and techniques in tracking terrorist financial activities. United States Government investigators, prosecutors and analysts attended the seminar.

On November 9, 2001, FinCEN hosted eight high-level Indonesian officials, led by the Director General, Indonesian Department of Justice. The delegation was interested in information on money laundering, customs, and international financial institutions related to money laundering and anti-corruption efforts.

On November 12-16, 2001, FinCEN participated in a regional workshop on Money Laundering and Other Financial Crimes sponsored by the West African Institute for Financial and Economic Management in Gambia, West Africa. The workshop was attended by delegations from Nigeria, Liberia, Sierra Leone, Gambia, and Ghana.

On November 19, 2001 a Memorandum of Intent Concerning Technical and Other Assistance for an Effective Philippine Anti-Money Laundering Regime was signed by Treasury Secretary O'Neill and Philippine Finance Minister Camacho and Central Bank Governor Buenaventura. One of the main purposes of the Memorandum is to assist the Philippine Government to develop an anti-money laundering program that complies with international money laundering standards. FinCEN has developed an action plan that has the overall objective of providing the government of the Philippines with the means to acquire the capabilities to develop and operate a financial intelligence unit. The plan is being implemented.

In December 2001, FinCEN hosted a delegation from Russia that included the head of the newly formed Russian financial intelligence unit and Deputy Chairman of the Central Bank of Russia. Discussions included their recent anti-money laundering initiatives and training and technical needs for their FIU.

Additionally, FinCEN provided financial intelligence unit and money laundering briefings to visitors from a number of jurisdictions including Argentina, Barbados, Brazil, Bulgaria, Chile, China, Colombia, Cyprus, Denmark, Dominican Republic, Estonia, Finland, Germany, Greece, Guatemala, Haiti, India, Indonesia,

Isle of Man, Italy, Japan, Jersey, Kazakhstan, Latvia, Lebanon, Lithuania, Macau, Marshall Islands, Mexico, Netherlands, Norway, Philippines, Poland, Romania, Russia, South Africa, South Korea, Spain, St. Kitts and Nevis, St. Vincent and Grenadines, Sweden, Tonga, Trinidad and Tobago, Turkey, and United Arab Emirates.

## *Internal Revenue Service*

The Internal Revenue Service (IRS), Criminal Investigation (CI) International Training Program is one segment of the IRS International Strategy. This IRS program focuses training on investigative techniques courses involving financial crime and money laundering. The goal is to provide assistance to foreign governments in establishing or enhancing money laundering, criminal tax and asset forfeiture laws. The training program also provides assistance in the investigation of violations of these laws and promotes enhanced anti-money laundering regimes that conform to international standards.

IRS develops and conducts training courses independently, as well as with other agencies. In some instances courses are developed jointly with other law enforcement agencies to address specific needs.

Training led by IRS during 2001 included:

- Basic International Financial Fraud Training in Glynco, GA for participants from Antigua, Barbados, Dominica, Grenada, Hong Kong, St. Kitts and Nevis, St. Lucia, Kazakhstan, Korea, Saudi Arabia, St. Vincent and the Grenadines, and Singapore.
- Financial Investigative Training in Budapest, Hungary; Montevideo, Uruguay; and Vilnius, Lithuania.
- Complex Financial Investigations training in Bangkok, Thailand (taught jointly with the U.S. Customs Service).

IRS provided instruction in the core course program at ILEA Budapest and ILEA Bangkok. IRS also provided instructor assistance for a DEA money laundering class in San Jose, Costa Rica.

## *Department of Justice*

The Overseas Prosecutor Development and Training Section (OPDAT) of the Criminal Division is the primary source for the training of foreign prosecutors, judges and law enforcement for the Department of Justice. During 2001, OPDAT sponsored 13 seminars throughout the world that dealt in whole or in part with money laundering and asset forfeiture issues. Approximately 650 students received training in transnational money laundering, international asset forfeiture and asset sharing. Additionally, the Asset Forfeiture and Money Laundering Section conducted an Asset Forfeiture and Money Laundering conference in Bangkok, Thailand, which included approximately 10 prosecutors and law enforcement officials from Australia, Canada, Chinese Taiwan, Hong Kong, Indonesia, Malaysia, Marshall Islands, New Zealand, Samoa, Singapore, and Thailand.

## *Office of the Comptroller of the Currency*

The Office of the Comptroller of the Currency (OCC) was involved with several anti-money laundering training initiatives during 2001. The following are highlights:

- Developed an Anti-Money Laundering School for Foreign Supervisors designed to train participants to recognize the potential money laundering risks confronting financial institutions, assess the adequacy of an institution's policies, procedures and practices in complying with anti-money laundering regulations and programs. The course heightens awareness of how financial institutions are used in money laundering operations through

hands-on training using case studies based on actual examination results. Twenty-three banking supervisors from Argentina, Bahamas, Belize, Cook Islands, Cayman Islands, China, Israel, Mexico, Netherlands, Panama, Peru, South Africa, Switzerland, Thailand, Turkey and Yugoslavia attended the first session.

- Participated in a State Department sponsored joint U.S. government agency anti-money laundering training program in the UAE for government officials, banking regulators and representatives from the industry.
- Instructed the Asian Pacific Economic Coordination (APEC) anti-money laundering segment of their school held in the Philippines.

### *United States Customs Service*

The U.S. Customs Service (USCS), Office of Investigations, Financial Investigations Division continues to be extensively involved in the INL-sponsored multi-agency international money laundering training programs. Drawing on its expertise in undercover drug money laundering as well as traditional money laundering investigations, the USCS strives to impart its considerable experience to law enforcement, regulatory, and banking officials identified by INL. As host or co-host with numerous other federal agencies, the USCS conducts anti-money laundering and financial crime seminars domestically and abroad.

The USCS training seminars are designed to be flexible so as to be useful to policy makers, law enforcement personnel, and management officials of financial institutions by providing the necessary skills to recognize and combat money laundering. These training programs address trends and current developments concerning international banking and money laundering, focusing on issues relating to transnational money laundering. They cover the use of free trade zones, offshore banking practices, international money flows, bulk-cash and electronic funds transfers, and capital flight. The courses cover investigative and prosecution techniques and approaches, bilateral assistance and cooperation in international cases, and roles of banking and currency control regulations and regulatory enforcement authorities in transnational money laundering cases.

### *United States Department of Treasury Office of Technical Assistance (OTA)*

Treasury's Office of Technical Assistance is located within the Office of the Assistant Secretary for International Affairs. The office delivers interactive, advisor-based assistance to senior level representatives in various ministries and central banks in the areas of tax reform, government debt issuance and management, budget policy and management, financial institution reform, and more recently, law enforcement reforms related to money laundering and other financial crimes.

In 1997, the Enforcement Program was added to Treasury's advisory office. It is a long-term, advisor-based program developed out of concern that financial crime, corruption, organized criminal enterprises, and other criminal activities were undermining economic reforms promoted by the Department of the Treasury. The Enforcement Program essentially focuses on the development of legal foundations, policies, and organizations in three areas: (1) money laundering, terrorist financing and other financial crimes, (2) organized crime and corruption, and (3) the reorganization of law enforcement and financial entities in developing economies to help them prevent, detect, investigate and prosecute complex domestic and international financial crime. The Enforcement Program relies on intermittent advisory trips to deliver its technical assistance. It works with embassy staff and host country clients on long-term projects designed to promote systemic changes and new organizational structures. The program receives much of its funding and outside guidance from the State Department's Bureau for International Narcotics and Law Enforcement Affairs (INL). Originally operating in only two countries using Treasury funds, the

# Money Laundering and Financial Crimes

---

last three years have seen a rapid expansion of the program. The program has now given technical assistance to over a dozen countries throughout the world. The demands on the program and its funding have significantly increased in the wake of the events of September 11, 2001.

The Enforcement Program is comprised of a group of approximately 40 highly experienced advisors with backgrounds in various areas of investigating, prosecuting or regulating financial and economic crimes such as money laundering, terrorist financing, white-collar crime, organized crime, securities fraud, internal affairs and corruption, criminal law, and organization administration. Most advisors have previously held responsible positions with U.S. law enforcement and regulatory organizations or as prosecutors with the Department of Justice. In addition, the office cooperates closely in its programs with Treasury and Justice Department law enforcement components. Some of the program's recent activities and accomplishments are highlighted below:

**Armenia.** From 1997 through 2001, OTA has provided technical assistance in the areas of financial crimes, organized crime, gaming enforcement, insurance fraud, criminal tax case investigations and prosecutions. Liaison relationships were established between the Organized Crime Department of the Interior Ministry and the international law enforcement community, especially federal and state entities in the United States. The Enforcement Team hosted a visit of the Prosecutor General and the Chief of Organized Crime along with members of their staffs, to Washington, D.C. and Los Angeles to further enhance that cooperation. A Financial Crimes Working Group was established.

**Georgia.** During the last year, OTA provided advice to the Chamber of Control (the supreme audit body in Georgia) concerning organizational issues and competency testing for their employees. Preparatory work was performed with selected members of the Financial Police in order to provide technical training in criminal tax investigations. The OTA Enforcement Team initiated a program of assistance to the Procuracy General's anti-corruption unit. A plan of action to approach the development of anti-money laundering legislation has been developed by OTA.

**Bulgaria.** The OTA Enforcement Team worked in collaboration with the DOJ-ABA/CEELI program last year on a series of seminars relating to money laundering issues and including law enforcement personnel, prosecutors, legislators, and judges, along with representatives of Bulgaria's Financial Intelligence Unit (FIU). In 2002, the Enforcement Team will place a resident advisor in Sofia to work on an intensive basis with the FIU, in conjunction with the Embassy and USAID.

**Moldova.** In Moldova, the OTA Enforcement Team contributed to the drafting of a new money laundering law and its passage by the Parliament. The team is now helping the government to draft amendments that will strengthen that law. The team also developed and delivered training programs for the National Bank of Moldova and the Bankers Association of Moldova on bank examination procedures and methodologies of detecting and reporting of suspicious financial transactions. It also provided technical assistance in drafting and implementing the Ministry of Finance Tax Law on the establishment of an investigative unit.

**Russia.** Throughout 2001, the Enforcement Team worked with the OTA Banking Team in Moscow to assist the Suspicious Transactions Department of the Agency for the Restructuring of Credit Organizations (ARCO). In addition, OTA sent representatives to the MVD Academy at Nizhnij Novgorod, and the Public Service Academy at Ekaterinburg, Russia, in assisting American University's Transnational Crime and Corruption Center (TraCCC) to present three-day conferences at each of these locations.

**Kazakhstan.** OTA conducted an assessment in Kazakhstan relative to establishing a comprehensive technical assistance program. The OTA advisors worked in coordination and cooperation with the Justice Department's resident legal advisor and the embassy's INL representative. The OTA assessment was conducted at nine different Kazakh ministries involved in law enforcement, including the General Prosecutor, Finance Ministry, the Supreme Court, the Financial Police, Interior Ministry, the Police Academy, the National Security Commission, the National Bank and the Security Commission.

**Bosnia.** In January 2001, the OTA Enforcement Team visited Sarajevo to conduct a study of the Financial Police, at the request of and in cooperation with the UN Office of the High Representative (OHR) and the U.S. Embassy. The report of findings was submitted in May 2001 and adopted by the Prime Minister in July 2001. In September 2001, the Prime Minister held a meeting of his cabinet to form a task force to implement the findings of the study and set a timetable for action items to be accomplished.

**Serbia.** In March 2001, OTA initiated a USAID funded program of assistance in Serbia. OTA is working with officials in the Ministry of Finance and the Public Revenue Administration (PRA) to establish a criminal tax investigation unit. Initial assistance has included the submission of a new tax administration law designed to provide the PRA, among other things, with criminal enforcement authority and the ability to refer cases directly to the prosecutor's office. Additional assistance is underway to develop an organizational scheme for the new criminal unit, implement employee recruitment and screening criteria, establish anti-corruption measures, deliver training programs, develop investigative techniques, and design effective case selection and management practices. OTA also reviewed draft legislation intended to create a Yugoslav anti-money laundering regime comporting with international standards and offered appropriate changes to the legislative initiative. OTA also provided a training program specifically designed to enhance the forensic accounting abilities of representatives of the Yugoslavia Central Bank, the Economic Crimes Section of the Department of Criminal Investigation, the Financial Police of the Republican Revenue Service, and the Public Prosecutor's Office. This program also described the threats posed by systemic corruption and familiarized the participants with accepted international standards in the area of money laundering.

**South Africa.** The OTA Enforcement Team provided support to the South African Parliament in its drafting and review of the Financial Intelligence Center Act. In May 2001, a Senior Law Enforcement Advisor of OTA and a DOJ Asset Forfeiture Attorney met with South African Parliament staffers to assist in the review and the final drafting of South Africa's Financial Intelligence Center Act. OTA's advisor and the DOJ Attorney testified, in camera, to the Parliament's Joint Committee on the Budget and Constitutional Law regarding the proposed Financial Intelligence Center Bill.

**El Salvador.** With the inauguration of the Financial Investigation Unit (FIU) in late 2000, which was established with OTA support, the FIU was fully ready to investigate and prosecute money-laundering cases. Early in 2001, devastating earthquakes destroyed the offices of the Attorney General under whose supervision and wherein the FIU was located. OTA then arranged for members of the FIU to be trained at FinCEN. Subsequently, the Salvadoran FIU became accepted as a full member of the Egmont Group, and the FIU Director is on the Legal Working Group of that organization. OTA also helped create a High Level Working Group to address inter-agency matters relating to money laundering in the country. OTA is also working closely with the Government of El Salvador in training the Anti-Corruption and Complex Crimes Unit in the Office of the Attorney General. Joint training sessions have been given to members of the Judiciary, prosecutors from the Office of the Attorney General and the National Civilian Police relating to corruption investigations and prosecutions. OTA also advised members of the Kidnapping Unit of the National Civilian Police on investigating the financial aspects of crime.

**Peru.** OTA met with the Government of Peru to discuss proposed Anti-Money Laundering Legislation and to offer technical assistance in implementing the law. OTA, with a representative of the Treasury's Bureau of Engraving and Printing, provided guidance relating to anti-counterfeiting measures. OTA also met with a variety of representatives from the Government of Peru to discuss issues relating to the establishment of an investigative arm to aid the Central Reserve Bank in stopping the counterfeiting of currency and coins.

**Guatemala.** In May, OTA met with Embassy personnel, representatives of the Guatemalan Banking Association and the Superintendent of Banks (SIB) to discuss issues surrounding money laundering. In June, Guatemala was placed on the FATF Non-Cooperating Countries and Territories List. OTA assisted the Government of Guatemala in drafting a proposed Anti-Money Laundering Law and in August met

with representatives of the Departments of Treasury and Justice and the Government of Guatemala to review the proposed law. On October 29, 2001 the Guatemalan Legislature passed an Anti-Money Laundering Law that includes the establishment of a financial analysis unit within the SIB. OTA is providing technical assistance to the Government of Guatemala in establishing, staffing and training this unit.

**Malaysia.** OTA assisted Malaysian Government authorities when they drafted an anti-money laundering law. The law and the financial intelligence unit established by the law came into effect in January 2002.

**Thailand.** OTA provided computer hardware, software and forensic equipment to the Anti-Money Laundering Office (AMLO) and the Royal Thai Police. Along with FinCEN, State/INL, U.S. Customs, and the Federal Reserve Board, OTA traveled to Bangkok to plan future technical assistance initiatives. As a result of that trip, OTA will place a resident advisor in Bangkok in 2002 to provide intensive technical assistance to AMLO and the Royal Thai Police on anti-money laundering issues.

**Indonesia.** In June 2001, Indonesia was listed as a non-cooperating country by FATF. OTA subsequently consulted with members of the Parliament and the Justice Ministry on their draft anti-money laundering law. Following the terrorist attacks of September 11th, OTA traveled to Indonesia to meet with the Governor of the Central Bank and other senior government officials on issues of terrorist financing.

### *Treaties, Agreements, and Other Mechanisms for Information Exchange*

Mutual Legal Assistance Treaties (MLATs) allow generally for the exchange of evidence and information in criminal and ancillary matters. In money laundering cases, they can be extremely useful as a means of obtaining banking and other financial records from our treaty partners. As of December 31, 2001, MLATs, which are negotiated by the Department of State in cooperation with the Department of Justice to facilitate cooperation in criminal matters, including money laundering and asset forfeiture, were in force with the following countries: Antigua and Barbuda, Argentina, Australia, Austria, the Bahamas, Barbados, Belgium, Brazil, Canada, Czech Republic, Dominica, Egypt, Estonia, France, Greece, Grenada, Hong Kong SAR, Hungary, Israel, Italy, Jamaica, Latvia, Lithuania, Luxembourg, Mexico, Morocco, the Netherlands, Panama, the Philippines, Poland, Romania, South Africa, South Korea, Spain, St. Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines, Switzerland, Thailand, Trinidad and Tobago, Turkey, Ukraine, the United Kingdom, the United Kingdom with respect to the Cayman Islands (extended to Anguilla, the British Virgin Islands, Montserrat, and the Turks and Caicos Islands), and Uruguay. As of the same date, MLATs had been signed by the United States but not yet brought into force with the following countries: Belize, Colombia, Cyprus, India, Ireland, Nigeria, Russia, Sweden, and Venezuela. In 2001, the United States became a party to the Organization of American States MLAT. The United States is actively engaged in negotiating additional MLATs with countries around the world. The United States has also concluded executive agreements for cooperation in various criminal matters with China, Haiti, the Philippines, Russia and Venezuela. The United States has signed but not yet ratified the UN Convention against Transnational Organized Crime and the UN Convention for the Suppression of the Financing of Terrorism.

In addition, the United States has entered into executive agreements on forfeiture cooperation, including: (1) an agreement with the United Kingdom providing for forfeiture assistance and asset sharing in narcotics cases; and (2) a forfeiture cooperation and asset sharing agreement with the Kingdom of the Netherlands. The United States has specific framework asset sharing agreements or arrangements with Canada, certain of the UK Caribbean Overseas Territories including the Cayman Islands and Anguilla, Colombia, Ecuador, Jamaica and Mexico. Many of the MLATs listed in the previous paragraph also provide authority for asset sharing.

To facilitate the ongoing exchange of information to combat money laundering, the U.S. Department of the Treasury's Financial Crimes Enforcement Network (FinCEN) has fostered information exchange with other financial intelligence units (FIUs) around the globe, as well as, on a case by case basis, with law enforcement and regulatory agencies of foreign governments. In a few cases (Argentina, Australia, Belgium, France, Mexico, Panama, Slovenia, Spain and the United Kingdom), information exchange arrangements involving FinCEN and other FIUs have been reduced to writing in the form of memoranda of understanding (MOUs) or an exchange of letters. The form of an information exchange arrangement depends on the needs of the FIUs. Prior to the establishment of these types of information exchange arrangements, the United States in limited circumstances entered into cooperation agreements referred to as Financial Information Exchange Agreements (FIEAs) for the exchange of "currency transaction information" with the governments of certain Latin American countries (Colombia, Ecuador, Mexico, Paraguay, Peru and Venezuela).

A Customs Mutual Assistance Agreement (CMAA) is a bilateral international agreement between governments regarding mutual assistance between their respective Customs administrations. The CMAA is patterned after a Model Agreement of the Customs Cooperation Council (also known informally as the World Customs Organization) and reflects continuing cooperation between the United States and the other government on a wide variety of trade issues which are enforced by the respective Customs administrations, including export controls of sensitive strategic goods, money laundering, narcotics smuggling and various forms of trade fraud. Even in the absence of an agreement in force, informal cooperation often occurs.

As of December 31, 2001, the United States has Customs Mutual Assistance Agreements (CMAA) in force with the following countries or jurisdictions: Argentina (provisionally in force), Australia, Austria, Belarus, Belgium, Canada, Colombia, Cyprus, Czech Republic, Denmark, Finland, France, Germany, Greece, Hong Kong SAR, Hungary, Ireland, Israel, Italy, Japan, South Korea, Latvia, Malta, Mexico, Mongolia, Netherlands, New Zealand, Norway, Poland, Portugal, Romania, Russia, Slovakia, Spain, Sweden, Ukraine, and the United Kingdom. The United States and the European Community also have a CMAA in force. There is an agreement in force between the American Institute in Taiwan (AIT) and the Taipei Economic and Cultural Representative Office (TECRO) regarding mutual assistance to be carried out by those authorities in the U.S. and on Taiwan with responsibilities in customs matters. The United States has signed CMAAs that as of the end of 2001 were not yet in force with Bulgaria, China, France (new agreement), Honduras, Kazakhstan, Lithuania, Panama, Philippines, South Africa, Turkey and Venezuela. The U.S.-Netherlands CMAA was extended to the Netherlands Antilles and Aruba in 2001 but the agreement extending coverage of the CMAA was not yet in force as of December 31, 2001.

### *Asset Sharing*

Pursuant to 18 U.S.C. § 981(i), 21 U.S.C. § 881(e)(1)(E), and 31 U.S.C. § 9703(h)(2), the United States is authorized to share assets with countries that facilitate the forfeiture of criminal proceeds. Under this authority, the Departments of Justice, State and Treasury have aggressively sought to encourage foreign governments to cooperate in joint investigations of drug trafficking and money laundering, offering the possibility of sharing in forfeited assets. A parallel goal has been to encourage spending of these assets to improve narcotics law enforcement. The long-term goal has been to encourage governments to improve asset forfeiture laws and procedures, so that they will be able to conduct investigations and prosecutions of drug trafficking and money laundering that include asset forfeiture. The United States and its partners in the G-8 are currently pursuing a program to strengthen asset forfeiture and sharing regimes. To date, Canada, Cayman Islands, Hong Kong, Jersey, Switzerland, and the United Kingdom have shared forfeited assets with the United States.

From its inception in 1989 through December 2001, the international asset sharing program, administered by the Department of Justice, resulted in the forfeiture in the United States of \$389,767,187.40 of which \$171,093,680.80 was shared with foreign governments which cooperated and assisted in the investigations.

In 2001, the Department of Justice transferred forfeited proceeds to: Barbados (\$100,000); Liechtenstein (\$1,676,684.72); Switzerland (\$226,447.88); Thailand (\$19,144.00); and the United Kingdom (\$612,500). Prior recipients of shared assets (1989-2000) include: Argentina, the Bahamas, British Virgin Islands, Canada, the Cayman Islands, Colombia, Costa Rica, Ecuador, Egypt, Guatemala, Guernsey, Hungary, Isle of Man, Israel, Liechtenstein, Luxembourg, Netherlands Antilles, Paraguay, Romania, Switzerland, the United Kingdom and Venezuela.

From Financial Year 1994 through December 2001, the international asset sharing program, administered by the Department of Treasury, has shared \$21,208,571 with foreign governments, which cooperated and assisted in the investigations. In 2001, the Department of Treasury transferred forfeited proceeds to: Cayman Islands (\$14,324.00); Canada (\$640,778.00); Netherlands (\$144,220.00); and United Kingdom (\$279,443.00). Prior recipients of shared assets (FY 1994 through December 2001) include: Aruba, the Bahamas, Canada, the Cayman Islands, Dominican Republic, Egypt, Guernsey, Honduras, Jersey, Mexico, Netherlands, Nicaragua, Panama, Portugal, Qatar, Switzerland, and the United Kingdom.

## **Multilateral Activities**

### *Financial Action Task Force*

The Financial Action Task Force on Money Laundering (FATF), established at the G-7 Economic Summit in Paris in 1989, G-7, is an inter-governmental body whose purpose is the development and promotion of policies, both at national and international levels, to combat money laundering.

The Task Force was given the responsibility of examining money laundering techniques and trends, evaluating counter-money laundering measures, and recommending measures still needed. In 1990, FATF issued 40 Recommendations to fight money laundering. These recommendations are designed to prevent proceeds of crime from being utilized in future criminal activities and from affecting legitimate economic activity. Revised in 1996 to reflect changes in money laundering trends, the recommendations are currently being revised to reflect new trends in money laundering and will include recommendations specific to combat terrorist financing.

FATF monitors members' progress in implementing anti-money laundering measures, reviews money laundering techniques and counter-measures, and promotes the adoption and implementation of anti-money laundering measures globally. In performing these activities, FATF collaborates with other international bodies.

In June 2000, membership of the FATF expanded from 26 to 29 jurisdictions<sup>1</sup> and two regional organizations, representing the major financial centers of North America, Europe and Asia. The delegations of the Task Force's members are drawn from a wide range of disciplines, including experts from the Ministries of Finance, Justice, Interior and External Affairs, financial regulatory authorities and law enforcement agencies.

FATF focused on several major initiatives during 2001:

### **Non-Cooperative Countries and Territories (NCCT)**

In response to the G-7 Finance Ministers 1998 Birmingham Summit, FATF formally created the Ad Hoc Group on Non-Cooperative Countries and Territories (NCCT). In 1999, this group developed 25 criteria

---

<sup>1</sup> Argentina; Australia; Austria; Belgium; Brazil; Canada; Denmark; Finland; France; Germany; Greece; Hong Kong, China; Iceland; Ireland; Italy; Japan; Luxembourg; Mexico; the Kingdom of the Netherlands; New Zealand; Norway; Portugal; Singapore; Spain; Sweden; Switzerland; Turkey; the United Kingdom and the United States, the European Commission and Gulf Co-operation Council.

by which to determine those jurisdictions undermining the global effort to combat money laundering. These criteria encompass four broad areas:

- Loopholes in financial regulations
- Obstacles raised by other regulatory requirements
- Obstacles to international cooperation
- Inadequate resources for preventing and detecting money laundering activities

FATF initiated its review process with a limited number of jurisdictions in February 2000. Based on this process, FATF identified fifteen jurisdictions as non-cooperative in the international fight against money laundering at its June 2000 Plenary.

In deciding whether a jurisdiction should be removed from the list, the FATF Plenary must be satisfied that the jurisdiction has addressed the deficiencies previously identified. The FATF relies on its collective judgment, and attaches particular importance to reforms in the area of criminal law, financial supervision, customer identification, suspicious activity reporting, and international co-operation. As necessary, legislation and regulations will need to be enacted and have come into effect before removal from the list can be considered. In addition, the FATF seeks to ensure that the jurisdiction is implementing the necessary reforms. Thus, information related to institutional arrangements, as well as the filing and utilization of suspicious activity reports, examinations of financial institutions, and the conduct of money laundering investigations, is considered.

Throughout 2001, the U.S. monitored the progress made by NCCTs to address deficiencies and implement corrective measures. In June, four jurisdictions, Bahamas, Cayman Islands, Panama and Liechtenstein were removed from the NCCT list. The U.S. has been monitoring the progress made by these countries to ensure that they are implementing their reforms in an adequate manner.

During the same year, eight new countries were added to the NCCT list, and U.S. advisories have been prepared on each. These countries are Ukraine, Nigeria, Burma, Egypt, Grenada, Guatemala, Hungary, and Indonesia.

### Revision of the FATF 40 Recommendations

The FATF 40 Recommendations represent the international standard for counter-money laundering regimes. They cover such areas as regulatory, supervisory, and criminal law, as well as international cooperation. The original 40 Recommendations were agreed upon in the early 1990s, and were updated in 1996. In 2001 FATF embarked on another review of the FATF 40 to ensure that they are up-to-date.

FATF created three working groups to address those areas considered most controversial:

**Working Group A (Customer Identification).** This working group addresses all issues relating to customer identification.

**Working Group B (Corporate Vehicles).** This working group addresses questions relating to the transparency of corporate vehicles such as corporations and trusts.

**Working Group C (Gatekeepers).** This working group addresses questions relating to the application of money laundering requirements on non-financial institutions (including lawyers, accountants, notaries, etc).

### Combating Terrorist Financing

In response to September 11, FATF expanded its mission beyond money laundering to focus its energy and expertise on the worldwide effort to combat terrorist financing. During an extraordinary plenary

meeting in Washington, DC on October 29-30, FATF agreed to the following Eight Special Recommendations on Terrorist Financing. These recommendations recommend that members:

- Take immediate steps to ratify and implement the relevant United Nations instruments.
- Criminalize the financing of terrorism, terrorist acts and terrorist organizations.
- Freeze and confiscate terrorist assets.
- Require financial institutions and other entities subject to anti-money laundering obligations to report suspicious transactions linked to terrorism.
- Provide the widest possible range of assistance to other countries' law enforcement and regulatory authorities for terrorist financing investigations.
- Impose anti-money laundering controls on alternative remittance systems.
- Require customer identification measures on international and domestic wire transfers.
- Ensure that entities, in particular non-profit organizations, cannot be misused to finance terrorism.

These Special Recommendations now represent the international standards in this area. FATF has articulated an action plan to ensure worldwide implementation of these recommendations to deny terrorists and their supporters access to the international financial system.

All FATF members completed self-evaluations against these Special Recommendations by the end of 2001. Members are required to create action plans to address Recommendations not already in place and to be in full compliance by June 2002. Non-member countries around the world will be invited to participate in this process on the same terms as FATF members. International cooperation is essential and thus FATF will closely work with all FATF-style regional bodies and international organizations in order to secure a truly global commitment to eliminate the financial frameworks that support terrorism.

## **Work with the International Financial Institutions (IFIs) to Enhance Anti-Money Laundering Efforts and Combat the Financing of Terrorism**

Money laundering and the financing of terrorism are worldwide concerns that increase the risks to domestic and global financial systems and can impact national security. In the wake of the events of September 11, the international community adopted a broad reaching and comprehensive agenda to address both. As an important part of that effort, the International Financial Institutions (IFIs) agreed to take on an enhanced role in the global fight against money laundering and the financing of terrorism.

In April 2001, the International Monetary Fund (IMF) and World Bank Executive Boards generally recognized the FATF 40 Recommendations as the international anti-money laundering standard. Later in the year in the wake of September 11, both institutions agreed to enhance their work on anti-money laundering and extend it to encompass terrorist financing. In this context, the U.S. has coordinated with the G-7, the G-20 and with other international organizations, as well as with other IMF member countries, to assist the IMF and World Bank incorporate the relevant FATF 40 Recommendations and FATF Special 8 Recommendations to Combat the Financing of Terrorism into their on-going operations. The International Monetary and Financial Committee (IMFC) of the IMF agreed to a broad action plan to curb terrorism financing in its Communiqué, dated November 17, 2001.

As part of their efforts, the IMF and World Bank have prepared a joint enhanced methodology document for the Financial Sector Assessment Program (FSAP), which increases focus on anti-money laundering and terrorist financing concerns in IMF and World Bank assessment of the vulnerabilities and risks of financial sectors. Concurrently, FATF created a working group (whose members consist of FATF countries and IFI representatives) in October 2001 with the mandate to develop a methodology document

for a separate “Reports on Observance of Standards and Codes” (ROSC) module on anti-money laundering based on the FATF 40. This would provide a comprehensive and self-contained review of a country’s anti-money laundering regime. FATF hopes to reach agreement on a ROSC methodology document, which would be sent to the IMF and World Bank for consideration by their respective Boards.

### **FATF 2001-2002 Typologies Exercise**

FATF conducted its annual typologies exercise (November 19-20, in Wellington, New Zealand) to identify current and emerging methods, trends, and patterns in money laundering and terrorist financing, and to discuss effective counter-measures. This exercise focused on terrorist financing, correspondent banking, corruption and private banking, bearer instruments and their role in money laundering, and theft of computer technology.

### **Africa FATF-Style Bodies**

Two FATF-style regional bodies are in various stages of development on the African continent:

#### ***Eastern and Southern African Anti-Money Laundering Group (ESAAMLG)***

ESAAMLG was launched at a meeting of Ministers and high-level representatives in Arusha, Tanzania, in August 1999 and held its first meeting in April 2000. Following the signature of its Memorandum of Understanding by seven jurisdictions, the ESAAMLG came into formal existence. The group will maintain its Secretariat in Dar es Salaam. Early plans call for the group to study the impact of money laundering in the region and to produce a typologies report on arms trafficking and the cash economy.

Reportedly, Kenya, Malawi, Mauritius, Mozambique, Namibia, Seychelles, Swaziland, Tanzania and Uganda signed the ESAAMLG Memorandum of Understanding (MOU) and are officially considered members. At the August 2001 Plenary, held in Windhoek, Namibia, the Chairmanship of the Council of Ministers was passed from Tanzania to Namibia. An ambitious work plan was approved that includes the development of a website that will post the anti-money laundering legislation of ESAAMLG countries, a self-assessment questionnaire (that Tanzania, Uganda, Mauritius and Swaziland had completed by year’s end), and the completion of a list of National Contact Points. Subsequent to the Plenary, a five day workshop on money laundering was held in Swaziland, site of the planned August 2002 Plenary.

Work to be completed in the near future includes the appointment of an interim Executive Secretary of the Secretariat, the setting up and equipping of the Secretariat in its new offices, donated by the Government of Tanzania, which has already seconded an official to the Secretariat as well as an office secretary and accountant. ESAAMLG has also established three standing subgroups (legal, financial and law enforcement) to begin dealing in more detail with anti-money laundering issues in each of these areas. Although the Commonwealth Secretariat is providing funding to the Executive Secretariat, as is the State Department’s Bureau for International Narcotics and Law Enforcement Affairs, ESAAMLG, which will hold its next Plenary in Tanzania in March 2002, will also need to be supported by those countries that wish to become members.

#### ***Inter-Governmental Action Group against Money Laundering (GIABA)***

The first meetings of GIABA, established by the December 1999 Decision of the Heads of State and Government of ECOWAS (Economic Community of West African States), were held in Dakar, Senegal, in November 2000. Nominal members include: Benin, Cape Verde Islands, Gambia, Ghana, Guinea, Guinea-Bissau, Ivory Coast, Liberia, Mauritania, Mali, Niger, Nigeria, Senegal, and Togo.

The meeting adopted the statutes and explored ways of financing the GIABA. The statutes endorse the Forty Recommendations, recognize the FATF as an observer and provide for self-assessment and mutual evaluation procedures to be carried out by GIABA. While the text prepared by the experts provided for a

strong involvement of ECOWAS in the activities of GIABA, the Ministers agreed to give more autonomy to the new body. As an interim measure, Senegal offered to provide a provisional structure until the formal establishment of GIABA.

Essential issues such as the location of the headquarters and the selection of the Executive Secretary of GIABA were not discussed. However, one possibility considered in the margins of the meetings was to establish the Secretariat in Senegal (Dakar) and to appoint a representative from an English speaking country of the region (Nigeria was mentioned) as head of the Secretariat. However, no agreement has been reached on this point and GIABA is currently a non-functioning entity.

### **Asia/Pacific Group on Money Laundering**

The Asia/Pacific Group on Money Laundering (APG) is currently comprised of twenty-two members from South Asia, Southeast Asia, East Asia and the South Pacific. There are also eight observer jurisdictions and thirteen observer international and regional organizations. The purpose of the APG is to ensure the adoption, implementation and enforcement of internationally accepted anti-money laundering standards as set out in the 40 Recommendations of the Financial Action Task Force (FATF).

During 2001, the APG held one plenary meeting in Kuala Lumpur, Malaysia on May 22—24, 2001. Over 200 participants representing thirty-eight jurisdictions and thirteen international and regional organizations and bodies attended the meeting. Results included the adoption of four mutual evaluation reports conducted jointly with the Offshore Group of Banking Observers: Samoa, Taiwan, Labuan International Offshore Finance Center of Malaysia and Macau, China Members at the plenary decided that follow up on progress made against the recommendations in mutual evaluation reports would occur at each annual meeting. Members also agreed to establish a Working Group to examine practical ways to further improve regional cooperation and coordination, particularly in relation to the exchange of information and intelligence. Progress made against the Strategic Plan 1999-2001 was noted, and members agreed to prepare a new Strategic Plan 2001-2004. Finally, the need for a significant expansion of Training and Technical Assistance for APG member jurisdictions due to take place over the next 12 to 18 months was addressed. A very successful half-day seminar was held on the establishment and operation of financial intelligence units (FIUs). The First Annual Report, covering the period from the APG's inception to June 2000, was published and adopted by the APG Plenary in May 2001.

The APG held its fourth Typologies Meeting in Singapore on 17-18 October 2001. There was also a meeting of and report from the APG Working Group on Underground Banking and Alternative Remittance Systems. In addition, the APG Working Group on Information Sharing was formally established and its Terms of Reference agreed. The Working Group, which is co-chaired by the United States and Australia, will report to the APG's Annual Meeting in June 2002 and make recommendations to improve the efficiency and effectiveness of information sharing between jurisdictions.

A mutual evaluators training workshop was held in March 2001. The Training Workshop for Evaluators of Anti-Money Laundering Measures was held at the International Law Enforcement Academy in Bangkok, Thailand. Forty-five participants from 19 APG member jurisdictions took part in the course.

An important 2001 development was the adoption of a detailed technical assistance and training strategy to provide necessary assistance to its members covering the legal, financial and law enforcement sectors. The Asian Development Bank (ADB) has entered into a joint project with the APG. The first project under that arrangement is a Regional Technical Assistance (RETA) project, including needed institutional and regulatory reforms, economic research on the impact of money laundering, and a training needs-assessment on money laundering requirements for a number of selected jurisdictions. The jurisdictions participating in the project are the Cook Islands, Fiji Islands, Indonesia, Marshall Islands, Nauru, Philippines, Samoa, Thailand and Vanuatu.

The International Monetary Fund (IMF) will be providing technical assistance through supporting the establishment of FIUs in the Pacific Islands. The IMF is working in co-operation with the APG

Secretariat and the Pacific Islands Forum Secretariat to achieve this. The jurisdictions participating in the project are the Cook Islands, Fiji Islands, Kiribati, Nauru, Niue, Samoa and Vanuatu.

In addition to working with the ADB and the IMF, the APG will collaborate with the ASEM (Asia Europe Meeting) Project, which is sponsored by the European Commission and the United Kingdom Government and co-chaired by Thailand and the United Kingdom. The aim of the project is to develop sustainable institutional capacity in the Asia region to address money laundering at a national, regional and international level. The project has three main objectives: to develop closer and deeper cooperation between Europe and Asia as part of international efforts to implement a global anti-money laundering network; to strengthen existing institutional capacity at the regional level; and to develop new, or enhance existing institutional capacity at the national level.

The 2001 APG self-assessment exercise, responded to by 12 members, provided the APG with a 'snapshot' of the anti-money laundering situation in the region and assisted the APG to assess the technical assistance and training needs of APG members. A preliminary analysis of the data already received indicates that a number of members have made significant progress in implementing the 40 FATF recommendations since the APG conducted its last self-assessment exercise in 1998-99. The APG self assessment exercise was also used by the APEC Working Group on Financial Crime and Money Laundering to help it develop a report on the training needs analysis of its members in the legal, financial, regulatory, and law enforcement areas. The report was discussed at the typologies workshop held in Singapore in October 2001.

The APG's continuing work program aims to enhance in a practical way the region's anti-money laundering response and to co-ordinate the efforts of member jurisdictions and relevant international and regional organizations. While much was achieved in 2001, many jurisdictions in the region are at an early stage in the development of their anti-money laundering systems and much remains to be done, especially in the provision of technical assistance and training. In 2002 and beyond, the APG will seek to build on the momentum created to date by further expanding its mutual evaluation and technical assistance and training programs, and, by expanding the APG's membership.

### **Caribbean Financial Action Task Force**

The Caribbean Financial Action Task Force (CFATF), a FATF-style regional body comprised of 25 jurisdictions<sup>1</sup>, continues to advance its anti-money laundering initiatives within the Caribbean basin. Members of the CFATF subscribe to a Memorandum of Understanding (MOU) that delineates the CFATF's mission, objectives, and membership requirements. All members are required to make a political commitment to adhere to and implement the 40 Recommendations of the FATF, as well as the CFATF's additional 19 Recommendations, and to undergo peer review in the form of mutual evaluations to assess their level of implementation of the Recommendations. Members are also required to contribute to the CFATF budget and to participate in the activities of the body.

In May 2001, the CFATF conducted a mutual evaluation examiners training workshop to prepare CFATF examiners for conducting second round mutual evaluations. This well-attended seminar provided instruction to financial/regulatory, legal, and law enforcement experts who are to serve as examiners in conducting second round evaluations based on new benchmarks, including the revised 40 FATF Recommendations, the revised 19 CFATF Recommendations, and the 25 FATF criteria to identify non-cooperative countries or territories (NCCT criteria).

---

<sup>1</sup> CFATF members include Anguilla, Antigua and Barbuda, Aruba, Commonwealth of the Bahamas, Barbados, Belize, Bermuda, the British Virgin Islands, the Cayman Islands, Costa Rica, Dominica, the Dominican Republic, Grenada, Haiti, Jamaica, Montserrat, the Netherlands Antilles, Panama, St. Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines, Suriname, Turks and Caicos Islands, Trinidad and Tobago, and Venezuela.

In July 2001, the CFATF started its second round of mutual evaluations. As of December 31, 2001, all four mutual evaluation on-site visits scheduled for the year 2001 were completed—Barbados, Costa Rica, Dominican Republic, and Panama. The CFATF plans to conduct six mutual evaluations per year during the second round. These assessments are focusing on the effective implementation of the FATF and CFATF Recommendations, as well as FATF's NCCT criteria. Additionally, each CFATF member is expected to prepare and execute an implementation plan.

The final first round Mutual Evaluation Reports on Belize, Suriname, and Anguilla were adopted by the CFATF Council of Ministers in October 2001. To supplement the mutual evaluation process, the CFATF established a new program in 2001 in which annual reports will be prepared on each member providing an assessment of the member's level of compliance with the 40 FATF Recommendations, 19 CFATF Recommendations, and the 25 FATF NCCT criteria.

All member contributions were paid in 2001, with the exception of arrears owed by Nicaragua. Due to Nicaragua's lack of participation in the CFATF and non-payment of its arrears, Nicaragua's membership was automatically suspended in March 2001, based on a decision was taken at the previous CFATF Council Meeting in October 2000. Haiti, on the other hand, moved from observer status to full membership upon approval of the CFATF Council of Ministers in October 2001.

At the March 2001 CFATF typologies exercise, the CFATF formulated a code of conduct and compliance program to guard against money laundering avenues in the free trade zones. The recommendations developed during the Free Trade Zone Typology Exercise were endorsed by the Council of Ministers and are to be implemented in each Member State. For the year 2002, typologies exercises will be conducted on the issues of Economic Citizenship Programs existing in the Caribbean, and on Terrorist Financing.

### **Council of Europe**

The Council of Europe's (COE) Select Committee of Experts on the Evaluation of Anti-Money Laundering Measures (PC-R-EV)<sup>1</sup> has achieved significant progress since its creation in 1997. At the plenary meeting of the PC-R-EV held in January 2001, first round mutual evaluation reports on Latvia, the Russian Federation, San Marino, and Ukraine were adopted. That plenary also agreed that the FATF's 25 criteria to identify non-cooperative countries and territories would be considered in assessing members' anti-money laundering regimes during the PC-R-EV's second round of mutual evaluations, and a new questionnaire was designed for that purpose. The second round of mutual evaluations began with an on-site visit in July 2001 to Slovenia, followed by Cyprus in September. Slovakia, the Czech Republic and Hungary also underwent second round mutual evaluation reviews during the last quarter of calendar year 2001. A second PC-R-EV plenary meeting of the year was held in December and saw the adoption of first round mutual evaluation reports on Albania, Moldova and Georgia.

The COE welcomed two new member states, Armenia and Azerbaijan, in February 2001. They have been invited to participate in the work of the PC-R-EV and submit themselves to the mutual evaluation and self-assessment processes conducted by it.

The PC-R-EV held its 3rd typologies meeting, for the first time separately from the plenary, in June 2001. Held in Andorra, the meeting focused on suspicious transaction reporting as well as trusts and other non-corporate entities. The next PC-R-EV typologies exercise is planned for April 2002 and will be hosted by Liechtenstein. Topics will include correspondent banking, as well as corruption and private banking.

---

<sup>1</sup> PC-R-EV members include Albania, Andorra, Bulgaria, Croatia, Cyprus, Czech Republic, Estonia, the Former Yugoslav Republic of Macedonia, Georgia, Hungary, Latvia, Liechtenstein, Lithuania, Malta, Moldova, Poland, Romania, the Russian Federation, San Marino, Slovakia, Slovenia, and Ukraine.

## European Union

On 11/20/01 the European Union (EU) Council of Ministers approved revisions to the EU's anti-money laundering Directive (Council Directive 91/308/EEC of 10 June 1991). The Directive broadens the definition of targeted criminal activity from drug offense proceeds (as per original directive), to include proceeds from all serious crimes. The directive also imposes anti-money laundering obligations on "gatekeepers." The modifications require a broad range of professionals (including independent legal professionals, accountants, auditors, and notaries) to abide by anti-money laundering regulations within 18 months of the date of adoption.

The following is a portion of the adopted text:

*Member states shall ensure that the obligations laid down in this Directive are imposed on the following institutions: credit institutions (as defined previously); financial institutions (as defined previously); and on the following legal or natural persons acting in the exercise of their professional activities: auditors, external accountants and tax advisors; real estate agents notaries and other independent legal professionals, when they participate, whether: (a) by assisting in the planning or execution of transactions for their client concerning the (i) buying and selling of real property or business entities; (ii) managing of client money, securities or other assets; (iii) opening or management of bank, savings or securities accounts; (iv) organization of contributions necessary for the creation, operation or management of companies (v) creation, operation or management of trusts, companies or similar structures; (b) or by acting on behalf of and for their client in any financial or real estate transaction; dealers in high-value goods, such as precious stones or metals, or works of art, auctioneers, whenever payment is made in cash, and in an amount of EUR 15,000 or more; casinos.*

## Financial Action Task Force Against Money Laundering in South America (GAFISUD)

The Memorandum of Understanding establishing the South American Financial Action Task Force, (Grupo de Acción Financiera de Sudamerica Contra el Lavado de Activos-GAFISUD) was signed on December 8, 2000 by nine member states, Argentina, Bolivia, Brazil, Colombia, Chile, Ecuador, Peru, Paraguay, and Uruguay. The Inter-American Development Bank, Mexico, Portugal, and the United States have joined GAFISUD as observers. In addition, the Organization of American States' Inter-American Drug Abuse Control Commission (OAS/CICAD) is a special member of GAFISUD. GAFISUD is a FATF-style regional body committed to the adoption and implementation of the FATF 40 Recommendations. GAFISUD's mission also includes member self-assessment and mutual evaluation programs. Headquarters have been officially established in Buenos Aires, Argentina, and Uruguay has offered a training center to permanently render services to GAFISUD.

Colombia was elected as the first President of the organization for a one-year term and served additionally as the provisional Executive Secretariat. At the fourth Plenary in Santiago, Chile in December 2001, the presidency was turned over to Chile's Minister of the Interior. The Plenary also resulted in the adoption by GAFISUD of the FATF 8 Special Recommendations on Terrorist Financing. It was also decided that the self-evaluation exercise should be updated to include the FATF 25 NCCT Criteria.

The GAFISUD work program for 2001 included a mutual evaluation training seminar, financed and organized by Spain, held in Bolivia in September 2001. The program featured expert lecturers from Portugal, Brazil, Spain, France, Mexico, the United States and the FATF Secretariat, and trained three individuals from each of the nine member countries. Mutual evaluation exercises were conducted in October 2001 for Colombia and Uruguay.

## *OAS/CICAD*

During 2001, the Organization of American States Inter-American Drug Abuse Control Commission (OAS/CICAD) carried out three major initiatives related to combating money laundering:

- Extending its peer review process to the measurement of indicators of progress in implementation of “members” anti-money laundering programs;
- Continuing to develop its training program in various aspects of anti-money laundering that best assist states in implementation of the Buenos Aires Communiqué; and
- Participating in the evolving development of the South American Financial Action Task Force on Money Laundering (GAFISUD).

### **Peer Review Process**

Work on the peer review process concerning counternarcotics policies and activities of member states including related activities such as money laundering control under the Multilateral Evaluation Mechanism (MEM) continued on schedule throughout the year. After the first round of evaluations of all 34 OAS/CICAD member countries for 1999-2000 was concluded in December 2000, the results were presented to the Summit of the Americas meeting in Quebec City, Canada in May 2001. Thereafter, measurements of progress achieved since the evaluation were carried out by the countries and made public on January 30, 2002 in the CICAD publication entitled “2001 Progress Report in Drug Control Implementation of Recommendations from the First Evaluation Round”.

### **Group of Experts**

Additionally, the Group of Experts to Control Money Laundering held a meeting in Lima, Peru, in July 2001 at which it carried out a typologies exercise involving laundering involving false gold purchases, reviewed the situation of several of the members’ FIUs and the identification of specific characteristics essential to their success, and updated the Plan of Action of Buenos Aires, using, inter alia, information derived from the Multilateral Evaluation Mechanism to evaluate the money laundering situation in the Hemisphere. The Group also considered a paper on the importance of Money Laundering as an autonomous offense, to distinguish it from other similar offences such as the “encubrimiento” and “receptacion” offenses familiar to the Spanish-speaking countries of the region. Finally, the Experts reviewed CICAD’s participation as an advisory member of GAFISUD activities.

### **Training**

After the culmination of the CICAD-Inter American Development Bank (IDB) Pilot Project to train over 500 employees of banking regulatory organizations and financial entities in seven South American countries in 2000, (Argentina, Bolivia, Chile, Colombia, Ecuador, Peru and Uruguay), a follow-up stage of this program was begun in these countries by means of a web page created by CICAD to provide updated information and for consultation purposes. On the basis of its results, the above-mentioned training program was accorded a prize by the Inter-American Development Bank as the second best project financed with IADB funds in the year 2000.

The importance of the impact of the program is further reflected in requests of several commercial financial institutions that wish to use the program for the training of their employees. To this end training was provided to officials of the Banco Montevideo in Uruguay and an agreement has been entered into with Banco Bilbao y Vizcaya (BBVA) to use the program to reach over sixty thousand members of its banks and associated banks throughout the South American region using internet training media and with CD-ROMs specifically adapted to the country concerned.

Additionally, a series of training courses for judges and prosecutors in the detection and carrying out of money laundering cases were designed during 2001, and the IDB has committed funds to support these courses. This program will be carried out in seven countries of South America (Argentina, Bolivia, Chile, Ecuador, Peru, Uruguay and Venezuela) in the summer of 2002. The program is expected to increase the efficacy of judicial proceedings and the quality of results in anti-money laundering cases.

### **Outreach**

Finally, in regard to outreach activities, in September 2001, CICAD representatives gave a presentation to a seminar held at the University of Lima in Lima, Peru, on the subject of Financial Intelligence Units, organized by the University and United States Embassy in Peru. CICAD also made presentations at the “Second Latin American Conference in Money Laundering” organized by Alert Global Media, which took place in Mexico City, Mexico in October. Finally, also in October CICAD participated in the First Panamerican Congress for the Prevention of Money Laundering, held in Cartagena, Colombia, organized by the Asociación de Bancos of Colombia (Asobancaria), the Latin American Federation of Banks (FELABAN), the Government of Colombia and the U.S. Embassy in Colombia.

## *The United Nations*

### **UN Convention Against Transnational Organized Crime**

The UN Convention against Transnational Organized Crime (Convention), signed by 125 countries including the United States at a high-level signing conference December 12-14, 2000 in Palermo, Italy, is the first legally binding multilateral treaty specifically targeting transnational organized crime. Two supplemental Protocols addressing trafficking in persons and migrant smuggling were also signed by many countries in Palermo. Each instrument will enter into force on the ninetieth day after the 40th state deposits an instrument of ratification, acceptance, approval or accession. As of the end of 2001, 140 countries had signed the convention and six countries (Bulgaria, Latvia, Monaco, Nigeria, Poland, and Yugoslavia) had deposited instruments of ratification.

The Convention takes aim at preventing and combating transnational organized crime through a common toolkit of criminal law techniques and international cooperation. It requires states parties to have laws criminalizing the most prevalent types of criminal conduct associated with organized crime groups, including money laundering, obstruction of justice, corruption of public officials and conspiracy. The article on money laundering regulation requires parties to institute a comprehensive domestic regulatory and supervisory regime for banks and financial institutions to deter and detect money laundering. The regime will have to emphasize requirements for customer identification, record keeping and reporting of suspicious transactions.

### **United Nations Global Programme against Money Laundering (GPML)**

The United Nations is the only international organization that provides training and technical assistance on a global basis to legal, financial and law enforcement authorities, with the aim of helping them develop the infrastructure to address money laundering. The United Nations Office for Drug Control and Crime Prevention (ODCCP), through its Global Program Against Money Laundering (GPML), has the capacity to provide practical, results-oriented assistance that helps countries and jurisdictions achieve compliance with the full range of international anti-money laundering standards.

GPML maximized this global role in 2001 by strengthening its synergies via collaborative technical assistance efforts with other international partners, including the International Monetary Fund (IMF), the Commonwealth Secretariat, Interpol, the Caribbean Financial Action Task Force (CFATF), the Asia-

Pacific Group on Money Laundering (APG), the Egmont Group, the Caribbean Development Bank, and the Pacific Islands Secretariat.

The Program assisted a number of jurisdictions with drafting new legislation and developing existing anti-money laundering legal frameworks. They included Andorra, Gibraltar, Haiti, Israel, Kosovo, Lebanon, Panama, the Philippines, and the Russian Federation, with much of this assistance being delivered in conjunction with the IMF. Israel returned to GPML for further assistance in developing its legislation in an ongoing relationship with the Program stretching back to 1999, when GPML first began to advise the Government on its anti-money laundering regime.

The delivery of technical assistance to FIUs was a major Program objective in 2001. A GPML mentor completed his efforts in Barbados to assist in establishing an FIU, which was officially launched in September 2001. With the support of the Caribbean Development Bank, GPML also managed a consultancy to examine the feasibility of establishing a regional FIU to work with national FIU offices in the Organization of Eastern Caribbean States (OECS). The Program began collaborating with the Commonwealth Secretariat to provide a mentor to FIUs in the Pacific region, who would assist them with the improvement of investigative techniques and the preparation of cases. Working with the Egmont Group, the Program hosted for the first time a joint training workshop attended by 120 FIU personnel at UN headquarters in Vienna. GPML co-organized further training support with Interpol and the Royal Canadian Mounted Police in a seminar on undercover financial investigative techniques in Ottawa, Canada, which took place in September 2001.

Where possible, GPML took a regional approach to the delivery of technical assistance: in the Pacific region, in a coordinated effort with the IMF, APG, Pacific Islands Secretariat and the Commonwealth Secretariat; in the Caribbean with CFATF, the OECS and the Caribbean Development Bank; and in Africa, helping to develop the Groupe Intergouvernemental Anti-Blanchiment en Afrique (GIABA); the Groupe Anti-Blanchiment d'Afrique Centrale (GABAC), and the Eastern and Southern African Anti-Money Laundering Group (ESAAMLG).

As part of its efforts to raise awareness of the problems associated with money laundering, GPML organized with the Russian Federation an international conference on the illegal economy and money laundering, held in St. Petersburg in June 2001, and attended by 120 participants from more than 30 countries and international organizations.

GPML also chaired ODCCP's joint initiative on asset recovery in grand corruption cases, working closely with the Global Programme against Corruption and other units of the Centre for Crime Prevention (CICP) on an Expert Group Meeting, research and the drafting of a joint project for assistance to Nigeria. The Expert Group Meeting brought together legal experts from Africa, the Americas, Asia-Pacific, and Europe to identify the legal problems associated with ensuring the return of funds to countries from which they had been stolen. The meeting was held in response to United Nations General Assembly Resolution 55/188 on "Preventing and combating corrupt practices and illegal transfer of funds and repatriation of such funds to the countries of origin", in which the General Assembly called for increased international cooperation through the United Nations system to address the problem.

In March 2001, the Program's research section published a major study of money laundering in the Russian Federation, *Russian Capitalism and Money Laundering*, which examined the vulnerabilities to money laundering faced by transition countries. The Program also provided research support to the ODCCP asset recovery initiative, with a series of reports and the briefing, *Recovering Stolen States Assets: An Overview*, which analyses the scope of the misappropriation of state assets and the problems associated with their return. At the start of 2001, the Program had identified money laundering in Central Asia as a research priority, given the long-standing regional problems associated with illegal financial flows linked to drug trafficking and terrorism. After September 11, GPML drafted a series of five profiles of the Central Asian states (Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan and Uzbekistan) that identified key money laundering problems in the region surrounding Afghanistan, and analyzed state capacity to address them.

In 2001, the research section of GPML also began a complete renovation of the International Money Laundering Information Network (IMoLIN). GPML operates IMoLIN, a service that provides anti-money laundering practitioners with legal research tools, in partnership with the FATF, the Commonwealth Secretariat, Interpol, the OAS, the APG, and the Council of Europe. More than 300 pieces of legislation were loaded onto the Country Pages in 2001, and IMoLIN now contains the full text of national anti-money laundering legislation for most countries of the world. GPML also began a substantive review of the Anti-Money Laundering Information Database (AMLID), which provides analysis of national legislation on IMoLIN, to incorporate new developments in anti-money laundering.

In further response to the events of September 11, GPML is responsible for providing expertise on money laundering to support United Nations efforts against terrorism, as a member of the International Legal Instruments and International Criminal Justice Issues sub-group of the UN Policy Working Group on the United Nations and Terrorism. In October, the Program sent a law enforcement expert to Pakistan to investigate money laundering and prepare a series of recommendations for further action by the Program.

### **Convention for the Suppression of the Financing of Terrorism**

On December 9, 1999, the United Nations General Assembly adopted the International Convention for the Suppression of the Financing of Terrorism. It was opened for signature from January 10, 2000 to December 31, 2001. This Convention requires parties to criminalize the provision or collection of funds with the intent that they be used, or in the knowledge that they are to be used, to conduct certain terrorist activity. Article 18 of the Convention requires states parties to cooperate in the prevention of terrorist financing by adapting their domestic legislation, if necessary, to prevent and counter preparations in their respective territories for the commission of offenses specified in Article 2. To that end, Article 18 encourages implementation of numerous measures also included among the FATF's 40 Recommendations. These measures, which states parties may implement at their discretion, include: prohibiting accounts held by or benefiting people unidentified or unidentifiable; verifying the identity of the real parties to transactions; and requiring financial institutions to verify the existence and the structure of the customer by obtaining proof of incorporation.

The Convention also encourages states parties to obligate financial institutions to report complex or large transactions and unusual patterns of transactions which have no apparent economic or lawful purpose, without incurring criminal or civil liability for good faith reporting; to require financial institutions to maintain records for five years; to supervise (for example, through licensing) money-transmission agencies; and to monitor the physical cross-border transportation of cash and bearer negotiable instruments. Finally, the Convention addresses information exchange, including through the International Criminal Police Organization (Interpol). As of December 31, 2001, 132 states had signed the Convention. It will enter into force on the thirtieth day after the 40th state deposits an instrument of ratification, acceptance, approval or accession. As of December 31, 2001, 16 states had deposited instruments of ratification or accession. The United States has signed the Convention and the U.S. Senate has given its advice and consent to ratification. The remaining legislation needed to enable the U.S. to complete the ratification process is pending before the Congress and is expected to be enacted in early 2002. Once the President has signed the instrument of ratification and the legislation is enacted, the U.S. expects to deposit its instrument of ratification with the Secretary-General of the United Nations.

### ***Basel Committee on Banking Supervision***

The Basel Committee on Banking Supervision is part of the Bank for International Settlements, an international organization that fosters cooperation among central banks and other supervisory authorities. The Basel Committee is a Committee of banking supervisory authorities established by the central bank governors of the Group of Ten countries in 1975. It consists of senior representatives of banking

supervisory authorities and central banks from Belgium, Canada, France, Germany, Italy, Japan, Luxembourg, Netherlands, Sweden, Switzerland, United Kingdom and the United States. The Committee does not possess any supervisory authority but formulates broad supervisory standards, guidelines and recommendations for best practices.

In October 2001, the Committee issued a consultative paper on customer due diligence for banks. The paper is part of an ongoing effort by the Basel Committee to strengthen risk management procedures in banks throughout the world. Effective due diligence is an essential element of bank's risk management systems, the importance of which has been underscored by the recent terrorist attacks. In developing the consultative paper, the Basel Committee determined that many countries around the world had not developed adequate supervisory practices with regard to money laundering and other financial crimes.

The paper calls on supervisors to ensure that banks apply an acceptable minimum standard of due diligence policies and procedures to all areas, embracing domestic and overseas operations, and corporate and private banking business. To guard against risk, banks therefore, must develop policies and procedures in key areas such as customer acceptance, customer identification, and the ongoing monitoring of high-risk accounts.

The Basel Committee has also cooperated with the U.S. in anti-terrorism efforts. For example, the Committee circulated the FBI Control List of suspected terrorists to its members. In December, the Committee formed a subgroup of lawyers to address international information sharing. The group identified and discussed a number of gateways through which bank information could pass international borders.

### *Financial Intelligence Units (FIU) and the Egmont Group*

In the 1990s, governments around the world began to work together to mitigate the corrosive dangers that unchecked financial crimes posed to their economic and political systems. The specialized agencies created by governments to fight money laundering first met in 1995 at the Egmont-Arenberg Palace in Belgium to share experiences. Now known as the Egmont Group, these specialized units called financial intelligence units, or FIUs, meet annually to find ways to cooperate, especially in the areas of information exchange, training, and the sharing of expertise.

One of the main goals of the Egmont Group is to create a global network of FIUs to facilitate international cooperation. Although FIUs operate differently, FIUs exchange information with their counterparts under certain specific conditions. This information could be suspicious or unusual transaction reports from the financial sector as well as government administrative data and public record information. Egmont's secure web system permits members of the group to communicate with one another via secure e-mail, posting and assessing information regarding trends, analytical tools, and technological developments. FinCEN, on behalf of the Egmont Group, maintains the Egmont Secure Web. Currently, there are 43 FIUs connected to the ESW.

FinCEN hosted a special meeting of the Egmont Group on terrorist financing in October 2001 to support the unprecedented law enforcement investigation in the wake of the events of September 11. During the special meeting, the Egmont Group agreed to: (1) review existing national legislation to identify and eliminate existing impediments to exchanging information between FIUs, especially when such information concerns terrorist activity; (2) encourage national governments to make terrorist financing a predicate offense to money laundering and to consider terrorist financing one form of suspicious activity for which financial institutions should be on the look out; (3) pass requests for information involving FIUs exclusively between FIUs rather than other government agencies; (4) have FIUs play a greater role screening requests for information; and (5) to pool Egmont Group resources, where appropriate, to conduct joint strategic studies of money laundering vulnerabilities, including alternative remittance systems.

Egmont working groups (Legal, Training/Communications, and Outreach) meet three times a year. The Legal Working Group reviews the candidacy of potential Egmont FIUs and enhances information exchange between FIUs. The Training/Communications Working Group looks at ways to communicate more effectively, identifies training opportunities for FIU personnel and examines new software applications that might facilitate analytical work. The Training/Communications Working Group co-hosted an FIU training seminar for analysts in January 2001. All FIUs, as well as countries working toward creating FIUs, were invited to participate in this first major Egmont training opportunity in which over 120 analysts participated.

The Outreach Working Group works to create a global network of FIUs to facilitate international cooperation. The Outreach Working Group has identified countries that the Egmont Group should approach to offer to assist in the development of FIUs.

There are currently 58 operational FIU units worldwide, with many others in various stages of development. FIUs operate in: Aruba, Australia, Austria, Belgium, Bermuda, Bolivia, Brazil, British Virgin Islands, Bulgaria, Chile, Colombia, Costa Rica, Croatia, Cyprus, Czech Republic, Denmark, Dominican Republic, Estonia, Finland, France, Greece, Guernsey, Hong Kong, Hungary, Iceland, Ireland, Isle of Man, Italy, Japan, Jersey, Latvia, Lithuania, Luxembourg, Mexico, Monaco, Netherlands, Netherlands Antilles, New Zealand, Norway, Panama, Paraguay, Portugal, Romania, Slovakia, Slovenia, Spain, Sweden, Switzerland, Taiwan, Turkey, United Kingdom, United States and Venezuela. The Bahamas, Cayman Islands, El Salvador, Liechtenstein and Thailand joined Egmont in 2001.

## Major Money Laundering Countries

Each year, U.S. officials from agencies with anti-money laundering responsibilities meet to assess the money laundering situations in more than 175 jurisdictions. The review includes an assessment of the significance of financial transactions in the country's financial institutions that involve proceeds of serious crime, steps taken or not taken to address financial crime and money laundering, each jurisdiction's vulnerability to money laundering, the conformance of its laws and policies to international standards, the effectiveness with which the government has acted, and the government's political will to take needed actions.

The 2001 INCSR assigned priorities to jurisdictions using a classification system consisting of three differential categories titled Jurisdictions of Primary Concern, Jurisdictions of Concern, and Other Jurisdictions Monitored.

The "Jurisdictions of Primary Concern" are those jurisdictions that are identified pursuant to the INCSR reporting requirements as "major money laundering countries." A major money laundering country is defined by statute as one "whose financial institutions engage in currency transactions involving significant amounts of proceeds from international narcotics trafficking." However, the complex nature of money laundering transactions today makes it difficult in many cases to distinguish the proceeds of narcotics trafficking from the proceeds of other serious crime. Moreover, financial institutions engaging in transactions involving significant amounts of proceeds of other serious crime are vulnerable to narcotics-related money laundering. The category "Jurisdiction of Primary Concern" recognizes this relationship by including all countries and other jurisdictions whose financial institutions engage in transactions involving significant amounts of proceeds from all serious crime. Thus, the focus of analysis in considering whether a country or jurisdiction should be included in this category is on the significance of the amount of proceeds laundered not of the anti-money laundering measures taken. This is a different approach taken than the FATF Non-Cooperative Countries and Territories (NCCT) exercise, which focuses on a

jurisdiction's compliance with stated criteria regarding its legal and regulatory framework, international cooperation, and resource allocations.<sup>1</sup>

All other countries and jurisdictions evaluated in the INCSR report are separated into the two remaining groups, "Jurisdictions of Concern" and "Other Jurisdictions Monitored," on the basis of a number of factors which can include: (1) whether the country's financial institutions engage in transactions involving significant amounts of proceeds from serious crime; (2) the extent to which the jurisdiction is or remains vulnerable to money laundering, notwithstanding its money laundering countermeasures, if any (an illustrative list of factors that may indicate vulnerability is provided below); (3) the nature and extent of the money laundering situation in each jurisdiction (for example, whether it involves drugs or other contraband); (4) the ways in which the U.S. regards the situation as having international ramifications; (5) the situation's impact on U.S. interests; (6) whether the jurisdiction has taken appropriate legislative actions to address specific problems; (7) whether there is a lack of licensing and oversight of offshore financial centers and businesses; (8) whether the jurisdiction's laws are being effectively implemented; and (9) where U.S. interests are involved, the degree of cooperation between the foreign government and U.S. government agencies.

A government (e.g., the U.S. or the UK) can have comprehensive laws on its books and conduct aggressive anti-money laundering enforcement efforts but still be classified a "Primary Concern" jurisdiction. In some cases, this classification may simply or largely be a function of the size of the jurisdiction's economy. In such jurisdictions quick, continuous and effective anti-money laundering efforts by the government are critical. While the actual money laundering problem in jurisdictions classified "Concern" is not as acute, they too must undertake efforts to develop or enhance their anti-money laundering regimes. Finally, while jurisdictions in the "Other" category do not pose an immediate concern, it will nevertheless be important to monitor their money laundering situations because, under the right circumstances, virtually any jurisdiction of any size can develop into a significant money laundering center.

## *Vulnerability Factors*

The current ability of money launderers to penetrate virtually any financial system makes every jurisdiction a potential money laundering center. There is no precise measure of vulnerability for any financial system, and not every vulnerable financial system will, in fact, be host to large volumes of laundered proceeds, but a checklist of what drug money managers reportedly look for provides a basic guide. The checklist includes:

- Failure to criminalize money laundering for all serious crimes or limiting the offense to narrow predicates.
- Rigid bank secrecy rules that obstruct law enforcement investigations or that prohibit or inhibit large value and/or suspicious or unusual transaction reporting by both banks and non-bank financial institutions.
- Lack of or inadequate "know your client" requirements to open accounts or conduct financial transactions, including the permitted use of anonymous, nominee, numbered or trustee accounts.
- No requirement to disclose the beneficial owner of an account or the true beneficiary of a transaction.
- Lack of effective monitoring of cross-border currency movements.
- No reporting requirements for large cash transactions.

---

<sup>1</sup> The 25 FATF criteria can be found on the FATF website: <http://www.fatf-gafi.org>.

- No requirement to maintain financial records over a specific period of time.
- No mandatory requirement to report suspicious transactions or a pattern of inconsistent reporting under a voluntary system; lack of uniform guidelines for identifying suspicious transactions.
- Use of bearer monetary instruments.
- Well-established non-bank financial systems, especially where regulation, supervision, and monitoring are absent or lax.
- Patterns of evasion of exchange controls by legitimate businesses.
- Ease of incorporation, especially where ownership can be held through nominees or bearer shares, or where off-the-shelf corporations can be acquired.
- No central reporting unit for receiving, analyzing and disseminating to the competent authorities information on large value, suspicious or unusual financial transactions that might identify possible money laundering activity.
- Lack of or weak bank regulatory controls, or failure to adopt or adhere to the Basle Principles for International Banking Supervision, especially in jurisdictions where the monetary or bank supervisory authority is understaffed, underskilled or uncommitted.
- Well-established offshore financial centers or tax-haven banking systems, especially jurisdictions where such banks and accounts can be readily established with minimal background investigations.
- Extensive foreign banking operations, especially where there is significant wire transfer activity or multiple branches of foreign banks, or limited audit authority over foreign-owned banks or institutions.
- Limited asset seizure or confiscation authority.
- Limited narcotics, money laundering and financial crime enforcement and lack of trained investigators or regulators.
- Jurisdictions with free trade zones where there is little government presence or other supervisory authority.
- Patterns of official corruption or a laissez-faire attitude toward the business and banking communities.
- Jurisdictions where the U.S. dollar is readily accepted, especially jurisdictions where banks and other financial institutions allow dollar deposits.
- Well-established access to international bullion trading centers in New York, Istanbul, Zurich, Dubai and Mumbai.
- Jurisdictions where there is significant trade in or export of gems, particularly diamonds.
- Jurisdictions with large parallel or black market economies.
- Limited or no ability to share financial information with foreign law enforcement authorities.

# Money Laundering and Financial Crimes

**Changes in INCSR Priorities, 2001-2002**

<b>Upgrades</b>	<b>Downgrades</b>	<b>Additions</b>
Macao Concern → Primary	St. Kitts & Nevis Primary → Concern	Iceland Other
Ukraine Concern → Primary		Lesotho Other
Yemen Other → Concern		

In the **Country/Jurisdiction Table** on the following page, “major money laundering countries” are identified for purposes of INCSR reporting requirements. Identification as a “major money laundering country” is based on whether the country or jurisdiction’s financial institutions engage in transactions involving significant amounts of proceeds from serious crime. It is not based on an assessment of the country or jurisdiction’s legal framework to combat money laundering or the degree of its cooperation in the international fight against money laundering.

## *Country/Jurisdiction Table*

Countries/Jurisdictions of Primary Concern	Countries/Jurisdictions of Concern	Other Countries/Jurisdictions Monitored
Antigua and Barbuda	Russia	Albania
Australia	Singapore	Argentina
Austria	Spain	Aruba
Bahamas	St. Vincent	Bahrain
Brazil	Switzerland	Barbados
Burma	Taiwan	Belgium
Canada	Thailand	Belize
Cayman Islands	Turkey	Bolivia
China, People Rep	Ukraine	British Virgin Islands
Colombia	United Arab Emirates	Bulgaria
Cyprus	United Kingdom	Cambodia
Dominica	USA	Chile
Dominican Rep	Uruguay	Cook Islands
France	Venezuela	Costa Rica
Germany		Czech Rep
Greece		Ecuador
Grenada		Egypt
Guernsey		El Salvador
Hong Kong		Gibraltar
Hungary		Guatemala
India		Haiti
Indonesia		Honduras
Isle of Man		Ireland
Israel		Jamaica
Italy		Korea, Republic of <sup>a</sup>
Japan		Korea (DPRK)
Jersey		Latvia
Lebanon		Malaysia
Liechtenstein		Marshall Islands
Luxembourg		Monaco
Macau		Netherlands Antilles
Mexico		Nicaragua
Nauru		Niue
Netherlands		Palau
Nigeria		Peru
Pakistan		Poland
Panama		Portugal
Paraguay		Romania
Philippines		Samoa
		Seychelles
		Slovakia
		South Africa
		St. Kitts & Nevis
		St. Lucia
		Turks & Caicos
		Vanuatu
		Vietnam
		Yemen
		Yugoslavia FR
		Afghanistan
		Algeria
		Angola
		Anguilla
		Armenia
		Azerbaijan
		Bangladesh
		Belarus
		Benin
		Bermuda
		Bosnia & Herzegovina
		Botswana
		Brunei
		Cameroon
		Cote D'Ivoire
		Croatia
		Cuba
		Denmark
		Eritrea
		Estonia
		Ethiopia
		Fiji
		Finland
		Georgia
		Ghana
		Guyana
		Iceland
		Iran
		Jordan
		Kazakhstan
		Kenya
		Kuwait
		Kyrgyzstan
		Laos
		Lesotho
		Liberia
		Lithuania
		Macedonia
		Madagascar
		Malawi
		Maldives
		Mali
		Malta
		Mauritius
		Micronesia FS
		Moldova
		Mongolia
		Montserrat
		Morocco
		Mozambique
		Namibia
		Nepal
		New Zealand
		Niger
		Norway
		Oman
		Papua New Guinea
		Qatar
		Saudi Arabia
		Senegal
		Slovenia
		Soloman Islands
		Sri Lanka
		Suriname
		Swaziland
		Sweden
		Tajikistan
		Tanzania
		Togo
		Tonga
		Trinidad and Tobago
		Tunisia
		Turkmenistan
		Uganda
		Uzbekistan
		Zambia
		Zimbabwe

## *Comparative Chart*

The comparative chart that follows the Glossary of Terms below identifies the broad range of actions that jurisdictions have, or have not, taken to combat money laundering, that were effective as of December 31, 2001. This reference chart provides a comparison of elements that define legislative activity and identify other characteristics that can have a relationship to money laundering vulnerability. Where there is no or inconclusive information regarding specific categories, the corresponding cells on the chart have been left blank.

## **Glossary of Terms**

1. “Criminalized Drug Money Laundering”: The jurisdiction has enacted laws criminalizing the offense of money laundering related to drug trafficking.
2. “Criminalized Beyond Drugs”: The jurisdiction has extended anti-money laundering statutes and regulations to include non-drug-related money laundering.
3. “Record Large Transactions”: By law or regulation, banks are required to maintain records of large transactions in currency or other monetary instruments.
4. “Maintain Records Over Time”: By law or regulation, banks are required to keep records, especially of large or unusual transactions, for a specified period of time, e.g., five years.
5. “Report Suspicious Transactions”: An “M” (for “mandatory”) indicates that by law or regulation, banks are required to record and report suspicious or unusual transactions to designated authorities. A “P” indicates that by law or regulation, banks are permitted to record and report suspicious transactions. An effective know-your-customer policy is considered a prerequisite in this category.
6. “Financial Intelligence Unit”: The jurisdiction has established a central, national agency responsible for receiving (and, as permitted, requesting), analyzing, and disseminating to the competent authorities disclosures of financial information concerning suspected proceeds of crime, or required by national legislation or regulation, in order to counter money laundering. These reflect those jurisdictions that are members of the Egmont Group.
7. “System for Identifying and Forfeiting Assets”: The jurisdiction has enacted laws authorizing the tracing, freezing, seizure and forfeiture of assets identified as relating to or generated by money laundering activities.
8. “Arrangements for Asset Sharing”: By law, regulation or bilateral agreement, the jurisdiction permits sharing of seized assets with third party jurisdictions which assisted in the conduct of the underlying investigation.
9. “Cooperates w/Domestic Law Enforcement”: By law or regulation, banks are required to cooperate with authorized law enforcement investigations into money laundering or the predicate offense, including production of bank records, or otherwise lifting the veil of bank secrecy.
10. “Cooperates w/International Law Enforcement”: By law or regulation, banks are permitted/required to cooperate with authorized investigations involving or initiated by third party jurisdictions, including sharing of records or other financial data.
11. “International Transportation of Currency”: By law or regulation, the jurisdiction, in cooperation with banks, controls or monitors the flow of currency and monetary instruments crossing its borders. Of critical weight here are the presence or absence of wire

transfer regulations and use of reports completed by each person transiting the jurisdiction and reports of monetary instrument transmitters.

12. “Mutual Legal Assistance”: By law or through treaty, the jurisdiction has agreed to provide and receive mutual legal assistance, including the sharing of records and data.
13. “Non-Bank Financial Institutions”: By law or regulation, the jurisdiction requires non-bank financial institutions to meet the same customer identification standards and adhere to the same reporting requirements that it imposes on banks.
14. “Disclosure Protection Safe Harbor”: By law, the jurisdiction provides a “safe harbor” defense to banks or other financial institutions and their employees who provide otherwise confidential banking data to authorities in pursuit of authorized investigations.
15. “Offshore Financial Centers”: By law or regulation, the jurisdiction authorizes the licensing of offshore banking and business facilities.
16. “States Parties to 1988 UN Drug Convention”: As of December 31, 2001, a party to the 1988 United Nations Convention Against Illicit Traffic in Narcotic Drugs and Psychotropic Substances, or a territorial entity to which the application of the Convention has been extended by a party to the Convention.

# Comparative Chart

<b>Actions by Governments</b>	<i>Criminalized Drug Money Laundering</i>	<i>Criminalized Beyond Drugs</i>	<i>Record Large Transactions</i>	<i>Maintain Records Over Time</i>	<i>Report Suspicious Transactions (NMP)</i>	<i>Financial Intelligence Unit</i>	<i>System for Identifying/Forfeiting Assets</i>	<i>Arrangements for Asset Sharing</i>	<i>Cooperates w/Domestic Law Enforcement</i>	<i>Cooperates w/International Law Enforcement</i>	<i>International Transportation of Currency</i>	<i>Mutual Legal Assistance</i>	<i>Non-Bank Financial Institutions</i>	<i>Disclosure Protection "Safe Harbor"</i>	<i>Offshore Financial Centers</i>	<i>States Parties to 1988 UN Convention</i>
<b>Government/ Jurisdiction</b>																
Afghanistan	N	N	N	N	N	N	N	N	N	N	N	Y	N	N	N	Y
Albania	Y	Y	Y	N	M	N	N	N	Y	N	N	Y	N	N	N	Y
Algeria	N	N	N	N	N	N					Y	N	N		N	Y
Angola	Y	N				N						Y			N	N
Anguilla	Y	Y	Y	Y	M	N	Y	Y	Y	Y	N	Y	N	N	Y	Y
Antigua & Barbuda	Y	Y	N	Y	M	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
Argentina	Y	Y	Y	Y	M	N	Y	N	Y	Y	Y	Y	Y	Y	N	Y
Armenia	N	N	N	N	N	N	N	N	Y	N	N	N	N	N	N	Y
Aruba	Y	Y	Y	Y	M	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
Australia	Y	Y	Y	Y	M	Y	Y	Y	Y	Y	Y	Y	Y	Y	N	Y
Austria	Y	Y	Y	Y	M	Y	Y	N	Y	Y	N	Y	Y	Y	N	Y
Azerbaijan	N	N	N	N	N	N	N	N		N	Y	N	N	N	N	Y
Bahamas	Y	Y	Y	Y	M	Y	Y	N	Y	Y	Y	Y	Y	Y	Y	Y
Bahrain	Y	Y	N	Y	M	N	Y	N	Y	Y	N	N	N	Y	Y	Y
Bangladesh	N	N	N	N	N	N	N	N	N	N	N	Y	N	N	N	Y
Barbados	Y	Y	Y	Y	M	N	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
Belarus	N	N	Y	Y	N	N	N	N	N	N	N	Y	N	N	N	Y
Belgium	Y	Y	Y	Y	M	Y	Y	N	Y	Y	Y	Y	Y	Y	N	Y

<b>Actions by Governments</b>	<b><i>Criminalized Drug Money Laundering</i></b>	<b><i>Criminalized Beyond Drugs</i></b>	<b><i>Record Large Transactions</i></b>	<b><i>Maintain Records Over Time</i></b>	<b><i>Report Suspicious Transactions (NMP)</i></b>	<b><i>Financial Intelligence Unit</i></b>	<b><i>System for Identifying/Forfeiting Assets</i></b>	<b><i>Arrangements for Asset Sharing</i></b>	<b><i>Cooperates w/Domestic Law Enforcement</i></b>	<b><i>Cooperates w/International Law Enforcement</i></b>	<b><i>International Transportation of Currency</i></b>	<b><i>Mutual Legal Assistance</i></b>	<b><i>Non-Bank Financial Institutions</i></b>	<b><i>Disclosure Protection "Safe Harbor"</i></b>	<b><i>Offshore Financial Centers</i></b>	<b><i>States Parties to 1988 UN Convention</i></b>
Belize	Y	Y	Y	Y	M	N	Y	N	N	Y	Y	Y	Y	Y	Y	Y
Benin	Y	Y	N	N	M	N	Y	Y	Y	Y	N	N	N	Y	N	Y
Bermuda	Y	Y	Y	Y	M	Y	Y	N	Y	Y	N	Y	Y	Y	Y	Y
Bolivia	Y	Y	N	Y	M	Y	Y	N	N	N	N	N	Y	Y	N	Y
Bosnia & Herzegovina	N				M	N	N	N				N		Y	N	Y
Botswana	Y	N	Y		P	N	Y	Y	Y						Y	Y
Brazil	Y	Y	Y	Y	M	Y	Y	Y	Y	Y	Y	Y	Y	Y	N	Y
British Virgin Islands	Y	Y	Y	Y	M	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
Brunei	N	N	N	N	N	N	Y	N			N		N	N	Y	Y
Bulgaria	Y	Y	Y	Y	M	Y	Y	N	Y	N	Y	Y	Y	Y	N	Y
Burma	Y	N	N	N	N	N	Y	N	N	N	N	N	N	N	N	Y
Cambodia	Y	N	N	Y	M	N	N	N	Y	Y	Y	N	N		N	N
Cameroon	N	N				N				N					N	Y
Canada	Y	Y	Y	Y	M	N	Y	Y	Y	Y	Y	Y	Y	Y	N	Y
Cayman Islands	Y	Y	Y	Y	M	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
Chile	Y	N	N	Y	P	Y	Y	N	Y	Y	N	Y	N	N	N	Y
China (PRC)	Y	Y	Y	N	M	N	Y	N	Y	N	Y	Y	N	N	N	Y
Colombia	Y	Y	Y	Y	M	Y	Y	Y	Y	Y	Y	Y	Y	Y	N	Y
Comoros	N	N	N	N	N	N					N		N	N		Y
Cook Islands	Y	Y	Y	Y	M	N	Y	Y	Y	Y	Y	Y	Y	Y	Y	N
Costa Rica	Y	N	Y	Y	M	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
Cote D'Ivoire	Y	Y	Y	Y	M	N	Y	N	Y	N	Y	Y	N	Y	N	Y

# Money Laundering and Financial Crimes

<b>Actions by Governments</b>	<b><i>Criminalized Drug Money Laundering</i></b>	<b><i>Criminalized Beyond Drugs</i></b>	<b><i>Record Large Transactions</i></b>	<b><i>Maintain Records Over Time</i></b>	<b><i>Report Suspicious Transactions (NMP)</i></b>	<b><i>Financial Intelligence Unit</i></b>	<b><i>System for Identifying/Forfeiting Assets</i></b>	<b><i>Arrangements for Asset Sharing</i></b>	<b><i>Cooperates w/Domestic Law Enforcement</i></b>	<b><i>Cooperates w/International Law Enforcement</i></b>	<b><i>International Transportation of Currency</i></b>	<b><i>Mutual Legal Assistance</i></b>	<b><i>Non-Bank Financial Institutions</i></b>	<b><i>Disclosure Protection "Safe Harbor"</i></b>	<b><i>Offshore Financial Centers</i></b>	<b><i>States Parties to 1988 UN Convention</i></b>
Croatia	Y	Y	Y	Y	M	Y	Y	N	Y	Y	Y	Y	Y	Y	N	Y
Cuba	Y	Y	N	N	P	N	Y	N	N	N	Y	N	N	N	N	Y
Cyprus	Y	Y	Y	Y	M	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
Czech Republic	Y	Y	Y	Y	M	Y	Y	N	Y	Y	Y	Y	Y	Y	N	Y
Denmark	Y	Y	Y	Y	M	Y	Y	N	Y	Y	Y	Y	Y	Y	N	Y
Dominica	Y	Y	Y	Y	M	N	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
Dominican Republic	Y	N	Y	Y	M	Y	Y	Y	Y	Y	Y	Y	Y	Y	N	Y
Ecuador	Y	N	Y	Y	M	N	Y	Y	Y	Y	N	Y	Y	N	N	Y
Egypt	N	N	N	Y	P	N	N	Y	Y	Y	N	Y	N	N	N	Y
El Salvador	Y	Y	Y	Y	M	Y	Y	N	Y	Y	Y	Y	Y	Y	Y	Y
Eritrea						N									N	N
Estonia	Y	Y	Y	N	M	Y	N	N	Y	N	Y	Y	N	N	N	Y
Ethiopia	N	N	Y	Y	N	N	N	N			N		N	N	N	Y
Fiji	Y	Y	N	Y	M	N	Y	N	Y	Y	Y	Y	N	N	N	Y
Finland	Y	Y	Y	Y	M	Y	Y	Y	Y	Y	N	Y	Y	Y	N	Y
France	Y	Y	Y	Y	M	Y	Y	Y	Y	Y	Y	Y	Y	Y	N	Y
Georgia	N	N	N	N	N	N	N	N			N	Y	N	N	N	Y
Germany	Y	Y	Y	Y	M	N	Y	N	Y	Y	N	Y	Y	Y	N	Y
Ghana	Y	Y	N	Y	N	N	Y	N	Y	Y	Y	Y	Y	Y	N	Y
Gibraltar	Y	Y	Y	Y	M	N	Y	Y	Y	Y	N	Y	Y	Y	Y	N
Greece	Y	Y	Y	Y	M	Y	Y	N	Y	Y	Y	Y	Y	Y	N	Y
Grenada	Y	Y	N	Y	M	N	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y

<b>Actions by Governments</b>	<b><i>Criminalized Drug Money Laundering</i></b>	<b><i>Criminalized Beyond Drugs</i></b>	<b><i>Record Large Transactions</i></b>	<b><i>Maintain Records Over Time</i></b>	<b><i>Report Suspicious Transactions (NMP)</i></b>	<b><i>Financial Intelligence Unit</i></b>	<b><i>System for Identifying/Forfeiting Assets</i></b>	<b><i>Arrangements for Asset Sharing</i></b>	<b><i>Cooperates w/Domestic Law Enforcement</i></b>	<b><i>Cooperates w/International Law Enforcement</i></b>	<b><i>International Transportation of Currency</i></b>	<b><i>Mutual Legal Assistance</i></b>	<b><i>Non-Bank Financial Institutions</i></b>	<b><i>Disclosure Protection "Safe Harbor"</i></b>	<b><i>Offshore Financial Centers</i></b>	<b><i>States Parties to 1988 UN Convention</i></b>
Guatemala	Y	Y	Y	Y	M	N	N	N	Y	Y	Y	Y	Y	Y	Y	Y
Guernsey	Y	Y	N	Y	M	Y	Y	Y	Y	Y	N	Y	Y	Y	Y	N
Guyana	N	N	N	N	N	N	N	N	N	N	Y	Y	N	N	N	Y
Haiti	Y	Y	Y	Y	M	N	Y	N	Y	N	N	N	Y	Y	N	Y
Honduras	Y	N	Y	Y	M	N	Y	N	Y	Y	Y	Y	Y	Y	N	Y
Hong Kong	Y	Y	Y	Y	M	Y	Y	Y	Y	Y	N	Y	Y	Y	Y	Y
Hungary	Y	Y	Y	Y	M	Y	Y	N	Y	Y	Y	Y	Y	Y	Y	Y
Iceland	Y	Y	N	Y	M	Y	Y	N	Y	Y	N	Y	Y	Y	N	Y
India	Y	N	Y	Y	P	N	Y	N	Y	Y	Y	Y	N	Y	Y	Y
Indonesia	N	N	N	N	M	N	N	N	Y	Y	N	N	N	N	N	Y
Iran	N	N	N	N	N	N	N	N	N	N	N	Y	N	N	N	Y
Ireland	Y	Y	Y	Y	M	Y	Y	N	Y	Y	Y	Y	Y	Y	Y	Y
Isle of Man	Y	Y	Y	Y	M	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
Israel	Y	Y	N	Y	M	N	N	Y	Y	Y	Y	Y	Y	N	N	N
Italy	Y	Y	Y	Y	M	Y	Y	Y	Y	Y	Y	Y	Y	Y	N	Y
Jamaica	Y	Y	Y	Y	M	N	Y	Y	Y	Y	N	Y	Y	Y	N	Y
Japan	Y	Y	Y	Y	M	Y	Y	N	Y	Y	Y	Y	Y	Y	N	Y
Jersey	Y	Y	N	Y	M	Y	Y	Y	Y	Y	N	Y	Y	Y	Y	Y
Jordan	N	N	N	N	N	N	N	N	N	N	N	Y	N	N	N	Y
Kazakhstan	Y	Y	N	Y	N	N	N	N	Y	N	Y	Y	N	N	N	Y
Kenya	Y	N	Y		N	N	Y	N	Y	Y	N		N	N	N	Y
Korea (DPRK)	N	N				N					N	N			N	N

## Money Laundering and Financial Crimes

Actions by Governments	<i>Criminalized Drug Money Laundering</i>	<i>Criminalized Beyond Drugs</i>	<i>Record Large Transactions</i>	<i>Maintain Records Over Time</i>	<i>Report Suspicious Transactions (NMP)</i>	<i>Financial Intelligence Unit</i>	<i>System for Identifying/Forfeiting Assets</i>	<i>Arrangements for Asset Sharing</i>	<i>Cooperates w/Domestic Law Enforcement</i>	<i>Cooperates w/International Law Enforcement</i>	<i>International Transportation of Currency</i>	<i>Mutual Legal Assistance</i>	<i>Non-Bank Financial Institutions</i>	<i>Disclosure Protection "Safe Harbor"</i>	<i>Offshore Financial Centers</i>	<i>States Parties to 1988 UN Convention</i>
Korea (Republic of)	Y	Y	N	Y	M	N	Y	N	Y	Y	N	Y	N		N	Y
Kuwait	N	N	Y	Y	M	N	N	N	Y	N	N	N	N	N	N	Y
Kyrgyzstan	N	N	N	N	P	N	Y	N	Y	N	N	N	N	N	N	Y
Laos	N	N	N	N	N	N	N	N	N	N	N	N	N	N	N	N
Latvia	Y	Y	Y	Y	M	Y	Y	N	Y	Y	N	Y	Y	Y	N	Y
Lebanon	Y	Y	N	Y	M	N	Y	N	N	N	N	Y	Y	Y	N	Y
Lesotho	N	N	N		M	N		N				N			N	Y
Liberia	N	N	N			N					Y				Y	N
Liechtenstein	Y	Y	Y	Y	M	Y	Y	Y	Y	Y	N	Y	Y	Y	Y	N
Lithuania	Y	Y	Y	Y	M	Y	N	N	Y	Y	Y	Y	Y	Y	N	Y
Luxembourg	Y	Y	Y	Y	M	Y	Y	Y	Y	Y	N	Y	Y	Y	Y	Y
Macau	Y	Y	N	Y	M	N	Y	N	Y	Y	N	Y	Y	Y	Y	Y
Macedonia	Y	Y				N									N	Y
Madagascar	Y					N									N	Y
Malawi						N									N	Y
Malaysia	Y	Y	N	Y	M	N	Y	N	Y	Y	Y	Y	Y	N	Y	Y
Maldives	N	N	N	N	N	N	N	N			N		N	N	Y	Y
Mali						N									N	Y
Malta	Y	Y	N	Y	M	N	Y		Y		N		Y	N	Y	Y
Marshall Islands	Y	Y	Y	Y	M	N	Y	Y	Y	Y	N	Y	Y	Y	N	N
Mauritius	Y	Y	N	Y	M	N	Y	N	Y	Y	N	Y	Y	Y	Y	Y

<b>Actions by Governments</b>	<b>Criminalized Drug Money Laundering</b>	<b>Criminalized Beyond Drugs</b>	<b>Record Large Transactions</b>	<b>Maintain Records Over Time</b>	<b>Report Suspicious Transactions (NMP)</b>	<b>Financial Intelligence Unit</b>	<b>System for Identifying/Forfeiting Assets</b>	<b>Arrangements for Asset Sharing</b>	<b>Cooperates w/Domestic Law Enforcement</b>	<b>Cooperates w/International Law Enforcement</b>	<b>International Transportation of Currency</b>	<b>Mutual Legal Assistance</b>	<b>Non-Bank Financial Institutions</b>	<b>Disclosure Protection "Safe Harbor"</b>	<b>Offshore Financial Centers</b>	<b>States Parties to 1988 UN Convention</b>
Mexico	Y	Y	Y	Y	M	Y	Y	Y	Y	Y	Y	Y	Y	Y	N	Y
Micronesia					N										N	N
Moldova	Y	Y	Y	Y	M	N	N	N	Y	N	N	Y	Y	N	N	Y
Monaco	Y	Y			M	Y	Y					Y	Y		Y	Y
Mongolia	N	N	N	N	N	N					N	N	N	N	N	N
Montserrat	Y	Y	N	Y	M	N	Y	Y	Y	Y	Y	Y	N	Y	Y	Y
Morocco	N	N	N	Y	N	N	N	N	N	N	N	Y	N	N	Y	Y
Mozambique	Y	Y	Y	Y	M	N	N	N	N	N	Y	Y	Y	Y	N	Y
Namibia	N	N	N	N	N	N					N	N	N	N	N	N
Nauru	Y	Y	N	Y	M	N	Y	Y	Y	Y	N	Y	Y	Y	Y	N
Nepal	N	N	N	Y	N	N	Y	N	Y	Y	N	Y	N	N	N	Y
Netherlands	Y	Y	Y	Y	M	Y	Y	Y	Y	Y	N	Y	Y	Y	N	Y
Netherlands Antilles	Y	Y	Y	Y	M	Y	Y	Y	Y	Y	N	Y	Y	Y	Y	Y
New Zealand	Y	Y	Y	Y	M	Y	Y	Y	Y	Y	Y	Y	Y	Y	N	Y
Nicaragua	Y	N	Y	Y	M	N	Y	N	Y	N	Y	Y	N	N	N	Y
Niger					N										N	Y
Nigeria	Y	N	Y	Y	M	N	Y	N	Y	Y	Y	Y	N	Y	N	Y
Niue	Y	Y	N	Y	M	N	N	N	Y	Y	N	Y	Y	Y	Y	N
Norway	Y	Y	Y	Y	M	Y	Y	Y	Y	Y	Y	Y	Y	Y	N	Y
Oman	Y	N	Y		M	N						Y			N	Y
Pakistan	Y	N	N	Y	N	N	Y	N	Y	N	N	Y	N	Y	N	Y
Palau	Y	Y	Y	Y	M	N	Y	Y	Y	Y	Y	Y	Y	N	Y	N

# Money Laundering and Financial Crimes

<b>Actions by Governments</b>	<b><i>Criminalized Drug Money Laundering</i></b>	<b><i>Criminalized Beyond Drugs</i></b>	<b><i>Record Large Transactions</i></b>	<b><i>Maintain Records Over Time</i></b>	<b><i>Report Suspicious Transactions (NMP)</i></b>	<b><i>Financial Intelligence Unit</i></b>	<b><i>System for Identifying/Forfeiting Assets</i></b>	<b><i>Arrangements for Asset Sharing</i></b>	<b><i>Cooperates w/Domestic Law Enforcement</i></b>	<b><i>Cooperates w/International Law Enforcement</i></b>	<b><i>International Transportation of Currency</i></b>	<b><i>Mutual Legal Assistance</i></b>	<b><i>Non-Bank Financial Institutions</i></b>	<b><i>Disclosure Protection "Safe Harbor"</i></b>	<b><i>Offshore Financial Centers</i></b>	<b><i>States Parties to 1988 UN Convention</i></b>
Panama	Y	Y	Y	Y	M	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
Papua New Guinea	N	N	N	N	N	N	N	N	N	N	N	N	N	N	N	N
Paraguay	Y	Y	Y	Y	M	Y	Y	N	Y	Y	N	Y	Y	Y	Y	Y
Peru	Y	N	Y	Y	M	N	Y	Y	Y	Y	N	Y	Y	Y	N	Y
Philippines	Y	Y	Y	Y	M	N	Y	N	Y	Y	Y	Y	Y	Y	N	Y
Poland	Y	Y	Y	Y	M	N	N	N	Y	Y	Y	Y	N	N	N	Y
Portugal	Y	Y	Y	Y	M	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
Qatar	N	N	Y	Y	M	N			Y	Y	N	Y	N	N	N	Y
Romania	Y	Y	Y	Y	M	Y	N	N	Y	N	N	Y	Y	Y	N	Y
Russia	Y	Y	Y	Y	M	N	Y	N	Y	N	N	Y	Y	N	N	Y
Samoa	Y	Y	Y	Y	M	N	Y	Y	Y	Y	Y	Y	Y	Y	Y	N
Saudi Arabia	Y	Y		Y	M	N	Y	N	Y			Y	Y		N	Y
Senegal	Y	N				N						Y			N	Y
Seychelles	Y	Y	N	Y	M	N	Y	N						Y	Y	Y
Singapore	Y	Y	Y	Y	M	Y	Y	Y	Y	Y	N	N	Y	Y	Y	Y
Slovakia	Y	Y	Y	Y	M	Y	N	N	Y	Y	Y	N	Y	N	N	Y
Slovenia	Y	Y	Y	Y	M	Y	Y	N	Y	Y	Y	Y	Y	Y	N	Y
Solomon Islands	N	N			N	N									N	N
South Africa	Y	Y	N	Y	M	N	Y	Y	Y	Y	N	Y	Y	Y	N	Y
Spain	Y	Y	Y	Y	M	Y	Y	Y	Y	Y	Y	Y	Y	Y	N	Y
Sri Lanka	N	N	N	N	N	N	N	N	Y	N	N	Y	N	N	N	Y
St Kitts & Nevis	Y	Y	Y	Y	M	N	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y

<b>Actions by Governments</b>	<b><i>Criminalized Drug Money Laundering</i></b>	<b><i>Criminalized Beyond Drugs</i></b>	<b><i>Record Large Transactions</i></b>	<b><i>Maintain Records Over Time</i></b>	<b><i>Report Suspicious Transactions (NMP)</i></b>	<b><i>Financial Intelligence Unit</i></b>	<b><i>System for Identifying/Forfeiting Assets</i></b>	<b><i>Arrangements for Asset Sharing</i></b>	<b><i>Cooperates w/Domestic Law Enforcement</i></b>	<b><i>Cooperates w/International Law Enforcement</i></b>	<b><i>International Transportation of Currency</i></b>	<b><i>Mutual Legal Assistance</i></b>	<b><i>Non-Bank Financial Institutions</i></b>	<b><i>Disclosure Protection "Safe Harbor"</i></b>	<b><i>Offshore Financial Centers</i></b>	<b><i>States Parties to 1988 UN Convention</i></b>
St. Lucia	Y	Y	Y	Y	M	N	Y	N	Y	Y	N	Y	Y	Y	N	Y
St. Vincent/Grenadine	Y	Y	Y	Y	M	N	Y	Y	Y	N	N	Y	Y	Y	Y	Y
Suriname	Y	N	N	N	M	N	N				N	Y	N	N	N	Y
Swaziland	Y	Y			M	N	Y								N	Y
Sweden	Y	Y	Y	Y	M	Y	Y		Y	Y	N	Y	Y	Y	N	Y
Switzerland	Y	Y	Y	Y	M	Y	Y	Y	Y	Y	N	Y	Y	Y	Y	N
Syria	N	N			N	N	Y				Y	Y			N	Y
Taiwan	Y	Y	Y	Y	M	Y	Y	N	Y	Y	Y	Y	Y	Y	N	NA
Tajikistan	N	N	N	N	N	N	N	N			N	Y	N	N	N	Y
Tanzania	Y	N	Y	Y	P	N	N	N	Y				N	Y	N	Y
Thailand	Y	Y	Y	Y	M	Y	Y	Y	Y	Y	N	Y	Y	Y	Y	N
Togo	Y	N				N										Y
Tonga	Y	N	Y	Y	N	N	Y	N	Y	Y	Y	Y	N	N	Y	Y
Trinidad & Tobago	Y	Y	Y	Y	M	N	Y	Y	Y	Y	Y	Y	Y	Y	N	Y
Tunisia	N	N			N	N					Y				Y	Y
Turkey	Y	Y	Y	Y	M	Y	Y	N	Y	Y	Y	Y	Y	Y	N	Y
Turkmenistan	N	N				N					Y				N	Y
Turks & Caicos	Y	Y	Y	Y	M	N	Y	Y	Y	Y	N	Y	Y	Y	Y	Y
Uganda	Y	N	N	N	N	N	N	N			N		N	N	N	Y
Ukraine	Y	N	Y	N	M	N	Y	N	Y	N	Y	Y	N	N	N	Y
United Arab Emirates	N	N	Y	Y	M	N	N	N	Y	Y	N	Y	Y	N	Y	Y

## Money Laundering and Financial Crimes

Actions by Governments	<i>Criminalized Drug Money Laundering</i>	<i>Criminalized Beyond Drugs</i>	<i>Record Large Transactions</i>	<i>Maintain Records Over Time</i>	<i>Report Suspicious Transactions (NMP)</i>	<i>Financial Intelligence Unit</i>	<i>System for Identifying/Forfeiting Assets</i>	<i>Arrangements for Asset Sharing</i>	<i>Cooperates w/Domestic Law Enforcement</i>	<i>Cooperates w/International Law Enforcement</i>	<i>International Transportation of Currency</i>	<i>Mutual Legal Assistance</i>	<i>Non-Bank Financial Institutions</i>	<i>Disclosure Protection "Safe Harbor"</i>	<i>Offshore Financial Centers</i>	<i>States Parties to 1988 UN Convention</i>
United Kingdom	Y	Y	Y	Y	M	Y	Y	Y	Y	Y	N	Y	Y	Y	Y	Y
United States	Y	Y	Y	Y	M	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
Uruguay	Y	Y	Y	Y	M	N	Y	N	Y	Y	N	Y	Y	N	Y	Y
Uzbekistan	Y	Y	N	Y	N	N	N	N	Y	N	Y	Y	N	N	N	Y
Vanuatu	Y	Y	Y	Y	M	N	Y	Y	Y	Y	N	Y	Y	Y	Y	N
Venezuela	Y	N	Y	Y	M	Y	Y	N	Y	Y	Y	Y	Y	Y	N	Y
Vietnam	Y	Y	N	Y	M	N	Y					Y	N	Y	N	Y
Yemen	N	N				N									N	Y
Yugoslavia FR	N	N			N	N	N	N					N	N	N	Y
Zambia	Y	N	N	N	N	N	Y				N		N	N	N	Y
Zimbabwe	Y	N	N		N	N	Y								N	Y

## Country Reports

**Afghanistan.** Afghanistan is not a regional financial or banking center. Afghanistan has no formal credit institutions, and its financial institutions are rudimentary. In the last quarter of 2001, the Central Bank stopped functioning, as did the formal financial sector. The counterfeiting of the afghan currency remained a major problem.

The proceeds of drug trafficking are generally remitted abroad using hawala. Reports indicate that illegally obtained proceeds are moved from Afghanistan to Pakistan to be laundered.

Afghanistan is a party to the 1988 UN Drug Convention and has signed but not yet ratified the UN Convention against Transnational Organized Crime.

**Albania.** Albania remains at significant risk for money laundering because it is a transit country for trafficking in narcotics, arms, contraband, and illegal aliens. Organized crime groups use Albania as a base of operations for conducting criminal activities in other countries. The proceeds from these activities are easily laundered in Albania because of weak government controls.

Albania criminalized all forms of money laundering through Article 287 of the Albanian Criminal Code of 1995. In 2000, the International Monetary Fund (IMF) assisted Albania in drafting anti-money laundering legislation that was subsequently approved by Albania's legislature. Law No. 8610 "On the Prevention of Money Laundering" (passed May 17, 2000) requires financial institutions to report to an anti-money laundering agency all transactions that exceed approximately U.S. \$10,000. Financial institutions are required to report transactions within 48 hours if the origin of the money cannot be determined. In addition, private and state entities are required to report all financial transactions that exceed certain thresholds.

The legislation also mandates the establishment of the above referenced agency to coordinate the Government of Albania's (GOA) efforts to detect and prevent money laundering. The Agency for Coordinating the Combat of Money Laundering (ACCML) is Albania's financial intelligence unit. The ACCML falls under the control of the Ministry of Finance and is to evaluate reports filed by financial institutions. If the agency suspects that a transaction involves the proceeds of criminal activity, it must forward the information to the prosecutor's office. The law has two unusual provisions with regard to the ACCML. First, the ACCML has the ability to enter into bilateral or multilateral information sharing agreements on its own authority. Second, it has the responsibility to assess and combat emerging technologies. The legislation, however, does not mandate staffing and funding of the ACCML.

In December 2000, Albania signed the UN Convention against Transnational Organized Crime. Albania is a member of the Council of Europe Select Committee of Experts on the Evaluation of Anti-Money Laundering Measures (PC-R-EV). As of December 2001, Albania had not ratified the European Money Laundering Convention. Albania participates in the Southeastern Europe Cooperative Initiative.

To date no money laundering cases have been prosecuted in Albanian courts and no illicit proceeds have been forfeited. The GOA should fully implement the provisions of its anti-money laundering legislation. In particular, the GOA should provide adequate legal and financial resources and support to the ACCML, its financial intelligence unit. It would also be beneficial for the ACCML to join the Egmont Group of financial intelligence units to increase its international cooperation.

**Algeria.** Algeria is not a financial center. Reportedly, there is little evidence that suggests that there are money laundering activities within the country. Currently, the Algerian government has not enacted anti-money laundering legislation nor does it have in place any procedures such as a suspicious transaction reporting system to detect money laundering. Individuals entering Algeria must declare all foreign currency to the proper customs authority.

Algeria is a party to the 1988 UN Drug Convention and has signed but not yet ratified the United Nations Convention against Transnational Organized Crime.

## Money Laundering and Financial Crimes

---

**Angola.** Money laundering does not appear to be a significant problem in Angola because of its poorly developed financial sector. Yet the illegal trade in diamonds and the usage of diamonds as a conduit for money laundering schemes is a concern. There is also plausible evidence that there are links between the illegal diamond trade and international terrorist, drug, and/or criminal organizations. Currently, Angola is participating in efforts to launch the “Kimberly Process,” which involves establishing a global certification system for diamonds.

Angola does not have in place a set of comprehensive laws, regulations, and other procedures to detect money laundering and financial crime. Angola’s counternarcotics laws criminalize money laundering related to drug trafficking.

Angola is a party to the 1988 UN Drug Convention and a signatory to the UN Convention against Transnational Organized Crime.

**Anguilla.** Anguilla’s offshore financial sector renders it vulnerable to money laundering. As with the other United Kingdom Caribbean Overseas Territories, Anguilla underwent an evaluation of its financial regulations in 2000, co-sponsored by the local and British governments.

Anguilla’s domestic financial sector includes four domestic banks and 17 insurance companies. The Eastern Caribbean Central Bank (ECCB) supervises Anguilla’s four domestic banks. The offshore sector includes two banks, one captive insurance company, and approximately 2,792 international business companies (IBCs) and 43 trusts. IBCs may be registered using bearer shares that conceal the identity of the beneficial owner of these entities.

The Proceeds of Criminal Conduct Act (PCCA) 2000 extends the predicate offenses for money laundering to all indictable offenses and allows for the forfeiture of criminally derived proceeds. It provides for suspicious activity reporting and a safe harbor for this reporting. The Money Laundering Reporting Authority Act (MLRA) 2000 requires persons involved in the provision of financial services to report any suspicious transactions derived from drugs or criminal conduct. The MLRA establishes requirements for customer identification, record keeping, reporting, and training procedures. It also details provisions for a Reporting Authority that will receive the suspicious transaction reports required and may forward information to the police for further investigation. The Criminal Justice (International Co-operation) (Anguilla) Act 2000 enables Anguilla to directly cooperate with other jurisdictions through mutual legal assistance.

The U.S./UK MLAT concerning the Cayman Islands was extended to Anguilla in November 1990. Anguilla is also subject to the U.S./UK extradition treaty. Anguilla is a member of the Caribbean Financial Action Task Force (CFATF), and through the UK, is subject to the 1988 UN Drug Convention.

Anguilla should establish a Reporting Authority that can cooperate with foreign authorities. It should also adopt measures to ensure identification of beneficial owners of IBCs.

**Antigua and Barbuda.** While Antigua and Barbuda remains vulnerable to money laundering because of its offshore financial sector and its Internet gaming industry, the Government has enacted reforms to its anti-money laundering regime and taken concrete steps to effectively implement those reforms. In August 2001, as a result of the enactment of these new laws and their substantial implementation, both the U.S. and the United Kingdom lifted financial advisories that had been in effect since April 1999. These advisories had recommended that U.S. and UK financial institutions give “enhanced scrutiny to all financial transactions routed into or out of Antigua and Barbuda.”

In response to these advisories, in 1999 the Government of Antigua and Barbuda (GOAB) repealed the 1998 amendments to the Money Laundering (Prevention) Act (MLPA) of 1996 that had effectively strengthened bank secrecy, inhibited money laundering investigations, and infringed on international cooperation. Additional amendments were made to the MLPA in 2000 and 2001, which acted to enhance international cooperation and correct deficiencies in the asset forfeiture provisions. The GOAB plans to submit further amendments to Parliament in 2002 to create an *in rem* forfeiture system for money

laundering. In addition, the GOAB introduced a terrorism act in October 2001 that, if enacted, will allow the GOAB to seize and freeze terrorist funds.

In 2001, the GOAB inaugurated new facilities for the Office of National Drug Control and Money Laundering Policy (ONDCMLP), an office that was established in 1996. The modern multi-purpose facility houses the National Joint Headquarters, the Financial Intelligence Unit, the Financial Investigations Unit, the Drugs Intelligence Unit, and the government's Drug Control Policy Unit. During 2000 and 2001, eleven Antiguan law enforcement officials received anti-money laundering training from the Caribbean Anti-Money Laundering Program.

In 2000, the GOAB amended the International Business Corporations Act (IBCA) of 1982 in order to excise the 1998 amendments that had given the International Financial Sector Regulatory Authority (IFSRA) responsibility to both market and regulate the offshore sector as well as to allow members of the IFSRA Board of Directors to maintain ties to the offshore industry. In August 2000, the GOAB again amended the IBCA to require that resident agents ensure the accuracy of the records and registers that are kept at the Registrar's office, as well as know the names of beneficial owners of IBC and disclose such information to authorities upon request. Furthermore, in December 2000, the GOAB issued a Statutory Instrument, which has the force of law, requiring banks to establish the true identities of account holders and to verify the nature of an account holder's business, source of funds, and beneficiaries.

During 1999, 2000, and 2001, the GOAB conducted an extensive review of the offshore banking sector. As a result, 26 offshore banks had their licenses revoked, were dissolved, placed in receivership, or otherwise put out of business. Currently, Antigua and Barbuda has 21 licensed offshore banks in operation.

Like most of the other countries in the Eastern Caribbean, the GOAB does not have a unified regulatory structure or uniform supervisory practices for its financial services sector. This is due to the fact that the Eastern Caribbean Central Bank (ECCB) supervises Antigua and Barbuda's domestic banking sector, and conducts both on-site and off-site reviews of the country's financial institutions. Examiners review information related to savings and demand deposits during on-site inspections.

The IFSRA issues licenses for the offshore sector, and also conducts bank examinations. The IFSRA revoked five bank licenses in 2001. The IFSRA is also responsible for issuing licenses for international business corporations, of which there are approximately 12,000. The license application requires disclosure of the names and addresses of directors—who must be natural persons—the activities the corporation intends to engage in, and the names of shareholders and number of shares that they will hold.

Casinos and sports book-wagering operations in Antigua and Barbuda's Free Trade Zone are regulated and supervised by the Directorate of Offshore Gaming (DOG) and are required to incorporate under the IBCA. The DOG has issued Internet Gaming Technical Standards and guidelines. The 2000 and 2001 amendments to the MLPA expand its coverage to include all types of gambling entities and impose financial limit reporting on the gambling entities. These reports are to be sent to the ONDCMLP, but to date no such reports have been forwarded. It is not clear if casinos and other gaming-related entities are subject to provisions of the IBCA. The GOAB has drafted and is considering legislation and regulations for the licensing of interactive gaming and interactive wagering in order to address possible money laundering through client accounts of Internet gambling operations.

Antigua and Barbuda is a party to the 1998 UN Drug Convention, a member of the Organization of American States Inter-American Drug Abuse Control Commission (OAS/CICAD) Experts Group to Control Money Laundering, and a member of the Caribbean Financial Action Task Force (CFATF). In 1999, Antigua and Barbuda was the first country in the Eastern Caribbean to exchange the instruments of ratification in order to bring into force a Mutual Legal Assistance Treaty and an Extradition Treaty with the United States. In addition, Antigua and Barbuda signed a Tax Information Exchange Agreement with the United States in December 2001, which will allow the exchange of tax information between the two nations. Antigua and Barbuda signed the UN Convention against Transnational Organized Crime on September 26, 2001.

## Money Laundering and Financial Crimes

---

During 2001, the GOAB continued its bilateral and multilateral cooperation in various criminal and civil investigations and prosecutions. The GOAB has provided assistance to U.S. and other countries' law enforcement and prosecutors investigating and prosecuting fraud and money laundering cases. The U.S. has made one extradition request to Antigua and Barbuda since the bilateral extradition treaty entered into force. This request, which is related to a fraud and money laundering investigation, originally made in November 1999 and resubmitted in 2001, is currently awaiting the Magistrate's decision after a length-contested hearing. Additionally, the GOAB has received substantial revenues through asset sharing as a result of its cooperation in the freezing and forfeiture of illegal assets at the request of other countries.

The GOAB should continue to fully implement and enforce all provisions of its anti-money laundering legislation, as well as to take the necessary legislative and regulatory steps to ensure that its gambling sector is covered by anti-money laundering legislation and is adequately supervised.

**Argentina.** Argentina is neither an important regional financial center nor an offshore banking center. Money laundering related to bribery, contraband, tax evasion and narcotics activities is believed to occur throughout the banking system and non-bank financial institutions.

Allegations made by an Argentine congressional committee that bankers and former government officials may have engaged in money laundering activities related to illegal arms trafficking, illicit enrichment and narcotics-trafficking shocked the Argentine public during 2001. The turmoil emphasized the critical need to move forward with implementation of a new anti-money laundering law passed in 2000 (Law 25.246). Law 25.246 expanded money laundering predicate offenses to all existing crimes included in the Penal Code, set a stricter regulatory framework for the financial sector; and created a Financial Intelligence Unit (FIU) within the Ministry of Justice and Human Rights.

Under this new law, requirements for customer identification, record keeping and reporting of suspicious transactions now apply to a wide variety of entities, including banks, currency exchange houses, casinos, securities dealers, registrars of real estate, auto dealerships, dealers in art, antiques, jewels, precious metals, and stones, stamps and coins, insurance companies, issuers of travelers checks, credit card companies, armored car companies, postal money transmitters, notaries, and certified public accountants. Law 25.246 forbids these financial institutions and businesses from notifying their clients when filing suspicious financial transactions reports, and provides a safe harbor from liability for reporting such transactions. The FIU is expected to establish reporting norms tailored to each type of business.

The FIU will receive and analyze the reports of suspicious transactions, and refer those deemed appropriate for investigation to the Public Ministry. On February 14, 2001, the GOA issued Decree 169/2001 to regulate Law 25.246 and further define the composition of the FIU that originally would have been composed of 11 members from the public and private sectors. However, on November 22, 2001, Decree 1547/2001 was issued reducing the FIU to five members. Of the five, three governmental officials have been appointed (Central Bank, National Securities Commission, and Secretariat for the Prevention of Drug Addiction—SEDRONAR); two non-governmental members are expected to be appointed by early 2002.

Prior to the passage of Law 25.246 of April 2000, the Central Bank of Argentina and the National Securities Commission had issued a series of regulations requiring certain financial institutions to know, record and report the identity of customers conducting transactions of U.S. \$10,000 or more. The regulations required these institutions to report transactions considered suspicious. The regulation was based on a list of twenty types of transactions. The Central Bank has referred over 50 cases to the office of the public prosecutor for investigation.

Additional anti-money laundering measures went into effect in January 2001 with the passage of Law 25.345, Prevention of Tax Evasion. This tax law requires all transactions of U.S. \$10,000 or more be conducted in instruments other than cash, i.e., bank draft, credit card or bank transfer. The Argentine Customs Service issued regulations to control the international transportation of currency and monetary instruments. Resolution 1172 of December 4, 2001 requires that individuals (foreign or national) entering

Argentina with currency and/or monetary instruments over U.S. \$10,000 make a declaration to the Customs authorities. Resolution 1176 of December 7, 2001, imposes similar requirements to individuals departing Argentina. The Customs authorities will then communicate the declarations to the tax authorities and the FIU.

The GOA remains active in the fight against financial crimes through its participation in diverse international fora. It is a party to the 1988 UN Drug Convention and has signed but not yet ratified the 2000 UN Convention Against Transnational Organized Crime. Argentina is a member of the Organization of American States Inter-American Drug Abuse Control Commission (OAS/CICAD) Experts Group to Control Money Laundering, and in June 2000 became a full member of the FATF. It played a leading role in the creation of the South American FATF (GAFISUD) in December 2000, and it is the venue for the GAFISUD Executive Secretariat. Argentina and the United States have a Mutual Legal Assistance Treaty that entered into force in 1993. A new extradition treaty between Argentina and the USG entered into force on June 15, 2000. The GOA's SEDRONAR and the U.S. Treasury FinCEN exchange information in support of money laundering investigations under the terms of a memorandum of understanding signed in December 1995.

The GOA should continue to focus its efforts at implementing anti-money laundering Law 25.246 of May 2000, and should make its FIU operational in the very near future.

**Armenia.** Armenia is not a major financial center; however, high unemployment, low salaries, corruption, a large underground economy, and the presence of organized crime also contribute to Armenia's vulnerability to money laundering. Armenian authorities are generally not cognizant of the threat of money laundering and have devoted inadequate resources to combat money laundering. Schemes used to launder funds include the under-invoicing of imports, double bookkeeping, and misuse of the banking system. Armenia currently has no anti-money laundering statutes.

Armenia is a party to the 1988 UN Drug Convention. In November 2001, Armenia signed the Council of Europe Convention on Laundering, Search, Seizure and Confiscation of the Proceeds from Crime, the Convention on Cyber crime, and the European Convention on Mutual Assistance in Criminal Matters.

**Aruba.** As a transit country for cocaine and heroin, Aruba is both attractive and vulnerable to money laundering. The island has an offshore sector, with approximately 500 limited liability companies and 4,000 offshore tax-exempt companies referred to as Aruba Exempt Companies (AEC). Both types of companies can issue bearer shares. There are also 11 casinos, 6 local banks, and over 30 money transmitters and exchange offices. Money laundering is a crime in Aruba and money laundering offenses extend to all criminal offenses including tax offenses. Aruba's offshore industry constitutes about one percent of GDP and is due to be phased out by the end of 2005 as part of the Government's May 2001 commitment to the OECD in connection with the Harmful Tax Practices initiative.

Aruba offshore services include the offshore Naamloze Vennootschap (NV) or limited liability company, which is a low-tax entity, and the AEC. A local director, usually a trust company, must represent offshore NVs. A legal representative that must be a trust company represents AECs. AECs pay an annual registration fee of approximately U.S. \$280, and must have a minimum authorized capital of U.S. \$6,000. AECs cannot participate in the economy of Aruba, and are exempt from several obligations: all taxes and currency restrictions, and from filing annual financial statements. Trust companies provide a wide range of corporate management and professional services to AECs, including managing the interests of its shareholders, stockholders, or other creditors. In May 2000, the Government of Aruba (GOA) issued guidance notes on corporate governance practices.

All financial and non-financial institutions are obligated to report unusual transactions to Aruba's financial intelligence unit (FIU), the Meldpunt Ongebruikelijke Transacties (MOT). The MOT has a staff of six that consists of one director, three investigators, and two administrative assistants. This small unit is required to inspect all casinos, banks, money remitters, and insurance companies. On July 1, 2001, a State Ordinance was issued that extended reporting and identification requirements to casinos and insurance

## Money Laundering and Financial Crimes

---

companies. The MOT will begin on-site casino inspections in late 2002. The State Ordinance on the Supervision of Insurance Business (SOSIB) and the Implementation Ordinance on SOSIB require insurance companies established after July 1, 2001 to obtain a license from the Central Bank of Aruba.

In October 2000, a State Ordinance was enacted requiring life insurance agents to report unusual transactions based on indicators. A law that will require life insurance agents to report SARs has been presented to the Minister of Finance and Justice and is expected to be enacted in 2002. The MOT will also have the supervision of life insurance companies and the brokers. The MOT has drafted indicators for the life insurance companies and brokers and intends to require the reporting of unusual transactions in the first quarter of 2002.

In June 2000, Aruba enacted a State Ordinance making it a legal requirement to report the importation and exportation via harbor and airport of currency in excess of 20,000 Aruban guilders (approximately U.S. \$11,000). The GOA is currently working on having the law implemented by April 2002.

The GOA has prepared a State Ordinance for the Supervision of Trust Companies. The draft ordinance, which was submitted to parliament on January 23, 2001, provides for the oversight of thrift companies to ensure that they follow “Know Your Customer” procedures. The International Monetary Fund (IMF) is also reviewing the draft ordinance. The draft ordinance is expected to become effective during 2002.

Working with the IMF, the GAO completed the first phase of a voluntary assessment of its offshore sector and is engaged in the second phase.

Following up on the July 4, 2000 Parliamentary approval of the State Ordinance Free Zones Aruba (FZA), in July 2001 the Parliament unanimously approved the designation of Free Zone Aruba NV entity to operate the free zones. One aspect of this designation requires free zone customers to reapply for authorization to operate within the zones. The Free Zone NV is preparing a “Best Practices” guide describing these standards for its companies. Aruba took the initiative in the Caribbean Financial Action Task Force (CFATF) to develop regional standards for free zones, where none existed, in an effort to control trade-based money laundering. The guidelines were adopted in April 2001 at the CFATF Plenary, and in October the CFATF Ministerial Council followed. As a result, the tougher standards resulted in a 65 percent drop in free zone business.

On August 31, 2000, the United States signed a multilateral directive with Aruba, Colombia, Panama, and Venezuela to establish an international working group to fight the money laundering that occurs through the Black Market Peso Exchange (BMPE). The BMPE is the largest money laundering system in the Western Hemisphere, and the primary money laundering method used by Colombian drug cartels. The working group has developed policy options and recommendations to enforcement actions that will prevent, detect, and prosecute money laundering through the BMPE. The first working group meeting was held in Aruba on October 21, 2000 and was chaired by the director of the Aruba Free Zone. Aruba has regularly attended working group meetings, which were held in April, October and December of 2001. It is expected that a final set of recommendations on the BMPE will be reached in 2002.

In 2001 several persons were convicted of money laundering offenses. Currently, two cases are pending.

Aruba, which has autonomous control over its internal affairs, is a part of the Kingdom of the Netherlands, and through the Netherlands, Aruba participates in the Financial Action Task Force (FATF) and therefore participates in the FATF mutual evaluation program. The GOA has a local FATF Committee that oversees the implementation of the FATF recommendations. As part of its commitment to combat the financing of terrorism, another committee has been formed to ensure cooperation within the Kingdom of the Netherlands. Aruba is a member of CFATF and served as its Chairman in 2001.

In 1999, the Netherlands extended application of the 1988 UN Drug Convention to Aruba. The Netherlands’s Mutual Legal Assistance Treaty with the United States applies to Aruba, though it is not applicable to requests for assistance relating to fiscal offenses addressed to Aruba.

The MOT is a member of the Egmont Group. A draft law, which would authorize the MOT to share information with foreign counterpart organizations with a Memorandum of Understanding (MOU), is now with the central committee. In June 2001, the MOT signed an agreement with the FIUs of the Netherlands and the Netherlands Antilles to exchange information.

Aruba's anti-money laundering legislation adheres to the recommendations of FATF and the CFATF. The GOA has shown a commitment to combating money laundering by establishing a solid anti-money laundering program. The GOA should provide adequate resources to the MOT to enable it to properly carry out its mission of analyzing unusual transactions and conducting on-site inspections of all financial and non-financial institutions.

**Australia.** The Government of Australia (GOA) has put in place a comprehensive system to detect, prevent and prosecute money laundering. The major sources of illegal proceeds are fraud and drug trafficking. It is likely that the volume of money currently laundered in Australia, or by Australians using offshore financial centers, has increased from the \$2.8 billion dollar estimate provided by a government sponsored study in 1995.

Australia criminalized money laundering related to serious crimes with the enactment of the Proceeds of Crime Act of 1987. This legislation also contains provisions to assist investigations and prosecution in the form of production orders, search warrants and monitoring orders. The Mutual Assistance in Criminal Matters Act of 1987 allows Australian authorities to assist other countries in identifying, freezing, seizing, and confiscating the proceeds of crime. The Financial Transaction Reports Act (FTR) of 1988 was enacted to combat tax evasion, money laundering and serious crimes. The FTR established reporting requirements on Australia's financial services sector. Required to be reported are: suspicious transactions; cash transactions in excess of Australian \$10,000; and international funds transfers equivalent to or exceeding Australian \$10,000. The Australian Transaction Reports and Analysis Center (AUSTRAC), Australia's financial intelligence unit (FIU), was established under the FTR to oversee compliance with the reporting requirements imposed on the financial services sector. AUSTRAC also gathers and disseminates financial intelligence that supports revenue collection and law enforcement activities.

Australia is a member of the Financial Action Task Force (FATF), the Asia/Pacific Group on Money Laundering (APG), the Pacific Island Forum and the Commonwealth Secretariat. Through its funding and hosting of the Secretariat of the APG, Australia has elevated money laundering issues to a priority concern among countries in the Asia/Pacific region. AUSTRAC is a member of the Egmont Group, and has bilateral agreements allowing the exchange of financial intelligence with the United States, the United Kingdom, New Zealand, Belgium, France, Hungary, Denmark, The Netherlands, and Italy. In September 1999, a Mutual Legal Assistance Treaty between Australia and the United States entered into force.

Australia has signed and ratified the 1990 Council of Europe Convention on Laundering, Search, Seizure and Confiscation of the Proceeds from Crime and the 1988 UN Drug Convention. Australia signed but has not yet ratified the UN Convention against Transnational Organized Crime.

Australia continues to pursue a well-balanced, comprehensive and effective anti-money laundering regime that meets the objectives of the FATF Forty Recommendations. It gives high priority to dealing with money laundering and to international cooperation. AUSTRAC serves as a model for FIUs worldwide because of its demonstrated commitment and competence in using financial reports and related information to identify money trails. The GOA should continue in its efforts to emphasize money laundering issues and trends within the APG, and continue to provide training and technical assistance to the Asia/Pacific region.

**Austria.** Although Austria is not a major financial center, it does have a significant money laundering problem as illicit proceeds of economic crimes originating in the former Soviet Union and East European countries continue to flow into its banks. , Austria's financial intelligence unit, the Central Department for Combating Organized Crime (EDOK), stated in December 2000 that the smuggling of bulk cash is a major method of laundering money in Austria and that Austrian Customs officials have uncovered several

## Money Laundering and Financial Crimes

---

instances in which criminals were attempting to bring in major amounts of cash. Recent police investigations have also revealed that trusts, especially offshore trusts, were being used to conceal the proceeds of crime and that Russian organized criminal groups have reportedly established front and shell companies through Austrian fiduciaries to launder money.

The existence of anonymous passbook savings accounts spurred the Financial Action Task Force (FATF) to threaten Austria with suspension from FATF if the government did not take action to abolish the accounts. The threat of suspension followed FATF's issuance of a public warning to financial institutions of the risks that are associated with Austrian anonymous passbook savings accounts. In response, the Government enacted legislation that will effectively eliminate anonymous passbook savings accounts by June 2002. No new accounts have been permitted since early November 2000. In response the FATF lifted its warning about the anonymous passbook savings accounts.

Other measures to prevent money laundering included the Ministry of Finance sending a circular to Austrian banks advising them to use special diligence in splitting passbook account balances—except among family members—exceeding AS one million (approximately U.S. \$75,000). Austrian banks are required to continue exercising this enhanced diligence until anonymous accounts are completely phased out in June 2002. The Government of Austria (GOA) has emphasized that although funds may be withdrawn without identification during the phasing-out period, banks (as well as insurers and bureaux de change) must report suspicious transactions in any amount.

Money laundering was criminalized in 1993. Adoption of the Banking Act of 1994 created obligations for the financial sector such as customer identification, record keeping requirements, and training employees and staff. The Banking Act created EDOK within the police, which serves as the central repository of suspicious transaction reports. In 1996 Austria abolished anonymous securities accounts, in compliance with the FATF Forty Recommendations and European Union (EU) regulations (although customers can continue to make withdrawals and sales from these accounts without identification until June 2002.) In 1997, the GOA tightened restrictions on trustee accounts.

Legislation implemented in 1999 allows for asset seizure and the forfeiture of illegal proceeds, however there is little evidence of enforcement to date. The amended Extradition and Judicial Assistance Law provides for expedited extradition, expanded judicial assistance and acceptance of foreign investigative findings in the course of criminal investigations, as well as enforcement of foreign court decisions.

Austria has not enacted legislation that provides for sharing narcotics-related assets with other governments. However, mutual legal assistance treaties (MLATs) can be used as an alternative vehicle to achieve equitable distribution of forfeited assets. The MLAT that has been in force since August 1, 1998 between the GOA and the United States contains a provision relating to asset sharing. The GOA has been extremely cooperative with U.S. law enforcement investigations. Austria has a bilateral agreement with Hungary concerning the exchange of information related to money laundering. Austria is a party to the 1988 UN Drug Convention and the Council of Europe Convention on Laundering, Search, Seizure and Confiscation of the Proceeds from Crime of 1990. In December 2000 Austria signed the UN Convention against Transnational Organized Crime. Austria is a member of the FATF and the EU. The EDOK is a member of the Egmont Group.

The GOA should continue to develop a comprehensive anti-money laundering regime. By enacting legislation to eliminate anonymous passbook accounts, the GOA has taken an important step toward combating money laundering. The GOA should ensure full implementation of this new law.

**Azerbaijan.** Azerbaijan's is not a money laundering concern, as the banking system is rudimentary. Recently, Azerbaijan's parliament has made amendments to its banking laws in order to prevent money laundering activities. These new regulations stipulate that any person leaving or entering the country with up to \$50,000 in foreign currency must report the amount to customs. If an individual wishes to take more than \$50,000 into the country, the origin of the funds must be declared. Yet Azerbaijan does not have a set of laws that addresses directly money laundering. Available information also suggests that non-

bank financial institutions probably are used to launder money related to tax evasion and avoidance of customs fees.

The National Bank of Azerbaijan (NBA) has officially accepted the directive of the Wolfsburg principles to combat money laundering and in 2001 Azerbaijan signed the Council of Europe Convention on Laundering, Search, Seizure and Confiscation of the Proceeds from Crime.

Azerbaijan is a party to the 1988 UN Drug Convention and has signed but not yet ratified the UN Convention against Transnational Organized Crime.

**Bahamas.** The Commonwealth of The Bahamas (GCOB) is an important regional and offshore financial center. During 2001, the GCOB focused on implementing legislative reforms, enacted in December of the previous year, that strengthened its anti-money laundering regime and made it much less vulnerable to exploitation by money launderers and other financial criminals. In June, the Financial Action Task Force (FATF) removed The Bahamas from the FATF list of jurisdictions that were “non-cooperative in the fight against money laundering.” The U.S. and Canada also withdrew financial advisories on The Bahamas.

Offshore banking and finance is the second most important industry in The Bahamas, ranking behind tourism. At the beginning of 2001, there were 410 licensed bank or trust companies. By July this number had declined to 366 as the Central Bank of The Bahamas required “managed banks” (those without a physical presence, but are run by an agent such as a lawyer or another bank) to either establish a physical presence in The Bahamas (an office, separate communications links and a resident director) or cease operations. Approximately, 233 of the 366 institutions were permitted to deal with the public and 133 had either restricted or non-active licenses. Of the public institutions, only 48 were Bahamian-based banks and trusts; 105 were subsidiaries of banks and trusts based in Switzerland (25), the UK (13), the USA (9), Canada (3), Latin America and the Caribbean (31), Europe (21), and Asia (3); 58 were Euro-currency branches of foreign banks and trusts based in the USA (19), the UK (6), Canada (3), Europe (13), South and Central America (10) and Asia (5); and 24 were clearing banks or trusts based outside The Bahamas and authorized to deal in Bahamian and foreign currency and gold.

During early 2001, the newly created Financial Intelligence Unit (FIU) began sharing financial information with its foreign counterparts. In June, the U.S. financial intelligence unit, the Financial Crimes Enforcement Network (FinCEN), sponsored the successful application of the Bahamian FIU for membership in the Egmont Group. In November, a Bahamian Supreme Court justice struck down as unconstitutional a provision of the FIU Act 2000 that gave the FIU the power to freeze a financial account without first obtaining a court order. The justice ruled that Parliament had violated the principal of separation of powers by giving an executive body a power that should be reserved to the judiciary. This case involved a British Virgin Islands firm, Financial Clearing Corporation. The Bahamian Attorney General announced that the GCOB would appeal the controversial decision. In the meantime, the functioning of the FIU is not expected to be weakened, since the FIU can seek ex-parte freeze orders from the courts whenever necessary.

Following the September 11 terrorist attack on the United States, the Attorney General directed the FIU to freeze three financial accounts, in The Bahamas, suspected of belonging to individuals on the UN and USG lists of terrorists, financial supporters of terrorist organizations, and officials of Afghanistan’s Taliban regime. The Attorney General’s Office, the FIU, and the Central Bank cooperated with FinCEN and other USG officials in investigating and clearing the suspect accounts.

The Financial Transaction Reporting Act 2000 required financial institutions (including banks and trusts, insurance companies, real estate brokers, casino operators, and others who hold or administer accounts for clients) to report suspicious transactions to the FIU and to the police. From January through November the FIU received 218 suspicious transaction reports (more than the number received by GCOB authorities in 1999 and 2000 combined), including 96 from domestic banks and 108 from the offshore sector.

## Money Laundering and Financial Crimes

---

That Act also established “Know Your Customer” (KYC) requirements for financial institutions and obliged them to verify by December 31, 2001 the identities of all their existing account holders and of customers without an account making transactions over \$10,000. In mid-December 2001, the chief legal advisor to the Bahamas Financial Services Board estimated that The Bahamas had completed between 80 to 95 percent of the KYC requirement for old accounts. Funds in accounts that remain unidentified or whose owners fail to comply with documentation requirements will be transferred to the Central Bank after the deadline. Amendments to the Act passed in August allowed the Minister of Finance discretion to extend the deadline for six months to a year; in December he extended the deadline until the end of June 2002. All new accounts established in 2001 had to be in compliance with KYC rules before they were opened. The KYC requirements caused complaints by Bahamians who were unable to produce adequate documentation when attempting to open accounts in domestic banks. (The absence of house numbers on most Bahamian streets, the prevailing practice of utility companies issuing bills only in the name of landlords rather than tenants, and the scarcity of picture identification among Bahamians contributed to these documentation problems.)

The Central Bank of The Bahamas Act 2000 expanded the powers of the Central Bank to enable it to respond to requests for information from overseas regulatory authorities and gave the Bank’s Governor the right to deny licenses to banks or trust companies he deems unfit to transact business in The Bahamas. The primary impact on the offshore sector has been the weeding out of many of the “managed” or “shell” banks that had no actual physical presence in The Bahamas. During 2001, the Governor revoked the licenses of 55 of these banks, including the British Bank of Latin America and Federal Bank, both identified in a U.S. Senate Report as being at high risk of involvement in money laundering, and Al-Taqwa Bank, which was listed in October by the USG as financially linked to Osama Bin Laden’s Al-Qaeda terrorist organization. Of the 340 managed banks at the beginning of 2001, the Central Bank expects less than half to remain by March 2002.

At the beginning of 2001, there were some 100,000 incorporated international business companies (IBCs) in The Bahamas. The IBC Act 2000 eliminated anonymous ownership of IBCs by prohibiting bearer shares and imposing KYC requirements. As a result, The Bahamas became less attractive, both to potential and existing IBC owners. During the first nine months of 2001, the number of new IBCs registered in The Bahamas was down to 4,148, compared to 14,454 during the same period of 2000, a 71 percent decline. The Governor of the Central Bank estimated that 80 percent of existing IBCs failed to renew their registrations during 2001.

The Bahamas has two casinos in Nassau and one in Freeport/Lucaya. A fourth casino is scheduled to open in Lucaya in 2002, and a license for a fifth casino, on San Salvador, has been approved. Annual revenues for the three existing casinos are estimated at \$196 million. Cruise ships that overnight in Nassau may operate casinos. Betting in casinos on sporting events is allowed, except on horse races. There are no Internet gambling sites based in The Bahamas. Law prohibits Bahamian residents from gambling.

As of March, there were 55 local insurers and 30 offshore insurance companies in The Bahamas. At the beginning of 2001 there were 757 Bahamas-based mutual funds (up 20 percent from 628 at the start of 2000) with a net asset value of \$95 billion. The Bahamas International Securities Exchange (BISX) lists three of the aforementioned funds.

Money laundering in The Bahamas is probably related primarily to the proceeds of cocaine and marijuana trafficking, although a substantial portion is likely related to financial fraud. The Bahamas’ first major money laundering conviction (against Latoya Cargill and Victor Wilkinson) was in December 2001 and involved a total of \$241,000 in drug trafficking proceeds. In November, the GCOB obtained an ex-parte court order freezing some \$973,000 in bank accounts held by notorious international drug trafficker, Samuel “Ninety” Knowles, Jr., whom the U.S. is seeking to extradite from The Bahamas. Another major money laundering case is that of prominent Bahamian attorney Leslie Vernon Rolle, who is charged with financial fraud of 1.7 million. Prosecution is awaiting information from the Cayman Islands and is scheduled for trial in the Supreme Court in 2002.

In June 2001, the Bahamas became a member of the Egmont Group. The Bahamas is party to the 1988 UN Drug Convention, a member of Caribbean Financial Action Task Force, and the Offshore Group of Banking Supervisors. The Attorney General has established an International Affairs Unit to deal specifically with mutual legal assistance matters. The Bahamas has a Mutual Legal Assistance Treaty with the United States, which entered into force in 1990, and also with the United Kingdom and Canada. In April 2001, the Bahamas signed the UN Convention against Transnational Organized Crime.

The GCOB has enacted substantial reforms that could reduce its financial sector's vulnerability to money laundering. The GCOB should continue to further its anti-money laundering efforts with the enforcement of the new laws and international cooperation.

**Bahrain.** Bahrain is a regional financial and an offshore center that poses as an attractive potential target for money laundering activities. Some common sources of illegal proceeds in Bahrain are narcotics-trafficking, fraud, and evasion of international sanctions. However it is thought that the greatest risk of money laundering stems from the foreign criminal proceeds that transit Bahrain.

In January 2001, the Government of Bahrain (GOB) enacted a new anti-money laundering law that criminalized the laundering of proceeds derived from any predicate offense. A UK law firm in consultation with the Financial Action Task Force (FATF) drafted the law (Decree Law No. 4 of 2001). The law stipulates punishment of up to seven years in prison and a fine of up to one million dinars (U.S. \$2.65 million) for convicted launderers and those aiding or abetting them. If organized criminal affiliation, corruption, or disguising the origin of proceeds is involved, the minimum penalty is a fine of at least 100,000 dinars (approximately U.S. \$265,000) and a prison term of no less than one year. The law places the burden of proof on the accused to demonstrate the legality of the source of his funds.

Following enactment of the Law, the Bahrain Monetary Agency (BMA) as the principal regulator, issued regulations requiring financial institutions to report suspicious transactions, to maintain records for a period of five years, and to provide ready access to account information to law enforcement officials. Immunity from criminal or civil action is given to those who report suspicious transactions. Even prior to the enactment of the new anti-money laundering law, financial institutions were obligated to report suspicious transactions greater than 10,000 dinars (approximately U.S. \$26,500) to the BMA.

The new law also provided for the formation of an interagency committee to oversee Bahrain's anti-money laundering regime. Accordingly, in June 2001, the National Anti-Money Laundering Policy Committee was established and assigned the responsibility for developing anti-money laundering policies and guidelines. The committee includes members from the Bahrain Monetary Agency, the Bahrain Stock Exchange, and the Ministries of Finance, Interior, Justice, and Commerce. In addition, a new unit is to be created within the BMA to receive and analyze suspicious transaction reports, thus serving as Bahrain's financial intelligence unit (FIU). The unit will then forward the reports to the appropriate enforcement and supervisory agencies for investigation, if appropriate. Finally, the new law provides further powers of confiscation and allows for better international cooperation.

Bahrain has 19 commercial banking institutions—seven locally incorporated and 12 subsidiaries of foreign banks and 33 investment banks. Bahrain is known for its offshore banking units (OBUs), which currently number 48. The BMA licenses offshore banking units, which are branches of international commercial banks exempted from foreign-exchange controls, cash reserve requirements, taxes on interest paid to depositors, and banking income taxes that are required of other banks in Bahrain. In exchange for these privileges, OBUs pay the government annual license fees, are prohibited from accepting deposits from citizens and residents of Bahrain, and must refrain from transactions involving Bahraini dinars. The OBUs are required by law to be audited yearly by outside firms, to be fully staffed with a majority of the staff being Bahrain nationals, to have books and records available for examination by the BMA at all times, and to submit statistical reports to the BMA twice yearly.

Bahrain law permits the formation of offshore resident companies and offshore non-resident companies, which are formed as international business companies (IBCs). Resident companies must have an office

## Money Laundering and Financial Crimes

---

within Bahrain, a minimum capital of U.S. \$54,000, and a license from the BMA in order to conduct financial activities. Offshore non-resident companies do not have to maintain an office in Bahrain. Instead, the company can maintain a resident address at an appointed auditing firm or a law firm within Bahrain. The minimum amount of capital for a non-resident company is U.S. \$6,750. Non-resident IBCs cannot participate in insurance or other financial activities. Registration of an IBC can take as little as seven days, and there are no restrictions on remittances sent abroad. Bearer shares are not permitted in resident or non-resident IBCs.

Bahrain is a member of the Gulf Cooperation Council, which is a member of the FATF. In June 2000, Bahrain underwent a FATF mutual evaluation. Bahrain is also a member of the Offshore Group of Banking Supervisors and has agreed to undergo a mutual evaluation by this body. Bahrain is a party to the 1988 UN Drug Convention.

Bahrain has undertaken a number of steps demonstrating a commitment to put in place an anti-money laundering regime. Now the Government of Bahrain needs to follow through by enforcing the law and developing and prosecuting anti-money laundering cases. Bahrain should also take steps to establish its FIU, and should continue to monitor its offshore sector. Implementation is crucial to making Bahrain more secure against international crime.

**Bangladesh.** Bangladesh is not a regional financial center. Money laundering in Bangladesh is primarily related to income tax evasion, the illegal importation of consumer goods, and illegal money transfers.

The government has the authority to confiscate assets in drug-related money laundering cases. In March 2001, the Bangladesh Bank finalized a draft money laundering law. The Bangladesh Bank also proposed that a Financial Intelligence Unit be formed. To date, this law has not been passed. Bangladesh's banking regulations are weak and sporadic. Strict currency controls, coupled with the fact that the Bangladesh Taka has no value outside the country, discourage the removal of laundered money from the country. Corruption among officials is believed to be high.

Bangladesh is a party to the 1988 UN Drug Convention, and is a member of the Asia/Pacific Group on Money Laundering.

**Barbados.** The Government of Barbados (GOB) has taken a number of steps in recent years to strengthen its anti-money laundering regime.

The Money Laundering (Prevention and Control) Act (MLPCA) 1998 criminalized the laundering of proceeds from unlawful activities that are punishable by at least one-year imprisonment. The MLPCA made money laundering punishable by a maximum of 25 years in prison and a maximum fine of Barbadian (BB) \$2 million (approximately U.S. \$1 million). The law also provided for asset seizure and forfeiture.

In November 2001, the GOB amended its financial crimes legislation to shift the burden of proof to the accused to demonstrate that property in his/her possession or control is derived from a legitimate source. Absent such proof, the presumption is that such property was derived from the proceeds of crime. The law also enhances the GOB's ability to freeze bank accounts and to prohibit transactions from suspect accounts.

The MLPCA applies to a wide range of institutions, including domestic and offshore banks, international business companies (IBCs), and insurance companies. These institutions are required to identify their customers, cooperate with domestic law enforcement investigations, maintain records of all transactions exceeding BB \$10,000 (approximately U.S. \$5,000), and report suspicious transactions to the Anti-Money Laundering Authority (AMLA). The AMLA forwards this information to the Commissioner of Police if it has reasonable grounds to suspect money laundering. Financial institutions must also establish internal auditing and compliance procedures. The MLPCA also sets forth seizure and criminal forfeiture procedures.

The AMLA was established in August 2000 to supervise financial institutions' compliance with the Act and issue training requirements and regulations for financial institutions. The AMLA's financial intelligence unit (FIU) was established in September 2000. The FIU is now fully staffed and operational.

The GOB initially criminalized drug money laundering in 1990 through the Proceeds of Crime Act, No. 13, which also authorized asset confiscation and forfeiture, permitted suspicious transaction disclosures to the Director of Public Prosecutions, and exempted such disclosures from civil or criminal liability. In 1997, the Central Bank issued Anti-Money Laundering Guidelines for Licensed Financial Institutions.

The Offshore Banking Act (1980) gives the Central Bank authority to supervise and regulate offshore banks, in addition to Barbados's seven domestic commercial banks. Barbadian, Canadian-parent, and United Kingdom-parent banks operate on equal terms in Barbados. The Ministry of Finance issues licenses after the Central Bank receives and reviews applications, and recommends applicants for licensing. Offshore banks must submit quarterly statements of assets and liabilities and annual balance sheets to the Central Bank. Barbados' offshore sector includes approximately 55 offshore banks, 4,000 international business companies (IBCs), 370 exempt insurance companies, and 2,900 foreign sales corporations (FSCs)—specialized companies that permit persons to engage in foreign trade transactions from within Barbados. The Foreign Sales Corporation Act, which authorized establishment of FSCs, was repealed in 2000.

The International Business Companies Act (1992) provides for general administration of IBCs. The Ministry of International Trade and Business vets and grants licenses to IBCs after applicants register with the Registrar of Corporate Affairs. Bearer shares are not allowed, and financial statements of IBCs are audited if total assets exceed U.S. \$500,000.

Barbados has bilateral tax treaties that eliminate or reduce double taxation with the UK, Canada, Finland, Norway, Sweden, Switzerland, and the U.S. The treaty with Canada allows IBCs and offshore banking profits to be repatriated to Canada tax-free after paying a much lower tax in Barbados. As a result, the Barbadian offshore financial services industry continues to expand, driven largely by Canadian-based companies.

A Mutual Legal Assistance Treaty and extradition treaty between the United States and Barbados entered into force in 2000. Barbados is a member of the Offshore Group of Banking Supervisors, the Caribbean Financial Action Task Force, and the Organization of American States Inter-American Drug Abuse Control Commission (OAS/CICAD) Experts Group to Control Money Laundering. Barbados is a party to the 1988 UN Drug Convention. Barbados signed the UN Convention Against Transnational Organized Crime in September 2001.

The GOB should maintain strict control over vetting and licensing of offshore entities. The establishment of the AMLA and continued development of the AMLA's financial intelligence unit should provide Barbados with the necessary tools to enforce compliance by financial and commercial sectors, and enable it to fully cooperate with foreign authorities to investigate and prosecute money laundering and other financial crimes.

**Belarus.** The absence of anti-money laundering laws or regulations makes Belarus vulnerable to money laundering. Banks are more inclined to focus on protecting the secrecy of their clients than on discovering and reporting irregular or unaccounted-for deposits. The growing number of casinos also could become venues for money laundering.

Belarus faces problems with organized crime that plague other countries of the former Soviet Union. The lack of anti-money laundering laws could lead organized crime to engage in more substantial money laundering in Belarus.

Belarus is a party to the 1988 UN Drug Convention and has signed but not yet ratified the UN Convention against Transnational Organized Crime.

Belarus should enact comprehensive anti-money legislation.

## Money Laundering and Financial Crimes

---

**Belgium.** Belgium has a very comprehensive anti-money laundering regime. Despite this, Belgium's financial system remains vulnerable to money laundering. Most of the money laundering cases detected in Belgium are related to narcotics-trafficking, particularly with neighboring countries the Netherlands, Luxembourg, Germany and France. The main money laundering venues are bureaux de changes, international fund transfers and payments, and payments into accounts. Funds are also laundered through the diamond industry, real estate, offshore companies, gambling or amusement halls, and banks. Belgian officials noted in mid-2001 that "dummy companies", or front companies, figured prominently in cases turned over to legal authorities for prosecution for money laundering. They also state that money launderers attempt to use notaries to found such companies or to buy property. They use such methods as selling property below its market value, making significant investments on behalf of foreign nationals with no connections to Belgium, making client property transactions whose value is disproportionate to the socio-economic status of the client, and founding a large number of companies in a short space of time.

According to the Belgian annual report, the Financial Information Processing Center (CTIF-CFI), Belgium's financial intelligence unit (FIU), is currently investigating several cases of terrorist financing-related money laundering. These have involved both apparently legitimate sources (involving businesses acting as fronts or collected from associations with purported social, charitable or cultural purposes) and illegal ones (involving illegal drugs or arms trafficking).

The Government of Belgium (GOB) in 1990 criminalized money laundering related to all crimes. In 1993, it passed additional legislation that mandated reporting of suspicious transactions by financial institutions and created an FIU to receive, process, and analyze them. As of June 2001, the CTIF-CFI had created 10,160 distinct case files since becoming operational in 1993, including 2,066 between July 2000 and June 2001. Approximately half of the July 2000-June 2001 case files were turned over to the Crown Prosecutor.

Belgian financial institutions are required to maintain records on the identities of clients engaged in transactions that are considered suspicious, or that involve an amount equal to or greater than EUR 10,000 (approximately U.S. \$9,100). Financial institutions also are required to train their personnel in the detection and handling of suspicious transactions that could be linked to money laundering. No civil, penal, or disciplinary actions can be taken against institutions or individuals for reporting such transactions in good faith. Infractions against non-reporting and compliance with other requirements of the 1993 law are punishable by a fine of up to BF 50 million (about U.S. \$1 million).

In 1998 and 1999, the GOB adopted legislation that mandates the reporting of suspicious transactions by notaries, accountants, bailiffs, real estate agents, casinos, cash transporters, external tax consultants, certified accountants, and certified accountant-tax experts. Under the new legislation, casinos include any establishments that conduct casino-like gambling activities. The CTIF-CFI noted in mid-2001 that it had observed a market increase in casino chip purchasing operations that it believed was linked to the third stage—integration—of the money laundering cycle.

The Federal Police have primary responsibility for investigating money laundering in Belgium. However, the Gendarmerie also can investigate money laundering if the predicate offense is one over which the Gendarmerie has jurisdiction.

Belgium is a member of the Financial Action Task Force (FATF) and the European Union. Belgium is a party to the 1988 UN Drug Convention, and in December 2000, signed the UN Convention against Transnational Organized Crime. Belgium has a Mutual Legal Assistance Treaty with the United States, which entered into force on January 1, 2000. The GOB exchanges information with other countries through international treaties and with foreign FIUs that have secrecy obligations similar to those of the CTIF/CFI. The CTIF-CFI is member of the Egmont Group.

**Belize.** Belize's proximity to Mexico and Guatemala has made it a significant transshipment point for illicit drugs, notably cocaine and marijuana. Belize's growing offshore sector has 2 banks, an unknown number of international trusts, over 15,000 international business companies (IBCs), and an Internet

gaming site. The transshipment of drugs and the growing offshore sector, regulated by those who promote it, make Belize vulnerable to money laundering.

The Money Laundering Prevention Act (MLPA), in force since 1996, criminalizes money laundering related to many serious crimes including arms and drug trafficking, fraud, extortion, terrorism, blackmail, and certain theft involving more than \$10,000. The Act also provides mechanisms for the freezing and forfeiture of assets; mandates reporting of suspicious transactions by banks and non-bank financial institutions; specifies penalties for banks, non-bank financial institutions and intermediaries who assist and collaborate in money laundering; and authorizes international cooperation in money laundering cases. Additionally, persons departing Belize must declare B\$20,000 or more in cash or negotiable bearer instruments.

Financial institutions are required to report complex, unusual, or large business transactions to the Governor of the Central Bank. Supporting Regulations and Guidance Notes were issued in 1998. The Central Bank forwards any reports warranting further investigation to the Director of Public Prosecutions (DPP) Office. Financial institutions are required to retain records for a minimum of five years, and can lose their licenses and face a maximum fine of U.S. \$50,000 for failing to do so. Individual bankers can be held responsible if their institutions are caught laundering money. However, bankers are protected from prosecution if they cooperate with law enforcement. Financial institutions must also comply with instructions from the Central Bank, and permit the Supervisory Authority to enter and inspect records.

The gaming industry is not regulated under the MLPA. Neither the Gaming Control Act, 1999 nor the Computer Wagering Licensing Act, 1995 require reporting of suspicious activity reports. The Government of Belize (GOB) has established legislation that facilitates computer and casino gaming; however, the legislation makes no provision for due diligence procedures, record keeping, or suspicious transactions reporting.

The International Financial Services Commission (IFSC) serves as the regulator for Belize's offshore sector. Members of the IFSC consist of individuals from the private and public sector. The IFSC promotes, protects, and enhances Belize as an offshore center. It also regulates and supervises the provision of international financial services within Belize through formulation of appropriate policies and the provision of advice to government on regulatory matters. The IFSC does not regulate domestic and offshore banks that are supervised by the Central Bank.

IBCs are regulated under the International Business Companies Act of 1990 and amendments to the Act issued in 1995 and 1999. The 1999 amendment to the IBC Act allows properly licensed IBCs to operate as banks and insurance companies. Registered agents have primary responsibility for the registration and on-going operations of the IBCs registered in Belize. There is no legal requirement for identification of beneficial ownership or directors of IBCs to be disclosed to the registrar. IBCs can issue bearer shares. Currently, the International Financial Services Commission is in the process of formulating policies that will be legally binding to control the mobilization of bearer shares.

The Offshore Banking Act, 1996 (OBA) governs activities of Belize's offshore banks. The Act generally prohibits offshore banks from transacting business with residents of Belize. There are minimum capital requirements under the OBA and the shares of offshore banks must be in registered form and not in bearer form. Offshore banking licenses are granted by the Minister of Finance on the recommendation of the Central Bank, which has supervisory powers over both domestic and offshore banks. With regard to the offshore banks, the supervisory role of the Central Bank is restricted to the licensee's operations in Belize. The Central Bank has no access to information regarding a customer, depositor or transaction, except in case of large credit exposures.

Offshore trusts are also prevalent in Belize and registration with a regulatory body is not required. Although the Central Bank is the supervisory authority with regard to money laundering, there are no legal requirements to provide account information or activity regarding trusts to the Central Bank. As of December 2001, the GOB was selling economic citizenships.

## Money Laundering and Financial Crimes

---

Belize's Police Department (BPD) has assigned five persons to investigate money laundering cases. This unit will serve as the financial intelligence unit. An office space, separate from the police department, has been designated for this unit.

Belize is a party to the 1988 UN Drug Convention. Belize is a member of the Caribbean Financial Action Task Force and the Organization of American States Inter-American Drug Abuse Control Commission (OAS/CICAD) Experts Group to Control Money Laundering. The United States and Belize have signed a Mutual Legal Assistance Treaty (MLAT) in September 2000, but it is not yet in force.

The GOB will remain vulnerable to money launderers as long as IBCs can issue bearer shares without disclosure of the beneficial owner. The GOB should monitor the Internet and casino gaming industry and require suspicious activity reporting to prevent potential money launderers. Additionally, the GOB should provide the financial intelligence unit sufficient resources and staff needed to receive, analyze, and disseminate suspicious transaction reports.

**Benin.** Benin is not a major financial center. However, Government of Benin officials believe narcotics traffickers use Benin to launder profits. Although the exact nature of money laundering is unknown, Beninese officials suspect that the primary methods are through the purchase of assets such as real estate, the wholesale shipment of vehicles or items for resale, and front companies. In addition, some laundering seems to occur through the banking system.

A 1997 counternarcotics law criminalizes narcotics-related money laundering, and provides penalties of up to 20 years in prison as well as substantial fines. The law requires that all financial institutions report transactions they believe may be narcotics-related; they enjoy safe harbor protection if they do so. Financial institutions that fail to comply are subject to prison terms for their officials and fines. However, the government has not taken any significant steps to address the problem of money laundering not related to narcotics-trafficking.

Benin is a party to the 1988 UN Drug Convention and has signed but not yet ratified the UN Convention against Transnational Organized Crime. In 2001 Benin signed the International Convention for the Suppression of the Financing of Terrorism.

**Bermuda.** Bermuda has a large offshore financial services sector that may be attractive to money laundering. However, the Government of Bermuda has taken a number of measures to aid in the detection, investigation, and prosecution of financial crimes. As with the other British Caribbean Overseas Territories, Bermuda underwent a thorough evaluation of its financial regulation in 2000, co-sponsored by the local and British governments.

The nearly 1,300 insurance (mainly captive and reinsurance) companies in Bermuda dominate the territory's offshore financial sector. The sector also has approximately 12,000 "exempt companies" (international business companies) and 34 licensed trust companies. The Bermuda Monetary Authority (BMA) is the main regulator and requires disclosure and vetting of proposed beneficial owners before registering exempt companies. The government passed The Regulation of Trust Business Act of 2001, which strengthened oversight of trust companies.

The Proceeds of Crime Act 1997 criminalizes money laundering related to all "relevant offenses," including drug trafficking, corruption, counterfeiting, fraud, theft, forgery, and tax evasion. The Proceeds of Crime (Money Laundering) Regulations 1998 contain a number of obligations for regulated institutions, including customer identification, record keeping, and reporting of suspicious transactions. The government also issued guidance notes in 1998 to assist financial institutions to recognize suspicious transactions and comply with their obligations.

The Financial Investigation Unit (FIU), within the Bermuda Police Service, serves as Bermuda's financial intelligence unit. It receives, analyzes, and investigates suspicious activity report (SARs). Through the end of 1999, the unit had received approximately 1,885 SARs, most of which relate to the conversion of local drug profits to U.S. dollars. The FIU is a member of the Egmont Group.

Bermuda is subject to the US/UK MLAT and to the US/UK extradition treaty. Bermuda is a member of the Caribbean Financial Action Task Force (CFATF), and through the UK, is also a party to the 1988 UN Drug Convention. Bermuda is also a member of the Offshore Group of Banking Supervisors.

Continued supervision and enforcement of regulations in the financial sector are necessary to discourage infiltration by organized crime and money launderers. Bermuda should also consider devoting additional resources toward investigative efforts to combat money laundering to more thoroughly deter international criminals.

**Bolivia.** Most money laundering in Bolivia is related to contraband smuggling rather than to narcotics-trafficking. Bolivia's long tradition of banking secrecy facilitates the laundering of illegally obtained earnings, evasion of taxes, and the profits of organized crime, and drug trafficking.

The Government of Bolivia (GOB) has criminalized money laundering related to narcotics-trafficking, organized criminal activities, and public corruption. Law 1768 also created a financial investigations unit, the Unidad de Investigaciones Financieras (UIF), within the Office of the Superintendent of Banks and Financial Institutions to be responsible for implementing anti-money laundering controls. Banks, insurance companies, and securities brokers are required to identify their customers, retain records of transactions for a minimum of 10 years; and report transactions considered unusual (without apparent economic justification or licit purpose) or suspicious (customer refuses to provide information or the explanation and/or documents presented are clearly inconsistent or incorrect) to the UIF.

The Superintendency of Banks UIF is in full operation against money laundering, but it lacks sufficient links to the Public Ministry, the office responsible for prosecuting money laundering. The Public Ministry does not have a specialized unit to prosecute money laundering cases. The UIF is also hampered by weak political support within the GOB and confusion over its legal role.

In 2001, the FIU investigated 16 potential money laundering cases, but the Public Ministry has prosecuted none. During 2001, the UIF was instrumental in uncovering what may be significant money laundering activities by a major Brazilian drug trafficking organization (da Costa). According to the UIF, the organization may have deposited over \$250 million throughout several banks in Bolivia for further transfer to Lebanon. The UIF's findings prompted an investigation by the Brazilian Federal Police, and the Central Bank of Lebanon has frozen accounts. The UIF is a member of the Egmont Group and has established mechanisms for sharing information with Bolivia's Public Ministry and the Special Counternarcotics Force.

In June 2001, the GOB implemented a new criminal code that is intended to expedite criminal cases and help in the prosecution of money laundering cases. However, the current money laundering law is flawed, and the United States Government (USG) is assisting the GOB in drafting stronger legislation.

The recently implemented Code of Criminal Procedures (CCP) has attempted to remedy Constitutional challenges to the asset seizure and forfeiture sections of Law 1008 and subsequent decrees. The CCP now permits the GOB to sell certain kinds of property, with or without the consent of the accused, if the property might lose value or cost too much to maintain. However, challenges continue to the sale of property seized in drug arrests.

Bolivia is a party to the 1988 UN Drug Convention, and in December 2000, signed the UN Convention against Transnational Organized Crime. Bolivia is a member of the Organization of American States Inter-American Commission on Drug Abuse Control (OAS/CICAD) Experts Group to Control Money Laundering, and is a member of the South America Financial Action Task Force (GAFISUD). The GOB and the United States in 1995 signed an extradition treaty, which entered into force in 1996.

The USG resumed support of the Directorate of Seized assets in 2001, after having suspended support in 1998 due to negligent accountability for property seized and the GOB's inability to resolve the problem of judges who routinely returned seized property to narcotics defendants before trial.

**Bosnia and Herzegovina.** Bosnia and Herzegovina has not criminalized money laundering, although it is an offense in the civil code. The government intends to adopt and implement new statutes and procedures that would criminalize money laundering in 2002. Laundering the proceeds of criminal activity through financial institutions is widespread. However, narcotics proceeds tend to be diverted outside Bosnia. Neither U.S. currency nor proceeds of drug sales in the U.S. are significantly involved.

Regulatory supervision of the banking sector is largely vested at the local rather than the federal level through two separate but roughly parallel banking agencies. In 2001, the international community established a working group that plans to centralize banking supervision within the Central Bank in 2002. Although legislation generally reflects the Basel Committee's core principles, including suspicious transaction reporting and due diligence requirements, in practice banking standards do not conform to international norms. Asset seizure and forfeiture statutes exist, but reportedly neither prosecutors nor judges implement them. Some safe harbor protection has now been afforded to banking officials for actions taken in the course of their professional duties. However, Bosnia's laws remain an unwieldy combination of communist-era statutes and internationally imposed reforms. Enforcement is tenuous at best in this cash-based, largely unregulated economy, thereby creating widespread potential for financial crime.

In addition, ambiguous lines of responsibility among investigative and regulatory agencies have aggravated already rampant political interference in investigations and direct intimidation of officials.

Bosnia is a party to the 1988 UN Drug Convention and a signatory to the UN Convention against Transnational Organized Crime.

**Botswana.** Botswana is a developing regional financial center and therefore is vulnerable to money laundering. Botswana has a well-developed banking sector.

The Government of Botswana has enacted legislation against drug production and trafficking, as well as narcotics-related money laundering. Narcotics-related money laundering is a felony punishable by a fine of approximately U.S. \$41,000 or three years in prison, or both. The Bank of Botswana requires financial institutions to report any transaction where Pula 100,000 (U.S. \$15,800) or more is transferred, whether domestically or internationally. The Bank of Botswana has the discretion to provide information on large currency transactions to law enforcement agencies.

On August 19, 1994, the Corruption and Economic Crime Act was passed. Later that year the Directorate on Corruption and Economic Crime was established. The Corruption and Economic Crime Act states procedures for handling corruption and related economic crimes.

In September 2001, the Government of Botswana also passed the Proceeds of Serious Crimes (Amendment) Act. This legislation criminalized money laundering. The act also makes stipulations for identification of financial bodies and owners of corporations and accounts.

Because of concerns that Botswana's status as an offshore financial center could increase its vulnerability to money laundering, the Government of Botswana drafted regulations which would require banks to file suspicious activity reports with the Bank of Botswana. The Bank of Botswana intends to implement these regulations in January 2002, and at the same time distribute guidance to banks on how to identify suspicious transactions.

In September 2001, the newest International Law Enforcement Academy (ILEA) opened in Gaborone. The ILEA will provide training in money laundering and other law enforcement areas to countries in the southern region of Africa.

Botswana is a party to the 1988 UN Drug Convention. Botswana has ratified the International Convention for the Suppression of the Financing of Terrorism adopted by the UN General Assembly in 1999. The Government of Botswana has also taken steps to block the assets of terrorist financing through blocking assets in accounts that are held by persons and organizations that appear in Executive Order 13224.

Botswana should join the Eastern and Southern African Anti-Money Laundering Group, and pass anti-money laundering legislation that covers all serious crimes.

**Brazil.** Despite the important regulatory and investigative steps the GOB has taken, the laundering of proceeds from drug trafficking white-collar crime, corruption and other crimes remains a problem in Brazil. A highly developed financial sector and an increasing problem with local drug consumption and trafficking have made Brazil a money laundering center.

In December 2000, a Brazilian Congressional Investigative Committee (CPI) probing narcotics-trafficking released a 1,200-page report that alleged the existence of a vast network of drug-related organized crime and corruption, including money laundering. The report implicated over 800 people, including two federal congressmen, former state governors and other officials, and estimated that criminals launder approximately \$50 billion in Brazil annually. In 2001, the GOB continued to investigate and prosecute large money laundering operations.

The GOB has a comprehensive anti-money laundering regulatory regime in place. Law 9,613 of March 3, 1998 criminalized money laundering related to drug trafficking and other offenses, and penalizes offenders with a maximum of 16 years in prison. The Law expanded the GOB's asset seizure and forfeiture provisions and exempts "good faith" compliance from criminal or civil prosecution. Regulations issued in 1998 require that individuals transporting more than 10,000 reais (then approximately U.S. \$10,000, now approximately U.S. \$4,000) in cash, checks or traveler's checks across the Brazilian border must fill out a customs declaration that is sent to the central bank. Financial institutions remitting more than 10,000 reais also must make a declaration to the central bank.

The 1998 Law also created a financial intelligence unit, the Council for the Control of Financial Activities (COAF), which is housed within the Ministry of Finance. The COAF includes representatives from regulatory and law enforcement agencies-including the central bank and Federal Police. The COAF has a staff of 16 people-8 intelligence analysts, 3 international analysts, 1 legal specialist, 2 technical specialists, and 2 administrators. The COAF regulates those financial sectors not already under the jurisdiction of another supervising entity. In 1999, the COAF issued eight regulations that addressed real estate, factoring companies, gaming and lotteries, dealers in jewelry and precious metals, bingo, credit cards, commodities trading, and dealers in art and antiques. The regulations require customer identification, record keeping, and reporting of suspicious transactions directly to the COAF.

In 2000 the COAF issued Regulation No. 9, slightly amending the bingo, lotteries, and gaming regulations. In November 2001 the COAF issued Regulation No. 10, which imposes additional requirements for money remittance businesses.

In 1999, the GOB's other regulatory bodies, the central bank, the Securities Commission (CVM), the Examiner of Private Insurance Companies (SUSEP), and the Office of Supplemental Pension Plans (PC), issued parallel regulations to covered institutions that spell out requirements for customer identification and reporting of suspicious transactions. All of these regulations include a list of guidelines that help institutions identify suspicious transactions.

The central bank also established the Departamento de Combate a Ilícitos Cambiais e Financeiros (DECIF) to implement anti-money laundering policy, receive suspicious activity reports from financial institutions, and forward information on the suspect and nature of the transaction to the COAF. Until January 2001, bank secrecy protected the name of the bank and the account number, and transaction details. All government agencies-except for congressional investigative committees-required a court order to access detailed bank account information. The GOB addressed this problem by enacting Complementary Law No. 105 and its implementing Decree No. 3,724 in January 2001. These allow for complete bank transaction information to be provided to regulatory authorities, including the COAF, without a court order.

The COAF indicated that in 2001 (through Nov. 1) it has received approximately 4,300 suspicious activity reports (SARs), including approximately 2,700 from the banking sector, 870 from bingos and 500 from

# Money Laundering and Financial Crimes

---

real estate companies. COAF's analysis and investigation of approximately 200 of these reports led to 33 prosecutions. The COAF forwarded an additional 47 directly to the police for additional investigation. The federal police had initiated a total of 140 formal investigations as of November 2001. In addition, the GOB began two administrative proceedings against entities that failed to file SARs in 2001.

In October 2001, the Brazilian Congress approved a measure that would increase penalties for corruption and money laundering. The measure awaits action in the Brazilian Senate.

During 2001 the GOB continued to struggle against corruption. The investigation into Judge Nicolau dos Santos Neto, who was arrested in December 2000 for embezzling 169 million reais (then approximately \$85 million) in funds earmarked for construction of a city courthouse, proceeded. Nicolau allegedly used a system of front companies in offshore havens to transfer money and buy property abroad, including the United States. Judge Nicolau still awaits trial on charges of embezzlement, corruption, tax evasion, and money laundering.

A December 2001 Brazilian Senate report accused 17 top soccer officials of corruption, fraud, embezzlement, mismanagement of funds, tax evasion, and money laundering. Among other allegations, soccer officials are accused of having bought and sold rights to players in exchange for large payoffs.

Money laundering also occurs around the region of Foz de Iguacu, near the tri-border area with Paraguay and Argentina, an area believed to be a haven for smuggling and arms trafficking. Launderers used exchange houses, "laranjas," (individuals who allow their names to be used for a fee), and special non-resident "CC-5" accounts to transfer the money abroad. Brazilian authorities continue to watch the area for possible connections to Middle Eastern terrorist organizations.

The COAF is a member of the Egmont Group. In June 2000, Brazil became a full member of the Financial Action Task Force (FATF). In its 2001 annual report, the FATF indicated Brazil to be fully compliant with the 28 FATF recommendations requiring specific action. In 2000 Brazil also became a founding member of the South American Financial Action Task Force (GAFISUD). Brazil is also a member of the Organization of American States Inter-American Drug Abuse Control Commission (OAS/CICAD) Experts Group to Control Money Laundering. In February 2001, the Mutual Legal Assistance Treaty between Brazil and the United States entered into force. Brazil is a party to the 1988 UN Drug Convention and the UN Convention against Transnational Organized Crime. The GOB has bilateral information exchange agreements with Belgium, France, Portugal, Paraguay, and Spain.

Reportedly, Brazil and the Bahamas have reached an anti-money laundering agreement regarding offshore bank accounts of Brazilian citizens suspected of money laundering or tax evasion. The agreement, which still needs to be passed on by Brazil's Congress, would allow the freezing of accounts for a limited period until further documentation is provided to authorities in the Bahamas. Reportedly similar initiatives with other offshore jurisdictions the Cayman Islands, Jersey, British Virgin Islands, Andorra, and Liechtenstein are under consideration.

The GOB needs to ensure proper funding and staffing for its law enforcement and regulatory bodies to fully enforce its laws and to cooperate even more effectively internationally in the global effort to combat money laundering and other financial crimes.

**British Virgin Islands.** The British Virgin Islands (BVI) is a Caribbean Overseas Territory of the United Kingdom (UK). The BVI is vulnerable to money laundering due to its financial services industry. Tourism and financial services account for approximately 50 percent of the economy. The offshore sector offers incorporation and management of offshore companies, and provision of offshore financial and corporate services. The BVI has 13 banks (four of which are commercial), and approximately 1800 mutual funds, 140 captive insurance companies, 900 registered vessels, 90 licensed trust companies, and approximately 360,000 international business companies (IBCs). Approximately 40 percent of the IBCs originate in Hong Kong.

On December 7, 2001, legislation was passed which establishes an independent Financial Services Commission for BVI. The Law transfers responsibility for regulatory oversight of the financial services

sector from a government body, the Financial Services Department, to a new autonomous regulatory body, the Financial Services Commission.

According to the International Business Companies Act of 1984, BVI-registered IBCs cannot engage in business with BVI residents, provide registered offices or agent facilities for BVI-incorporated companies, or own an interest in real property located in BVI, except for office leases. BVI has approximately 90 registered agents that are licensed by the Financial Services Unit (FSU), and are required to complete certification programs. Registered agents must verify the identities of their clients. The process for registering banks, trust companies, and insurers is governed by legislation that requires more detailed documentation such as a business plan and approval of the appropriate supervisor within the Financial Services Inspectorate.

The BVI criminalized narcotics-related money laundering in 1987. The Proceeds of Criminal Conduct Act, 1997 expanded predicate offenses for money laundering to all criminal conduct, and created a financial intelligence unit, the Reporting Authority–Financial Services Inspectorate (referred to as the Reporting Authority). The Reporting Authority–Financial Services Inspectorate is responsible for investigating fraud and money laundering cases, and has extensive powers to obtain information. Most of its investigations have involved IBCs and other offshore entities. The 1997 Act also allows the BVI Court to grant confiscation orders against those convicted of an offense and who have benefited from criminal conduct.

On 29 December 2000 the Anti-Money Laundering Code of Practice (AMLCP), 1999 entered into force. The Code established procedures to identify and report suspicious transactions. The AMLCP requires covered entities to create a clearly defined reporting chain for employees to follow when reporting suspicious transactions, and to appoint a reporting officer to receive these reports. The reporting officer must conduct an initial inquiry into the suspicious transaction and report it to the authorities if sufficient suspicion remains. Failure to report could result in criminal liability. The Reporting Authority reviews approximately 30 suspicious transaction reports (STRs) annually. In 1999, the FIU conducted 278 company inquiries, and in 2000, conducted approximately 1200. None of these queries has resulted in prosecutions. To date, the BVI has prosecuted one money laundering case.

The Joint Anti-Money Laundering Coordinating Committee (JAMLCC) was established in 1999 to coordinate all the BVI's anti-money laundering initiatives. It is a broad-based, multi-disciplinary body comprised of private and public sector representatives. The JAMLCC has drafted Guidance Notes based on those of the UK and Guernsey.

In 2000, BVI passed the Criminal Justice (International Cooperation) (Amendment) Act, 2000, criminalizing the act of acquiring, using, or possessing drug proceeds, and “tipping off” individuals under investigation. The BVI also has proposed the Code of Conduct (Service Providers) Act (CCSPA) and the Information Assistance (Financial Services) Act (IAFSA). The CCSPA would encourage professionalism, enhance measures to deter criminal activity, promote ethical conduct, and encourage greater self-regulation in the financial sector. The CCSPA also would establish the Council of Service Providers, a body that would regulate the conduct of individuals within the financial services industry. The Council also would formulate policy, procedures, and other measures to regulate the industry, advise the government on legislation and policy matters, and monitor compliance within the industry. The IAFSA would increase the scope of cooperation between BVI's regulators and regulators from other countries.

The BVI is a member of Caribbean Financial Action Task Force (CFATF), and through the UK is subject to the 1988 UN Drug Convention. Application of the U.S./UK Mutual Legal Assistance Treaty concerning the Cayman Islands was extended to the BVI in 1990. The Reporting Authority–Financial Services Inspectorate is a member of the Egmont Group.

The BVI should eliminate any legal and regulatory impediments to international cooperation and exchange of information.

## Money Laundering and Financial Crimes

---

**Brunei.** The Government of Brunei has drafted anti-money laundering legislation. In 2001, Brunei implemented an asset seizure and forfeiture law. Brunei's Narcotics Control Board has taken part in courses offered by ILEA in Bangkok, and has also attended a money laundering seminar hosted by DEA in Singapore.

In 2001, Brunei actuated its plans to become an offshore financial center. The Sultanate of Brunei brought into effect a series of laws that established the International Financial Center: the International Business Companies Order 2000; the International Banking Order 2000; the Registered Agents and Trustees Licensing Order 2000; the International Trusts Order 2000; and the International Limited Partnerships Order.

Supervisory authority will be vested in a separate unit of the Ministry of Finance—referred to simply as the “Authority.” Reports indicate that this entity, however, will combine both regulatory and marketing responsibilities.

Brunei is a party to the 1988 UN Drug Convention and an observer jurisdiction to the Asia/Pacific Group on Money Laundering.

Brunei should consider separating the marketing and regulatory functions of the Authority to avoid potential conflict of interest cases.

**Bulgaria.** Bulgaria's financial system is vulnerable to money laundering related to narcotics-trafficking and financial crimes such as bank and corporate fraud, embezzlement, tax evasion, and tax fraud. The proceeds of smuggling, vehicle theft, alien smuggling, prostitution, and extortion also are laundered in Bulgaria. The sources and destinations for much of the illicit funds include Eastern Europe, the former Soviet Union, Turkey, and the Middle East. The presence of organized criminal groups and official corruption contribute to Bulgaria's money laundering problem. Combating corruption and organized crime have been policy priorities for the government.

Bulgarian anticrime legislation includes a 1998 money laundering law criminalizing money laundering related to all serious crimes. Other provisions include customer identification and record keeping requirements, suspicious transactions reporting, and internal rules for financial institutions on implementation of an anti-money laundering program. Banks, securities brokers, auditors, accountants, insurance companies, investment companies, and other businesses are subject to these reporting requirements.

The Ministry of Finance's Bureau of Financial Intelligence (BFI) is Bulgaria's financial intelligence unit. Since its establishment in 1998, the BFI has received over 800 suspicious transaction reports, 81 percent of which were submitted by the banking system indicating its active cooperation in the fight against money laundering. The BFI has forwarded 111 cases to the Prosecutor's Office and the Ministry of Interior. During 2001 \$90 million in assets were frozen.

The Government of Bulgaria (GOB) is considering legislation addressing actual forfeiture and seizure of criminal assets, indictment of legal persons on money laundering charges, and prohibiting the use of funds of dubious or criminal origin in acquiring banks and businesses during privatization.

Bulgaria is a member of the Council of Europe (COE) and participates in the COE's Select Committee of Experts on the Evaluation of Anti-Money Laundering Measures (PC-R-EV). The BFI is a member of the Egmont Group, participates actively in information sharing with foreign counterparts, and was acknowledged by the 2000 mutual evaluation conducted by the PC-R-EV to be the driving force against money laundering in Bulgaria.

Bulgaria is a party to the 1988 UN Drug Convention and the Council of Europe Convention on Laundering, Search, Seizure and Confiscation of the Proceeds from Crime. Bulgaria has signed and ratified the UN Convention against Transnational Organized Crime, which is not yet in force internationally. Currently, the BFI has bilateral memoranda of understanding regarding information exchange relating to money laundering with Belgium, the Czech Republic, Latvia, the Russian Federation, and Slovenia.

In June 2001, Bulgaria was judged by the Technical Consult Group of the European Commission to be in full compliance with Chapter 4 of the pre-accession negotiations with respect to preventive legislation in the area of counteraction of money laundering.

The GOB should approve and implement proposed measures that will address forfeiture and seizure of criminal assets, the indictment of legal persons on money laundering charges, and prohibit the use of dubious or criminal-origin funds to acquire banks and businesses during privatization.

**Burma.** Burma, a developing, agrarian country ruled by a military regime, has a population of approximately 41 million people. Renamed the Union of Myanmar by the ruling junta, Burma has a mixed economy with private activity dominant in agriculture, light industry, and transport, and with substantial state-controlled activity, mainly in energy, heavy industry, and the rice trade. Burma's economy continues to be vulnerable to drug money laundering due to its under-regulated financial system, weak anti-money laundering regime, and policies that facilitate the funneling of drug money into commercial enterprises and infrastructure investment. While Burma's current law contains some legal tools for addressing money laundering such as the seizure of drug-related assets and prosecution of drug conspiracy cases, the GOB has been slow to implement provisions of this law and has targeted few, if any, traffickers or their assets. There have been no reported prosecutions for drug money laundering.

In June 2001, the Financial Action Task Force (FATF) identified Burma as non-cooperative in international efforts to fight money laundering. The FATF in its report cited that Burma lacks a basic set of anti-money laundering provisions, specifically in the Central Bank Regulations for financial institutions. The report noted serious deficiencies concerning the absence of a legal requirement to maintain records and to report suspicious or unusual transactions. In addition, Burma's current system contains significant obstacles to international cooperation by judicial authorities. Further, the GOB has allocated inadequate resources for the prevention, detection, and repression of money laundering activities.

The GOB's current anti-money laundering legislation is limited at best. The Narcotics and Psychotropic Substances Law of 1993 criminalizes money laundering in connection with narcotics crimes only. The 1986 Law for the Cognizance of Possession criminalizes the purchase, sale or transfer of any property that has been acquired by illegitimate means. The central bank's regulations for financial institutions contain no anti-money laundering provisions or legal requirements to maintain records or report suspicious or unusual transactions.

Officials report that action is pending on a proposed Money Laundering Law that seeks to criminalize money laundering for a wide range of predicate offenses, including human trafficking and organized crime, provide for some international cooperation, impose record-keeping requirements and establish an agency to receive, analyze and act on suspicious or unusual transactions. This new anti-money laundering legislation would require banks to report extraordinary or suspicious transactions and high denomination transactions. Financial institutions would be required to maintain records for five years and to allow investigators full access to all financial records. Money laundering would be punishable by seven years in prison, bankers who fail to report suspicious transactions would face up to three years. This legislation would be enforced by the Central Control Board, chaired by the Home Minister and would include the Attorney General, Finance Minister, and the Governor of the central bank. This board would set policy, manage cooperation with other international money laundering groups, and organize investigation teams. The legislation proposes that this board decide whether money laundering prosecution is warranted based on the evidence collected by financial investigative teams. The legislation is expected to be enacted in 2002.

Burma is an observer jurisdiction to the Asia/Pacific Group on Money Laundering and a party to the 1988 UN Drug Convention. The GOB has bilateral drug control agreements with India, Bangladesh, Vietnam, Russia, Laos, and the Philippines. It is not known whether these agreements cover cooperation on money laundering issues. Currently, Burma does not provide significant mutual legal assistance or cooperation to overseas jurisdictions in the investigation and prosecution of serious crimes. The GOB is

## Money Laundering and Financial Crimes

---

planning to couple the proposed anti-money laundering legislation with proposed mutual assistance legislation to facilitate judicial cooperation between Burma and other states.

Burma must increase the regulation and oversight of its banking system, and end policies that facilitate the investment of drug money into the legitimate economy. Burma also should pass and implement its proposed anti-money laundering legislation. Burma should add additional resources to improve the ability of the administrative and judicial authorities that supervise the financial sector and enforce the financial regulations to successfully fight money laundering. Lastly, the GOB should provide additional resources and training for combating money laundering to the police, banking officials and regulators.

**Cambodia.** Cambodia is vulnerable to money laundering because it is a transit country for heroin trafficking from the Golden Triangle. Crime, corruption, and money laundering reportedly are on the increase in Cambodia.

Cambodia in 1996 criminalized money laundering related to narcotics-trafficking through the Law on Drug Control. The law includes provisions for customer identification, suspicious transaction reporting, and the creation of the Anti-Money Laundering Commission (AMLC) under the Prime Minister's Office. The composition and functions of the AMLC were to be promulgated through a separate decree. The provisions of this law have yet to be fully implemented and enforced. The Government is in the process of drafting additional amendments to their anti-money laundering legislation, which will expand predicate offenses beyond drug money laundering.

In December 1999, Cambodia passed legislation, "The Law on Banking and Financial Institutions," that imposes capital and prudential requirements on financial institutions. Capital requirements for commercial banks increased from U.S. \$5 million to U.S. \$13.5 million. Commercial banks also must maintain 20 percent of their capital on deposit with the National Bank of Cambodia (NBC) as reserves. The law requires the NBC to review all banking licenses within one year.

Money laundering offenses are investigated by the same entities that have jurisdiction over the underlying predicate crimes. However, these entities are not trained to detect, investigate, and prosecute money laundering cases.

Cambodia has not yet established a financial intelligence unit but is developing a system for reporting suspicious transactions.

Cambodia has assisted neighboring countries with money laundering investigations. Cambodia is not a party to the 1988 UN Drug Convention. On November 11, 2001 Cambodia signed the UN Convention against Transnational Organized Crime.

The Government of Cambodia should fully implement and enforce its anti-money laundering legislation. Moreover, the Government should institute training so to educate officials and financial institutions about anti-money laundering methods.

**Cameroon.** Cameroon is not a regional financial center. Funds generated from the transit of illicit drugs through Cameroon, and the absence of any anti-money laundering legislation, make Cameroon vulnerable to money laundering. The Bank of Central African States (BEAC) supervises Cameroon's banking system. The Bank of Central African States is a regional central bank that serves six countries of Central Africa.

Cameroon is a party to the 1988 UN Drug Convention and has signed but not yet ratified the UN Convention against Transnational Organized Crime.

**Canada.** Canada remains vulnerable to money laundering because of its advanced financial services sector and heavy cross-border flow of currency and monetary instruments. The U.S. Government, sharing its northern border with Canada, is particularly concerned about the cross-border movements of currency. Canada's financial institutions engage in currency transactions involving international narcotics-trafficking proceeds that include significant amounts of U.S. currency or currency derived from illegal drug sales in the United States.

In 2000, the Government of Canada (GOC) passed the Proceeds of Crime (Money Laundering) Act, which adopted enhancements recommended by the Financial Action Task Force in 1999, to assist in the detection and deterrence of money laundering and facilitate the investigation and prosecution of money laundering offenses. The Act created a mandatory reporting system for suspicious financial transactions and cross-border movements of currency or monetary instruments. The Act also provided for the creation of a financial intelligence unit (FIU), the Financial Transaction and Reports Analysis Center (FinTRAC), which reports to the Department of Finance and will receive and analyze reports from financial institutions and other financial intermediaries.

In November 2001, FinTRAC became operational and regulations came into effect that require reporting agencies to report all suspicious transactions when there are reasonable grounds to suspect that the transaction is related to the commission of a money laundering offense. In addition to banks and other financial institutions, money service businesses, casinos, lawyers, accountants, and real estate agents handling third-party transactions are required to file suspicious activity reports (SARs). FinTRAC will collect and analyze the SARs and determine which suspicious transactions merit further investigation. A second set of regulations related to compliance regimes, large-cash transactions, record keeping and client identification are expected to be phased in starting in early 2002.

FinTRAC is expected to have the authority to negotiate and set guidelines for sharing information with foreign counterparts. Currently before the parliament is legislation that amends the Canadian rules on information exchange. Under proposed Anti-Terrorism legislation, the Proceeds of Crime (Money Laundering) Act would be amended in order to authorize FinTRAC to detect financial transactions that may constitute threats to the security of Canada and to disclose this information to the Canadian Security Intelligence Service.

Canada is a member of the FATF and the Organization of American States Inter-American Drug Abuse Control Commission (OAS/CICAD) Experts Group to Control Money Laundering. Canada also participates with the Caribbean Financial Action Task Force (CFATF) as a Cooperating and Supporting Nation, and as an observer jurisdiction to the Asia/Pacific Group on Money Laundering (APG). Canada is a party to the Inter-American Convention on Mutual Assistance in Criminal Matters. Canada has long-standing agreements with the U.S. on law enforcement cooperation including treaties on extradition and mutual legal assistance. Canada is a party to the 1988 UN Drug Convention, and in December 2000, signed the UN Convention against Transnational Organized Crime.

The GOC should fully implement regulations that define cross-border currency reporting requirements. FinTRAC should join the Egmont Group to allow for the exchange of information with foreign counterparts.

**Cayman Islands.** The Cayman Islands, a United Kingdom (UK) Caribbean Overseas Territory, has made significant strides in its counter-money laundering program, though it is still vulnerable to money laundering due to its significant offshore sector. With a population of 40,000, the Cayman Islands is home to a well-developed offshore financial center that provides a wide range of services such as private banking, brokerage services, mutual funds, various types of trusts, as well as company formation and company management. Cayman Islands authorities report that approximately 580 banks and trust companies, 3,178 mutual funds, and 517 captive insurance companies are licensed in the Cayman Islands. In addition, approximately 45,000 offshore companies are registered in the Cayman Islands, including many formed by the Enron Corporation.

In June 2000, the Financial Action Task Force (FATF) identified the Cayman Islands as non-cooperative in international efforts to fight money laundering. The FATF in its report cited several concerns, including (1) lack of customer identification and record-keeping requirements; (2) lack of access to customer identity records by supervisory authorities; (3) lack of mandatory reporting of suspicious transactions; and (4) lack of supervision of a large class of management companies.

## Money Laundering and Financial Crimes

---

In July 2000, the U.S. Treasury Department issued an advisory to U.S. financial institutions warning them to pay special attention to give “enhanced scrutiny for certain transactions or banking relationships” involving the Cayman Islands.

Following the FATF designation and the U.S. Treasury Advisory, the Cayman Islands enacted and implemented comprehensive anti-money laundering laws and regulations to address the major identified deficiencies: (1) Money laundering regulations that entered into force in September 2000 specify record-keeping and customer identification requirements for financial institutions and certain financial services providers; the regulations specifically cover individuals who establish a new business relationship, engage in a one-time transaction over Cayman Islands (CI) \$15,000, or who may be engaging in money laundering; (2) Amendments to the Proceeds of Criminal Conduct Law (PCCL) make failure to report a suspicious transaction a criminal offense that could result in fines or imprisonment; (3) A provision of the Banks and Trust Companies Law (2001 Revisions) grants the Cayman Islands Monetary Authority (CIMA) the power to request “any information” from “any person” when there are “reasonable grounds to believe” that that person is carrying on a banking or trust business in contravention of the licensing provisions of the law and grants CIMA access to audited account information from licensees who are incorporated under the Companies Law (2001 Second Revision); (4) The Monetary Authority Law (2001 Revision) grants CIMA, consistent with its regulatory authority, the power to obtain information “as it may reasonably require” from a person regulated under the regulatory laws of the Cayman Islands, a connected person, or a person reasonably believed to have information relevant to an inquiry by CIMA; the 2001 revisions to the Monetary Authority Law, unlike prior versions of the law, contain no requirement that CIMA obtain a court order before accessing account ownership and identification information; and (5) Amendments to the Companies Management Law (2001 Revision) expand regulatory supervision and licensing to management companies that were previously exempted, while the Companies Law (2001 Second Revision) institutes a custodial system in order to immobilize bearer shares.

A 2001 amendment to the PCCL revises the legal definition of financial intelligence unit to adopt the Egmont Group definition, thereby making the Cayman Islands Financial Reporting Unit eligible to become a member of the Egmont Group and facilitating information exchange with its international counterparts. The Office of the Attorney General has also established an international division to respond to international requests for judicial cooperation.

Since the FATF issued its June 2000 report, the Cayman Islands has also passed and/or amended various other laws, including the Money Services Law (2000), Building Societies Law (2001 Revision), Cooperative Societies Law (2001 Revision), Insurance Law (2001 Revision), and the Mutual Funds Law (2001 Revision).

The FATF recognized in June 2001 that the Cayman Islands had remedied the serious deficiencies in its anti-money laundering regime and decided to remove the Cayman Islands from the FATF’s list of non-cooperative countries. Similarly, the U.S. Treasury Department withdrew its advisory against the Cayman Islands in June 2001.

The Cayman Islands has been cooperative with criminal law enforcement authorities in the U.S. Through the UK, the Cayman Islands is subject to the 1988 UN Drug Convention and a 1986 U.S.-U.K. Mutual Legal Assistance Treaty. Also, it is a member of the Caribbean Financial Action Task Force, the Offshore Group of Banking Supervisors, and most recently was accepted into the Egmont Group of Financial Intelligence Units in June 2001.

The Cayman Islands has made notable progress toward addressing the serious systemic problems that characterized its counter-money laundering regime less than two years ago. It has also made important gains in terms of implementation of its new counter-money laundering regime. The government should continue with its anti-money laundering implementation plans and international cooperation.

**Chile.** Chile has a well-developed financial sector but is not considered a major regional financial center. The financial sector, particularly the banks, commodities brokerages, and currency exchange houses,

remains highly vulnerable to money laundering due to the absence of comprehensive and effective anti-money laundering laws.

Chile's current anti-money laundering program is based on the 1995 Counter Narcotics Law No. 19.366, which criminalized narcotics-related money laundering activities. The law allows banks to voluntarily report suspicious or unusual financial transactions. However, the legislation has no "safe harbor" provisions protecting banks from potential civil or criminal liability, and as a result the reporting of such transactions continues to be extremely low. Chile's Judicial Reform Law of 1997 gives both the Council for the Defense of the State (CDE) and the Office of the Chief Prosecutor (Ministerio Publico) responsibility for investigating narcotics-related money laundering cases.

In December 1999, the Government of Chile (GOC) proposed amendments to the Counter Narcotics Law in order to enhance Chile's ability to prevent and combat money laundering. This proposed new law would add illicit enrichment and terrorism as predicate offenses for money laundering and mandate the reporting of suspicious financial transactions by banks and other financial institutions. Those institutions would include currency exchange houses, credit card companies, chambers of commerce, brokers in securities, investments, bonds, and stocks, mutual funds companies, casinos and horse racetracks, notaries, the Foreign Investments Committee, and the Central Bank.

The proposed law also creates a new financial intelligence unit (FIU) within the Ministry of Finance replacing the existing FIU currently operating with limited legal abilities within the Council for the Defense of the State. The new FIU would receive and analyze reports of suspicious financial activities and forward those deemed appropriate for further investigation to the Public Ministry. In addition, the law would grant sole responsibility for investigating money laundering activities to the Public Ministry.

Chile is a party to the 1988 UN Drug Convention, and has signed but not yet ratified the UN Convention against Transnational Organized Crime. Chile is a member of the Organization of American States Inter American Drug Abuse Control Commission (OAS/CICAD) Experts Group to Control Money Laundering, and the South American Financial Action Task Force (GAFISUD). Chile's current financial intelligence unit, the Departamento de Control de Trafico Ilicito de Estupefacientes, is a member of the Egmont Group. In August 2000, Chile and the United States signed an agreement for cooperation and mutual assistance in narcotics-related matters. Chile has similar agreements with the United Kingdom, Spain, and the Czech Republic. Bilateral agreement negotiations are underway with France, Germany, Russia, Poland, Romania, Ukraine, Turkey, Tunisia, Guatemala, and Honduras.

The Government of Chile should pass the anti-money laundering bill and put in place the legal framework allowing authorities to require disclosure of suspicious transactions. Any new FIU should be granted the authority and resources necessary to make it an effective force against money laundering and to cooperate internationally in the fight against money laundering.

**China, People's Republic of.** As the People's Republic of China (PRC) has become more prosperous, money laundering, bank fraud, embezzlement, and other financial crimes have become more common. Other areas of increased criminal activity include narcotics-trafficking, illegal alien smuggling, and intellectual property violations. Corruption figures prominently into financial crimes such as smuggling, embezzlement of public funds, and tax evasion. The use of alternative remittance systems to move criminal proceeds and to evade foreign currency control measures is on the rise. The PRC's legal, regulatory, and enforcement sectors require additional reforms to counter the growth in financial crimes and money laundering. Law enforcement agencies are ill prepared in training and equipment to prevent, investigate, and prosecute crime.

The PRC has taken modest steps in 2001 to improve its anti-money laundering regime. As a means of cracking down on illegal foreign exchange trading that facilitates money laundering, among other financial crimes, the State Administration for Foreign Exchange (SAFE) and the Ministry of Public Security (MPS) issued a joint circular in early September 2001 for local departments of both agencies to cooperate more closely in scrutinizing foreign exchange transactions.

## Money Laundering and Financial Crimes

---

The various agencies responsible for developing the PRC's anti-money laundering regime are studying how best to incorporate anti-money laundering measures into the PRC's legal and financial environments. An impediment to the PRC's participation in international money laundering fora, such as the Asia/Pacific Group on Money Laundering (APG), is the question of what to call Taiwan in the APG. The PRC participated in the initial meeting of the APG and hosted the first round of working group meetings in Beijing in July 1997. The PRC has not attended subsequent meetings of the APG citing Taiwan nomenclature issues as an obstacle to the PRC's participation.

While awaiting the adoption of comprehensive money laundering measures, the PRC's primary legal tool to combat money laundering is Article 191 of the 1997 Criminal Code. It lists three offenses—narcotics-trafficking, organized crime, and smuggling—in connection with which money laundering is treated as a criminal offense. Additionally, Article 312 criminalizes complicity in concealing the proceeds of criminal activity. The PRC is currently investigating 70 money laundering cases tied to these predicate offenses.

The April 2000 statute that requires bank clients to use their real names and show identification cards to open bank accounts has been effective in preventing criminal proceeds from being easily deposited into bank accounts opened under pseudonyms and withdrawn freely. In response to the closure of this loophole, Chinese officials have noted a rise in cross-border money laundering, particularly of funds derived from bribery or embezzlement headed to Hong Kong and returning to the PRC disguised as foreign investments. Under provisions of this statute, anonymous accounts will be totally phased out by 2005.

The United States and the PRC continue to hold discussions on cooperation on money laundering and other enforcement topics through the auspices of the US-PRC Joint Liaison Group (JLG) on law enforcement cooperation. The next JLG meeting is scheduled to occur in early 2002 in Washington.

The United States and the PRC signed a Mutual Legal Assistance Agreement (MLAA) in June 2000, the first major bilateral law enforcement agreement between the countries and an interim step towards the conclusion of a Mutual Legal Assistance Treaty. The MLAA entered into force in March 2001. In February 2002 the PRC agreed to the establishment of a legal attache office in Beijing to be staffed by the FBI. The PRC is a party to the 1988 UN Drug Convention, and has signed but not yet ratified the UN Convention against Transnational Organized Crime.

Building upon Article 191 and the ancillary financial regulations adopted in the past few years, China should criminalize money laundering for all serious crimes and implement anti-money laundering measures in line with international standards. As China integrates itself into the global anti-money laundering effort, the adoption of laws and regulations compatible with partner nations will allow it to more effectively combat money laundering domestically as well as internationally.

**Colombia.** Drug money laundering continues to infect Colombian financial institutions and other economic sectors as a result of Colombia's prominence as the world's largest production and distribution source for cocaine and a significant supplier of heroin. Colombia's financial institutions engage in currency transactions involving international narcotics-trafficking proceeds that include significant amounts of U.S. currency or currency derived from illegal drug sales in the United States.

However, the Government of Colombia (GOC) has endeavored to become a regional leader in the fight against money laundering, with broad legal authority to combat money laundering and established anti-money laundering programs in several governmental institutions. Despite these efforts and funding support from the United States, the money laundering threat in Colombia remains high due to procedural difficulties in Colombian legal proceedings, limited resources for anti-money laundering programs, and pervasive money laundering of funds related to narcotics-trafficking, commercial smuggling for tax and import duty avoidance, kidnapping for profit, and arms trafficking and terrorism connected to violent paramilitary groups and guerrilla organizations.

A variety of money laundering techniques are present in Colombia. Trade-based money laundering, such as the Black Market Peso Exchange (BMPE), through which money launderers furnish narcotics-

generated dollars in the United States to commercial smugglers, travel agents, investors and others in exchange for Colombian Pesos in Colombia, remains a prominent method for laundering narcotics proceeds. Colombia also appears to be a significant destination and transit location for bulk shipment of narcotics-related U.S. currency. In particular, there is growing concern about the use of local currency exchangers to convert narcotics dollars to Colombian pesos, with the U.S. currency later shipped to Central America for deposit as legitimate exchange house funds where it is converted back to pesos and repatriated by wire to Colombia. Other methods include the use of debit cards drawn upon financial institutions outside of Colombia and the transfer of funds out of and then back into Colombia by wire through different Casas of Cambio in order to give the appearance of a legal business or personal transaction. Colombian authorities have also noted increased body smuggling of U.S. and other foreign currency and an increase in the number of shell companies operating in Colombia. Smart cards, Internet banking, and the dollarization of the economy of neighboring Ecuador represent some of the growing challenges to money laundering enforcement in Colombia.

Colombia established the “legalization and concealment” of criminal assets as a separate criminal offense in 1995, and more generally criminalized the laundering of the proceeds of extortion, illicit enrichment, rebellion, and drug trafficking in 1997. Colombia’s new criminal code enacted in 2000 became effective in July of 2001. Among other things, this new code expanded the money laundering predicates to also include arms trafficking, crimes against the financial system or public administration and criminal conspiracy.

A general provision for criminal forfeiture for intentional crimes has existed in Colombian penal law since the 1930s. Since then, Colombia has adopted additional criminal forfeiture provisions for particular offenses, most notably those contained in Colombia’s principal counternarcotics statute, Law 30 of 1986. In 1996, Colombia added an in rem forfeiture statute, giving Colombia one of the most expansive legislative regimes for forfeiture in Latin America. Nevertheless, despite this broad criminal and in rem legislative framework, until recently, forfeiture appears to have been used sparingly and with limited success.

In 1993, Colombia established suspicious activity and currency transaction reporting for banking institutions, and barred the entities and their employees with such reporting obligations from informing their clients of their reports to Colombian law enforcement. In addition to financial institutions, wire remitters now are required to file suspicious transaction reports, while currency transactions and cross-border movements of currency in excess of U.S. \$10,000 must also be reported. Casas de cambio must file currency reports for transactions involving U.S. \$700 or more. More recently, Colombia has sought to extend anti-money laundering compliance procedures to such institutions as the Superintendency of Securities, which oversees Colombia’s stock exchanges.

In addition, the Superintendency of Banks has instituted “know your customer” regulations for the entities it regulates, including banks, insurance companies, trust companies, insurance agents and brokers, and leasing companies. Among other things, the Superintendency of Banks also has authority to rescind licenses for wire remitters. However, the Colombian Central Bank’s new External Resolution No. 8 issued in May 2000 relaxed certain requirements on individuals conducting currency exchange services, enabling them to simply identify this service when registering their business but eliminating the need for them to become fully licensed.

Despite Colombia’s comprehensive anti-money laundering laws and regulations, enforcement continues to be a challenge for Colombia. Limited resources for prosecutors and investigators have made financial investigations problematic. Continued difficulties in establishing the predicate offense further contribute to Colombia’s limited success in achieving money laundering convictions and successful forfeitures of criminal property. Congestion in the court system and procedural impediments similarly have contributed to limited results in forfeiture.

In 1996, the Prosecutor General’s office established a specialized task force unit of agents and prosecutors to investigate and prosecute money laundering cases and forfeiture actions under the 1996 Extinction of

## Money Laundering and Financial Crimes

---

Domain statute. Including convictions under prior offenses of criminal reception and illicit enrichment, this unit has obtained criminal sentences in about 50 money laundering related cases, with approximately 17 occurring in 2001. While Colombian authorities have initiated forfeiture actions against more than 10,000 properties in more than 350 forfeiture actions, Colombia obtained in rem forfeiture judgments in only six cases in 2001, bringing the total judgments to eighteen since 1998, some of which remain on appeal.

Until recently, Colombia also did not have a financial intelligence unit capable of receiving suspicious transaction reports. Originally created by executive decree in 1998, Colombia formally adopted legislation in 1999 to establish a unified central Financial Information and Analysis Unit (UIAF) within the Ministry of Finance and Public Credit with broad authority to access and analyze financial information from public and private entities in Colombia. The UIAF is now widely viewed as a hemispheric leader in efforts to combat money laundering and supplies considerable expertise in organizational design and operations to other financial intelligence units in Central and South America. In 2001, the UIAF received an average of more than 1000 suspicious activity reports (SARs) per month, a significant increase from last year's figures. Since December of 1998, the UIAF has forwarded more than 1100 SARs to the Prosecutor General's office for further investigation or prosecution. Electronic submission of suspicious transaction reports scheduled to go into effect last spring was expected to improve suspicious transaction reporting. The UIAF became a member of the Egmont Group of Financial intelligence units in 2000.

As in 2000, Colombia played a significant role in multilateral efforts to combat money laundering in 2001. In 2001, Colombia held the presidency of the South American Financial Action Task Force (GAFISUD), a newly established regional anti-money laundering organization modeled after the G-8 Financial Action Task Force. Colombia has also agreed to undergo mutual evaluation by fellow GAFISUD members. Colombia has also continued to participate in a multilateral initiative with the Governments of the United States, Venezuela, Panama, and Aruba designed to address the problem of trade-based money laundering through the BMPE among the participating countries.

The United States and Colombia have continued to expand bilateral and multilateral cooperation in money laundering and forfeiture investigations. Twenty-six fugitives were returned from Colombia to the United States in 2001, twelve on money laundering charges. The majority of those returned were Colombian nationals. At least two other Colombian nationals and an Italian citizen are currently pending extradition to the United States on money laundering charges following a 2001 Colombian Supreme Court resolution in favor of their extradition. In early 2001, close cooperation between the United States Drug Enforcement Administration (DEA), the Colombian Administrative Department of Security (DAS) and Panamanian authorities resulted in 24 arrests and important seizures of assets connected to an international money laundering operation. In addition, coordinated efforts in 2001 between a DAS-DEA special unit and the United States Customs Service resulted in 28 arrests in the U.S. and Colombia in January of 2002 and the seizure of more than \$7 million in assets over the course of a critical undercover money laundering investigation involving the inner workings of the BMPE. Colombia has also provided important continuing assistance to United States civil forfeiture actions against accounts in Colombia restrained in 1998 and 1999 in response to United States formal requests for assistance in Operations Juno and Casablanca. Colombia's Tax and Customs Directorate (DIAN) has also provided valuable case-related assistance and training to United States prosecutors and agents.

Among other things, the United States' July 2000 appropriations in support of Plan Colombia have enabled the United States to provide training to the prosecutors and agents of the Prosecutor General's specialized money laundering and forfeiture unit in 2001. Expenditures from these funds are expected to provide further training, as well as an infusion of equipment and operational expense support for the unit. United States appropriations in support of Plan Colombia are also expected to provide significant assistance to such programs as the asset management program of the National Drug Directorate (DNE) and anti-money laundering initiatives of the DIAN.

2001 also brought the transition to a new Prosecutor General. Additional personnel changes are anticipated in executive branch agencies following the 2002 presidential elections in Colombia. The new Colombian authorities should continue the progress made in the establishment of anti-money laundering programs and further strengthen the law enforcement relationship between the United States and Colombia.

**Cook Islands.** The Cook Islands is a self-governing group of islands in the South Pacific that maintains a free association with New Zealand. Cook Islanders are citizens of New Zealand and are part of the British Commonwealth. The Cook Islands is vulnerable to money laundering because it has an offshore sector that offers banking, insurance, international trusts, and formation of international companies, (the equivalent of international business companies, IBCs). Marketers of offshore services on the Internet promote the Cook Islands as a favored jurisdiction for establishing asset protection trusts.

In June 2000, the Financial Action Task Force (FATF) identified the Cook Islands as non-cooperative in international efforts to fight money laundering. The FATF in its report cited several concerns. In particular, the Government of the Cook Islands (GOCI) had no relevant information on approximately 1,200 international companies it had registered. The country also licensed seven offshore banks that took deposits from the public, yet were not required to identify customers, nor keep records. Excessive secrecy provisions in place guarded against the disclosure of relevant information on those international companies as well as bank records.

In June 2000, the U.S. Treasury Department issued an advisory to U.S. financial institutions, warning them to give enhanced scrutiny to all financial transactions originating in or routed to or through the Cook Islands or involving entities organized or domiciled, or persons maintaining accounts, in the Cook Islands.

The GOCI's regulatory scheme is susceptible to money laundering. The International Companies Act of 1981 and amended 1982 permits issuance of bearer shares and the marketing of shelf companies. The Act prohibits public access to registers of corporate directors or managers or the disclosure of beneficial owners. While corporate directors are not required to be residents, companies must maintain a registered office and company secretary in the Cook Islands. Companies must file annual returns, but are not required to have their accounts audited.

The Offshore Industry (Criminal Provisions) Act 1995-96 requires officers and employees of the Cook Islands' six trustee companies to report to the Cook Islands Commissioner for Offshore Financial Services (COFS) suspicious activities related to narcotics-trafficking or transactions where there is actual knowledge that a serious crime has been committed. Trustee companies must provide information to the COFS to substantiate their suspicions. The COFS can petition the High Court to rescind the license of or strike from the corporate register offshore entities found to be involved in such crimes. Moreover, the High Court also may dispose of the assets of the business entity.

The GOCI has enacted several legislative reforms to address the deficiencies identified by the FATF. In August 2000, GOCI passed the Money Laundering Prevention Act 2000 (MLPA), that criminalizes all money laundering, creates a financial intelligence unit (FIU), mandates the reporting of suspicious transactions by financial institutions, and defines records retention and customer identification requirements for financial institutions. The anti-money laundering measures in the financial area cover both the domestic and offshore sector.

The legislation established a Money Laundering Authority (MLA) that is comprised of the financial secretary, the commissioner for offshore financial services, and the commissioner of the police and currently constitutes the country's financial intelligence unit. The GOCI is in the process of making this FIU fully operational. The Government of New Zealand has provided a technical advisor to assist the financial intelligence unit. The MLA receives suspicious transactions reports, sends reports to the solicitor general when money laundering is suspected, instructs financial institutions to cooperate with investigations, compiles statistics and records for use by domestic and foreign regulators and law enforcement, issues guidelines to financial institutions, and creates record keeping and reporting

## Money Laundering and Financial Crimes

---

requirements for financial institutions. The Money Laundering Authority issued Guidance Notes on Money Laundering Prevention in April 2001.

The MLPA imposes certain reporting obligations on financial institutions such as banks, offshore banking businesses, offshore insurance businesses, casinos, and gambling services. Financial institutions are required to report transactions if there is reasonable cause to suspect that the transaction involves the proceeds of a crime. Financial institutions are required to maintain for a minimum of five years all records that are related to the opening of accounts, and business transactions that exceed NZ \$30,000 (approximately U.S. \$12,900). The records must include sufficient documentary evidence to prove the identity of the customer. Financial institutions are required to develop procedures to audit their compliance with these provisions.

The MLPA also requires that individuals declare cross-border movements of currency or negotiable securities greater than the equivalent of NZ \$10,000 (approximately U.S. \$4,150) to a police, customs, or immigration officer. Failure to declare cross-border movements of currency or negotiable instruments can result in a maximum fine of NZ \$1,000 (approximately U.S. \$415) and a maximum prison sentence of one year.

The MLA is authorized to cooperate with foreign governments that have entered into bilateral or multilateral mutual assistance arrangements with the GOCI. In addition, Section 21 of the MLPA makes provision for ad hoc requests, granting the Minister of Finance the power to approve cooperation with a foreign government without an agreement in place. Money laundering is an extraditable offense.

The Cook Islands is not a party to the 1988 UN Drug Convention. It is a member of the Asia/Pacific Group on Money Laundering and participated in a mutual evaluation conducted by that Group and the Offshore Group of Banking Supervisors in October 2001.

In June 2001, FATF determined that although the Cook Islands had taken steps to remedy deficiencies in its anti-money laundering regime, the Cook Islands will need to take further steps to warrant removing it from FATF's list of non-cooperative countries. The GOCI still needs to finalize and promulgate the necessary regulations in order to bring its legislation into full force.

The GOCI has taken a number of steps toward address the deficiencies identified by the FATF. However, the GOCI should begin to aggressively implement and enforce the provisions of the recently passed MLPA. Moreover, the GOCI needs to eliminate confidentiality provisions relating to the incorporation and registration of companies and other entities and their transactions, and expand oversight of the offshore sector.

**Costa Rica.** Costa Rica is vulnerable to money laundering because of drug trafficking in the region, and despite a December 2001 law expanding the scope of anti-money laundering regulations, a lack of stringent supervisory controls over its offshore sector. Anecdotal information suggests that Costa Rica's financial institutions, currency-exchange businesses, casinos, and real estate market have been used to launder money.

Costa Rica's domestic banking sector includes approximately 20 private and 3 state-owned banks, 13 finance companies, and 25 savings and loan institutions. The General Superintendent of Financial Entities (SUGEF) supervises these entities. Private banks are often small parts of the 21 "financial groups" that also engage in other activities such as bond trading and stock brokerage.

Low taxes and strong secrecy laws have created in recent years a growing offshore sector that offers banking services, and corporate and trust formation. Costa Rica has approximately 10 banks domiciled in jurisdictions outside of Costa Rica—Bahamas, Cayman Islands, Montserrat, and Panama—operating as part of Costa Rican financial groups. These foreign-domiciled "offshore" banks may not engage in direct financial operations in Costa Rica. These banks may receive or transfer funds in foreign currency, generally using correspondent accounts in other countries. Foreign-domiciled banks may only conduct transactions in Costa Rica through a domestic bank under a services contract. According to one estimate, these banks hold assets of approximately U.S. \$1.4 billion.

There are no formal licensing procedures for foreign-domiciled banks. The central bank approves applications for foreign-domiciled banks to operate in Costa Rica after relying on the foreign jurisdiction's certificate of good standing of these institutions. However, regulations allow for incorporation of these entities only from jurisdictions with authority to enter into supervision agreements with Costa Rican authorities and only from what Costa Rican authorities deem adequately regulated jurisdictions.

Costa Rican authorities have supervisory authority over foreign-domiciled banks in Costa Rica and have direct access to their records only through service contracts and through joint on-site inspections in those jurisdictions that permit them. Foreign-domiciled banks are required only to provide monthly balance statements and year-end audited statements to the General Superintendent of the Financial System (SUGEF); they must otherwise adhere to regulations established by their home jurisdictions.

The SUGEF supervises the domestic banking activity of foreign domiciled banks since they may only conduct local business through a domestic bank, and domestic banks are subject to Costa Rican regulations and direct SUGEF supervision.

The Government of Costa Rica (GOCR) has signed a memorandum of understanding (MOU) with Panama that permits joint on-site inspections of their Costa Rican offshore institutions. Costa Rican authorities indicated that on-site inspections have been scheduled with banks from the other jurisdictions despite the lack of an MOU.

Costa Rica has also become a haven for Internet gaming companies, especially sports betting, with over 100 companies estimated to be active employing over 5,000 people.

Law No. 7786 on Narcotics and Psychotropic Substances of May 1998 reformed a previous drug law and criminalized money laundering related to drug trafficking. Under Law 7786, drug money laundering is punishable by 8 to 20 years in prison. Law 8204, approved in December 2001, expanded the scope of Law 7786 and criminalizes the laundering of proceeds from all serious crimes.

Law No. 7786 obligates domestic financial institutions to identify their clients, record and report currency transactions that exceed U.S. \$10,000 to regulators, report suspicious transactions, and maintain records for a minimum of five years. Law 8204 additionally requires deification of beneficial owners of accounts and transacted funds.

Covered financial institutions include those supervised by SUGEF, the General Superintendent of Securities, and the Superintendent of Pensions, money exchangers and remitters, and dealers in traveler's checks and money orders. Other businesses such as dealers in jewelry and consumer goods, casinos, and credit card companies must report cash transactions that exceed U.S. \$10,000 and suspicious transactions to the Joint Counternarcotics Intelligence Center (CICAD). Individuals are required to report cross-border movements of currency that exceed U.S. \$10,000. The law exempts good faith compliance from criminal, civil, or administrative liability.

Law No. 7786 created the Unidad de Analisis Financiero (UAF), Costa Rica's financial intelligence unit and part of the CICAD, to receive and analyze suspicious financial transaction reports and investigate cases of money laundering. Financial institutions are required to report suspicious financial transactions their corresponding supervisory authority, which forwards disclosures to the UAF. In June 1999, the UAF joined the Egmont Group. The UAF assists other Costa Rican agencies' investigations and exchanges information with its foreign counterparts.

Law 8204 expands the UAF authority in several respects. The law requires all covered institutions to respond to all information requests by the UAF. Law 8204 also grants the UAF explicitly authority to share any information it receives with a wide range of judicial and administrative authorities, including foreign FIUs.

Law 8204 also extends anti-money laundering regulations to foreign-domiciled banks. However, it is unclear how Costa Rican authorities could comprehensively supervise these entities since they only have direct access to domestic transaction information through the local bank.

# Money Laundering and Financial Crimes

---

In 2000 the UAF reported receiving 58,000 large currency transaction reports and investigated 30 subjects. The UAF forwarded these results to the Public Ministry; however, Costa Rica has not successfully prosecuted anyone under its current anti-money laundering laws.

Costa Rica is a member of the Caribbean Financial Action Task Force (CFATF), and the Organization of American States Inter-American Drug Abuse Control Commission (OAS/CICAD) Experts Group to Control Money Laundering. Costa Rica is a party to the 1988 UN Vienna Convention. An extradition treaty is in force between the United States and Costa Rica.

U.S. law enforcement agencies work effectively with Costa Rican public security forces in counternarcotics and money laundering investigations. In 2001, the GOOCR assisted the U.S. Internal Revenue Service (IRS) in arrests and executing search warrants relating to a major tax evasion and money laundering ring in Costa Rica. Six people were charged in Costa Rica of conspiring to launder \$470,000 through offshore trusts designed to conceal assets and evade millions of dollars in U.S. taxes.

The growth of Costa Rica's offshore sector and the absence of an effective regulatory and supervisory regime are causes for concern. The GOOCR should subject all offshore institutions to comprehensive anti-money laundering supervision to help Costa Rica protect its financial and offshore sectors from being abused by money launderers and other international criminals.

**Côte d'Ivoire.** Côte d'Ivoire is an important regional financial center in West Africa. To the extent money laundering occurs, a significant portion relates to the proceeds of trafficking in narcotics, particularly heroin and cocaine. Money laundering is concentrated in the banking system and is controlled by organizations other than local traffickers.

Financial fraud is mostly limited to Nigerian-operated scams aimed at foreigners. Endemic smuggling of contraband does not generate funds sufficiently large enough to require laundering.

Laundering of money related to any criminal activity is a criminal offense. Banks are required to maintain records of large currency transactions and to report this data to the government. Banks are required to maintain the records necessary to reconstruct significant transactions through financial institutions. The government requires financial institutions to report suspicious transactions. Bankers' protection under the law is contingent on their cooperation with law enforcement entities. Money laundering controls are not applied to non-banking institutions. Côte d'Ivoire has never prosecuted a money laundering case.

Côte d'Ivoire has not addressed the problem of international transportation of illegal-source currency and monetary instruments, although there are reporting requirements on transporting cash in excess of 5 million West African Francs (approximately U.S. \$6,850) into or out of the country.

Côte d'Ivoire's asset seizure and forfeiture law applies to both mobile and immobile property, including bank accounts and businesses used as conduits for money laundering. The Ivoirian Government is the designated recipient of any narcotics-related asset seizures and forfeitures. It is not known whether legal loopholes exist to permit traffickers and others to shield assets. The law does not allow for civil forfeiture or for the sharing of assets with other governments.

Côte d'Ivoire is a party to the 1988 UN Drug Convention.

**Croatia.** Croatia is neither a regional financial nor a money laundering center. Much of the money laundering that does occur is related to financial crimes such as tax evasion and business-related fraud. The proceeds of narcotics-trafficking tend to be converted into real estate and luxury goods rather than laundered for re-integration into the financial system.

In 1997, Croatia criminalized money laundering related to serious crimes. The legislation requires banks and non-bank financial institutions to report transactions that exceed U.S. \$17,500, as well as any cash transactions that seem suspicious. It also authorized establishment of a financial intelligence unit (FIU) within the Ministry of Finance. Croatia's FIU is a member of the Egmont Group. In 2001, the Government of Croatia (GOC) began centralizing anti-money laundering intelligence and investigation within the Ministry of the Interior. In 2000, Croatia's Parliament strengthened the country's penal code to

ensure that all those indicted can be charged with the money laundering offense where applicable. Prior to this change, a person could not be charged with money laundering if the predicate offense carried a maximum penalty of fewer than five years in prison. The GOC plans to introduce legislation in 2001 that will require banks to transmit data to supervising agencies electronically instead of by mail. In 2001, the GOC established a National Center for the Prevention of Corruption and Organized Crime within the State Prosecutor's Office. This office has the authority to freeze assets, including securities and real estate, for up to a year. The office also has enhanced powers to seek financial transaction information and to coordinate the investigation of financial crimes.

Weak interagency cooperation, the insufficient technical skills of the police and prosecutors, and a judicial backlog of over one million cases hinder Croatia's anti-money laundering efforts. Croatia does not have limitations on providing and exchanging information with international law enforcement on money laundering investigations.

Croatia is a party to the 1988 UN Drug Convention and a signatory to the UN Convention against Transnational Organized Crime.

**Cuba.** The Government of Cuba (GOC) controls all financial institutions, and the Cuban peso is not a freely convertible currency. The GOC has not prosecuted any money laundering cases since the National Assembly passed legislation in 1999 that criminalized money laundering related to trafficking in drugs, arms, or persons. The Cuban central bank has issued regulations that encourage banks to identify their customers, investigate unusual transactions, and identify the source of funds for large transactions. Cuba also has cross-border currency reporting requirements. Cuba has solicited anti-money laundering training assistance from the United Kingdom, Canada, France, and Spain.

Cuba is a party to the 1988 UN Drug Convention, and a signatory to the UN Convention against Transnational Organized Crime.

**Cyprus.** The Republic of Cyprus is a major regional financial center with a robust offshore financial services industry, and as such, remains vulnerable to international money laundering activities. Organized crime, credit card fraud, burglary, and theft are the major sources of illicit proceeds laundered in Cyprus.

In 1996, the Government of Cyprus (GOC) passed the Prevention and Suppression of Money Laundering Activities Law. This law criminalized non-drug related money laundering; provided for the confiscation of proceeds from serious crimes; codified actions that banks and non-bank financial institutions must take (including customer identification); and mandated the establishment of a financial intelligence unit (FIU). Previously enacted legislation criminalized drug-related money laundering. A 1998 amendment to the 1996 anti-money laundering legislation extended the list of predicate offenses to include criminal offenses punishable by imprisonment exceeding one year from which proceeds were derived. The amendment also addressed government corruption, and facilitated the exchange of financial information with other FIUs, as well as the sharing of assets with other governments.

A law passed in 1999 criminalized counterfeiting bank instruments such as certificates of deposit and notes. In November 2000, the GOC further amended its 1996 money laundering law by eliminating the separate list of predicate offenses. This amendment, coupled with the central bank's guidance note to commercial banks reminding them of the importance of reporting any suspicious transaction to the FIU, has contributed to a nearly three-fold increase in the number of bank suspicious activity reports from 25 in 2000 to 67 in 2001.

The GOC in January 1997 established its FIU, the Unit for Combating Money Laundering (UCML). The 14-member UCML is comprised of representatives from the Attorney General's Office, Customs, law enforcement, and support staff. The UCML statutory authority directs it to evaluate evidence generated by its member organizations and other sources to determine if an investigation is necessary. The UCML also conducts anti-money laundering training for Cypriot police officers, bankers, accountants, and other financial professionals.

## Money Laundering and Financial Crimes

---

In 2001, the UCML opened 202 cases and closed 98. The Unit issued 115 Information Disclosure Orders and 21 freezing orders, resulting in approximately U.S. \$2.67 million in frozen assets. During 2001, there were three convictions recorded under the 1996 Anti-Money Laundering law, while twelve cases were pending at the end of the year.

On 22 November 2001, Cyprus Parliament ratified the UN Convention on the Suppression of the Financing of Terrorism. The GOC created a sub-unit within the UCML that will focus specifically on the financing of terrorism. The unit reinforces the UCML with additional staff. The UCML will coordinate with the new counter-terrorism unit under the authority of the Attorney General. The GOC has cooperated with the U.S. to investigate terrorist financing.

The GOC places restrictions on foreign ownership of property and transportation of currency and bullion. Cypriot law requires declaration of all cash entering or leaving Cyprus in the amount of U.S. \$1,600 or greater. Declarations over U.S. \$10,000 are sent directly to the Investigations Section of Cypriot Customs and the central bank. All banks and non-bank financial institutions—insurance companies, stock exchange, cooperative banks, lawyers, accountants and other financial intermediaries—must report suspicious transactions to the UCML. Bank employees currently report all suspicious transactions to the bank's compliance officer, who determines whether to forward the report to the UCML for investigation. Reports not sent to the UCML are filed monthly with the central bank. Banks are also required to document cash deposits in excess of U.S. \$10,000 and to file monthly aggregate reports with the central bank. A declaration form must accompany all foreign currency deposits. In 1998, the central bank instructed banks and financial institutions to pay special attention to complex, unusually large transactions, and to report cumulative electronic funds transfers that exceed U.S. \$500,000 per month for a single customer. There are no statistics available on compliance with these regulations.

In 2000, the Financial Action Task Force (FATF) conducted a review of Cyprus's anti-money laundering regime against 25 specified criteria. The report raised a concern regarding customer identification in respect to all forms of trusts. In 2001, the central bank issued rules addressing this concern, requiring banks to ascertain the identities of the natural persons who are the "principal/ultimate" beneficial owners of new corporate or trust accounts. This rule does not apply to existing accounts.

The central bank took several steps during 2001 to improve suspicious activity reporting and identification of beneficial owners of new accounts. The central bank amended its requirement that commercial banks report the opening and maintenance of accounts, by banks incorporated in 19 jurisdictions, to include the Former Yugoslav Republic of Montenegro. The amendment enhanced the requirement to obtain central bank approval for cash deposits exceeding \$100,000 per year by requiring banks to apply the annual limit to the aggregate value of deposits from family members and business associates.

The central bank also issued a series of orders requiring banks to notify the central bank of accounts held by any individuals or organizations associated with the financing of terrorist organizations, and to freeze assets held in those accounts. The aforementioned requirements, apply equally to domestic and offshore banks. Banks and professional groups generally support the steps taken by the central bank. At the request of the Central Bank, the lawyers and accountant associations requested their members notify the associations of any work performed on behalf of certain terrorist organizations. Both associations are cooperating closely with the central bank.

A substantial amount of money was illegally transferred out of Yugoslavia while former President Slobodan Milosevic was in office. Estimates range as high as four billion dollars with some of these funds believed to have been transferred through Cyprus. By April 2001, the GOC had turned over documents to the international war crimes tribunal in The Hague concerning possible money laundering by Milosevic and his associates. Some 250 bank accounts have been identified as belonging to Serbian offshore companies based in Cyprus.

The development of the offshore financial sector in Cyprus has been facilitated by the island's central location, a preferential tax regime, an extensive network of double tax treaties (particularly with Eastern

European and former Soviet Union nations), a labor force particularly well trained in legal and accounting skills, a sophisticated telecommunications infrastructure, and relatively liberal immigration and visa requirements. Services provided are confined to banks (total 2001 assets: U.S. \$10.8 billion), insurance services, company formation and relatively small fund management and advisory businesses.

Cyprus's offshore sector includes 29 banks, 28 licensed foreign insurance companies, 116 financial services companies, 20 companies that manage collective investment schemes, and 12 offshore trustee companies. The central bank has in place a strict regulatory framework aimed at preventing abuses within the offshore sector. Offshore banks are required to adhere to the same legal, administrative, and reporting requirements as domestic banks. The central bank requires prospective offshore banks to face a detailed vetting procedure to ensure only banks from jurisdictions with proper supervision are allowed to operate in Cyprus. Offshore banks must have a physical presence in Cyprus and cannot be brass plate operations (shell banks). Once an offshore bank has registered in Cyprus, it is subject to a yearly on-site inspection by the central bank. Offshore banks in Cyprus may accept deposits and make foreign-currency denominated loans to residents of Cyprus if the resident has obtained an exchange control permit from the central bank.

As of mid-2001, there were approximately 52,000 international business companies (IBCs) registered in Cyprus. However, approximately 16,000 of these remain active and about 1,000 have a physical presence in Cyprus. Russian IBCs constitute a "significant" share of the total number of active IBCs. The central bank began an intensive program in 2001 to identify inactive offshore companies and to delete them from the registry. Exact figures are unavailable; however, the Central Bank is believed to have deleted approximately 18,000 companies from the registry during 2001. The names of beneficial owners of IBCs can be released to law enforcement by court order. The popularity of the offshore sector can be explained in part, as noted above, by the GOC's dual-tax treaties with 26 nations, including Russia. Profits of Cypriot offshore companies are taxed at a rate of only 4.25 percent. Moreover, there is no tax on dividends, and foreign employees are required to pay only half the normal Cypriot income tax rate. IBCs may keep freely transferable currency accounts both abroad and in Cyprus. If an IBC is registered as an offshore partnership, profits are not taxed. Cyprus does not permit bearer shares.

In March 2001, the IMF conducted an assessment of the offshore sector in Cyprus. In its final report, published in July 2001, the IMF concluded that although lack of resources meant that onsite supervision was less than optimal, Cyprus's supervision of the offshore sector was generally "effective and thorough." The IMF characterized Cyprus' anti-money laundering legislative framework, as well as measures imposed by the central bank and other regulatory authorities, as being adequate. The report noted that, as in other offshore jurisdictions, there was still scope to improve the identification of beneficial owners and the reporting of suspicious transactions, particularly in the case of non-resident controlled companies.

The IMF report noted that Cyprus planned to abandon, by 2005, its existing framework of tax preferences for offshore businesses. Cypriot authorities are drafting a new Financial Services Bill that will extend supervision to cover all investment services in Cyprus, including some domestic businesses currently outside the scope of the current supervisory framework. These steps will eliminate the differentiation between onshore and offshore businesses in Cyprus. This will also assist in clearing the way for Cyprus's accession to European Union (EU) membership.

Cyprus is a party to the 1988 UN Drug Convention, and in December 2000, signed the UN Convention against Transnational Organized Crime. Cyprus is a member of the Council of Europe's PC-R-EV, and is a member of the Offshore Group of Banking Supervisors. The UCML is a member of the Egmont Group. Cyprus and the United States have signed a Mutual Legal Assistance Treaty, but it is not yet in force. In 1997, the GOC entered into a bilateral agreement with Belgium for the exchange of information on money laundering.

Cyprus has put in place a comprehensive anti-money laundering legal framework that meets international standards. Recent central bank rules requiring banks to identify the beneficial owners of new accounts should be extended to cover existing bank accounts whenever there is a significant change in the

## Money Laundering and Financial Crimes

---

ownership or control of the corporate or trust account holder. The GOC could enhance enforcement of its anti-money laundering laws by authorizing UCML to conduct unannounced inspections of the bank compliance officers and to also examine suspicious activity reports filed with the Central Bank. In addition, as noted by the IMF, it should ensure that the identities of beneficial owners are easily accessible by law enforcement.

(Cyprus has been divided since the Turkish military intervention of 1974, following a coup d'état directed from Greece. Since then, the southern part of the country has been under the control of the Government of the Republic of Cyprus. The northern part is controlled by a Turkish Cypriot administration that in 1983 proclaimed itself the "Turkish Republic of Northern Cyprus." The U.S. government recognizes only the Government of the Republic of Cyprus.)

It is more difficult to evaluate anti-money laundering efforts in the "Turkish Republic of Northern Cyprus" ("TRNC") but there continues to be strong evidence of a growing trade in narcotics with Turkey and Britain, as well as significant money laundering activities.

"TRNC" authorities have enacted a money laundering law for northern Cyprus, which went into effect in November 1999. The main thrust of the law was to reduce the number of cash transactions in the "TRNC" as well as to improve the tracking of any transactions above U.S. \$10,000. The law also provides for the creation of an experts committee to advise "TRNC" authorities on combating money laundering as well as for the seizure of assets.

The law is an adjunct to the "TRNC's" Exchange Control Law of 1997, which requires banks to report to the "central bank" any movement of funds in excess of \$100,000. Such reports must include information identifying the person transferring the money, the source of the money, and its destination. The law also proscribes individuals entering or leaving the "TRNC" from transporting more than U.S. \$10,000 in currency. Under the new law, banks, non-bank financial institutions, and foreign exchange dealers must report all currency transactions over \$20,000 and suspicious transactions in any amount. Banks must follow a know-your-customer policy and require customer identification. Banks must also submit suspicious transactions to a central multi-agency committee that will function as an FIU and have investigative powers.

"TRNC" officials believe that its 24 essentially unregulated casinos are the primary vehicles through which money laundering occurs. There is also an offshore sector, consisting of 40 banks and 12 IBCs. The offshore banks may not conduct business with "TRNC" residents and may not deal in cash. However, these banks are not audited and their records are not publicly available. Reportedly, a new law will restrict the granting of new bank licenses only to those banks already having licenses in an OECD country.

In spite of a growing awareness in the "TRNC" of the danger represented by money laundering, it is clear that "TRNC" regulations fail to provide effective protection against the risk of money laundering. The new law of the "TRNC" provides better banking regulations than were previously in force. The major weakness continues to be the "TRNC's" many casinos, where a lack of resources and expertise leave that area, for all intended purposes, unregulated, and therefore, especially vulnerable to money laundering abuse.

**Czech Republic.** Both geographic and economic factors render the Czech Republic vulnerable to money laundering. The country straddles Europe, with Poland and Slovakia, which separated from the Czech Republic less than a decade ago, to the east, Germany to the west and Austria to the south. Narcotics-trafficking, smuggling, auto theft, arms trafficking, tax fraud, embezzlement, racketeering, prostitution, and trafficking in illegal aliens are the major sources of funds that are laundered in the Czech Republic. Domestic and foreign organized crime groups target Czech financial institutions for laundering activity; banks, currency exchanges, casinos and other gaming establishments, investment companies, and real estate agencies have all been used to launder criminal proceeds.

The Czech Republic's anti-money laundering legislation, Act N°61/1996 Concerning Some Measures against Legalization of Proceeds of Criminal Activity and Amending Legislation Thereto, became effective

in July 1996. Money laundering was technically criminalized in September 1995 through the addition of Articles 251 and 251a to the Czech Criminal Code. The Criminal Code does not explicitly mention money laundering, but the criminal provisions do apply to financial transactions involving the proceeds of all serious crimes. The Financial Action Task Force (FATF) report of July 2001 on the Czech Republic suggests nevertheless that the current legislative configuration constitutes a major weakness in the country's anti-money laundering regime.

Ministry of Finance Decree N°183 formally established the Czech Republic's financial intelligence unit, the Financial Analysis Unit (FAU), and outlines how financial institutions are to comply with the reporting of suspicious transactions. The FAU is a member of the Egmont Group, and is authorized to cooperate with its foreign counterparts, even those not part of the Egmont Group.

The Czech Parliament has failed to pass legislation that completely eliminates anonymous passbook accounts. Czech officials argue that the existing accounts are of limited use for money laundering because customer identification is required for deposits and withdrawals that exceed 100,000 Czech crowns (approximately U.S. \$2,700). While the prohibition of new anonymous accounts beginning in mid-2000 is considered to be a major step forward, the continued existence of prior anonymous accounts remains, in the eyes of the FATF reviewers, a clear weakness in the effort to combat money laundering.

In addition to identifying these weaknesses, FATF has reported that insufficient requirements for the identification of beneficial owners that are legal persons severely hamper money laundering investigations in the Czech Republic.

The Czech Republic participates in the Council of Europe's Select Committee of Experts on the Evaluation of Anti-Money Laundering Measures (PC-R-EV), and in 1998, underwent a mutual evaluation by the Committee. The Czech Republic continues to implement changes to its anti-money laundering regime based on the results of the mutual evaluation. The United States and the Czech Republic have a Mutual Legal Assistance Treaty, which entered into force in May 2000. The Czech Republic is a party to the 1988 UN Drug Convention, and in December 2000, signed the UN Convention against Transnational Organized Crime. The Czech Republic has signed Memoranda of Understanding (MOUs) on information exchange with Belgium, France, Italy and Bulgaria.

The Czech Republic has made progress. A revision in May 2001 of the Criminal Code has facilitated the seizure and forfeiture of bank accounts. There has been a significant increase in the number of suspicious transaction reports being transmitted to the FAU and, in turn, that are evaluated and forwarded to law enforcement, indicating an active participation of obliged entities in the anti-money laundering regime. After clarifications to the reporting requirements in 1996, reporting soared from 95 unusual transactions (1996) to 1,920 suspicious transactions in 2000. The number of reports forwarded to the police increased from none the first year to 103 in 2000. The Czech Republic is encouraged to continue adopting the suggestions of the PC-R-EV mutual evaluation report, to eliminate all anonymous passbook accounts, and to strengthen the requirements on identification of beneficial owners.

**Denmark.** Banking procedures in Denmark are transparent and are subject to government review, which discourages prospective money launderers and minimizes the likelihood of improper use of the banking system. Despite this, in response to a growing concern surrounding economic crimes in general, Denmark created the Serious Economic Crime Unit in 2000. The unit reports to the National Police Commissioner and consists of public prosecutors and police officers specifically trained in fighting economic crimes.

Money laundering is a criminal offense in Denmark, regardless of the predicate offense. Banks and other financial institutions are required to know, record and report the identity of customers engaging in significant transactions and maintain those records for an adequate amount of time. There are no secrecy laws in Denmark that prevent disclosure of financial information to competent authorities, and there are laws that protect bankers and others who cooperate with law enforcement authorities. Denmark has regulations in place that ensure the availability of adequate records in connection with narcotics

## Money Laundering and Financial Crimes

---

investigations. Denmark has cooperated fully with U.S. authorities with regards to money laundering investigations.

Denmark is a party to the 1988 UN Drug Convention and has signed but not yet ratified the United Nations Convention against Transnational Organized Crime. It participates in European Union anti-money laundering efforts, and its financial intelligence unit belongs to the Egmont Group. Denmark has endorsed the 1997 Basel Committee Core Principles for Effective Banking Supervision. Denmark is also a member of the Financial Action Task Force.

**Dominica.** Dominica has enacted legislation to address many of the deficiencies in its anti-money laundering program but implementation of its reforms remains vital to the country's ability to combat financial crime including money laundering.

Like many Caribbean jurisdictions, Dominica has sought to attract offshore dollars by offering a wide range of financial services and promises of confidentiality, low fees, and minimal government oversight. Dominica's financial sector includes 5 domestic banks and 3 offshore banks, 17 credit unions, 1,100 international business companies (IBCs) (a 5,000 reduction from last year), 4 Internet gaming companies, and 1 international exempt trust. Under Dominica's economic citizenship program, individuals could purchase Dominican passports as well as official name changes for approximately U.S. \$50,000 or U.S. \$75,000 in government bonds. Dominica's economic citizenship program was improperly controlled and came under fire as a way for individuals from the Peoples' Republic of China and other foreign countries to become Dominican citizens and enter the United States via Canada without visas. Between 1996 and 2000, the Government of Dominica (GOD) issued approximately 500 economic citizenships.

A rapid expansion of Dominica's offshore sector without proper supervision has made Dominica attractive to international criminals, and has prompted public criticism from international organizations. A February 2001 U.S. Senate report on correspondent banking alleged that the British Trade and Commerce Bank Ltd. (BTCB), a Dominican offshore bank, was involved in suspicious transactions involving millions of dollars from financial fraud operations. The GOD revoked BTCB's license two weeks later after an on-site bank inspection.

In June 2000, the Financial Action Task Force (FATF) identified Dominica as non-cooperative in international efforts to combat money laundering. The FATF in its report of June 2000 cited several concerns: outdated anti-money laundering legislation, inadequate identification of corporate owners and bank customers, and a largely unregulated offshore sector. The U.S. Department of Treasury also issued an advisory to U.S. financial institutions in July 2000 warning them to "give enhanced scrutiny" to financial transactions involving Dominica.

In response to pressure from the international community, the GOD enacted a number of reforms to address the deficiencies in its financial sector. In July 2000, the Finance Minister announced a comprehensive review of all offshore banks and the establishment of an Offshore Financial Services Council (OFSC). An agreement between the OFSC and the Eastern Caribbean Central Bank (ECCB) in December 2000 placed Dominica's offshore banks under the direct supervision of the ECCB. The agreement specified licensing and ongoing supervision requirements. The ECCB already supervised Dominica's domestic banks. Three joint offshore bank inspections by the ECCB and the Ministry of Finance's International Business Unit (IBU) resulted in the revocation of at least three licenses in 2001.

Dominica has enacted anti-money laundering legislation since 2000. The Money Laundering (Prevention) Act (MLPA) No. 20 of December 2000 (effective January 2001) and its July 2001 amendments criminalize the laundering of proceeds from any indictable offense. The MLPA requires financial institutions to keep records of transactions for at least seven years. The MLPA authorizes the Money Laundering Supervisory Authority (MLSA) to inspect and supervise non-bank financial institutions and regulated businesses for compliance with the MLPA. The MLPA requires a wide range of financial institutions and businesses, including offshore institutions to report suspicious transactions to the MLSA, which will then send the reports to the Financial Intelligence Unit (FIU); the MLSA is also responsible for developing anti-money

laundering policies, issuing guidance notes, and conducting training. The MLPA also requires persons to report cross-border movements of currency that exceed U.S. \$10,000 to the FIU. The FIU will analyze these reports of suspicious transactions and cross-border currency transactions, forward appropriate information to the Director of Public Prosecutions, and liaison with other jurisdictions on financial crimes cases.

The MLPA also authorizes the FIU to exchange information with foreign counterparts. A new Exchange of Information Act provides for information exchange between regulators. Dominican authorities have indicated that the FIU has five trained staff and has been operational since August 2001.

The MLPA also provides for freezing of assets for seven days by the FIU after which time a suspect must be charged with money laundering or the assets released; assets may be forfeited after a conviction.

The May 2001 Money Laundering (Prevention) Regulations, apply to all onshore and offshore financial institutions (including banks, trusts, insurance companies, money transmitters, regulated businesses, and securities companies). The regulations specify customer identification, record keeping and suspicious transaction reporting procedures and require compliance officers and training programs for financial institutions. Anti-Money Laundering Guidance Notes, also issued in May 2001, provide further instructions for complying with the MLPA and provide examples of suspicious transactions to be reported to the MLSA.

The Offshore Banking (Amendment) Act No. 16 of 2000 prohibits the opening of anonymous accounts, prohibits IBCs from direct or indirect ownership of an offshore bank, requires all banks licensed in Dominica to have a physical presence in Dominica, and requires disclosure of beneficial owners and prior authorization to changes in beneficial ownership of banks.

The International Business Companies (Amendment) Act No. 13 of 2000 (effective January 2001) requires that newly issued bearer shares be kept with an “approved fiduciary,” who is required to maintain a register with the beneficial owner name and address. It empowers the IBU to “perform regulatory, investigatory and enforcement functions” of IBCs. Additional amendments to the Act in September 2001 require previously issued bearer shares to be registered.

In June 2001, FATF determined that although Dominica had taken steps to remedy some of the deficiencies in its anti-money laundering regime, Dominica had made insufficient progress to warrant removing it from FATF’s list of non-cooperative countries in the international fight against money laundering. FATF noted that Dominica had not addressed fully several issues, including customer identification procedures, the retention of records and information sharing with administrative authorities.

On September 7, 2001, FATF recognized Dominica for its latest reform, a September 3 amendment to the Money Laundering (Prevention) Regulations that requires Dominican institutions to apply within one-year customer identification procedures for existing bank accounts. FATF also encouraged Dominica to address deficiencies identified in the area of trusts and invited Dominica to submit an implementation plan.

Dominica is a member of the Organization of American States Inter-American Drug Abuse Control Commission (OAS/CICAD) Experts Group to Control Money Laundering. Dominica is also a member of the Caribbean Financial Action Task Force (CFATF). In May 2000, a Mutual Legal Assistance Treaty with the United States entered into force. Dominica is a party to the 1988 UN Drug Convention.

The GOD should fully implement and enforce the provisions of its recent legislation, provide additional resources for regulating offshore entities, and continue to develop the FIU in order to coordinate its own anti-money laundering efforts and cooperate with foreign authorities. Such measures will help protect Dominica’s financial system from further abuse by international criminals.

**Dominican Republic.** The Dominican Republic is a major transshipment point for narcotics moving from South America into Puerto Rico and the United States, and is vulnerable to narcotics-related money

## Money Laundering and Financial Crimes

---

laundering. The Dominican Republic's financial institutions engage in currency transactions involving international narcotics-trafficking proceeds that include significant amounts of U.S. currency or currency derived from illegal drug sales in the United States. The smuggling of bulk cash by couriers and wire transfer remittances are the primary methods for moving illicit funds from the United States into the Dominican Republic. Once in the Dominican Republic, the use of currency exchange houses and money remittance companies are the primary mechanisms for laundering the illicit funds. In September 2001, a year-long investigation, known as Operation Sanctuary, resulted in the arrest of numerous individuals who were part of an international organization engaged in the illicit trafficking of multi-ton quantities of cocaine and the laundering of millions of U.S. dollars. The investigation was initiated by the Dominican Republic's National Drug Control Directorate (DNCD) and supported by law enforcement officials from the U.S., Puerto Rico and Venezuela.

The Government of the Dominican Republic (GODR) has taken steps to combat money laundering. Since December 1995, narcotics-related money laundering has been considered a criminal offense, and the law allows preventative seizures and criminal forfeiture of drug-related assets. It also authorizes international cooperation in forfeiture cases. Decree No. 288-1996 by the Superintendency of Banks requires banks, currency exchange houses, casinos, and stockbrokers to record currency transactions equal to or greater than the equivalent of U.S. \$10,000 in either domestic or foreign currency, and make this information available to law enforcement upon request. The Decree also obligates these financial institutions to identify customers and report suspicious financial transactions (STRs). Numerous narcotics-related investigations have been initiated under this 1995 Narcotics Law and substantial currency and other assets confiscated but there has never been a prosecution.

In 1997, the GODR established the Financial Analysis Unit (FAU) within the Superintendency of Banks to analyze and disseminate STRs information to the Financial Investigative Unit within the DNCD. The Unit investigates narcotics-related money laundering, and has authority to compel cooperation from other GODR agencies. The FAU is a member of the Egmont Group, and is authorized to exchange information with other financial intelligence units. In 1998, the GODR passed legislation that allows extradition of Dominican nationals on money laundering charges.

In 2000, the GODR proposed legislation that would expand the predicate offenses for money laundering beyond drug trafficking to other serious crimes such as arms trafficking; trafficking in humans or human organs; kidnapping; extortion; car theft; forgery of currency, bills, or securities; illicit enrichment; embezzlement; and bribery. The legislation also would require financial institutions to report to the FAU cash transactions that are greater than or equal to the equivalent of U.S. \$10,000 in domestic or foreign currency. Moreover, the legislation will require individuals to declare cross-border movements of currency that are greater than or equal to the equivalent of U.S. \$10,000 in domestic or foreign currency. The Senate passed the legislation in December 2001 and it now awaits action in the Lower House of the Congress.

The GODR is the current president of the Caribbean Action Task Force (CFATF), and a member of the Organization of American States Inter-American Commission on Drug Abuse Control (OAS/CICAD) Experts Group to Control Money Laundering. The Dominican Republic is a party to the 1988 UN Drug Convention, and a signatory to the UN Convention against Transnational Organized Crime (December 2000). The GODR cooperates with the U.S. Government on counter narcotics and fugitive matters.

The GODR should enact pending anti-money laundering legislation and implement its provisions.

**Ecuador.** Drug trafficking organizations continue to exploit Ecuador's borders while money launderers benefit from the absence of an effective anti-money laundering program. Ecuador's adoption of the U.S. dollar as its national currency during 2000 could increase the attractiveness of Ecuador as a money laundering site. Several Ecuadorian banks maintain offshore offices, although these have come under tighter control as a result of banking legislation passed in 1994, could be used to channel illicit funds. There were no successful prosecutions specifically involving the financing of drug operations during 2001, although over 1.5 million of smuggled U.S. currency, believed to be related to drug sales, was seized.

The Narcotics and Psychotropic Substance Act of 1990 (Law 108) criminalizes illegal enrichment, conversion or transfer of assets, and prosecution of front men done in connection with drug trafficking. Regulations are in place (through Drug Law 108, 1994 Financial System Law, and 1996 Banking Superintendency Resolution) requiring financial institutions to report to the National Drug Council (CONSEP) any transaction in cash or stocks over U.S. \$5,000; and suspicious financial transactions. The CONSEP does not share this information with the Central Bank or other financial regulatory agencies, therefore, the Banking Superintendency cannot verify if the financial institutions are complying with the reporting requirements. A contradictory legal framework remains in place severely limiting the information that can be made available to law enforcement. The Ecuadorian National Police (ENP) must obtain a court order to search for and obtain financial information from banks and other financial institutions. However, private financial institutions and banks generally refuse to honor the orders claiming that, according to banking regulations, they are only required to respond to the Superintendency of Banks. The Superintendency of Banks will not accept request for information directly from police but requires that the request be made by the CONSEP, and provides the information back to the CONSEP, which often does not share with other agencies. A bill revising the Drug Law has been drafted to correct some of these deficiencies.

Ecuador's new Code of Criminal Procedures went into effect in July 2001 transforming the country's traditional inquisitorial system into an accusatorial one. The prosecutors can now decide which cases can precede and the judiciary will now hear criminal cases in oral trials as compared with the slow moving and predominantly written inquisitorial system. The National Police will continue to work as investigators but under the direction of the prosecutors.

Ecuador is a party to the 1988 UN Drug Convention and has signed but not yet ratified the UN Convention against Transnational Organized Crime. Ecuador is a member of the Organization of American States Inter American Drug Abuse Control Commission (OAS/CICAD) Experts Group to Control Money Laundering. Ecuador is also a member of the South American Financial Action Task Force (GAFISUD). There is a 1992 Financial Information Exchange Agreement (FIEA) between the Government of Ecuador (GOE) and the U.S. to share information on currency transactions.

The GOE should enact reforms to criminalize money laundering from any illicit activity, provide law enforcement authorities with effective investigative techniques, and take the necessary steps to construct a viable anti-money laundering regime to combat money laundering.

**The Arab Republic of Egypt.** Egypt is not a major regional financial center. The majority of funds laundered in Egypt represent proceeds from drug trafficking, organized crime, and evasion of international sanctions. Narcotics-related money laundering usually involves investment in real estate or business ventures. In a typical scheme, a launderer will invest through a trusted intermediary, such as a relative or a close friend. Because of widespread mistrust of banks and fear that banking records—despite Egypt's secrecy laws—could provide authorities with incriminating evidence, Egyptian money launderers rarely use the banking system.

Egypt has no law specifically criminalizing money laundering, does not have customer identification requirements for non-bank financial institutions, and contains no requirement that banks or other financial institutions report suspicious transactions to governmental authorities. Presidential Decree No. 205 of 1990, as amended by Law No. 97 of 1992, generally provides for banking anonymity, specifically that "all clients' accounts, deposits, trusts, and safes in banks, and all dealings related thereto shall be confidential." The law states in translation, however, that secrecy may be abridged through an order from the Cairo Court of Appeal "[i]f this is so necessitated unveiling a fact in a felony or misdemeanor of which the occurrence is established by substantiated evidences." The exact basis on which the Cairo Court of Appeal might grant such a court order is somewhat unclear.

The Egyptian government has shown some willingness to cooperate with foreign authorities in criminal investigations. For example, the United States and Egypt signed a Mutual Legal Assistance Treaty in May 1998, which will enter into force sometime in 2001. Egypt is a party to the 1988 UN Drug Convention,

## Money Laundering and Financial Crimes

---

and has signed but not yet ratified the UN Convention Against Transnational Organized Crime. The Egyptian government has signed legal and judicial cooperation agreements with the United Arab Emirates, Bahrain, Morocco, Hungary, Jordan, France, Kuwait, Tunisia, Iraq, and Algeria. It has signed other international agreements, including extradition agreements and mutual judicial recognition agreements, with Italy, Turkey, and Arab League Countries.

There have been some improvements to Egypt's anti-money laundering enforcement regime since the last reporting period. In June 2001, the Central Bank of Egypt (CBE) issued regulations containing customer identification and record-keeping provisions for banks under its control and requiring staff anti-money laundering training. The regulations, however, do not apply to non-bank financial institutions. In addition, while the regulations require banks to maintain information about "unusual transactions," there is no requirement to report these transactions to governmental authorities. Finally, while Egypt's Parliament has periodically debated enacting a law that would clearly criminalize money laundering, many Egyptian officials do not see such a law as urgent, believing that existing laws and regulations are adequate to combat money laundering.

In June 2001, the Financial Action Task Force (FATF) identified Egypt as non-cooperative in international efforts to fight money laundering. The FATF in its report cited several concerns: (1) the failure to criminalize money laundering; (2) the failure to establish an adequate suspicious transaction reporting system and financial intelligence unit; and (3) the failure to establish adequate customer identification requirements that apply to all financial institutions. The FATF also sought clarification on the evidence required to abridge Egypt's strict bank secrecy requirements.

Though the Egyptian government has made some attempt to improve the country's domestic anti-money laundering program and to cooperate internationally with criminal investigations, serious deficiencies remain. As a crucial first step to address these deficiencies, Egypt needs to pass a law clearly criminalizing money laundering. Additional necessary improvements include requiring the reporting of suspicious transactions to appropriate authorities (i.e., a financial intelligence unit), instituting customer identification and record-keeping provisions for all financial institutions, and the easing of bank secrecy requirements to protect Egypt's economy from infiltration by criminals.

**El Salvador.** Located on the southern coast of the Isthmus, El Salvador has one of the largest banking systems in Central America. Salvadoran banks' most significant financial contacts are those with its Central American neighbors, Mexico, the Caribbean, and the United States. The growth of El Salvador's financial sector and the increase in narcotics-trafficking in the region continue to make El Salvador quite vulnerable to money laundering. Criminals also launder funds generated from kidnapping. In addition, the Government of El Salvador's (GOES) dollarization of the economy in January 2001 increased the risk of money laundering. However, thus far the GOES aggressive anti-money laundering policies have resulted in the first money laundering prosecution and the entry of the GOES financial intelligence unit in 2001 into the Egmont Group.

The 1998 "Law Against Laundering of Money and Assets" criminalized money laundering related to drug trafficking and any other criminal activity. The Unidad de Investigación Financiera (UIF), the financial intelligence unit (FIU) within the Attorney General's Office, separate anti-money laundering units within the Policía Nacional Civil (PNC) and the central bank enforce the law's provisions. Financial institutions such as banks, exchange companies, stock exchanges, insurance companies, credit card companies, casinos, and real estate companies must identify their customers, maintain records for a minimum of five years, train personnel in identification of money and asset laundering, and establish internal auditing procedures. Covered institutions also must report suspicious transactions and transactions that exceed 500,000 colones (approximately U.S. \$57,000) to the UIF. The law also requires sworn declarations for those entering the country with more than 100,000 colones (approximately U.S. \$11,400), or its foreign equivalent, in cash or securities.

Although a provision of this law provides for asset identification and seizure, asset sharing with non-Salvadoran agencies has not yet been approved. Draft legislation would lower the threshold reporting

requirement to 100,000 colones (approximately U.S. \$11,400), and additionally require the declaration of outbound currency movements of 100,000 colones or more.

The UIF has been operational since January 2000. The UIF currently is composed of six individuals—three prosecutors (fiscales), one analyst, one computer technician and one secretary. From January 1 to October 31 2001, the UIF received 54 reports from 17 financial institutions, opened approximately 100 investigations involving over 500 subjects, and prosecuted three cases. The UIF also reported freezing approximately \$500,000 from various suspect bank accounts.

In June 2001 the UIF formally joined the Egmont Group. El Salvador is party to the 1988 UN Drug Convention, and has signed but not yet ratified the UN Convention against Transnational Organized Crime. El Salvador is also a member of the Organization of American States Inter-American Drug Abuse Control Commission (OAS/CICAD) Experts Group to Control Money Laundering.

The GOES should continue the aggressive anti-money laundering policies it has pursued over the last few years. It is urged to address the deficiencies in its anti-money laundering law and provide training for judges to ensure proper enforcement of its laws.

**Eritrea.** Eritrea is a small country that has a developing financial system. There are no reports of money laundering in Eritrea.

Eritrea is not a party to the 1988 UN Drug Convention.

**Estonia.** Estonia has one of the most developed banking systems of the former Soviet Union. Estonia permits credit institutions to participate in a variety of activities such as leasing, insurance, and securities. Russian organized crime groups are suspected of using financial institutions in Estonia and the other Baltic countries to launder money.

In 1999, Estonia implemented anti-money laundering legislation, and established the Information Bureau (IB) and a separate police unit to fight money laundering. Estonia's legislation requires financial institutions to report suspicious or unusual transactions to the IB. The reporting thresholds are: the equivalent of approximately U.S. \$11,000 for non-currency transactions; and the equivalent of approximately U.S. \$5,500 for currency transactions. However, Estonia has no formal system for ensuring that financial institutions comply with the reporting requirements. Moreover, the IB lacks authority to compel banks to disclose additional information. In 2001 Estonia established the Tax Police, which also has the authority to investigate money laundering and to seize assets and cash.

Estonia is a member of the Council of Europe (COE) Select Committee of Experts on the Evaluation of Anti-Money Laundering Measures (PC-R-EV). The IB is a member of the Egmont Group. Estonia is a party to the 1988 UN Drug Convention and has signed but not yet ratified the UN Convention against Transnational Organized Crime. A Mutual Legal Assistance Treaty is in force between the United States and Estonia.

The Government of Estonia should implement a system to ensure that banks actually comply with the reporting requirements and should take steps to develop a viable anti-money laundering regime that will enable it to fully participate in the global effort to thwart money laundering.

**Ethiopia.** Ethiopia is neither a regional financial center nor a haven for money laundering activities. Because inter-continental criminal, terrorist, and drug organizations operate within the region, Ethiopia is vulnerable to money laundering related activities. These can include illegal trade in narcotics, illegal gem and mineral trading, terrorist financing, human trafficking, and trafficking of animal products.

Money laundering is not a crime in Ethiopia. However, Ethiopia's underdeveloped financial infrastructure and lack of economic development make it unlikely that it will become a financial center in the foreseeable future. The country contains around 5 local banks as well as a government bank. Currently, there are no foreign banks that operate within the country. Foreign exchange controls limit possession of foreign currency, and the government controls the exchange of foreign currency into local currency.

## Money Laundering and Financial Crimes

---

Banks are required to know and report the identity of their customers making significant (unspecified) transactions. Banks must also maintain account records.

Ethiopia is a party to the 1988 UN Drug Convention and has signed but not yet ratified the UN Convention against Transnational Organized Crime.

**Fiji.** No significant money laundering appears to be taking place in Fiji. Money laundering is criminalized under the Proceeds of Crime Act, 1997. In addition, the Reserve Bank of Fiji has issued anti-money laundering guidelines to licensed financial institutions that require them to develop customer identification procedures, keep transaction and other account records for seven years, and report suspicious financial transactions to both the Fiji Police and the Reserve Bank of Fiji. These guidelines went into effect in January 2001. Approximately 50 suspicious transactions were reported in 2001.

There is no formal agreement between Fiji and the United States for cooperation on law enforcement matters or mutual legal assistance; however, Fiji has responded positively to all such requests from the United States.

Fiji is a party to the 1988 UN Drug Convention. Fiji is a member of the Asia/Pacific Group on Money Laundering.

**Finland.** Finland is not a regional financial or money laundering center. However, Finnish authorities are concerned about possible money laundering by Russian organized crime as well as money laundering arising from fraud or other economic crimes.

In 1994, Finland enacted legislation criminalizing money laundering related to narcotics-trafficking or other serious crimes. Legislation enacted in 1998 compels financial institutions and most non-bank financial institutions—excluding accountants and lawyers—to report suspicious transactions. The number of suspicious transactions reports (STRs) Finnish police have investigated has increased in the past three calendar years: 348 STRs in 1999, 1,109 in 2000, and 2,700 in 2001. Trafficking in narcotics was the predicate offense for 40 percent of money laundering convictions in 2001.

In 1998, Finland established a financial intelligence unit, the Money Laundering Clearing House (MLCH), to receive STRs from financial institutions. The MLCH is a member of the Egmont Group.

Finland is a member of the Financial Action Task Force and the Council of Europe. Finland is a party to the 1988 UN Drug Convention and has signed but not yet ratified the UN Convention against Transnational Organized Crime.

**France.** France remains an attractive venue for money laundering because of its sizable economy, strong currency, political stability, and sophisticated financial system. Common methods of laundering money in France include the use of bank deposits, foreign currency and gold bullion transactions, corporate transactions, and purchases of real estate, hotels, and works of art. France has enacted legislation that codifies the Financial Action Task Force (FATF) Forty Recommendations concerning customer identification, record keeping requirements, suspicious transaction reporting, internal anti-money laundering procedures, and training for financial institutions.

France criminalized money laundering related to all crimes with the adoption in 1996 of Act N° 93-392, “On the Fight against Money Laundering, Drug Trafficking and International Cooperation in Respect of Seizure and Confiscation of the Proceeds of Crime.” Even though this Act made money laundering in itself a general offense, some French courts do not allow joint prosecution of individuals on both money laundering charges and the underlying predicate offense, on the grounds that they constitute the same offense.

In July 2001, the French Parliament proposed a law that would ease the responsibility of banks to report large cash deposits during the introduction of the Euro. The law would temporarily raise the amount of money an individual could deposit (from FF50, 000 to 60,000) without the bank having to report the transaction to France’s financial intelligence unit, TRACFIN (the Treatment of Information and Action Against Clandestine Financial Circuits). The law would also suspend, from 1 December 2001 to 17

February 2002, the sanctions imposed on banks that fail to notify TRACFIN of such deposits, provided the banks are confident that the money being deposited is money being “hoarded.” The existing requirements that banks report all suspicious transactions will remain unchanged—banks currently face fines of FF2.5 to five million for failure to report such transactions, and bankers face up to ten years in prison.

Also in 2001, the Government of France (GOF) proposed additional anti-money laundering measures in order to bring the French regime into line with the newer, tougher European Union (EU) Directive on money laundering. These include requiring companies to disclose their nominee shareholders and giving the GOF the power to shut down shell companies being used in money laundering operations. However, the GOF will not address one aspect of the EU Directive: it will not require auditors and attorneys to report suspicious transactions, as called for in the Directive.

TRACFIN is responsible for analyzing suspicious transaction reports that are filed by French financial institutions. TRACFIN is a member of the Egmont Group, and may exchange information with foreign counterparts that observe similar rules regarding confidentiality of information. TRACFIN is establishing and leading France’s Liaison Committee against the Laundering of the Proceeds of Crime. This committee will be comprised of representatives from reporting professions and institutions, regulators, and law enforcement authorities.

As a member of the European Union, France is subject to EC Directive 91/308/EEC. France is a member of the FATF and a Cooperating and Supporting Nation to the Caribbean Financial Action Task Force. France is a party to the 1988 UN Drug Convention and the Council of Europe Convention on Laundering, Search, Seizure and Confiscation of the Proceeds from Crime. France has signed but not yet ratified the 2000 UN Convention against Transnational Organized Crime. The U.S. and France have entered into a Mutual Legal Assistance Treaty, which was ratified by the French Parliament and came into force in 2001. TRACFIN has information-sharing agreements with Austria, Italy, the United States, Belgium, Monaco, Spain, the United Kingdom, Argentina, Mexico, the Czech Republic, and Portugal.

France has established a comprehensive anti-money laundering regime. The GOF should build upon this regime by expanding suspicious transaction reporting requirements.

**Georgia.** Georgia has a small economy and is not a regional financial center. The scope of money laundering in Georgia involves small-scale schemes with proceeds from various illegal activities. Reportedly, some commercial banks have become involved in laundering funds generated by the smuggling of alcohol and cigarettes, but these proceeds are generally held in dollars outside the banking system. Corruption also remains an issue in Georgia. The National Bank of Georgia (the central bank) plays a growing role in regulating the banking industry.

Georgia’s criminal code of June 2000 does not criminalize money laundering, but makes it a crime to “transform illegal money into legal income” or to conceal the source, location or owner of property acquired illegally. Violators of this law are subject to imprisonment. The criminal code does not make any provisions for suspicious transaction reporting, and there are no legal safeguards to protect banks and other financial institutions that cooperate with law enforcement agencies. Currently, there are no controls on the amount of money that may be brought into the country. The money laundering controls that do exist are not applied to non-bank financial institutions. Most financial transactions in Georgia are conducted in cash.

The Constitutional Court has declared asset forfeiture and seizure legislation to be unconstitutional.

Georgia is a party to the UN Drug Convention and has signed the UN Convention against Transnational Organized Crime but not yet deposited an instrument of ratification.

**Germany.** Germany has the largest economy in Europe and a well-developed financial services industry. Russian organized crime groups, the Italian Mafia, and Albanian and Kurdish drug trafficking groups launder money through German banks, currency exchange houses, business investments, and real estate.

## Money Laundering and Financial Crimes

---

The Money Laundering Act criminalized money laundering related to drug trafficking, fraud, forgery, and embezzlement, and imposed due diligence and reporting requirements on financial institutions. Under the current law, financial institutions are required to obtain customer identification for transactions exceeding deutsche marks (DM) 30,000 (approximately U.S. \$14,500) that are conducted in cash or precious metals, and maintain records necessary to reconstruct transactions of DM 30,000 or more. In November 2001, the European Union money laundering directive mandated that member states, which include Germany, standardize and expand “suspicious activity” reporting requirements to include information from notaries, accountants, tax consultants, casinos, luxury item retailers, and attorneys. A draft law is currently before parliament that addresses the European Union money laundering directive and stronger due diligence requirements. Since 1998, the Federal Banking Supervisory Office license and supervise money transmitters, and has issued anti-money laundering guidelines to the industry. Germany also has a law, which entered into force in 1998, that gives border officials the authority to compel individuals to declare imported currency of DM 30,000 or more.

The Government of Germany (GOG) moved quickly after the September 11, 2001 terrorist attacks in the United States, to identify weaknesses in their laws that permitted at least some of the terrorists to live and study in Germany, unobserved and unnoticed, prior to September 11. The Federal government has submitted, and the Federal Parliament has passed, two packages of legislation to modify existing laws. The first package closes large loopholes in German law that have permitted members of foreign terrorist organizations to live and raise money in Germany, and have allowed extremists to advocate violence in the name of religion under “religious privilege” protections. The second package went into effect January 1, 2002. It enhances the performance of Federal law enforcement agencies, and improves the ability of intelligence and law enforcement authorities to coordinate their efforts and share important information, as they attempt to identify terrorists residing and operating in Germany.

The GOG also announced new anti-money laundering measures in October 2001. Foremost among these measures, the GOG plans to form a unit within the Ministry of Interior to receive and analyze financial disclosures. The unit will be staffed with experts in financial market supervision, customs, and law. The unit will be responsible for building cases before they go to prosecutors for formal investigation. It will also exchange information with its counterparts in other countries. The newly proposed anti-money laundering package also requires the country’s banking supervisory authority to compile a central register of all bank accounts, including 300 million deposit accounts. Banks will use computers to analyze their customers and their financial dealings to identify suspicious activity. The proposed legislation also calls for stiffer checks on the background of owners of financial institutions and tighter rules for credit card companies.

Each of the 16 states in Germany has a joint, financial investigations unit (“Gemeinsame Finanzermittlungsgruppen” or GFG), comprised of customs and police officials. Responsibility for money laundering investigations rests at the state level in Germany. The GFGs analyze and investigate suspicious transaction reports (STRs) that have been filed by German banks. The U.S. Customs Service maintains a liaison relationship with several of these units, and initiates joint investigations when suspicious financial transactions involving the United States are identified. These investigations often are related to fraud rather than narcotics-trafficking. Although one of the GFGs has participated in Egmont Group activities, the GFGs are not considered FIUs and are not members of the Egmont Group.

The GOG has established procedures to enforce its asset seizure and forfeiture law. The number of asset seizures and forfeitures remains low because of the high burden of proof that prosecutors must overcome in such cases. German law requires a direct link to drug trafficking before seizures are allowed. German authorities cooperate with U.S. efforts to trace and seize assets to the extent that German law allows, and the GOG investigates leads from other nations. However, German law does not allow for sharing forfeited assets with other countries.

Germany’s strict data privacy laws have made it difficult for authorities to monitor and take action against financial accounts and transfers used by terrorist networks. The situation is changing rapidly in the

aftermath of the attacks on the U.S. The Germans have responded quickly to freeze the accounts of entities associated with terrorists. New measures introduced in the second security package require financial institutions to make more data on suspicious transactions available to authorities.

The GOG cooperates fully with the United States on anti-money laundering initiatives, though it does not have a Mutual Legal Assistance Treaty with the United States. The GOG exchanges information through bilateral law enforcement agreements such as the Customs Mutual Assistance Agreement.

Germany is a member of the Financial Action Task Force, the European Union, and the Council of Europe. Germany is a party to the 1988 UN Drug Convention, and in December 2000, signed the UN Convention against Transnational Organized Crime.

Recently, the GOG has put forward a number of important proposals to further strengthen its anti-money laundering regime in 2002. The GOG's new anti-money laundering package reflects Germany's commitment to combat money laundering, and to cooperate with international governments. Germany's cooperation will be strengthened with the creation of a financial intelligence unit.

**Ghana.** Ghana is not a regional financial center. However, non-bank financial institutions such as foreign exchange bureaus are suspected of being used to launder the proceeds of drug trafficking, and the illegal trade in automobiles, diamonds, and gold. In addition, donations to religious institutions allegedly have been used as a vehicle to launder money. There have also been increases in the amount of "advanced fee" scam letters intercepted that originated in Ghana.

Ghana has criminalized money laundering related to drug trafficking and other serious crimes. However, financial institutions are not required to report large cash transactions. Law enforcement can compel disclosure of bank records for drug-related offenses, and bank officials are given protection from liability when they cooperate with law enforcement investigations. Ghana has cross-border currency reporting requirements. Moreover, the attorney general may require disclosure of assets sent out of the country. In 2001 the Bank of Ghana began drafting money laundering legislation that will increase the government's financial oversight capabilities.

The Narcotic Drug Law of 1990 provides for the forfeiture of assets upon conviction of a money laundering offense. The Government of Ghana in 2001 made no arrests or prosecutions related to money laundering.

Ghana participated in the formation of the Inter-Governmental Action Group Against Money Laundering (GIABA) at the December 2001 meeting of the Economic Community of West African States in Dakar. GIABA is not currently operational.

Ghana is a party to the 1988 UN Drug Convention. Ghana endorses the Basel committee "core principles" for banking supervision. Ghana has bilateral agreements for the exchange of money laundering-related information with the United Kingdom, Germany, Brazil, and Italy.

**Gibraltar.** Gibraltar is a largely self-governing, dependent territory of the United Kingdom, which assumes responsibility for Gibraltar's defense and international affairs. Gibraltar's offshore sector remains vulnerable to money laundering.

The Financial Services Commission (FSC) is responsible for regulating and supervising Gibraltar's financial services industry. It is obliged statutorily under its founding ordinance to match UK supervisory standards. Both onshore and offshore banks are subject to the same legal and supervisory requirements. Gibraltar has 21 banks, 11 of which are incorporated in Gibraltar, and all except one are subsidiaries of major international financial institutions. The FSC also is responsible for overseeing the activities of the Government of Gibraltar (GOG) offshore sector in the areas of trust and company management companies, insurance companies, collective investment schemes, and the formation of IBCs (of which there were 8300 registered by June 2000). Internet gaming is permitted by the GOG.

The Drug Offences Ordinance (DOO) of 1995 and Criminal Justice Ordinance of 1995 criminalize money laundering related to all crimes and mandate reporting of suspicious transactions by entities such as

## Money Laundering and Financial Crimes

---

banks, mutual savings companies, insurance companies, financial consultants, postal services, exchange bureaus, attorneys, accountants, financial regulatory agencies, unions, casinos, charities, lotteries, car dealerships, yacht brokers, company formation agents, dealers in gold bullion, and political parties.

Gibraltar was one of the first jurisdictions to introduce and implement all crimes money laundering legislation. The Gibraltar Criminal Justice Ordinance to combat money laundering related to all crimes entered into effect in January 1996. Comprehensive anti-money laundering Guidance Notes were also issued to clarify the obligations of Gibraltar's financial service providers.

Also in 1996, Gibraltar established the Gibraltar Coordinating Centre for Criminal Intelligence and Drugs (GCID) in 1996, to receive, analyze, and disseminate information on financial disclosures filed by institutions covered by the provisions of Gibraltar's anti-money laundering legislation. The GCID is now known as the Gibraltar Financial Intelligence Unit (GFIU), and is a sub-unit of the Gibraltar Criminal Intelligence Department. The GFIU consists mainly of police and customs officers, but is independent of law enforcement. The GFIU has applied to join the Egmont Group of FIUs.

In 2000, the Financial Action Task Force (FATF) conducted a review of Gibraltar's anti-money laundering program against 25 specified criteria. Although Gibraltar was not identified by the FATF as non-cooperative in the international fight against money laundering, the FATF noted a number of concerns, particularly with regard to suspicious transaction reporting and customer identification and verification.

In response to the issues raised by the FATF, the GOG is currently drafting amendments to their anti-money laundering legislation. The amendments will provide direct reporting requirements of suspicious transactions, and extend the provisions of the anti-money laundering legislation to cover company formation agents and trust services providers. The FSC has been redrafting the anti-money laundering guidance notes to abolish the present system for introducer certificates, and to require institutions to review all accounts opened prior to April 1, 1995 to ensure that "know your customer" procedures are clear and up to the new standards. The FSC are also taking this opportunity to introduce new guidelines related to correspondent banking, politically exposed persons, and bearer securities. According to government officials all of these changes are expected to be ready and implemented by 2002.

Gibraltar has adopted the European Union (EU) Money Laundering Directive 91/308. The United Kingdom has not extended the application of the 1988 UN Drug Convention to Gibraltar. The Mutual Legal Assistance Treaty between the United States and the United Kingdom also has not been extended to Gibraltar. However, application of a 1988 U.S.-UK agreement concerning the investigation of drug trafficking offenses and the seizure and forfeiture of proceeds and instrumentalities of drug trafficking was extended to Gibraltar in 1992. Also, the DOO of 1995 provides for mutual legal assistance with foreign jurisdictions on matters related to drug trafficking and related proceeds. Gibraltar has indicated its commitment, as part of the EU decision on its participation in certain parts of the Schengen arrangements, to update mutual legal assistance arrangements with the EU and Council of Europe partners. Gibraltar is a member of the Offshore Group of Banking Supervisors (OGBS). The OGBS conducted an on-site evaluation of Gibraltar in April 2001. The report on Gibraltar will be discussed and approved later this year at the annual OGBS meeting. The Government of Gibraltar also invited the IMF to carry out an assessment in May 2001 of the extent to which the Gibraltar supervisory arrangements for the offshore financial sector complied with certain internationally accepted standards. The assessment was carried out on the basis of the "Module 2" assessment in accordance with the procedures agreed by the IMF's Executive Board in July 2000.

The GOG has established a comprehensive anti-money laundering program in response to international concerns. The Government should enact and implement amendments to its anti-money laundering legislation to provide for direct reporting requirements of suspicious transactions and extend the provisions of the anti-money laundering legislation to cover company formation agents and trust services providers.

**Greece.** While not a major financial center, Greece is vulnerable to money laundering related to drug trafficking, trafficking in women and children, arms smuggling, blackmail, and illicit gambling activities that are conducted by Russian and Albanian criminal organizations. In the establishment of business in general in Greece, there are weak requirements for disclosing sources of foreign capital. As a result, Greece's five private and two state-owned casinos are susceptible to money laundering. Greek authorities also consider the cross-border movement of illicit currency and monetary instruments to be a continuing problem.

The Government of Greece (GOG) criminalized money laundering derived from all crimes in 1995 with its seminal law, Prevention of and Combating the Legalization of Income Derived from Criminal Activities. The law imposes a penalty of up to ten years in prison and confiscation of the criminally derived assets. The law also requires that banks and non-bank financial institutions file suspicious transaction reports (STR). The new legislation passed in March 2001 makes money laundering a criminal offense when the property holdings being laundered are obtained through criminal activity or cooperation in criminal activity.

Banks must also demand customer identification when opening an account or conducting transactions that exceed EUR 15,000 (U.S. \$16,000). Greek citizens must provide a tax registration number if they conduct foreign currency exchanges of EUR 1,000 (U.S. \$950) or more, and proof of compliance with tax laws in order to conduct such exchanges of EUR 10,000 (U.S. \$9,500) or more. Banks and financial institutions are required to maintain adequate records and supporting documents for at least five years after ending a relationship with a customer, or in the case of occasional transactions, for five years after the date of the transaction.

Money laundering became an offense in the Greek Legislation under Presidential decree 2181/93. With this decree the banks are required to identify persons making an economic transaction of more than €15 000 and in case of doubts or suspicious of illegal activities, the bank can take reasonable measures to gather more information on the identification of the person. International transactions and foreign exchange dealings are especially under strict control. In 1995, new legislation (law n° 2331/95) was adopted to prevent and combat the legalization of income from criminal activities. The penalty for such criminal activity can be up to 10 years.

The Bank of Greece, through its Banking Supervision Department; the Ministry of National Economy and Finance, which supervises the Capital Market Commission; and the Ministry of Development through its Directorate of Insurance Companies supervise Greek credit and financial institutions. Supervision includes the issuance of guidelines and circulars, as well as on-site examinations aimed at checking compliance with anti-money laundering legislation. Supervised institutions must send to their competent authority internal control and communications procedures that they have implemented to prevent money laundering. In addition, banks must also undergo internal audits. Bureaux de changes are required to send to the Bank of Greece a monthly report on their daily purchases and sales of foreign currency. All persons entering or leaving Greece must declare to the authorities any amount they are carrying over EUR 2,000 (U.S. \$1,900).

Greece's central bank stepped up measures to counter money laundering as part of its effort to cooperate with an investigation by authorities in Belgrade into the illegal transfer of funds abroad during the rule of alleged war criminal and former Yugoslav President, Slobodan Milosevic.

The Law of 1995 established the Competent Committee (CC) to receive and analyze STR's and to function as Greece's financial intelligence unit (FIU). The CC is chaired by a senior judge and includes representatives from the central bank, various government ministries, and the stock exchange. If the CC believes that an STR warrants further investigation, it forwards the STR to the Financial Crimes Enforcement Unit (SDOE), a multi-agency group that functions as the CC's investigative arm. The CC is also responsible for preparing money laundering cases on behalf of the Public Prosecutor's office. The CC is a member of the Egmont Group of FIUs.

## Money Laundering and Financial Crimes

---

The Ministry of Justice unveiled legislation on combating terrorism, organized crime, money laundering and corruption in March 2001. The Parliament had not passed this legislation by December 2001.

Greece is a member of the Financial Action Task Force, the European Union, and the Council of Europe. It is a party to the 1988 UN Drug Convention, and in December 2000 became a signatory to the UN Convention against Transnational Organized Crime.

The Government of Greece should extend and implement suspicious transaction reporting requirements for gaming and stock market transactions, and is urged to adopt more rigorous standards for casino ownership or investments.

**Grenada.** Money laundering and other financial crimes are concerns in Grenada because of the rapid expansion of the offshore sector and the Government of Grenada's (GOG's) failure to adequately supervise offshore entities. Although the Government of Grenada (GOG) has taken a number of steps to improve financial sector regulation, serious deficiencies remain in Grenada's anti-money laundering regime. The GOG also has failed to respond to U.S. requests for information involving money laundering offenses, further undermining Grenada's apparent commitment to cooperate in the international fight against money laundering.

Like many other Caribbean jurisdictions, the GOG has raised revenue from the offshore sector by imposing licensing and annual fees upon offshore entities. In the past, the GOG has been able to attract banks and other financial institutions to set up offshore companies in Grenada through low licensing fees, banking and corporate secrecy, and minimal offshore service regulation. As of December 2001, Grenada had 22 offshore bank and trust companies, 2 Internet gaming companies, 6 offshore insurance companies, 2 company managers, and 4,000 International Business Companies. Grenada's domestic financial sector includes 5 commercial banks, 15 registered domestic insurance companies, 22 credit unions and 2 money remitters. Until recently, the GOG allowed foreigners to buy economic citizenship and passports through an improperly regulated program that international criminals had abused. In light of the terrorist attacks upon the United States, the GOG reportedly suspended the practice of selling citizenship status and passports to foreigners in October 2001.

The collapse of the First International Bank of Grenada (FIBG) in 2000 highlighted serious deficiencies in Grenada's existing counter-money laundering regime. A U.S. citizen founded FIBG, an offshore bank, by purchasing a Grenadan passport and using assets from a Nauruan bank as well as fictitious documents to establish his financial worth. Beginning in 1998, the FIBG attracted depositors with promises of 250 percent returns. A liquidator's report issued in March 2001 estimated FIBG's liabilities at \$206 million and assets at \$46 million, and indicated that FIBG had transferred funds to accounts in Grenada, St. Vincent, Jersey, and Uganda. The report described layers of international offshore entities and pyramid schemes to attract customers and raise funds. The liquidator found that FIBG's deposit insurance program was a "sham" and concluded that since its inception, the business of FIBG had been carried on "with the intent to mislead depositors and creditors." In response, the Minister of Finance revoked 17 offshore bank and trust company licenses. The FIBG scandal prompted the GOG to accelerate the pace of legislative reforms concerning anti-money laundering and offshore sector regulation.

Grenada's Money Laundering Prevention Act (MLPA) of 1999, which came into force in 2000, criminalizes money laundering related to offenses that are otherwise punishable in Grenada by at least five years in prison. The MLPA also establishes a Supervisory Authority (SA) to receive; review and forward to local authorities suspicious activity reports from obliged institutions and imposes customer identification requirements on banking institutions.

The Grenada International Financial Services Authority (GIFSA) Act of 1999 has undergone some important changes recently. The GIFSA monitors and regulates offshore banking. A recent amendment to the GIFSA Act (n. 13 of 2001) eliminates the regulator's role in promoting the development of the offshore sector. Grenada's legal infrastructure diminishes the effectiveness of the GIFSA, however. Although the GIFSA is authorized to obtain customer account records from an offshore institution upon

request, it cannot compel an institution to produce these records without a court order. A recent amendment to the Offshore Banking (Amendment) Act n. 10 of 2001 seems to have made the process of obtaining a court order more difficult by requiring evidence of illegal activity “by” the licensee itself, as opposed to “in” the licensee. The GIFSA is further limited in its ability to combat financial crime because it has no authority to share customer information with foreign counterparts absent a court order. The GOG has proposed additional amendments to the GIFSA Act that would address these deficiencies.

In 2001, the GOG made some effort to regulate the issuance of bearer shares by international business companies (IBCs) and offshore banks. The International Companies (Amendment) Act n. 12 of 2001 requires beneficial ownership information for bearer shares to be registered with an agent and delivered to the SA. Prior to this amendment, individuals owning bearer shares in affected international companies could remain anonymous. The amendment, however, only applies to shares issued after the June 2001 commencement of the Act, and to companies conducting offshore banking, international insurance, company management, international trust business, or international betting businesses. Other international companies are not required to inform the SA of beneficial ownership.

The deficiencies in the International Companies Act also have diminished the effectiveness of the GOG’s recent amendments to the Offshore Banking Act. The Offshore Banking Act amendment of 2001 requires applicants for bank licenses to provide information relating to shareholders and beneficial owners. However, as banks may have issued bearer shares prior to June 2001, owners of these shares are not subject to registration requirements under the International Companies Act and, thus, cannot be identified and examined under the Offshore Banking Act.

In September 2001, the Financial Action Task Force (FATF) identified Grenada as non-cooperative in international efforts to fight money laundering. The FATF in its report cited several concerns: inadequate access by Grenadan supervisory authorities to customer account information; inadequate authority by Grenadan supervisory authorities to cooperate with foreign counterparts; and inadequate qualification requirements for owners of financial institutions.

Recently, the GOG established a financial intelligence unit (FIU) and appointed a staff of six to the unit. The FIU, which will operate within the police force, is charged with receiving suspicious activity reports from the SA and with investigating alleged money laundering offenses. The U.S. contributed computers, furniture, and equipment for the FIU new office. In 2001, the GOG appointed a staff of five to the SA, and in June, the SA issued anti-money laundering guidelines, pursuant to section 12(g) of the MLPA, that direct financial institutions to maintain records, train staff, identify suspicious activities, and designate reporting officers. The guidelines also provide examples to assist bankers to recognize and report suspicious transactions.

Mutual legal assistance and extradition treaties have been in force between Grenada and the United States since 2000 but the GOG has failed to respond to several mutual legal assistance requests from the United States. An extradition treaty entered into force between the U.S. and Grenada in 1999. Grenada is a member of the Caribbean Financial Action Task Force (CFATF), and underwent a CFATF mutual evaluation in November 1999. Grenada is a member of the Organization of American States Inter-American Drug Abuse Control Commission (OAS/CICAD) Experts Group to Control Money Laundering, and is a party to the 1988 UN Vienna Convention.

Despite the GOG’s attempts to strengthen financial sector regulation in 2001, continuing legal deficiencies render the sector vulnerable to abuse. The GOG should ensure that all appropriate authorities have access to financial and business documents, including beneficial ownership information. The GOG should also fully train and fund the GIFSA, the SA, and the newly formed FIU. The GOG should also amend its information sharing in order to protect Grenada’s financial sector from fraud schemes and other types of financial crime.

**Guatemala.** Guatemala’s geographic location near drug producing countries and lack of a broad-based anti-money laundering regime historically makes the country vulnerable to money laundering. Officials of

## Money Laundering and Financial Crimes

---

the Government of Guatemala (GOG) believe that criminals deposit their illegal proceeds in bank accounts and subsequently invest the funds in real estate or large commercial projects. Some law enforcement sources believe that the laundering of proceeds from kidnapping, tax evasion, vehicle theft, and corruption is on the rise.

The Guatemalan financial services industry is comprised of 32 commercial banks with an estimated U.S. \$6.5 billion in assets, 20 non-bank financial institutions, which primarily engage in investment banking and medium and long-term lending, 8 currency exchange houses, and 19 insurance companies. The Superintendent of Banks, which operates under the general direction of the Monetary Board, has oversight and inspection authority over the Bank of Guatemala, as well as banks, credit institutions, financial enterprises, securities entities, insurance companies, currency exchange houses, and other institutions as may be designated by the Bank of Guatemala Act.

On April 25, 2001, the Guatemalan Monetary Board issued Resolution JM-191 approving the “Regulation to Prevent and Detect the Laundering of Assets” (RPDLA) submitted by the Superintendent of Banks. The RPDLA, effective May 1, 2001, requires all financial institutions under the oversight and inspection of the Superintendent of Banks to establish counter-money laundering measures, and introduces requirements for transaction reporting and record keeping. Obligated institutions must establish money laundering detection units, designate compliance officers, and train personnel. They must identify all customers opening new accounts and report customers conducting transactions (cash or other types) of U.S. \$5,000 or more (or national currency equivalent) a day to the bank’s manager. Accounts opened prior to May 1, 2001, are not subject to the customer identification requirements of the RPDLA. If, however, a customer performs a cash transaction for more than U.S. \$5,000, the bank must fully identify the customer and the customer must submit the information regardless of when the account was opened. The regulation also requires obligated entities to monitor, record and report transactions considered “unusual” or “suspicious” to the Superintendent of Banks within ten days of detection.

The reforms instituted as a result of the RPDLA have yielded positive results to date. Following the issuance of the regulation, financial institutions began filing suspicious transaction reports and the process has led to an investigation by the Superintendent of Banks of a government official.

In June 2001, the Financial Action Task Force (FATF) listed Guatemala as a non-cooperative jurisdiction in the international fight against money laundering. In its report, the FATF noted: (1) Secrecy provisions in Guatemalan law constitute a considerable a significant obstacle to administrative authorities’ anti-money laundering efforts; (2) Guatemalan law fails to provide for the sharing of information between Guatemalan administrative authorities and their foreign counterparts; (3) Guatemala’s laws criminalize money laundering only in relation to drug offenses and not for all serious crimes; and (4) Guatemala’s suspicious transaction reporting system does not prohibit “tipping off” the person involved in the transaction.

Since the FATF designation, the GOG has taken important steps to reform its anti-money laundering program in accordance with international standards. In November 2001, Guatemala enacted Decree 67-2001, “Law Against Money and Asset Laundering” (LAMAL), to address several of the deficiencies identified by the FATF. Article 2 of the LAMAL expands the range of predicate offenses for money laundering from drug offenses to any crime. Individuals convicted of money or asset laundering are subject to a non-commutable prison term ranging from six to 20 years, and fines equal to the value of the assets, instruments or products resulting from the crime. Convicted foreigners will be expelled from Guatemala.

The LAMAL also adds new record keeping and transaction reporting requirements to those already in place as a result of the RPDLA. These new requirements apply to all entities under the oversight of the Superintendent of Banks, as well as several other entities including credit card issuers and operators, check cashers, sellers or purchasers of travelers checks or postal money orders and currency exchange. The requirements also apply to “off-shore” entities, which are described by the LAMAL as “foreign domiciled entities” that operate in Guatemala but are registered under the laws of another jurisdiction.

Among other things, the LAMAL prohibits obligated institutions from maintaining anonymous accounts or accounts that appear under fictitious or inexact names. Covered institutions are required to keep a registry of their customers as well as the transactions undertaken by them, such as the opening of new accounts, the leasing of safety deposit boxes, or the execution of cash transactions exceeding U.S. \$10,000 (or national currency equivalent). For cash transactions in excess of U.S. \$10,000, the LAMAL requires obligated institutions to maintain a daily registry of the transactions. Obligated institutions also must adopt measures to obtain, update and store information regarding the beneficial owners of accounts where there is doubt as to their true identity. The LAMAL obligates individuals and legal entities to report cross-border movements of currency in excess of U.S. \$10,000 (or national currency equivalent) with the competent authorities. Under the LAMAL, obligated entities must maintain records of these registries and transactions for five years.

The LAMAL also establishes the “Intendance for Verification” (IVE) within the Superintendency of Banks—the equivalent of a financial intelligence unit (FIU) to supervise obligated financial institutions to ensure compliance with the law. The IVE has the authority to obtain all information related to financial, commercial or business transactions that may be connected to money laundering. The IVE may impose sanctions on financial institutions for non-compliance. The LAMAL calls for the IVE to analyze the information it obtains, to offer domestic law enforcement support in connection with money laundering offenses and to exchange information with similar foreign entities pursuant to cooperative agreements. The IVE has 180 days from the effective date of the LAMAL to become operational.

The LAMAL obligates “off-shore” or foreign domiciled entities operating in Guatemala to comply with the same anti-money laundering measures (reporting and record keeping requirements) as other domestic institutions. The LAMAL, however does not subject these institutions to supervision for general legal compliance or inspection for safety and soundness by either the Superintendency of Banks or the IVE. A bill is pending before the Congress that would give the Superintendency of Banks regulatory and supervisory controls over offshore entities.

Corruption remains a significant problem in Guatemala.

Guatemala is a party to the 1988 UN Drug Convention. In November 2000, the GOG ratified the Central American Convention for the Prevention of Money Laundering and Related Crimes. In December 2000, the GOG signed the UN Convention against Transnational Organized Crime, but it has not yet deposited an instrument of ratification. Guatemala is a member of the Organization of American States Inter-American Drug Abuse Control Commission (OAS/CICAD) Experts Group to Control Money Laundering, and plans to join the Caribbean Financial Action Task Force (CFATF).

The GOG should continue efforts to implement the reforms to its anti-money laundering regime, move forward with domestic regulation and supervision of the offshore entities, and invest the necessary resources to make its FIU operational.

**Guernsey.** The Bailiwick of Guernsey covers a number of the Channel Islands (Guernsey, Herm, Alderney, and Sark being the largest). Guernsey is a Crown Dependency of the United Kingdom. Its sophisticated offshore center continues to be vulnerable to money laundering as do the company and trust sectors.

In January 2000, the Criminal Justice (Proceeds of Crime) (Bailiwick of Guernsey) Law 1999, and its associated regulations, came into force. The legislation extends predicate offenses for money laundering to all serious crimes, including tax offenses, and addresses reporting of suspicious transactions. Under the provisions of the 1999 Law, all financial service businesses (including bureaux de change and cheque cashers) must abide by regulations concerning the identification of customers, record keeping, and international reporting procedures, etc. The Guernsey Financial Services Commission (FSC) has commenced on-site visits to bureaux de change to ensure that the businesses are in compliance with the regulations.

## Money Laundering and Financial Crimes

---

In December 2000, the FSC prepared a consultation paper, jointly with the Crown Dependencies of Jersey and the Isle of Man, called “Overriding Principles for a Revised Know Your Customer Framework”, to develop a consistent approach on anti-money laundering. The consultation paper stated that each institution would have to conduct an exercise to check its way of doing business to determine that there is sufficient information available to prove identity.

Guernsey has 71 offshore banks that offer deposit taking and a range of other services, such as custodial, trust company, and fiduciary services. Guernsey also has 370 captive insurance companies, 25 life insurers, 62 insurance intermediaries, 40 domestic insurers, a comprehensive range of investment and fiduciary firms, approximately 7,500 international business companies, and 19 bureaux de change. The FSC is responsible for regulating Guernsey’s offshore industry. The FSC conducts on-site visits and analyzes assessments by auditors.

The Drug Trafficking (Bailiwick of Guernsey) Law 2000, which consolidated and amended legislation passed in 1998 and 1992, came into force in January 2001. The law establishes comprehensive money laundering offenses, including an offense of failing to disclose the knowledge or suspicion of drug money laundering. The duty to disclose extends outside of financial institutions to others, for example, bureaux de change and cheque cashers.

On April 1, 2001, the Regulation of Fiduciaries, Administration Businesses and Company Directors, etc. (Bailiwick of Guernsey) Law, 2000 (“the Fiduciary Law”) came into effect. The Fiduciary Law was enacted to license, regulate, and supervise company and trust service providers. Under section 35 of the Fiduciary Law, the FSC created Codes of Practice for Corporate Service Providers; Trust Service Providers; and Company Directors. Under the law, all fiduciaries and corporate service providers and persons acting as company director of any business must be licensed by the FSC. In order to be licensed, these agencies must pass strict tests. These include possession of “know your customer” requirements and the identification of clients. They are subject to regular inspection, and failure to comply could result in the fiduciary being prosecuted and/or their license being revoked. In cases of serious or complex fraud, assistance can be provided by Guernsey’s Attorney General under the Criminal Justice (Fraud Investigation) (Bailiwick of Guernsey) Law 1991.

The Criminal Justice (International Cooperation) (Bailiwick of Guernsey) Law, 2001, furthers cooperation between Guernsey and other jurisdictions by allowing certain investigative information concerning financial transactions to be exchanged. Guernsey cooperates with international law enforcement on money laundering cases. The FSC also cooperates with regulatory/supervisory and law enforcement bodies. Guernsey is a member of the Offshore Group of Bank Supervisors.

As of April 2, 2001, suspicious transaction reports are filed with Guernsey’s financial intelligence unit, the Financial Intelligence Service (FIS). The FIS is a new unit that took over responsibility from the Joint Police and Customs Financial Investigation Unit (JFIU). FIS is the central point within Guernsey for gathering, collating, evaluating, and disseminating of all financial crime intelligence. The FIS is comprised equally of Police and Customs officers, most of who previously worked at the JFIU. The new unit places special emphasis on money laundering, and is a member of the Egmont Group.

Guernsey has, in place, all legislation required by the 1959 Council of Europe Convention on Mutual Assistance in Criminal Matters, the 1990 Council of Europe Convention on Laundering, Search, Seizure and Confiscation of the Proceeds of Crime, and the 1988 UN Convention against the Illicit Traffic of Narcotics and Psychotic Substances. The Guernsey authorities have asked that the United Kingdom Government seek extension of these Conventions to the Bailiwick of Guernsey.

Guernsey has put in place a comprehensive anti-money laundering regime and cooperates internationally. The Government should devote more resources to ensure effective implementation of its anti-money laundering regime.

**Guyana.** Guyana is not an important regional financial center. Nevertheless, there is concern that both narcotics-related and non-narcotics-related money laundering takes place. A largely unregulated banking

sector, several independent currency exchanges and growing illicit trade in licit goods (particularly gold and diamonds) facilitate money laundering activities.

The Financial Institutions Act of March 1995 designated the Bank of Guyana, the central bank, as the sole financial regulator and extended the coverage of legislation, regulations and penalties to all deposit-taking institutions.

Although the Guyanese National Assembly passed The Money Laundering Prevention Act in February 2000, the legislation is not yet in force pending the creation of supervisory arrangements at the Bank of Guyana. The new law criminalizes money laundering related to narcotics and other serious crimes. The law requires that funds over U.S. \$10,000 imported into or exported from Guyana be reported. The legislation also establishes requirements for reporting suspicious transactions by banks and non-bank financial institutions. Records of suspicious activity reports will have to be kept for six years. Moreover, other provisions of the legislation require confidentiality in the reporting process, provide for good faith reporting, establish penalties for destroying records related to an investigation, and provide for asset forfeiture, international cooperation, and extradition for money laundering offenses. In 2001, the Caribbean Anti-Money Laundering Program began assisting Guyana with creating a financial intelligence unit.

Guyana's failure to bring into force and implement the February 2000 legislation has meant that financial institutions in Guyana currently are not required to know, record, or report the identities of customers engaging in large currency transactions, to report suspicious transactions, or to maintain transaction records. Guyana made no arrests or prosecutions for money laundering in 2001.

Guyana is a member of the Organization of American States Inter-American Drug Abuse Control Commission (OAS/CICAD) Experts Group to Control Money Laundering. Guyana has not joined the Caribbean Financial Action Task Force (CFATF) but has indicated its intention to do so in 2002. Guyana would benefit by doing so and by actively participating in CFATF activities, including by undergoing a mutual evaluation.

Guyana is a party to the 1988 UN Drug Convention.

**Haiti.** A rise in drug trafficking, official corruption, and ineffective bank supervision has increased the vulnerability of Haiti to money laundering.

In addition to serving as a transshipment point for South American cocaine, Haiti is a venue for a major money laundering scheme that combines bulk cash smuggling with the black market peso exchange. Under this scheme Colombian traffickers smuggle U.S. drug proceeds into Haiti, often on the very boats by which the drugs were smuggled into the U.S. Once the money is placed in Haitian banks and effectively "bought" by Colombian peso brokers from the traffickers, the money is wired or sent by checks to Panama's Colon Free Zone to pay for goods purchased by Colombian businessmen. Law enforcement officials also believe that Dominican traffickers operating in the New York area smuggle drug proceeds to Haiti via the Dominican Republic to be placed in Haitian banks. However, there are indications that U.S. law enforcement efforts are having an effect on the depositing of drug proceeds into these banks.

Over the past two years, however, the Government of Haiti (GOH) has taken steps to address money laundering, including passing and beginning to implement an anti-money laundering law. In August 2000, the Central Bank of Haiti issued Circular 95. It requires banks, exchange brokers, and transfer bureaus to obtain declarations identifying the source of funds for transactions exceeding 200,000 gourdes (approximately U.S. \$8,500) or the equivalent in foreign currency. Covered entities must report these declarations to the competent authorities on a quarterly basis. Failure to comply can result in fines of 100,000 gourdes (approximately U.S. \$4,300). The Central Bank also can revoke the license of banks that fail to comply.

An August 2000 circular by the Ministry of Justice and Public Security created the legal basis for a "Unité Centrale de Renseignements Financiers (UCREF)," a centralized financial intelligence unit. After several years of stalled legislative efforts, in February 2001 the Haitian government approved the "Law on Money

## Money Laundering and Financial Crimes

---

Laundering from Illicit Drug Trafficking and other Crimes and Punishable Offenses.” The law punishes the laundering of illicit assets with 3 to 15 years imprisonment and a fine of 2 million to 20 million gourdes (approximately U.S. \$85,000 to \$850,000). The law applies to a wide range of financial institutions, including banks, currency exchange agents, casinos, and real estate operations. The law prohibits payments in cash or bearer instruments greater than 200,000 gourdes, requiring them to go through a financial institution.

The money laundering law requires financial institutions to establish money laundering prevention programs and to verify the identity of customers, opening an account or conducting transactions that exceed 200,000 gourdes (approximately U.S. \$8,500). When transactions exceed 200,000 gourdes and are unusual or appear to have no economic or lawful purpose, financial institutions must also investigate the origin of these funds and prepare an internal report. The law establishes the “Service de Renseignements Financiers,” which may obtain these reports upon request. Haitian authorities indicated this is the same centralized financial intelligence unit (UCREF) established by the August 2000 circular.

Transactions exceeding 200,000 gourdes that seem to originate from a crime punishable by at least 3 years imprisonment must be reported to the UCREF. The UCREF will also receive the reports established in the Central Bank Circular 95. When the UCREF determines that there are serious indications of a money laundering crime, the UCREF will submit a report of findings to the judicial authorities. The law exempts “good faith” compliance reporting from civil and criminal liability.

The money laundering law also creates a National Committee for the Fight Against Money Laundering (“Committee”) within the Ministry of Justice and Public Security to oversee the UCREF. The Committee is mandated to promote, coordinate and recommend policies and procedures to prevent, detect and investigate money laundering.

In 2001 Haiti’s Central Bank and Ministry of Justice and Public Security formed a joint committee responsible to implement the UCREF according to international standards. The committee consults anti-money laundering authorities within the U.S. Government and the Caribbean Financial Action Task Force (CFATF). Haiti is a party to the 1988 UN Drug Convention, and in December 2000, signed the UN Convention against Transnational Organized Crime. Haiti is a member of the Organization of American States Inter-American Drug Abuse Control Commission Experts Group to Control Money Laundering. Haiti became a member of CFATF in October 2001.

The GOH needs to build upon its current efforts by vigorously moving to implement and enforce its new anti-money laundering law. The government should enact asset seizure and forfeiture laws and put in place cross border currency movement reporting requirements. The GOH also is urged to fully staff, train and fund the UCREF that is responsible for coordinating the government’s anti-money laundering efforts and working with foreign governments to help protect the Haitian economy from criminal abuse. The GOH should continue to work more closely with the CFATF, which will help provide additional regional guidance, support, and coordination in the fight against money laundering.

**Honduras.** Honduras’ vulnerabilities to money laundering stem primarily from significant drug trafficking throughout the region. The arrest of the Jimenez drug trafficking cartel in May 2001 on the North Coast of Honduras revealed an extensive money laundering operation and a variety of criminal activities including narcotics-trafficking, auto theft, kidnappings, bank fraud, smuggling, prostitution and corruption. In Honduras, money laundering takes place in the banking sector, and in currency exchange houses, casinos, and front companies as well. Corruption remains a serious problem particularly within the judiciary and law enforcement sectors.

Honduras’ current anti-money laundering program is based on Law No. 27-98 enacted in December 1997. The law criminalized the laundering of narcotics-related proceeds, and introduced customer identification (no anonymous bank accounts permitted), record keeping (five years) and transaction reporting requirements for financial institutions, including banks, currency exchange houses, money transmitters and check sellers/cashiers. Obligated financial institutions are required to record currency transactions

over \$10,000, and report all unusual and/or suspicious financial transactions to the National Banking and Insurance Commission. After analysis of these reports, the Commission forwards those it believes may be linked to narcotics-trafficking activities to the Public Ministry or to the General Prosecutor's Office. The law includes safe harbor provisions to protect financial institutions and their employees from civil and/or criminal liability when complying with such requirements. Casinos remain unregulated.

While there is general compliance with the \$10,000 currency transaction-recording requirement by financial institutions, there is virtually no reporting of unusual or suspicious financial transactions. Approximately 20 suspicious financial transactions have been reported over the past four years. In addition, there have been no successful money laundering prosecutions under the 1997 legislation, and mechanisms for the seizure, forfeiture and sharing of assets remain inadequate. Part of the difficulty with regard to prosecutions may center on the difficulty in establishing a direct link to drug trafficking, as required under the law and the general inexperience of public officials in investigating money laundering and financial crimes. Honduras has not yet established a financial intelligence unit. Comprehensive anti-money laundering legislation that would expand predicate crimes for money laundering to include all criminal activity, and promote more effective investigation of suspicious transaction reports, and establish a financial intelligence unit (FIU) is under review by the National Congress.

Honduras is a party to the 1988 UN Drug Convention and has signed the UN Convention Against Transnational Crime. Honduras is a member of the Organization of American States Inter-American Drug Abuse Control Commission (OAS/CICAD) Experts Group to Control Money Laundering.

Honduras should pass comprehensive anti-money legislation that would expand the predicate crimes for money laundering to include all serious crimes and to work with the financial sector to improve compliance with existing reporting requirements. Honduras should establish a financial intelligence unit that would allow greater international cooperation.

**Hong Kong.** Hong Kong is a major international financial center. Its low taxes, sophisticated banking system, and absence of currency and exchange controls facilitate financial activity, but also make it vulnerable to money laundering. The primary sources of laundered funds are narcotics-trafficking, tax evasion, fraud, illegal gambling and bookmaking. Laundering channels include Hong Kong's banking, remittance, money transfer networks, and its underground banking system. Hong Kong is substantially in compliance with the Financial Action Task Force's (FATF) 40 recommendations and has developed a strong anti-money laundering regime, though improvements should be made. It is a regional leader in its anti-money laundering efforts and is serving as the 2001-2002 FATF President.

Money laundering is a criminal offense in Hong Kong under the Drug Trafficking (Recovery of Proceeds) Ordinance (D'TRoP) and Organized and Serious Crimes Ordinance (OSCO). The money laundering offense now extends to the proceeds of drug-related and other indictable crimes. Money laundering ordinances apply to all persons, including banks and non-bank financial institutions, as well as to intermediaries such as lawyers and accountants. All persons must report suspicious transactions to the Joint Financial Intelligence Unit (JFIU). Financial institutions are required to record the identities of their customers and maintain records for five to seven years. Hong Kong law provides that the filing of a suspicious transaction report shall not be regarded as a breach of any restrictions on the disclosure of information imposed by contract or law. Statutes that came into effect in June 2000 require remittance agents and moneychangers to register and to keep transaction and customer identification records for cash transactions equal to or over U.S. \$2,564 (HKD 20,000).

There is no distinction made in Hong Kong between onshore and offshore banks or insurers, and no differential treatment for non-residents, including on tax, exchange controls, or disclosure of information regarding the beneficial owner of accounts or other legal entities. Hong Kong classifies banks according to their scope of business, there are three tiers of deposit-taking institutions: fully licensed banks, restricted license banks, and deposit-taking institutions. The Hong Kong Monetary Authority (HKMA) regulates banks. The Insurance Commission and the Securities and Futures Commission regulate insurance and

## Money Laundering and Financial Crimes

---

securities firms, respectively. All three impose licensing requirements and conduct background checks on business applicants. Legally established casinos or Internet gambling sites do not exist in Hong Kong.

In Hong Kong it is not uncommon to use solicitors and accountants to set up shell or nominee entities to conceal ownership of accounts and assets. The concealment of the ownership of accounts and assets is ideal for the laundering of funds. Solicitors and accountants have filed only a handful of suspicious transaction reports in recent years.

Under the DTRoP and OSCO, a court may issue a restraint order against a defendant's property at or near the time criminal proceedings are instituted. The property includes money, goods, real property, and instruments of crime. A court may issue confiscation orders at the value of a defendant's proceeds from illicit activities. Cash imported into or exported from Hong Kong that is connected to drug trafficking may be seized, and a court may order its forfeiture. Hong Kong law provides for an application to be made by the overseas jurisdiction to share in assets realized. Hong Kong's mutual legal assistance agreements provide for asset sharing. Hong Kong has shared confiscated assets with the United States.

The government reintroduced to the legislature, in November 2000, an amendment to strengthen the DTRoP and OSCO. The amendment was designed to improve the chances of obtaining successful prosecutions by reducing the evidentiary threshold for money laundering offenses and suspicious transactions reporting. It would have increased penalties for money laundering offenses and strengthened confiscation provisions. The amendment did not pass due to opposition from the banking, accountancy, and legal sectors, and also legislator concerns that the lower evidentiary threshold might lead to conviction of innocent persons. The government intends to continue to pursue strengthened legislation in this area in 2002.

In 2001, the banking, securities, and insurance industries filed 6296, 65, and 29 suspicious transaction reports, respectively. From January to November 2001, there were 34 prosecutions for money laundering offenses and 5 convictions. The Hong Kong government reported no particular increase in financial crimes over the past year and has not found evidence to indicate narcotics proceeds are being used to fund smuggling activities.

Through the People's Republic of China, Hong Kong is subject to the 1988 UN Drug Convention, an active member of the FATF and the Offshore Group of Banking Supervisors, and also a founding member of the Asia/Pacific Group on Money Laundering. Hong Kong authorities cooperate with law enforcement agencies of other governments investigating narcotics-related financial crimes. Hong Kong has signed and ratified a mutual legal assistance agreement with the U.S., which came into force in January 2000. It has also signed mutual legal assistance agreements with Australia, France, the United Kingdom, New Zealand, Italy, the Republic of Korea, Switzerland, Portugal, the Philippines, Ireland, and Canada. Hong Kong has initialed such agreements with Israel, India, Argentina, Brazil, the Czech Republic, Germany, Poland, Singapore, and South Africa. These agreements provide for the exchange of information for all serious crimes, including money laundering. Hong Kong's banking supervisory framework has, in general, addressed all the areas covered by the 1997 Basel Committee Core Principles for Effective Banking Supervision. An amendment to the Banking Ordinance in 1999 allows the HKMA to disclose information to an overseas supervisory authority about individual customers subject to conditions regarding data protection. The JFIU is a member of the Egmont Group and is able to share information with its international counterparts.

Hong Kong should strengthen its anti-money laundering regime by establishing threshold reporting requirements for transactions exceeding specified amounts and put into place "structuring" provisions to counter evasion efforts. It should establish cross-border currency reporting requirements and encourage more suspicious transactions reporting by lawyers and accountants as well as business establishments, such as auto dealerships, real estate companies, and jewelry stores. Steps should also be taken to discourage the use of "shell" companies and other mechanisms that conceal the beneficial ownership of accounts. Hong Kong should consider more aggressive enforcement and strengthening of its laws on remittance agents and moneychangers.

**Hungary.** Hungary recently revised its anti-money laundering control program in response to three occurrences, namely, the Council of Europe's mutual evaluation of its program, the Financial Action Task Force's (FATF's) listing of Hungary as a non-cooperative jurisdiction in the fight against money laundering and the events of September 11th. These revisions not only improved Hungary's program but also hold promise of enhancing Hungary's ability to carry through successful money laundering investigations and prosecutions.

Hungary has a well-developed financial services industry and has a pivotal location in Central Europe. Criminal organizations from Russia and other countries are entrenched in Hungary. The economy is heavily cash based, with real estate often being purchased with cash. Hungary entered the offshore market in 1994 but prohibits offshore companies from providing financial and banking services. Hungary has licensed approximately 600 international business companies that are mainly owned by foreigners and enjoy a corporate tax rate of three percent as opposed to the usual rate of eighteen percent.

Beginning in the mid-1990s, Hungary has now put in place the legal infrastructure to help it combat financial crime and money laundering. The Government of Hungary (GOH) amended its criminal code (section 303) to criminalize money laundering related to all serious crimes. In 1994 the GOH enacted Act XXIV "On the Prevention and Impeding of Money Laundering," ("1994 Act") imposing reporting and record keeping requirements, internal control procedures and customer identification practices upon a broad range of financial institutions. Banks, insurance companies, securities broker/dealers, investment fund management companies and currency exchange houses must file suspicious transaction reports (STRs). Under recent legislation, a similar reporting obligation is being extended to various classes of professionals.

In April 2000, the Hungarian Financial Supervisory Authority (HFSA) and the National Bank of Hungary assumed the supervision of the financial sector for compliance with anti-money laundering requirements. Subsequently, all supervision responsibilities were consolidated in the HFSA. In summer of 2001, the HFSA issued its recommendations for its supervised institutions on best international practices with regard to reporting requirements, including STRs—these included recommendations for due diligence beyond the literal scope of the 1994 Act and in anticipation of the adoption of newly drafted legislation.

In June of 2001, the FATF designated Hungary as a non-cooperative jurisdiction in the fight against money laundering principally due to the existence of anonymous savings accounts and the lack of concrete plans for their elimination. In its accompanying report, the FATF also noted a deficiency in the fact Hungarian financial institutions failed to collect information concerning the beneficial owners of accounts.

In November of 2001, the Hungarian Parliament approved Bill No. T/5216 "On Combating Terrorism, on Tightening Up the Provisions on the Impeding of Money Laundering and on the Ordering of Restrictive Measures"—a legislative package that amended portions of the 1994 Act and included provisions for the phasing out of anonymous accounts (effective January 1, 2002). It also increased the number of professions, to include attorneys, that will be required to report suspicious activities, and mandated due diligence regarding the identification of beneficial owners.

Hungary has two units that are primarily responsible for combating money laundering. Hungary's financial intelligence unit, officially known as the Anti-Money Laundering Section (AMLS) of Hungary's National Police (ORFK), was established in 1995. A recent reorganization has placed the AMLS in the Directorate against Organized Crime—ORFK (SZBI). As a police unit, the AMLS investigates cases. Based on information derived from STRs, the GOH has initiated 10 money laundering investigations in the last several years. Two individuals were prosecuted—one acquitted and one convicted. Recent legislative changes, including one that clarifies that money laundering convictions can be obtained without conviction on the predicate offense, may well increase the numbers of money laundering prosecutions and convictions. The AMLS has considerable authority to request and release information, nationally and internationally, related to money laundering investigations. Staffing at the AMLS is expected to double in the next year. In addition to the AMLS, Hungary established in 2000 a criminal investigation bureau within the Tax and Financial Inspection Service to help spur tax and money laundering prosecutions.

## Money Laundering and Financial Crimes

---

Hungary is party to a Mutual Legal Assistance Treaty with the United States and signed in January of 2000 a non-binding information-sharing arrangement with the United States, which is intended to enable U.S. and Hungarian law enforcement to work more closely to fight organized crime and illicit transnational activities. In furtherance of this goal, in May 2000, Hungary and the U.S. Federal Bureau of Investigation established a joint task force to combat Russian organized crime groups. Hungary has signed similar cooperation arrangements with 22 other countries and has arrangements for the exchange of information related to money laundering with Austria, Slovakia, and Cyprus.

Hungary is a member of the Council of Europe's Select Committee of Experts on the Evaluation of Anti-Money Laundering Measures (PC-R-EV) and underwent a mutual evaluation in 1998. Hungary has been a member of the Egmont Group since 1998, is a party to the 1988 UN Drug Convention, and has signed but not yet ratified the UN Convention against Transnational Organized Crime.

Given its newly revamped anti-money laundering regime, the GOH should move forward aggressively to implement effectively its new legislation so that its program subscribes to the highest international standards.

**Iceland.** Money laundering is not considered a major problem in Iceland. A money laundering law based on the Financial Action Task Force's (FATF) Forty Recommendations requires financial institutions to identify all customers and to report large deposits and suspicious transactions. At the urging of the National Police Commission, banks record the name of every customer who seeks to buy or sell foreign currency.

A 1997 amendment to the criminal code criminalizes money laundering regardless of the predicate offense, although the maximum penalty for money laundering is greater when it involves drug trafficking. The first successful prosecution under the money laundering law occurred in 2001.

Iceland is a party to the 1988 UN Drug Convention and is a member of FATF. Iceland has signed but not yet ratified the UN Convention against Transnational Organized Crime. Its financial intelligence unit is a member of the Egmont Group.

**India.** As an emerging regional financial center, India is vulnerable to money laundering activities. Some common sources of illegal proceeds in India are narcotics-trafficking, illegal gems, smuggling, corruption, and terrorism. Large portions of these illegal proceeds are laundered through the alternative remittance system called "hawala" or "hundi." This system has the ability to transfer funds from one country to another often without the actual movement of currency, provide anonymity and security, convert currency into other currencies, and convert heroin, gold or other items into currency. All of this activity can be accomplished with little or no documentation. Invoice manipulation is pervasive and also is used extensively to launder illicit proceeds.

The Criminal Law Amendment Ordinance allows for the attachment and forfeiture of money or property obtained through bribery, criminal breach of trust, corruption, or theft and of assets that are disproportionate to an individual's known sources of income. The 1973 Code of Criminal Procedure, Chapter XXXIV (sections 451-459) establishes India's basic framework for confiscating illegal proceeds. The Narcotic Drugs and Psychotropic Substances Act of 1985 and its amendments call for the tracing and forfeiture of assets that have been acquired through narcotics-trafficking and prohibit attempts to transfer and conceal those assets.

Foreign Exchange Regulation Act (FERA) is one of India's primary tools for fighting money laundering. Among its objectives are the establishment of controls over foreign exchange, the prevention of capital flight and the maintenance of external solvency. A closely related piece of legislation is the Conservation of Foreign Exchange and Prevention of Smuggling Act, which provides for preventive detention in smuggling and other matters relating to foreign exchange violations. The FERA (and its successor, the Foreign Exchange Management Act (FEMA)) is enforced by the Enforcement Directorate (ED), which is part of India's Ministry of Finance; the ED is the organization most often involved in the investigation of hawala cases, as they often involve foreign exchange transactions.

The replacement for the FERA, the FEMA, was enacted in late 1999. This Act contains provisions facilitating continued financial liberalization in India in the area of foreign exchange. As under the FERA, the Reserve Bank of India, India's central bank, would still play an active role in the regulation and supervision of foreign exchange transactions, and hawala transactions would continue to be illegal.

In 1998, the Prevention of Money Laundering Bill was drafted. This legislation would criminalize money laundering, establish fines and sentences for money laundering offenses, impose reporting and record keeping requirements on financial institutions, and provide for the seizure and confiscation of criminal proceeds. Currently, new recommendations to the bill are being reviewed.

There have been a number of informal actions taken by individual banking institutions to combat money laundering. Banks tellers and operators are encouraged to utilize the "know your customer" rule. Foreign customers applying for accounts in India must show positive proof of identity when opening a bank account. Banks also require that the source of funds must be declared if the deposit is more than U.S. \$10,000. Finally, banks have the authority to freeze assets of accounts when there is suspicious activity. Currently, the Indian Banks Association has put together a working group to form a self-regulatory code for money laundering procedures. These procedures will include voluntary reporting suspicious transactions to law enforcement.

The Government of India does not have a financial intelligence unit. The Central Economic Intelligence Unit (CEIB) is the Government's lead organization for fighting financial crime. Also, the Central Bureau of Investigation is active in anti-money laundering efforts and hawala investigations. Other organizations such as the Directorate of Revenue Intelligence, Customs and Excise, the Reserve Bank of India, and the Finance Ministry are active in anti-money laundering efforts.

India does license offshore banking units (OBUs). These OBUs are required to be "...predominantly owned by individuals of Indian nationality or origin resident outside India and include overseas companies, partnership firms, societies and other corporate bodies which are owned, directly or indirectly, to the extent of at least 60 per cent by individuals of Indian nationality or origin resident outside India as also overseas trusts in which at least 60 per cent of the beneficial interest is irrevocably held by such persons." OBUs must also be audited to affirm that ownership by a non-resident Indian is not less than 60 per cent. These entities are susceptible to money laundering activities in part because of a lack of stringent monitoring of transactions. Finally OBUs must be audited, but the firm that does the auditing does not have to have government approval.

India is a party to the UN 1988 Drug Convention, and is a member of the Asia/Pacific Group on Money Laundering. In October 2001, India and the United States signed a mutual legal assistance treaty, which is not yet in force. India has also signed a police and security cooperation protocol with Turkey, which among other things provides for joint efforts to combat money laundering.

India should act to adopt and implement a comprehensive anti-money laundering regime, including the creation of a financial intelligence unit to share information with counterparts around the world.

**Indonesia.** Indonesia's economy is particularly vulnerable to money laundering because of its strategic geographic location, strict bank secrecy laws, public official corruption and lack of anti-money laundering legislation. In recent years, several Indonesian banks have become the targets of fraud schemes and corruption that might have been prevented if adequate safeguards had been in place; these banking scandals are symptomatic of the country's lax financial regulatory system.

In June 2001, the Financial Action Task Force (FATF) identified Indonesia as non-cooperative in international efforts to fight money laundering. The FATF in its report cited several concerns: lack of basic anti-money laundering provisions, including a failure to criminalize money laundering; the absence of a mandatory system of reporting suspicious transactions to a financial intelligence unit and unsatisfactory customer identification requirements.

On June 18, 2001, the Bank of Indonesia (BI) enacted Regulation No. 3 of the "Know Your Customer" Principles. The regulation contains customer identification and record keeping measures that would help

## Money Laundering and Financial Crimes

---

counter money laundering. It should be noted that this regulation does not apply to walk-in customers whose transaction value does not exceed 100 million rupiah (U.S. \$8,800). There are regulations with requirements for monitoring and reporting of cross-border financial transactions, however these regulations are non-money laundering specific. However, more comprehensive legislation is needed to prevent and detect money laundering through financial institutions.

There are no laws at present that provide for a mandatory system that governs the reporting of suspicious transaction reporting to a competent authority. BI has, however, issued a regulation requiring banks to report suspicious transactions in the absence of the anti-money laundering legislation. An officer that is appointed by BI handles these reported transactions.

The Government of Indonesia (GOI) has begun to take steps to address some of the deficiencies in its anti-money laundering regime. The Indonesian Parliament is considering draft legislation entitled “The Eradication of Criminal Acts of Money Laundering,” which was submitted by the GOI in May 2001. The proposed law would criminalize money laundering, require suspicious transaction reporting by financial institutions, and mandate the reporting of currency transactions in excess of one hundred million rupiah and cross-border currency movements. The draft law also would establish the Commission for the Eradication of Criminal Acts of Money Laundering (KPTPPU). The KPTPPU, which is modeled after a financial intelligence unit, would receive and analyze currency and suspicious transaction reports, and would be authorized to provide international assistance in criminal money laundering investigations.

Currently, there is no financial intelligence unit dedicated to countering money laundering in Indonesia. Under the Bank Indonesia Act No. 23/99, BI may co-operate with other central banks and international organizations concerning matters related to the central bank’s tasks, including banking supervision. However, Indonesia does not yet have any administrative authority charged with overseeing anti-money laundering activities and receiving and analyzing suspicious transaction reports. There is little information on how the Commission will be structured or interface with other law enforcement organizations.

Indonesia is a member of the Asia/Pacific Group on Money Laundering, a party to the 1988 UN Drug Convention, and has signed but not yet ratified the 2000 UN Convention against Transnational Organized Crime. Indonesia has extradition treaties with the Philippines, Malaysia, Thailand and Australia. The treaty with Australia includes money laundering as an extraditable offense. In 1997, Indonesia signed a “Surrender of Fugitive Offenders” agreement with Hong Kong (which also covers money laundering).

The lack of a comprehensive anti-money laundering regime will continue to subject Indonesia’s financial system to crime and abuse. Indonesia should pass anti-money laundering legislation and enact additional bank supervisory practices that are consistent with accepted international standards.

**Iran.** Iran is not a regional financial center. Iranian law enforcement officials reportedly carry out financial investigations in the context of drug crimes. Iran does not have legislation that criminalizes money laundering, but a bill to do so is in the Majles.

Iran’s real estate market is widely used as an alternative remittance system. For example, real estate transactions take place in Iran, but no funds change hands there; rather, payment is made overseas. This typically is done because of the difficulty in transferring funds out of Iran and the weakness of Iran’s currency, the rial. The real estate market, in at least one instance, has been used to launder narcotics-related funds.

On December 26, 2001 Bank Karafarin received a license from the Central Bank of Iran, and became the first private bank to operate in 23 years.

Iran is a party to the 1988 UN Drug Convention and has signed but not yet ratified the UN Convention against Transnational Organized Crime.

**Ireland.** The primary sources of funds laundered in Ireland are derived from drug trafficking, fraud and tax offenses. Money laundering occurs in financial institutions and the bureaux de change. Additionally, investigations in Ireland indicate the continued use of professionals specializing in the creation of legal

entities as a means for laundering money. Trusts are also established as a means of transferring funds from the country of origin to “off-shore” locations. It has been difficult to establish the true beneficiary of the funds, which makes it difficult to follow the money trail and establish a link between the funds and the criminal.

The Criminal Justice Act 1994 criminalized money laundering relating to drug trafficking and other offenses. It also required financial institutions to report suspicious transactions and currency transactions exceeding approximately U.S. \$15,000, implement customer identification procedures and retain records of financial transactions. The law applies to banks, building societies, the Post Office, stockbrokers, Credit Unions, bureaux de change, life assurance companies, and insurance brokers. Subsequent legislation added requirements for the implementation of anti-money laundering programs for training in the identification of suspicious transactions.

The use of solicitors, accountants and “company formation agencies” in Ireland to create “shell companies” has been cited in a number of “suspicious transaction reports”, and in a number of requests for assistance from Financial Action Task Force (FATF) members. Investigations have disclosed that these companies are used to provide a series of transactions connected to money laundering, fraudulent activity and tax offenses. The difficulties in establishing the “beneficial owner” have been complicated by the fact that the Directors are usually nominees and are often principals of a solicitors’ firm or of a company formation agency.

In July 2001, the Government of Ireland (GOI) enacted the Company Law Enforcement Act 2001, to deal with problems associated with shell companies. This is the most important new companies act in more than 40 years. The legislation established the position of Director of Corporate Enforcement, whose responsibility it is to investigate and enforce the companies acts. Company law enforcement was previously the responsibility of the Minister for Enterprise, Trade and Employment. The changes are directed at ensuring a greater measure of compliance, and to follow the disclosure of major lapses by a range of inquiries in recent years. The Act also aims to correct a number of deficiencies in the area of insolvency law, which has become a concern given signs of an economic downturn. Under the new law, the beneficial director of a company will have to be named. The new Company Act will require all newly registered Irish companies to engage, in part, in business dealings within the State. It will also require the company’s director to be a resident in Ireland or the company must post a bond of 20,000 pounds as a surety for failure to comply with the appropriate company law. The GOI is setting up a new multi-agency unit to enforce the law, and is in the process of recruiting personnel.

Legislation was introduced in 2000 to combat money laundering by terrorist organizations. This legislation contains provisions addressing the forfeiture of property, if the property is used by or connected with any terrorist organization. The GOI has introduced new legislation targeting fund-raisers for both international and domestic terrorist organizations. The “Suppression of the Financing of Terrorism” bill will extend the existing powers of the GOI to seize property and/or other financial interests belonging to convicted criminals and terrorists. The bill will allow the Garda Siochana (the national police) to apply to court to freeze large sums of cash where certain evidentiary requirements are met. The GOI hopes to enact and implement the legislation in the first quarter of 2002.

The Bureau of Fraud Investigation serves as Ireland’s financial intelligence unit. The Bureau analyzes financial disclosures and is a member of the Egmont Group.

Since 1994, thirty individuals have been charged with money laundering and twenty convicted.

Ireland’s offshore banking is concentrated in Dublin’s International Financial Services Centre (IFSC). Approximately 400 international financial institutions and companies operate in the IFSC. Services offered include fiscal management, re-insurance, fund administration and foreign exchange dealing. The Central Bank of Ireland regulates the IFSC companies.

At the beginning of 2001, Ireland and the United States signed Mutual Legal Assistance in Criminal Matters Treaty (MLAT), however it is not in force. An extradition treaty between Ireland and the U.S. is

## Money Laundering and Financial Crimes

---

already in force. Ireland is a member of the Council of Europe and FATF. Ireland is a party to the 1988 UN Drug Convention and signatory to the UN Convention against Transnational Organized Crime.

The GOI has developed a comprehensive program for combating money laundering. The GOI further strengthened Ireland's anti-money laundering regime this year through its new legislation, training to prevent money laundering, and its work with Europol to compare suspicious transactions. Expedient implementation of Ireland's new anti-money laundering laws, and continued stringent enforcement of all such initiatives, will ensure that Ireland maintains an effective anti-money laundering program.

**Isle of Man, The.** The Isle of Man (IOM) is a Crown Dependency of the United Kingdom located in the Irish Sea. Its sophisticated offshore center continues to be vulnerable to money laundering, particularly at the layering and integration stages.

In an effort to thwart money laundering, the IOM criminalized money laundering related to drug trafficking in 1987, and the Prevention of Terrorism Act 1990 made it an offense to contribute towards terrorist organizations, or to assist a terrorist organization in the retention or control of terrorist funds. The Criminal Justice (Money Laundering Offenses) Act of 1998 amended the Criminal Justice Act 1990 by criminalizing money laundering arising from all serious crimes. This legislation enabled the creation of the Anti-Money Laundering Code 1998 (as amended in 1999 and 2001), which includes a requirement for reporting suspicious transactions relating to all serious crimes, not just drugs or terrorism. In addition to obligations on financial institutions such as banks, fund managers, stockbrokers, insurance companies, etc., the Code also imposes reporting and "know your customer" obligations on financial businesses such as lawyers, registered legal practitioners, and accountants holding or handling clients' funds; corporate service providers and trust service providers.

Consistent with the current work of the Financial Action Task Force (FATF) in deciding on a common approach to identifying historical customers, there is an exemption from the requirement to identify customers where the business relationship was formed prior to December 1998, the date of the inception of the Code. However, in December 2000, the IOM Financial Supervision Commission (FSC) issued a consultation paper, jointly with the Crown Dependencies of Guernsey and Jersey, called "Overriding Principles for a Revised Know Your Customer Framework," to develop a more convergent approach on anti-money laundering. Among other issues, the consultation paper proposes that every institution would have to conduct an exercise to check their whole book of business to determine that there is sufficient information available to prove identity. Where it is concluded that there is insufficient information to prove the identity of a customer, the institution would be required to obtain documentation that will provide satisfactory evidence of customer identity. However, despite this, the FSC's Guidance Notes promote the best practice of bringing all customer accounts up to date in terms of identification.

In January 2002, the FSC will be issuing another paper which develops the original Overriding Principles proposals further, following which the FSC will be conducting detailed discussions with its license holders about how the various initiatives in the consultation paper can be consolidated into the Guidance Notes, including legislative changes where necessary. It is anticipated that this will take place later in 2002. The Insurance and Pensions Authority (IPA) will also be conducting a similar exercise with its license holders. In summary, the Overriding Principles proposals constitute a significant strengthening of the IOM's anti-money laundering regime. The Code is supplemented by Guidance Notes that define the obligations of the institutions under the Code. The IPA also issues Guidance Notes, which are periodically updated to take account of international developments, including terrorism.

One concern of the FATF was that, while there was an obligation to report suspicions or knowledge of money laundering under the drugs and terrorism legislation, reporting under the Code was "defensive" i.e., there was no obligation to report. However, a report could be quoted as a defense against a charge of having assisted in money laundering.

In response to this and other issues raised by FATF, the Criminal Justice Act 2001 was introduced June 21, 2001, further amending the Criminal Justice Act 1990. The amended law contains provisions dealing

with the proceeds of all crimes. It extends the power to confiscate to much wider ranging crimes, increases the penalties for a breach of money laundering codes, and repeals the requirement for the Attorney General's consent prior to disclosure of certain information. Previously, if the financial intelligence unit (FIU) wanted to forward a local disclosure to another island, the FIU had to go through the Attorney General. The law also addresses the disclosure of a suspicion of money laundering. It is now an offense to fail to make a disclosure, under all legislation, of suspicion of money laundering, whereas previously this just applied to drugs and terrorism legislation. The law also addresses the import and export of proceeds of crime in cash. Previously, if someone was stopped at an airport or seaport, law enforcement could only seize cash if there were reasonable grounds related to drugs or terrorism. Under the amended law, law enforcement only needs a suspicion of any criminal conduct.

As a result of the terrorist events in the United States on September 11, 2001, the Government of the IOM recently drafted the Prevention of Terrorism Act 2001. The purpose of the Act is to enhance reporting, by making it an offense not to report suspicious transactions relating to money intended to finance terrorism. The Government of the IOM is waiting to learn what comes of similar legislation from the United Kingdom (UK). The UK statute on the Prevention of Terrorism and the IOM statute will become effective during 2002. The FSC's anti-money laundering guidance notes have been revised to include information relevant to the terrorist events. The Guidance Notes were issued in December 2001.

Suspicious transactions reports are reported to the Fraud & Financial Investigation Unit (FFIU), the IOM's financial intelligence unit. The FFIU belongs to the Egmont Group.

The IOM's financial industry consists of approximately 16 life insurance companies; 26 insurance managers; more than 160 captive insurance companies; more than 14.5 billion pounds in life insurance funds under management; 59 licensed banks and two licensed building societies; 81 investment business license holders; 26.8 billion pounds in bank deposits; and 107 collective investment schemes with 4.9 billion pounds of funds under management. There are also 89 licensed corporate service providers, with approximately another 60 seeking licenses.

The FSC and IPA regulate the IOM financial sector. The FSC is responsible for the licensing, authorization and supervision of banks, building societies, investment businesses, collective investment schemes, corporate service providers and companies. The IPA regulates insurance companies. To assist license holders in the effective implementation of anti-money laundering techniques, the FSC held four seminars and additional workshop training sessions in partnership with the Financial Crime Unit (FCU) and the Isle of Man Customs & Excise, and on one occasion, the U.S. Customs Service. The FSC conducts on-site visits to assess the license holders' compliance with relevant legislation and the FSC's Guidance Notes. Based upon a review of the results of these visits, remedial action is taken where necessary, and tight deadlines are set for completion of any remedial measures by the license holder. A follow-up on-site visit is carried out within three months of the original visit in such cases. The IPA operates a similar regime.

The IOM is a member of the Offshore Group of Banking Supervisors. The IOM cooperates with international anti-money laundering authorities on regulatory and criminal matters. Application of the 1988 UN Drug Convention was extended to the IOM in 1993. The IOM is also assisting FATF Working Groups considering issues relating to customer identification and companies' issues. The IOM has fully implemented all UN Sanctions relating to terrorism and terrorist funding.

The IOM amended their anti-money laundering legislation in response to FATF concerns. The IOM has developed a comprehensive anti-money laundering regime, and has shown its commitment to combating financial crime. Full implementation of their new laws will ensure the success of the IOM's anti-money laundering program.

**Israel.** The government of Israel is in the process of strengthening its anti-money laundering regime and has enacted counter-money laundering legislation to support its efforts. Until Israel fully enacts implementing regulations pursuant to its counter money laundering law and until its financial intelligence

## Money Laundering and Financial Crimes

---

unit (FIU) becomes fully operational and responds to requests from other FIUs, Israel's financial and banking sectors will continue to be vulnerable to money laundering and other financial crime.

U.S. and foreign law enforcement have seen the use of Israeli-based or linked accounts or targets in a variety of money laundering operations by international organized crime. In November 2001, Switzerland imposed sanctions on the Swiss branch of Israel's Bank Leumi for its involvement in the alleged money laundering activities of former Peruvian presidential adviser Vladimiro Montesinos.

In June 2000, the Financial Action Task Force (FATF) identified Israel as non-cooperative in international efforts to fight money laundering. The FATF in its report cited several concerns, which included the lack of mandatory suspicious reporting, adequate record keeping, failure to criminalize money laundering arising from serious crimes, and absence of a financial intelligence unit. In July 2000, the U.S. Treasury Department issued an advisory to U.S. financial institutions, warning them to give "enhanced scrutiny" to certain transactions or banking relationships involving Israel.

Israel enacted the "Prohibition on Money Laundering Law" (PMLL), on August 8, 2000. The PMLL establishes a legal framework for an anti-money laundering system, but required the passage of several implementing regulations before the law could fully take effect. Among other things, the PMLL criminalizes money laundering and noted more than 18 serious crimes as predicate offenses for money laundering, in addition to offenses described in the Prevention of Terrorism Ordinance. The PMLL also authorized the issuance of regulations requiring financial service providers to identify, report and keep records for specified transactions for seven years. The law also provided for the development of a "competent authority" that will have the functions of an FIU.

In November 2000, Israel enacted an implementing regulation called for by the PMLL. The "Prohibition on Money Laundering (Reporting to Police)" regulation establishes mechanisms for reporting to the police transactions involving property that was used to commit a crime or that represents the proceeds of crime. Israel also enacted several other implementing regulations prior to 2002.

In June 2001, FATF determined that although Israel had taken steps to remedy deficiencies in its anti-money laundering regime, Israel had made insufficient progress to warrant removing it from FATF's list of non-cooperative countries.

Israel is continuing its efforts to reform its anti-money laundering system, and has enacted additional implementing regulations provided for by the PMLL. The "Prohibition on Money Laundering (The Banking Corporations Requirement Regarding Identification, Reporting, and Record Keeping) Order" was approved in 2001. The Order establishes specific procedures for banks with respect to customer identification for account holders and beneficial owners, record keeping, and reporting of irregular and suspicious transactions reporting. The "Prohibition of Money Laundering (Methods of Reporting Funds when Entering or Leaving Israel)," Order, also approved in 2001, requires individuals who enter or leave Israel with cash, bank checks or traveler's checks above the equivalent of \$12,500 to report that information to customs authorities. Failure to comply is punishable by imprisonment of up to six months and a fine of approximately \$37,000 or ten times the amount undeclared, whichever is greater.

Under the PMLL money laundering offenses are punishable by up to ten-years imprisonment and heavy fines. Since January 1, 2001 there have been 9 investigations related to money laundering, several of which may lead to prosecution.

Israel in December 2001 also passed the following regulations: the "Prohibition on Money Laundering (Obligations of Identification, Reporting and Keeping of Records by Insurer and Insurance Agent) Order," the "Prohibition on Money Laundering (Requirements Regarding Identification, Reporting and Record-Keeping of a Provident Fund and a Company Managing a Provident Fund) Order," the "Prohibition on Money Laundering (Requirements Regarding Identification, Reporting and Record Keeping of Portfolio Manager) Order," and the "Prohibition on Money Laundering (Requirements Regarding Identification, Reporting and Record-Keeping of a Stock Exchange Member." These

regulations put in place requirements for customer identification, record keeping and reporting of irregular transactions upon their respective financial sectors.

Additional regulations called for by the PMLL address financial sanctions for covered institutions that fail to comply with their obligations under the PMLL and the postal bank were passed in 2001: the “Prohibition on Money Laundering (Financial Sanction) Regulations,” the “Prohibition on Money Laundering (Postal Bank Requirements Regarding Identification, Reporting and Record-Keeping)” Order, the “Prohibition on Money Laundering (Entry Into Force of Chapters Three to Five of the Prohibition on Money Laundering Law)” Order, and the “Prohibition on Money Laundering (Proclamation on the Establishment of the Competent Authority’s Data Base).”

Additional regulations called for by the PMLL have been drafted and presented to Israel’s Constitutional, Law and Justice Committee of the Knesset for consideration.

The GOI’s financial intelligence unit (FIU) is scheduled to become operational in February 2002. Israel is in the advanced phase of hiring staff and establishing a database to collect the reports that financial institutions are required to make under the PMLL. Currently elements within the police are responsible for investigating money laundering activities.

Under the Legal Assistance Law, Israeli courts are empowered, with respect to certain designated crimes and subject to certain procedures, to enforce forfeiture orders executed in foreign courts for crimes committed outside Israel. This ability has recently been enhanced by the new Prohibition of Money Laundering Law. Through September 2001, U.S. \$ 2.25 million in assets was seized by Israeli authorities and U.S. \$ 1.2 million was forfeited. This does not include assets in three cases before the Supreme Court that may amount to an addition of several million dollars. In 2000, U.S. \$3 million was seized and U.S. \$1.875 million was forfeited, and in 1999 U.S. \$2.75 million was seized and U.S. \$0.675 million was forfeited.

Israel and the United States cooperate under a Mutual Legal Assistance Treaty (MLAT). Informally, the GOI has cooperated with requests from U.S. law enforcement in matters of financial crime including those involving narcotics and terrorism. Israel continues to have difficulty providing responses to requests for bank records via the MLAT process, due to the lack of resources previously committed by the Israeli police to the task and the reluctance of Israeli banks to provide certified copies of bank records. The enactment of the PMLL will expand Israel’s authority to provide assistance regarding money laundering investigations. As of the end of 2001, Israel had not yet deposited an instrument of ratification for the 1988 UN Drug Convention. It has signed but not ratified the UN Convention against Transnational Organized Crime.

Israel should continue to enact all regulations pursuant to the Prohibition on Money Laundering Law and continue to implement all matters related to its evolving its anti-money laundering regime, including the development of an FIU that will be able to share information with foreign governments.

**Italy.** Italy’s financial sector is vulnerable to money laundering. Italian officials estimated in 2001 that about U.S. \$50 billion is laundered in Italy each year—equivalent to 4.2 percent of the GDP. Italy is also a drug consumption country and a transshipment point for moving illicit narcotics into Western Europe. Italian organized criminal groups—particularly those in the southern part of the country—continue to engage in narcotics and alien smuggling, contraband cigarettes smuggling, extortion, usury, and kidnapping, and launder the proceeds of these activities through Italian banks, casinos, real estate, and the gold market. For example, Italian, Albanian and Montenegrin criminal organizations form offshore companies to purchase bulk cigarettes that are marked for export, and smuggle them into Italy where they are sold tax-free throughout the European Union. This highly lucrative trade is made more attractive by relatively light penalties—a maximum of five years in prison.

In June 2001, Italian law enforcement arrested two Bologna businessmen in Operation Molocchio (Evil Eye) on charges of drug trafficking and money laundering. Officials described the two as white-collar criminals who served as commercial brokers for leading organized crime gangs. They laundered vast sums

## Money Laundering and Financial Crimes

---

of the gangs' narcotics profits by investing the money in offshore companies involved in such activities as buying metals from Eastern Europe and exotic fruits from the Caribbean. The operation resulted in the confiscation of 17 real estate holdings, 2 yachts, 14 companies, 18 banks accounts, and stocks, for a total of U.S. \$20 million.

Italian law criminalizes money laundering related to felony offenses. A wide range of financial institutions—including stock brokerages, exchange houses, and insurance companies—must identify their customers, record and report transactions above 20 million lire (approximately U.S. \$9,800), and report suspicious transactions. In addition, institutions and individuals must report cross-border movements of currency that exceed 20 million lire. The Government of Italy (GOI) also has in place a system for tracing, freezing, seizing, and confiscating assets. In accordance with the Council of Europe procedures, the GOI is committed to sharing these assets with cooperating countries.

Decree No. 153/97 designates the Ufficio Italiano dei Cambi (UIC) to serve as the Italian financial intelligence unit and to act as the recipient of suspicious transactions reports (STRs). The Decree also provides a “safe harbor” provision for individuals who report suspicious transactions and creates an inter-ministerial commission to coordinate anti-money laundering among Italian law enforcement and regulatory agencies. The decree also establishes organizational links among agencies that are involved in the fight against organized crime, and encourages international cooperation against money laundering.

The UIC is a member of the Egmont Group. The UIC receives and analyzes financial disclosures, and forwards them to the appropriate law enforcement agency—the Anti-Mafia Directorate or the Guardia di Finanza—for further investigation when deemed necessary. The UIC also performs supervisory and regulatory functions such as issuing decrees, regulations, and circulars.

Italy is a member of the Financial Action Task Force (FATF). A member of the European Union, Italy is a party to the 1988 UN Drug Convention and the Council of Europe Convention on Laundering, Search, Seizure and Confiscation of the Proceeds from Crime. Italy has signed but not yet ratified the UN Convention against Transnational Organized Crime. Italy and the United States have a Mutual Legal Assistance Treaty and an extradition treaty in place, and cooperate on money laundering cases. Italy also has information sharing agreements with other countries for the exchange of information related to money laundering cases. The GOI also has a number of bilateral agreements with foreign governments in the area of investigative cooperation on drug trafficking and organized crime.

Although the GOI has comprehensive internal auditing and training requirements for its financial sector, implementation of these measures by non-bank financial institutions still lags behind that of banks, as evidenced by the relatively low number of STRs that have been filed by non-bank financial institutions. The GOI should increase its training efforts and supervision in the area of non-bank financial institutions to decrease their vulnerability to money laundering.

**Jamaica.** Jamaica, the foremost producer and exporter of marijuana in the Caribbean, is also a major transit country for cocaine destined for the U.S. and other international markets. Locally laundered money is used to acquire real assets, such as real estate or cars, rather than financial instruments. It is difficult, however, to distinguish between assets acquired from laundering operations and those resulting from legitimate remittances. The Government of Jamaica (GOJ) does not require declarations of cross-border movements of currency or monetary instruments, which cash couriers are exploiting to move large amounts of cash through Jamaica.

The GOJ passed the Money Laundering Act (MLA) in December 1996, which was implemented January 5, 1998. The MLA criminalized narcotics-related money laundering and introduced record-keeping and reporting requirements for banks and financial institutions for currency transactions over \$U.S. 10,000. The financial sector complained that the requirement to report threshold transactions involving U.S. \$10,000 or more in cash was an onerous burden. The MLA was amended in March 1999 to raise the reporting threshold to U.S. \$50,000 and to add a requirement for banks and financial institutions to report suspicious financial transactions in any amount to the Director of Public Prosecutions (DPP). The

amendment excluded persons licensed to operate an exchange bureau or cambio, who have a reporting threshold of U.S. \$8000. In February 2000, the Act was further amended to expand the predicate offenses to include fraud, firearms trafficking, and corruption. A Ministerial Order requiring remittance agencies to report currency transfers is currently awaiting approval by the Parliament.

In October 2000, the Director of Public Prosecutions sent a letter to local banks, cambios, and building societies, requesting implementation of a new suspicious transaction reporting form that details why a transaction is considered suspicious. The form is intended to help investigators analyze whether a reported transaction is the result of money laundering.

Jamaica has established a Financial Crimes Division that encompasses a financial analysis unit to assist in the implementation of its anti-money laundering program. The Financial Crimes Division is responsible for receiving, analyzing, and developing information from suspicious activity reports (SARs). Although the unit officially began operations in July 2001, it is still defining job duties for employees, creating standard operating procedures, recruiting for a division director, and obtaining software.

Further action is needed in the area of asset forfeiture to permit the GOJ to take full advantage of this mechanism to augment the resources of its counternarcotics agencies. Jamaica has no civil forfeiture law; the 1994 Drug Offenses (Forfeiture of Proceeds) Act requires a criminal drug-trafficking conviction as a prerequisite to forfeiture.

Jamaica and the United States have a Mutual Legal Assistance Treaty that entered into force in 1995. Jamaica is a party to the 1988 UN Drug Convention and a signatory to the UN Convention against Transnational Organized Crime. Jamaica is a member of the Caribbean Financial Action Task Force and the Organization of American States Inter-American Drug Abuse Control Commission Experts Group to Control Money Laundering. In March 2001, the GOJ ratified the Inter-American Convention Against Corruption and on November 10, 2001, Jamaica signed the International Convention for the Suppression of the Financing of Terrorism.

The GOJ is slowly making progress in bringing its anti-money laundering regime into line with international standards. The GOJ should institute declarations of large cross-border movements of currency or monetary instruments. The GOJ needs to broaden its anti-money laundering law to encompass all serious crimes and should reconsider its decision to amend the 1999 act that raised the threshold amount for reporting cash transactions from the generally accepted amount of \$10,000 to \$50,000. The GOJ should also ensure that the Financial Crimes Division is provided with the necessary resources to enable it to combat corruption and money laundering.

**Japan.** Japan is an important world financial center. As such, Japan is also a major money laundering center. The principal sources of laundered funds are drug trafficking and financial crimes (illicit gambling, extortion, abuse of legitimate corporate activities, and all types of property related crimes) as well as the proceeds from violent crimes, mostly linked to Japan's criminal organizations, e.g., the boryokudan. The Japanese National Policy Agency estimates that the boryokudan's illegal activities generate annually several billion dollars in proceeds. United States law enforcement reports that drug-related money laundering investigations initiated in the U.S. periodically show a link between drug-related money laundering activities in the U.S. and bank accounts in Japan.

Prior to 1999, Japanese law only criminalized narcotics-related money laundering. The Anti-Drug Special Law, which took effect in July 1992, criminalized drug-related money laundering, mandated suspicious transaction reports for the illicit proceeds of drug offenses, and authorized controlled drug deliveries. This legislation also created a system to confiscate illegal profits gained through drug crimes. The seizure provisions apply to tangible and intangible assets, direct illegal profit, substitute assets, and criminally derived property that have been commingled with legitimate assets. The limited scope of the law and the burden required of law enforcement to prove a direct link between money and assets to specific drug activity severely limited the law's effectiveness. As a result, Japanese police and prosecutors have undertaken few investigations and prosecutions into suspected money laundering.

## Money Laundering and Financial Crimes

---

Pursuant to the 1999 Anti-Organized Crime Law, which came into effect in February 2000, Japan expanded its money laundering law beyond drug trafficking to include money laundering predicates such as murder, aggravated assault, extortion, theft, fraud, and kidnapping. The new law also extended the confiscation laws to include the additional money laundering predicate offenses and to include value-based forfeitures, authorized electronic surveillance of organized crime members, and enhanced the suspicious transaction reporting system.

In response to the terrorist attack on the United States on September 11, 2001 the Financial Services Agency (FSA), which supervises the public-sector financial institutions and securities transactions, used the anti-money laundering framework provided in the newly enacted “Anti-Organized Crime Law,” where terrorists’ funds stem from crime proceeds, to request financial institutions to report transactions suspected of their connections with such individuals and/or entities as those designated by the Notices as those suspected to have relations with criminal activities. The FSA will classify and analyze information on suspicious transactions reported by financial institutions in relation to crime proceeds, and provide law enforcement authorities with information relevant to their investigation.

To facilitate exchange of information related to suspected money laundering activity, the law established the Japan Financial Intelligence Office (JAFIO) as Japan’s financial intelligence unit. Financial institutions in Japan report suspicious transactions to the JAFIO as instances of suspicious transactions are discovered.

Japanese banks and financial institutions are required by national laws to record and report the identity of customers engaged in large currency transactions. There are no secrecy laws that prevent disclosure of client and ownership information to bank supervisors and law enforcement authorities. Under the 1998 Foreign Exchange and Foreign Trade Control Law, banks and other financial institutions must report transfers abroad of five million yen (approximately U.S. \$44,579) or more. Domestic laws also require banks and financial institutions to maintain records for an adequate period of time should they be needed to reconstruct significant transactions. This requirement is not specifically narcotics-related.

Japanese financial institutions have cooperated, when requested, with law enforcement agencies, including U.S. and other foreign government agencies investigating financial crimes related to narcotics. Japan has not adopted “due diligence” or “banker negligence” laws that make individual bankers responsible if their institutions launder money, but there are administrative guidelines in existence that require due diligence. The law does, however, protect bankers and other financial institution employees who cooperate with law enforcement entities.

The 1998 Foreign Exchange and Foreign Trade Control Law required travelers entering and departing Japan to report physically transported currency and monetary instruments exceeding one million yen (approximately U.S. \$8,916) or its equivalent in any other foreign currency to customs authorities. The reporting requirement is virtually ignored by travelers, however, because there is no meaningful penalty (i.e., seizure of currency) for failure to report.

Japan is a party to the 1988 UN Convention and has adopted formal articles of ratification. In December 2000, Japan signed the United Nations Convention against Transnational Organized Crime. Japan is a member of the Financial Action Task Force. The JAFIO joined the Egmont Group of FIUs in 2000. Japan is also a member of the Asia/Pacific Group against Money Laundering.

Japan has not enacted laws that allow for sharing of seized narcotics assets with other countries. However, the Japanese Government cooperates with efforts by the U.S. and other countries to trace and seize assets, and makes use of tips on the flow of drug-derived assets from foreign law enforcement efforts to trace funds and seize bank accounts.

The Government of Japan should stringently enforce the Anti-Organized Crime Law, which will enhance Japan’s ability to combat a wide range of money laundering activities. The Government of Japan has many legal tools and agencies in place to successfully detect, investigate, and combat money laundering. Japan could strengthen its anti-money laundering regime by enacting penalties for non-compliance with the

Foreign Exchange and Foreign Trade Law, adopting measures to share seized assets with foreign governments, and strongly enacting banker “due diligence” provisions.

**Jersey.** The Bailiwick of Jersey, one of the Channel Islands, is a Crown Dependency of the United Kingdom. Jersey’s sophisticated offshore services industry is similar to international financial services centers worldwide, vulnerable to money laundering at the layering and integration stages. The Jersey Financial Services Commission (FSC) regulates Jersey’s financial sector. The FSC is responsible for regulating Jersey’s banks, insurance companies, collective investment schemes, investment businesses, and trust company businesses (the business of forming and administering trusts and companies). The Company Registry also falls under the purview of the FSC.

Jersey’s main anti-money laundering laws are: The Drug Trafficking Offenses (Jersey) Law of 1988, which criminalized money laundering related to drug trafficking; the Prevention of Terrorism (Jersey) Law, 1996, which criminalized money laundering related to terrorist activity; the Proceeds of Crime (Jersey) Law, 1999; and The Investment Business (Jersey) Law, 1998, which brings investment advice, management, and dealing into regulation. The FSC is authorized to issue the Codes of Practice, and to inspect institutions to ensure businesses are in compliance. The reporting of suspicious transactions is mandatory under the drug trafficking and terrorism anti-money laundering laws. The Proceeds of Crime (Jersey) Law, 1999, extended the predicate offenses for money laundering to all offenses punishable by at least one year in prison. Offenses committed abroad are covered in cases where the conduct, if it had occurred in Jersey, would have constituted a predicate offense. There is no exception for fiscal offenses.

In February 2001, the Government of Jersey brought into effect the Financial Services (Jersey) Law. This legislation amended the Investment Business (Jersey) Law by extending Jersey’s financial regulations to Jersey’s approximately 300 trust and company services providers. Businesses that provide company administration, trustee, or fiduciary services are subject to the law. Secondly, in the course of providing such services, the person must provide any one of a number of services, such as being a company formation agent, a director, a secretary, the provider of registered office, the provider of accommodation address, or acting as trustee. Under the new law, the FSC can and does visit each business to ensure compliance with Codes of Practice. These Codes of Practice, which are established for investment and trust company businesses, set out the basic principles under which the business should be conducted. They include the requirement that the Island’s anti-money laundering defenses should be adhered to.

On July 17, 2001, Jersey and German Securities Regulators signed a cooperation agreement intended to increase information flow and mutual assistance between the two jurisdictions. The cooperation agreement will enhance information flow for investigating securities offenses such as insider dealing, market manipulation, and conducting financial business without a license. Jersey is the first offshore financial center to sign a Memorandum of Understanding (MOU) with the German Securities Regulator.

July 16-18, 2001, the Jersey FSC hosted a seminar, on the island, concerning international cooperation in the fight against financial crime. A total of 60 delegates from 15 countries attended the seminar. Participants included law enforcement agencies, justice departments, regulatory agencies and others. Discussion focused on developments in international standards in cooperation, and practical ways of improving cooperation.

In September and October 2001, the FSC reminded financial institutions of the sanctions in place preventing the movement of funds connected with certain territories. The FSC listed on its web site all names issued by the U.S. authorities in their search for any financial transactions connected with the atrocities in New York and Washington on September 11th. The FSC reminded financial institutions of the need to review their accounts for any connection with the listed persons and to make available suspicious transaction reports to the police. In addition, the FSC made available to financial services institutions other names issued by U.S. authorities for that purpose, but not for public distribution. The Jersey authorities have also put in place sanction orders freezing accounts of individuals connected with terrorist activity. Jersey also informed Department of State that employees of the FSC could be made

## Money Laundering and Financial Crimes

---

available to participate with USG personnel in training jurisdictions that requested assistance in freezing terrorist assets and/or developing viable anti-money laundering regimes.

In November 2001, Jersey introduced the International Cooperation (Jersey) Law. This extends the powers of the Attorney General to provide assistance to other jurisdictions before charges are brought. Before the law was in place, the Attorney General's ability to provide assistance at the investigative stage was essentially limited to fraud and money laundering matters. The new law extends this ability to all serious crimes.

The island has established a financial investigation unit known as the Joint Police and Customs Financial Investigation Unit (JCFU). This unit is responsible for receiving, investigating, and disseminating suspicious transaction reports (STR). The unit includes Jersey Police and Customs officers, as well as a financial crime analyst. The JCFU is a member of the Egmont Group.

The financial services industry in Jersey consists largely of bank deposits of U.S. Dollars, 170 Billion; mutual funds of U.S. Dollars, 150 Billion; insurance companies (which are largely captive companies); investment advice, dealing and management companies (U.S. Dollars 50 Billion under management); and trust and company administration companies.

Approximately 30,000 Jersey companies are registered with the Commission. In addition to public filing requirements relating to shareholders, the Commission requires details of the ultimate individual beneficial owner of each Jersey registered company to be filed, in confidence, with the Commission. That information is available, under appropriate circumstances and in accordance with the law, to U.S. and other investigators. In addition, a number of companies that are registered in other jurisdictions are administered in Jersey. Some companies are known as "exempt companies" which means that they do not have to pay Jersey income tax and are only available to non-residents. Jersey does not provide "offshore" licenses. All regulated individuals are equally entitled to sell their services to residents and non-residents alike. All financial businesses must have a "real presence" in Jersey, and management must be in Jersey.

In 2000, the FATF also conducted a review of Jersey's anti-money laundering regime against 25 specified criteria. Jersey was not identified by the FATF as a non-cooperative country or territory (NCCCT) in the international fight against money laundering. However, the FATF, in its report, expressed concern that certain intermediaries were authorized to verify the identity of their customers. The report also noted the lack of a stringent scheme to apply the new rules of customer identification for accounts open prior to the entry into force of the Proceeds of Crime (Jersey) Law.

In response to the FATF concerns, the FSC issued a consultation paper (jointly issued in Guernsey and the Isle of Man) that set out a number of proposals for tightening, further, the essential due diligence requirements that financial institutions should meet regarding their customers. The paper proposed, *inter alia*, affirming the primary responsibility of all financial institutions to verify the identity of their customers, regardless of the action of intermediaries. The paper also proposed a progressive program to obtain verification documentation that was taken regarding customers before the Proceeds of Crime (Jersey) Law came into force in 1999. Final decisions on this paper have not yet been concluded.

Jersey plans to adopt the UN Convention for the Suppression of Terrorist Financing as soon as its domestic legislation, the Prevention of Terrorism (Jersey) Law 1996, is amended. This will enable Jersey to try individuals for terrorist crimes, notably the financing of terrorism committed outside Jersey. Application of the 1988 UN Drug Convention was extended to the Bailiwick of Jersey on July 7, 1997. Jersey does not have any formal Mutual Legal Assistance Treaties; however, Jersey officials cooperate with international requests for assistance.

Jersey has established a comprehensive anti-money laundering program, and has demonstrated its commitment to fighting financial crime. Jersey officials cooperate with international anti-money laundering authorities. Jersey is addressing the issues arising from the mutual evaluation report of the Offshore Group of Banking Supervisors (of which Jersey has been a member since its formation in 1979)

and the FATF NCCT report. The island will continue to match developing international standards in order to work with other authorities to defeat financial crime and terrorist financing.

**Jordan.** Jordan is not a regional financial center. The Central Bank of Jordan (CBJ), which regulates foreign exchange transactions, issued anti-money laundering regulations designed to meet Financial Action Task Force recommendations in August 2001. Under Jordanian law, money laundering is considered an “unlawful activity” subject to criminal prosecution.

Jordanian central bank and law enforcement officials report that financial institutions report suspicious transactions and cooperate with prosecutors’ requests for information related to drug trafficking cases. Jordan’s central bank has instructed financial institutions to be particularly careful when handling foreign currency transactions, especially if the amounts involved are large or if the source of funds is in question. The new Banking Law of 2000 waives banking secrecy provisions in cases of suspected money laundering.

Jordan is a party to the 1988 UN Drug Convention.

Jordan has taken steps toward constructing a viable anti-money laundering regime to protect against money laundering and to avoid the use of its financial institutions in the funding of terrorism. More experience in the implementation of the new system is needed to evaluate fully its effectiveness.

**Kazakhstan.** Kazakhstan’s relatively advanced financial infrastructure, combined with a significant organized crime presence, puts it at risk for money laundering. More than 200 organized crime groups with ties to similar groups in the United States and Europe are believed to exist in the country.

Kazakhstan has criminalized money laundering for narcotics and other serious crimes. However, inadequate financial controls make detection of money laundering difficult. Bank examiners are not trained to look for evidence of money laundering, but rather focus on traditional safety and soundness concerns. Banking laws require tax police and investigators to go through local prosecutors in order to obtain bank records. Records may be released only if the prosecutor deems an investigation is warranted.

Kazakhstan is a party to the 1988 UN Drug Convention and has signed but not yet ratified the UN Convention against Transnational Organized Crime.

**Kenya.** Kenya’s capital, Nairobi, has approximately 50 banks and is a regional financial center for East Africa.

The Narcotics Drugs and Psychotropic Substances (Control) Act, 1994, section 49, criminalized money laundering related to narcotics-trafficking. Narcotics-related money laundering is punishable by a maximum prison sentence of 14 years. While there have been no arrests made pertaining to money laundering, the Government of Kenya (GOK) has participated with the United States in efforts to freeze terrorist financing.

According to GOK law, banks are required to maintain records on customers who conduct large transactions. Kenya is currently working toward establishing a viable anti-money laundering regime.

Kenya has signed the Eastern and Southern Africa Anti-Money Laundering Group (ESAAMLG) memorandum of understanding and is an active member. In August of 2001, representatives from Kenya attended the ESAAMLG Task Force and Ministerial Council Meeting in Windhoek, Namibia. Kenya is a party to the 1988 UN Drug Convention.

**Korea (Democratic Peoples Republic of Korea).** The money laundering situation within North Korea is unknown. North Korea’s self-imposed isolationism and secrecy as well as its refusal to participate in international organizations or assent to international conventions, such as the 1988 United Nations Convention Against Illicit Traffic in Narcotic Drugs and Psychotropic Substances, make knowledge of the role of North Korea’s financial system and drug trafficking supposition at best.

What little is known and documented, however, includes North Korea’s continued use of Macau as a base of operations for money laundering and other illicit activities. Macau is a useful intermediary, for it provides North Koreans with access to global financial systems. There are reports that Pyongyang also has

## Money Laundering and Financial Crimes

---

used Macao to launder counterfeit U.S. \$100 bills and Macao's banks as a repository for the proceeds of North Korea's growing trade in illegal drugs.

**Korea (Republic of Korea).** Money laundering related to narcotics-trafficking has been criminalized since 1995 and financial institutions have been required to report transactions known to be connected to narcotics-trafficking to the Prosecutor's Office since 1997. All financial transactions using anonymous, fictitious, and nominee names have been banned since the 1997 enactment of the Real Name Financial Transaction and Guarantee of Secrecy Act.

The Financial Transactions Reports Act (FTRA), passed in September 2001, requires financial institutions to report suspicious transactions (STRs) to the financial intelligence unit (FIU) within the Ministry of Finance and Economy. The FIU will analyze STRs and forward information deemed to require further investigation to domestic law enforcement and the public prosecutor's office. Improper disclosure of financial reports is punishable by up to five years imprisonment and a fine of up to 30 million won (approximately \$25,000).

In November 2001 the Korean Cabinet issued regulations implementing the newly enacted Financial Transactions Reports Act and officially launched the FIU. The FIU will be composed of officials from various agencies, including the Ministry of Finance and Economy, the Justice Ministry, the Financial Supervisory Commission, the Bank of Korea, and the Korea Customs Service.

In a move designed to broaden its anti-money laundering regime the government has also criminalized the laundering of the proceeds from 36 additional offenses, including economic crimes, bribery, organized crime, and illegal capital flight. The Proceeds of Crime Act (PCA) passed in September 2001. The PCA provides for penalties of 3 years imprisonment and/or a fine of up to 20 million won (approximately \$16,000), for anyone receiving criminal funds. Disguising or disposing of criminal funds is punishable by up to five years imprisonment and up to 30 million won. The newly enacted legislation also provides for confiscation and forfeiture of illegal proceeds. The Anti-Public Corruption Forfeiture Act of 1994 already provided for the forfeiture of the proceeds of assets derived from corruption.

The Republic of Korea is a party to the 1988 UN Drug Convention and in December 2000 signed the United Nations Convention against Transnational Organized Crime. The Republic of Korea is a member of the Asia/Pacific Group on Money Laundering. In 1998, the United States and the Republic of Korea signed an extradition treaty, which entered into force in December 1999. The United States and the Republic of Korea cooperate in judicial matters under a 1993 Mutual Legal Assistance Treaty, which entered into force in 1997.

The passage of these new measures provides the Republic of Korea important legal tools to combat money laundering. The Republic of Korea should move forward to implement these measures and fully staff the FIU in order to fully cooperate internationally and better protect its financial sector from money laundering and other crimes.

**Kuwait.** Kuwait is not a major regional banking sector; it has six commercial banks, two specialized banks, one Islamic bank, and a branch of a Bahrain-based bank. Kuwait does not have anti-money laundering legislation. Kuwait's central bank in June 1997 ordered domestic banks to take measures to prevent money laundering such as checking clients' identities and the nature of their business. Banks also are to inform the central bank of all cash deposits that exceed the equivalent of U.S. \$33,000, and funds transfers that are "irregular."

In 1999, the Government of Kuwait (GOK) proposed anti-money laundering legislation, which the Finance and Economic Committee of the National Assembly passed in November 2001. The National Assembly had still not approved the legislation by the year's end. The legislation would criminalize money laundering, require financial institutions to keep records of transactions for at least 5 years, establish suspicious activity reporting requirements, establish a declaration requirement for bringing currency and precious items into the country, and allow for the freezing of assets in money laundering cases. Under the legislation, penalties for money laundering would generally be up to seven years imprisonment and a fine,

although the penalties could be doubled under certain circumstances. Assets would be subject to forfeiture upon conviction of a money laundering offense.

The Gulf Cooperation Council represents Kuwait before the Financial Action Task Force (FATF). Kuwait is a party to the 1988 UN Drug Convention and has signed but not yet ratified the UN Convention against Transnational Organized Crime.

**Kyrgyzstan.** Kyrgyzstan (the Kyrgyz Republic) is not a regional financial center but is vulnerable to money laundering, as money laundering is not a crime in Kyrgyzstan. The central bank has provisions that require customer identification procedures and make an exception to bank secrecy rules for suspicious transaction reporting, but these provisions are believed to be generally ignored by the commercial banks. Oversight of the banking sector remains weak and Kyrgyzstan's law enforcement agencies do not have the resources to conduct effective financial investigations.

The major sources of illegal proceeds include narcotics-trafficking, smuggling of consumer goods, official corruption, and tax evasion.

Kyrgyzstan is a party to the 1988 UN Drug Convention and has signed but not yet ratified the UN Convention against Transnational Organized Crime.

**Laos.** Laos is not a regional financial center and has no anti-money laundering legislation. To support effective anti-money laundering laws, Laos must first develop an underlying body of banking law and regulation, most of which currently does not exist. The country does have strict laws on the export of its currency, the Lao kip. The proceeds of drug trafficking most likely are sent to other countries in the region through alternative remittance systems.

Late in 2001 the Government of Laos (GOL) agreed to freeze terrorist financial assets and to establish a financial intelligence unit to search for terrorist transactions. These developments may help to speed up the government's slow progress on the related issue of money laundering legislation and regulations.

The GOL is a party to the 1971 UN Convention on Psychotropic Substances and has stated its goal to become a party to the 1988 UN Drug Convention. The GOL is working with the United Nations Office for Drug Control and Crime Prevention and other foreign consultants to develop the fundamental regulatory framework that would be necessary for Laos to be in a position to comply with the 1988 Convention. In the interim, the GOL sends its officials to relevant Association of Southeast Asian Nations (ASEAN) conferences on regional anti-money laundering practices.

**Latvia.** Money laundering continues to be a major concern in Latvia in spite of compliance with legislative norms. The Council of Europe annual report for 2000 connects money laundering with counterfeiting, corruption, white-collar crime, extortion, financial-banking crimes, stolen cars, and prostitution. An estimated two-thirds of crime is connected with Organized Crime. Although Latvia has a mainly cash economy, there are opportunities for money laundering at 228 currency changing points and 21 casinos. The banking sector consists of 22 commercial banks. Non-residents hold two-thirds of total share capital in the banking sector.

Money laundering was criminalized for all serious crimes in 1998. There are requirements for customer identification, the maintenance of records on all transactions, and the reporting of large cash transactions (40,000 lats or approximately U.S. \$64,600), and suspicious transactions to the Office for the Prevention of the Laundering of Proceeds Derived from Criminal Activity (Control Service), which is Latvia's financial intelligence unit (FIU). The Control Service, which employs 13 persons, was established under the oversight of the Prosecutor's Office. In addition to its existing software, the Control Service has created new software that collates the data from the internal database that contains information on customers who have conducted unusual or suspicious transactions.

The number of suspicious disclosures reported to the Control Service continues to increase.

## Money Laundering and Financial Crimes

---

In June 2001 a special unit for the investigation of money laundering was established in the Board of the Financial Police of the State Revenue Service. There has been no money laundering convictions and no forfeitures of illicit proceeds.

On November 7, 2000, the President of Latvia promulgated a law for a public regulator, the Finance and Capital Market Commission. Previously, the Central Bank regulated banks, with separate regulators for the Securities & Exchange Commission and insurance companies. The new law established one united regulator to assume supervisory authority over all three sectors, which will bring Latvia in line with the British/Swedish model. This change took effect in July 2001.

Latvia is also addressing the issue of offshore investments. While only 370 companies have offshore investments (out of 160,000 registered enterprises in Latvia), of the \$1.23 billion invested in its base capital by foreign investors, almost one-seventh is invested by offshore companies. The largest offshore investors come from Hong Kong, the Isle of Man, and Jersey. The largest number of joint ventures with offshore capital comes from the U.S. Virgin Islands, the Bahamas, Cyprus, and Liechtenstein. Moreover, information on offshore company owners has been confidential.

Proposed legislation has been drafted to create a new register of proxies to get more information on offshore activities in Latvia. A new commercial law already adopted in November 2000 and becomes effective January 1, 2002 also requests more information on the branches of offshore companies in Latvia. The law also requires that at least half the board members of such companies must be permanent residents of Latvia, parent companies must submit their annual reports to a new commercial register, and changes in the parent companies' authorized personnel in Latvia must likewise be reported to check suspicious transactions.

In 2000 a World Bank report rated all Eastern European countries for corruption. Latvia was rated positively in terms of administrative corruption, but negatively regarding state capture (because of conflict of interest of high level officials). The European Union 2001 Report on Latvia's Progress Towards Accession characterized the perceived level of corruption as relatively high. Latvia is establishing an independent anti-corruption unit to deal with corruption among high-level officials. They are working with Organization of Economic Cooperation and Development (OECD) on a joint anti-bribery convention. In September 2001, Latvia and the U.S. signed a protocol of understanding for the U.S. to give financial assistance to the opening of a Corruption Prevention Office in Latvia and to facilitate criminal proceedings reform.

Interagency cooperation between Latvian law enforcement agencies tends to be best at the highest governmental levels, but weaker at the working level due to lack of financial, material, and human resources. Consequently, there are problems in obtaining and approving evidence. The investigative process needs streamlining. In response to that problem, Viesturs Burkans, head of the Control Service, announced to the press that plans have been proposed by the Prosecutor General's Office and the Control Service to create two teams of five experts to work only on money laundering investigations. One will be formed at the Financial Police, the other at the Economic Police. The National Security Council also supported the proposal. The special investigation teams should be put in place by 2003.

Latvia participates in the Council of Europe's PC-R-EV, and as a member underwent a mutual evaluation in March 2000 resulting in many of the aforementioned changes. Latvia ratified the Council of Europe Convention on Laundering, Search, Seizure and Confiscation of proceeds from Crime in 1998, and the Council of Europe Criminal Law Convention on Corruption in December 2000. A Mutual Legal Assistance Treaty has been in force between the U.S. and Latvia since 1999. Latvia is a party to the UN Drug Convention and in December 2000 signed the United Nations Convention against Transnational Organized Crime. The Control Service is a member of the Egmont Group. The Control Service has a memorandum of understanding on information exchange with Bulgaria.

The Government of Latvia should continue to research ways to improve cooperation between Latvian law enforcement agencies at the working level and to increase the resources available to those agencies. The

newly established regulator Finance and Capital Market Commission should bring improvements in the audit system as well as regular inspections to check suspicious transactions.

The key to Latvia's success in combating money laundering will be based on the swiftness and forcefulness with which it continues to strengthen and implement its anti-money laundering program.

**Lebanon.** Lebanon's historical commitment to bank secrecy, the cash-intensive nature of its economy, the heavy use of foreign currency (there is heavy dollarization), and the influx of remittances from expatriate workers in the UAE, Saudi Arabia and South America, all combine to increase the possibilities for laundering dirty money. Sources of laundered funds include narcotics, counterfeiting, smuggling, and evasion of international sanctions. Lebanon still has not prosecuted any cases of money laundering.

Citing the lack of a legal anti-money laundering framework the Financial Action Task Force (FATF), in June 2000 identified Lebanon as non-cooperative in international efforts to combat money laundering. Among the factors upon which FATF based its determination were Lebanon's strict banking secrecy regime, its lack of a financial intelligence unit (FIU), and the fact that, although banks were permitted to terminate account relationships in light of doubts about the true identities of account holders, they were not required to report such account terminations. In July 2000, the U.S. Treasury issued an advisory to U.S. financial institutions, warning them to give enhanced scrutiny to any transaction originating in or routed to or through Lebanon.

Over the past year Lebanon has enacted policies and requirements designed to address a number of the deficiencies causing international concern. In April 2001, Lebanon adopted Law No. 318 creating a framework for the lifting of bank secrecy, broadening the criminalization of money laundering beyond drugs, mandating suspicious transaction reporting, requiring financial institutions to obtain customer identification information, and facilitating access to banking information and records by judicial authorities. The provisions of Law No. 318 apply to Lebanese financial institutions subject to the provisions of the Banking Secrecy Law of September 3, 1956, as well as to those that are not, including institutions such as exchange offices, financial intermediation companies, leasing companies, mutual funds, insurance companies, companies promoting, building, and selling, real estate, and dealers in high-value commodities.

Law No. 318 also established the "Special Investigation Commission," an independent entity with judicial status to investigate money laundering operations, and to monitor compliance of banks and other financial institutions with the provisions of Law No. 318, including requirements relating to customer identification and due diligence. The commission's Audit and Investigation Unit is responsible for receiving and investigating reports of suspicious transactions. The Special Investigation Commission is the only entity with the authority to lift bank secrecy for administrative and judicial agencies. Another section within the Special Investigation Commission is the Financial Investigation Administrative Unit, (FIAU), which functions as Lebanon's Financial Intelligence Unit and is the entity for collecting, monitoring, and exchanging information with foreign counterparts.

In accordance with Article 5 of Law No. 318, the Banque du Liban, published Decision No. 7818 on May 16, 2001, which further delineates the requirements of Law No. 318. Decision No. 7818 requires financial institutions to identify all clients including transient clients, maintain records of customer identification information, request information about the beneficial owner of accounts, report suspicious transactions, conduct internal audits, and exercise due diligence in conducting transactions for clients.

In June 2001, FATF determined that, although Lebanon had taken steps to remedy deficiencies in its anti-money laundering regime, Lebanon had made insufficient progress to warrant removing it from FATF's list of non-cooperative countries in the international fight against money laundering.

In 2000, Lebanese authorities repealed a law authorizing offshore banking, and in 2001, Lebanon terminated its membership in the Offshore Group of Banking Supervisors. Lebanon has endorsed the Basel Core Principles and is in the process of implementing them. Lebanon is party to the 1988 UN Drug Convention (although it has taken reservations to several sections of the Convention relating to bank

## Money Laundering and Financial Crimes

---

secrecy) and in December 2001 it signed the UN Convention against Transnational Organized Crime. Lebanon and the United States do not have a Mutual Legal Assistance Treaty.

Lebanon has addressed a number of serious deficiencies in its legal, supervisory, and regulatory anti-money laundering system. The Government should implement and enforce the newly adopted Law No. 318 aggressively and effectively, thereby strengthening its ability to combat money laundering domestically and internationally.

**Lesotho.** Lesotho does not have a significant money laundering problem. There is currently no legislation criminalizing money laundering. However, in 2001 the Government of Lesotho drafted a money laundering statute based on the South African Development Community model, and has indicated its intention to introduce the bill in Parliament in 2002.

Lesotho requires banks to know the identity of their customers and to report suspicious transactions to the central bank. The government also requires banks to report all transactions exceeding 100,000 maloti (approximately U.S. \$9,000) to the central bank.

Lesotho is a party to the 1988 UN Drug Convention and has signed, but not yet ratified, the UN Convention against Transnational Organized Crime.

**Liberia.** Liberia is a concern because it is a major transshipment point for illegal diamond smuggling. Liberia is a major diamond producing country that has attracted international attention because of its ineffectiveness in regulating the diamond industry. Money laundering and terrorist financing using diamonds and other precious metals are concerns. Many of these diamonds and precious metals originate in Liberia, Guinea, and Sierra Leone. Subsequent to the May 7, 2001 UN ban on the export of “rough diamonds” from Liberia, local miners continue to produce rough stones. The Liberian Government claims it has not discouraged local diggers for fear that hundreds or thousands of unemployed miners would converge on the capital. The UN sanctions allegedly have caused a 40 percent drop in the price of stones on the local market. As a result, and given the proximity of Liberia’s principal alluvial deposits to the border with Sierra Leone, local diggers are transacting their stones in Sierra Leone where they fetch a better return. A typical money laundering scheme might include a businessman entering Liberia with a large amount of cash. The investor might purchase raw diamonds from unstaked or illicit miners in exchange for cash. These diamonds are then passed through customs and then shipped abroad to international markets in Tel Aviv, Israel, Antwerp, Belgium, and Bombay, India for cutting, polishing, and selling.

In December 2001, the Liberian Ministry of Justice was pursuing diamond smuggling charges against two senior officials for their role in an apparent scheme to sell rough diamonds to a visiting Japanese national. The Liberian Government has developed a prototype certificate of origin based on the Kimberley process and hopes to attain UN approval for this document. It also wants technical assistance in developing a tracking and monitoring system for future shipments with the proposed certificate.

Liberia’s offshore activity is concentrated in the ship registry business. Offshore companies are permitted to issue bearer shares. Liberia reportedly has 16 banks, but only a small number are open to the public.

In November 2000, Liberia was one of 14 West African countries that created the Intergovernmental Group of Action against Money Laundering (GIABA), a regional FATF-style body that is not currently functional. A representative from the Ministry of Finance attended the 2001 Regional Workshop on Money Laundering and Other Financial Crimes hosted by the West African Institute for Financial and Economic Management.

In 2001 Liberia enacted new anti-money laundering legislation. Under the new regulations, monies that are carried out of the country over the sum of 7,000 dollars must be in the form of travelers’ checks, money orders, or bank drafts. When entering the country, amounts of money that exceed 10,000 dollars must be declared to the Central Bank of Liberia.

Liberia is not a party to the 1988 UN Drug Convention.

**Liechtenstein.** The Principality of Liechtenstein (Liechtenstein) has a well-developed offshore financial services sector, relatively low tax rates, loose incorporation and corporate governance rules, and a tradition of strict bank secrecy, which have contributed significantly to the ability of financial intermediaries in Liechtenstein to attract funds from abroad. These same factors have made the country attractive to money launderers.

Liechtenstein's financial services sector includes 17 banks, 3 non-bank financial companies, and 16 public investment companies, as well as insurance and reinsurance companies. Its 230 licensed fiduciary companies and 60 lawyers serve as nominees for, or manage, more than 75,000 entities (primarily corporations, anstalts, or trusts) available primarily to nonresidents of Liechtenstein. Approximately one-third of these entities hold the controlling interest in other entities, chartered in countries other than Liechtenstein. Laws permit corporations to issue bearer shares.

The Financial Supervision Authority (FSA) is responsible for supervising all banks and fiduciaries licensed to operate in Liechtenstein. The FSA has the authority to conduct on-site spot checks and request information as required. Reliance previously was placed on a financial institution or intermediary's approved external auditors for regular compliance examinations and for monitoring implementation of anti-money laundering controls.

Drug-related money laundering has been a criminal offense in Liechtenstein since 1993, but the first general anti-money laundering legislation was added to Liechtenstein's laws in 1996. Although the 1996 law applied some money laundering controls to financial institutions and intermediaries operating in Liechtenstein, the anti-money laundering regime embodied in the legal, supervisory, and regulatory system of Liechtenstein at that time suffered from serious systemic problems and deficiencies.

In June 2000, the Financial Action Task Force (FATF) identified Liechtenstein as non-cooperative in international efforts to fight money laundering. The FATF in its report cited several concerns: inadequate customer identification rules; a limited and inadequate suspicious transaction reporting system; the absence of a financial intelligence unit (FIU); inadequate and ineffective laws and procedures governing international cooperation and the exchange of information to assist in criminal investigations by officials of other countries; and an inadequate dedication of resources overall to anti-money laundering programs.

In July 2000, the U.S. Treasury Department issued an advisory to U.S. financial institutions, warning them to give enhanced scrutiny to all financial transactions originating in or routed to or through Liechtenstein, or transactions involving entities organized or domiciled, or persons maintaining accounts, in Liechtenstein.

After the FATF issued its report, the Government of Liechtenstein (GOL) committed to take legislative and administrative steps to improve its anti-money laundering regime. Specifically, the GOL amended its Due Diligence Act to incorporate "know your customer" principles that require banks and all other financial intermediaries to identify their clients and the beneficial owners of accounts. The GOL revised relevant portions of its criminal code to add a wide range of predicate crimes to the definition of money laundering and expanded money laundering offenses in non-narcotics offenses to cover "own funds". The new laws also address the independence of accountants reporting to the FSA on anti-money laundering compliance.

The GOL also reformed its system of suspicious transaction reporting. Reporting is now permitted for a much broader range of offenses and may be made based on a suspicion rather than the previous standard of "a strong suspicion." Nonetheless, the new law continues to require that financial institutions undertake some "clarification" of transactions before making a report, and there is some concern that this may be inhibiting the level of reporting. This process could involve some risk of "tipping off," although in some cases it may be possible to clarify the nature of the transaction without going back to the client.

In the absence of a legislative mandate, a government ordinance of January 2001 established a FIU called the Einheit für Finanzinformationen (EFFI). The EFFI, which is external to and independent of the FSA, became operational on March 1, 2001. The EFFI works closely with the prosecutor's office and law

## Money Laundering and Financial Crimes

---

enforcement authorities in the country, as well as with a new unit of the National Police that deals with economic and organized crime. The EFFI has six employees and seeks to hire more. The EFFI became a member of the Egmont Group of FIUs in June 2001. The FIU currently operates on the basis of an executive order, but Parliament is expected to pass a bill providing a statutory basis for the FIU's authority in 2002.

The EFFI has developed a system for suspicious transaction reporting (STR) analysis that involves internal analysis and consultation with police and a 10-day period to decide whether to pass the report to prosecutors for further action. EFFI has set up a database to analyze the STRs. Currently, banks, insurers, financial advisers, postal services, bureaux de change, attorneys, financial regulators, and casinos are required to file STRs.

The FATF recognized in June 2001 that Liechtenstein had remedied the serious deficiencies in its anti-money laundering regime and decided to remove Liechtenstein from the FATF list of non-cooperative countries. Similarly, the U.S. Treasury Department withdrew its advisory against Liechtenstein.

The reforms to Liechtenstein's anti-money laundering regime have had positive results. The relatively small number of STRs filed by financial institutions in Liechtenstein have generated several money laundering investigations. On July 19, 2001, the GOL formally charged two previously indicted managers of trusts with money laundering. Eugen Von Heeb and Rudolf Ritter are accused of laundering millions of dollars for the Colombian Cali Drug Cartel and related criminal organizations and of conspiring to receive and conceal drug trafficking money through Liechtenstein bank accounts. The prosecutors have been asked to gather more evidence before the cases go to court.

The GOL also has taken significant steps to improve its ability to cooperate internationally. The law on mutual legal assistance, which took effect on November 6, 2000, streamlines the procedure for dealing with foreign requests for legal assistance and reduces from 12 to 3 the number of permitted appeals from decisions by the Liechtenstein authorities. Liechtenstein has in place legislation to seize, freeze, and share forfeited assets with cooperating countries. Liechtenstein has issued implementing ordinances to enforce the United Nations Security Council Resolution (UNSCR) 1267 of 1999, which requires all states to freeze funds and other financial resources, including funds derived by an undertaking owned or controlled by the Taliban, and UNSCR 1333 of 2000, which requires all states to freeze funds and other financial assets of Osama Bin Laden and his associates in the Al-Qaeda organization. Liechtenstein issued ordinances that were amended in October and November 2001, to allow the GOL to freeze the accounts of individuals whose names have been published pursuant to these UNSCR resolutions. The GOL updates these ordinances regularly.

On November 7, 2001, law enforcement entities in Switzerland, Liechtenstein, and Italy conducted raids and seized documents relating to Al Taqwa and Nada Management, which are on President Bush's November 7, 2001 list of organizations accused of helping fund terrorism. Liechtenstein froze five Al Taqwa accounts. In connection with these raids, the GOL responded to a Mutual Legal Assistance request from Switzerland and opened a domestic investigation based on money laundering and organized crime.

Liechtenstein is a member of the Council of Europe Select Committee on Experts on the Evaluation of Anti-Money Laundering Measures (PC-R-EV), and has signed the 1990 Council of Europe Convention on Laundering, Search and Confiscation of Proceeds from Crime. On October 3, 2001, the GOL signed a UN Convention on the Suppression of the Financing of Terrorism. Liechtenstein has also signed the UN Convention against Transnational Organized Crime. Liechtenstein has endorsed the Basel Committee Core Principles for effective banking supervision. Liechtenstein and the United States have begun negotiation of a Mutual Legal Assistance Treaty (MLAT). The second round of MLAT negotiations between the U.S. and Liechtenstein took place February 4-6, 2002.

The GOL has made progress in strengthening its anti-money laundering regime and implementing recent reforms. It has increased the resources, both human and financial, devoted to fighting money laundering. The GOL has also improved its international cooperation provisions in both administrative and judicial

matters, and has committed that all financial institutions (banks and non-bank intermediaries) must have full identification of accounts' beneficial owners. By the end of 2001, the numerous Liechtenstein trustee firms had largely complied with the new requirements, having provided identification for 98 percent of all accounts. Liechtenstein is expected to continue these efforts by conducting a thorough analysis of the validity of due diligence reports, by analyzing suspicious transactions, and by vigorously prosecuting money laundering cases.

To remedy serious problems with the implementation of the laws a new unit (SSP) was established to supervise compliance with anti-money laundering regulations. Its chief reports directly to the Prime Minister. Coupled with new legislation which would freeze unidentified accounts on January 1, 2002, the trustees and other financial intermediaries identified and filed client profiles with banks for over 45,000 customers, or approximately 97.2 percent of the total unidentified accounts by December 31. Under the direction of the SSP audits were conducted of a number of trustees supervised under the Due Diligence Act. The deficiencies discovered during the audit are being reviewed. The trustees have not yet fully embraced a compliance culture. The FIU, which was established as an independent unit by executive order, joined the Egmont Group of FIUs. The FIU works effectively and closely with the SSP, the Office of the Prosecutor and the Police. Liechtenstein judges have worked hard to fully reduce the backlog of judicial assistance requests.

The GOL should continue to implement its evolving anti-money laundering regime. It also should insist that Trustees and other fiduciaries fully comply with all aspects of the new anti-money laundering legislation and attendant regulations.

**Lithuania.** Illegal activities such as smuggling, narcotics-trafficking, capital flight, profit concealment, and tax evasion make Lithuania vulnerable to money laundering. Russian organized crime groups reportedly have used financial institutions in the Baltics to launder money.

The criminal code created in 1997 was amended to criminalize the act of money laundering. In January 1998, the Law on the Prevention of Money Laundering (LPML), entered into force. The LPML made provisions for suspicious transaction reporting and the identification of customers whose transactions exceed litas (LTL) 50,000 (approximately U.S. \$12,500) or the equivalent in foreign currency. The LPML also made provisions for maintaining a register of customers who engage in transactions that exceed LTL 50,000 or the equivalent in foreign currency; and retain certain documents for a minimum of 10 years. Along with collection of reports, the LPML specifies information to be reported to the tax police. The Bank of Lithuania (BOL) issues currency transaction reporting requirements and regulations, and is required to share money laundering violation information with law enforcement and other state institutions upon request. Non-bank financial institutions operate under guidelines similar to banks. The BOL has the authority to examine the books, records, and other documents of all financial institutions.

The Money Laundering Prevention Division (MLPD) of the Tax Police is Lithuania's financial intelligence unit.

Lithuania is a party to the 1988 UN Drug Convention, and has signed but not yet ratified the UN Convention against Transnational Organized Crime. Lithuania is also a party to the Council of Europe Convention on Laundering, Search, Seizure and Confiscation of the Proceeds from Crime. There is a mutual legal assistance treaty (MLAT) between the United States and Lithuania, which entered into force in 1999. Lithuania is a member of the Council of Europe's Select Committee of Experts on the Evaluation of Anti-Money Laundering Measures (PC-R-EV), and the MLPD is a member of the Egmont Group.

**Luxembourg.** Luxembourg is a major world financial center, with more than 200 international financial institutions that benefit from the country's strict bank secrecy laws and operate an unrestricted range of services and activities. The size and sophistication of Luxembourg's financial center pose major risks for money laundering. Although Luxembourg bank secrecy rules may appear vulnerable to abuse by those transferring illegally obtained assets, under Luxembourg law the secrecy rules are waived in the prosecution of money laundering and other criminal cases.

## Money Laundering and Financial Crimes

---

Two laws, the Law of 7 July 1989, updated in 1998, and the Law of 18 December 1993, criminalize the laundering of proceeds for all offenses. These anti-money laundering laws implement the customer identification, record keeping, and suspicious transaction reporting requirements mandated by the recent European Union anti-money laundering directive.

The Parquet de Luxembourg/Service Anti-Blanchiment, which reports to the Public Prosecutor, serves as Luxembourg's financial intelligence unit (FIU), receiving and analyzing suspicious transaction reports from the financial sector. The Commission de Surveillance du Secteur Financier (CSSF) create in 1999 is the supervisory body for the financial sector charged with implementing the country's anti-money laundering laws. There have been no arrests or prosecutions for money laundering since January 2001. The Luxembourg FIU is a member of the Egmont Group and has a memorandum of understanding (MOU) with Belgium, Monaco, Finland, and France. Similar MOUs with Switzerland, the Netherlands, and Ireland are under negotiation.

The GOL licenses offshore banks, non-bank financial institutions and international business companies (IBCs). As of December 2001, 187 banks were operating as "universal banks," with an unrestricted range of services. Foreign institutions seeking to become established in Luxembourg must demonstrate prior establishment in a foreign country, and meet stringent minimum capital requirements. Banks must undergo annual audits, (CSSF reg. No. 27) under the supervision of the Commission de Surveillance du Secteur Financier (CSSF), an independent government body that issues guidelines and enforces the requirements for operating in the financial sector. The identity of the beneficial owners of accounts is available to all entities involved in oversight functions, including registered independent auditors, in-house bank auditors, and the CSSF Registered auditors are subject to legal control requirements themselves, overseen by the CSSF. Within the Luxembourg financial marketplace, the auditors have established a "peer review" procedure that helps to assure the integrity of adherence to the controls.

In 2001, Luxembourg had 1,925 "undertakings for collective investment" (UCIs), or mutual fund companies, which included but were not limited to offshore investment funds, 118 insurance companies (est.), 264 reinsurance companies and several thousand IBCs. Companies must maintain a registered office in Luxembourg and a government registry publicly lists company directors. Bearer shares are permitted.

Luxembourg's role as a pan-European banking center has created an interest in e-banking. About a third of the banks in Luxembourg have Internet sites, although as of mid-2001 only about 15 of these permitted clients to carry out transactions online.

Luxembourg is a party to the 1988 UN Drug Convention, and in December 2000 Luxembourg signed the United Nations Convention against Transnational Organized Crime. Luxembourg is a member of the European Union, the Financial Action Task Force (FATF) and the Organization for Economic Cooperation and Development (OECD). Luxembourg and the United States exchanged instruments of ratification for a Mutual Legal Assistance Treaty (MLAT) on December 20, 2000. The MLAT entered into force in February 2001. In April 2001, Luxembourg and Monaco signed an agreement to fight money laundering that includes provisions for cooperation and information exchanges between the two states.

The GOL has enacted laws and adopted practices that help to prevent the abuse of its bank secrecy laws. The presence of bearer shares is an area of risk that should be addressed and the government should continue to strengthen enforcement to prevent international criminals from abusing Luxembourg's financial sector.

**Macau.** Under the one country-two systems principle that underlies Macau's 1999 reversion to the People's Republic of China, Macau has substantial autonomy in all areas except defense and foreign affairs. Macau's free port, lack of foreign exchange controls, significant gambling industry, and ongoing reorganization of its law enforcement agencies create an environment that can be exploited for money laundering. In addition, Macau is a gateway to China, and can be used as a transit point to remit funds and criminal proceeds to and from China, Hong Kong, and other Asian countries. Macau has a small economy and is not a financial center; however, significant amounts of criminal proceeds are laundered in Macau.

The gambling sector is a critical part of Macau's economy. It accounts for approximately 40 percent of GDP and direct taxes from gambling comprised 36 percent of government revenue in 2000. The Macau Special Region Administrative Region Government (MSARG) is planning to restructure the industry early in 2002 by ending the monopoly held by one company and expanding the number of licensed operators to three. Under the monopoly framework, organized crime groups were associated with the gambling industry through their control of VIP gaming rooms and activities such as racketeering, loan sharking, and prostitution. As a result, the gambling industry in particular provides an avenue for the laundering of illicit funds.

Macau's anti-money laundering legal framework is broadly in line with international anti-money laundering standards. The most important laws are: the Macau Financial System Act, approved by Decree Law Number 32/93/M on July 5, 1993; the Law on Organized Crime, approved by Decree Law Number 6/97/M on July 30, 1997; and Decree Law Number 24/98/M of June 1, 1998. The U.S. has no law enforcement cooperation agreements with Macau, though international cooperation is granted on the basis of international conventions in force in Macau. The Government of Macau (GOM) respond to U.S. requests for law enforcement assistance; however, Macau judges in two recent cases (in one with the concurrence of the Macau government) concluded that in the absence of a law enforcement cooperation agreement with the US, they did not have a legal basis to provide financial records requested by U.S. authorities. To facilitate its ability to provide increased law enforcement assistance to the United States, the GOM has prepared legislation to enable it to negotiate mutual legal assistance agreements.

The Financial System Act lays out regulations to prevent the use of the banking system for money laundering. It requires the mandatory identification and registration of financial institution shareholders, customer identification requirements, and external audits that include reviews of compliance with anti-money laundering statutes. These regulatory measures are applicable to credit institutions and financial companies headquartered in Macau and branches of credit institutions headquartered abroad. The Macau Monetary Authority has issued anti-money laundering guidelines to banks. Article 10 of the Law on Organized Crime criminalizes money laundering for the proceeds of all domestic and foreign criminal activities and contains provisions for the freezing of suspect assets and instrumentalities of crime. Legal entities may be civilly liable for money laundering offenses, and their employees may be criminally liable. The preventive measures in Decree Law Number 24/98/M set forth requirements for reporting suspicious transactions to the Judiciary Police and other appropriate supervisory authorities. These reporting requirements apply to all legal entities supervised by the MSARG regulatory agencies including pawnbrokers, antique dealers, art dealers, jewelers, and real estate agents.

Only a small number of suspicious transaction reports (STR) have been filed since the implementation of Decree 24/98/M. None has led to prosecution. Concern in the banking industry about possible retribution from criminal elements is one reason for the small number of STRs from this sector. The Inspectorate of Gaming has not played an active role in preventing money laundering in the casinos. The casinos have not filed any suspicious transaction reports. Activities and transactions that occur within quasi-private VIP rooms that cater to clients seeking anonymity within Macau's gambling establishments are especially removed from official scrutiny. Given the gambling industry's important economic role, there is concern in Macau about the economic effects of anti-money laundering efforts.

Despite having anti-money laundering laws, the MSARG in the past did not have an active enforcement effort in practice. However, over the past year, the MSARG has taken a series of important initial steps to create an effective anti-money laundering regime. It requested and provided full cooperation with an Offshore Group of Banking Supervisors (OGBS) and an Asia-Pacific Group (APG) review in April 2001 of its anti-money laundering regime. The MSARG is now taking steps to comply with the review's recommendations. These steps include: drawing up plans for establishment of a financial intelligence unit; drafting and sending out for comment revised anti-money laundering guidelines for banks; drafting and sending out for comment new anti-money laundering guidelines for money changers and remittance agents; and beginning an anti-money laundering public awareness campaign.

The MSARG joined the Asia/Pacific Group on Money Laundering (APG) as a full member in May 2001, and is also a member of the Offshore Group of Banking Supervisors. It has participated in anti-money laundering training programs offered by other countries and multilateral organizations. The MSARG is also drafting regulations specifically designed to prevent money laundering in the gambling industry as part of its restructuring of that sector. The People's Republic of China is a party to the 1988 UN Drug Convention, and through it the Convention is applicable to Macau.

It is too early to judge whether MSARG efforts to create an effective anti-money laundering regime will be successful. Further efforts are necessary, particularly ensuring that regulations, structures, training, and adequate resources are put in place to prevent money laundering in the gambling industry. The MSARG should also consider measures that provide for cross-border bulk currency and threshold reporting, ensure that anti-money laundering guidelines are provided to all business entities, including remittance agents, boost public awareness of the money laundering problem, and improve interagency coordination and cooperation on this issue.

**Macedonia, Former Yugoslav Republic of.** The Former Yugoslav Republic of Macedonia (FYROM) is not a regional financial center. The country's economy is heavily cash-based because of the population's distrust of the banking, financial, and tax systems. Money laundering in the FYROM most likely is connected to financial crimes such as tax evasion, financial and privatization fraud, bribery, and corruption rather than narcotics-trafficking.

Article 273 of the FYROM's criminal code, which came into force in 1996, appears to criminalize money laundering related to all crimes. The legislation specifically identifies narcotics and arms trafficking as predicate offenses, and contains an additional provision that covers funds that are acquired from other punishable actions. In November 2001, Parliament passed the Law on Money Laundering Prevention (LMLP), which explicitly defines money laundering for the first time in Macedonian legislation. The LMLP, which will come into effect in March 2002, requires financial institutions to identify clients that perform cash transactions exceeding 10,000 Euros, to prepare programs to protect themselves against money laundering, and to report suspicious transactions, although it does not provide criteria for determining that a transaction is suspicious.

Furthermore, the LMLP establishes the Directorate For Money Laundering Prevention within the Ministry of Finance. The Directorate will collect, process, analyze, and store data received from financial institutions and other government agencies. In November 2001, the Ministry of Finance announced the formation of the Financial Police, which will investigate suspicious transactions reported to the Directorate. The Financial Police, which will be regulated by a separate law, were not operational as of the end of 2001.

The FYROM is a member of the Council of Europe's (COE) Select Committee of Experts on the Evaluation of Anti-Money Laundering Measures (PC-R-EV), and in October 1999, underwent a mutual evaluation by the group. The FYROM is a party to the 1988 UN Drug Convention and has signed but not yet ratified the UN Convention against Transnational Organized Crime.

**Madagascar.** Madagascar is not a regional financial center. Reports indicate high activity of smuggling in animal products such as tortoise shells and reptile skins for sale in the international market. These schemes have in the past been related to money laundering activities within the country.

Article 102 of Madagascar's 1997 drug law criminalizes money laundering related to drug trafficking.

Madagascar is a party to the 1988 UN Drug Convention and has signed but not yet ratified the UN Convention against Transnational Organized Crime.

**Malawi.** Malawi is not a regional financial center. The Reserve Bank of Malawi, Malawi's central bank, supervises the country's seven licensed commercial banks (five of which are operational). In 1994, the Government of Malawi eliminated its foreign exchange controls.

Malawi has signed the Eastern and Southern African Anti-Money Laundering Group (ESAAMLG) Memorandum of Understanding. Malawi is a party to the 1988 UN Drug Convention and has signed, but not yet ratified the UN Convention against Transnational Organized Crime.

**Malaysia.** Malaysia is not a major regional financial center, although it does offer a wide range of financial services in its formal financial sector as well as through alternative money remittance systems that are potentially attractive to money launderers. The true extent of money laundering in Malaysia is not known, and to date there have been no effective prosecutions of money laundering activities.

The Government of Malaysia (GOM) passed important anti-money laundering legislation in May 2001. The act criminalizes money laundering and lifts bank secrecy provisions for criminal investigations involving a long list of approximately 150 predicate offenses. The law imposes obligations on financial institutions regarding customer identification, record keeping as well as suspicious transaction reporting by bank and non-bank financial institutions. Banks include commercial and merchant banks, Islamic banks and Labuan offshore banks. Non-Financial Banking Institutions (NBFIs) include finance companies, discount houses, money brokers, insurers, Takaful (i.e. Islamic insurance) companies, securities dealers, moneychangers and futures brokers. The new law, which came into effect in January 2002, also creates a financial intelligence unit (FIU) located in the central bank, Bank Negara Malaysia. The FIU, now operational, is tasked with receiving analyzing, and forwarding its findings to the appropriate legal and regulatory authorities for prosecution as required. Malaysia's long-standing National Coordination Committee to Counter Money Laundering (NCC) is composed of members from 13 government agencies. The NCC coordinates government-wide money laundering efforts and oversaw the drafting of the anti-money laundering law. The NCC is charged with overseeing the country's effort to combat money laundering.

The GOM has a well-developed regulatory framework, including licensing and background checks to oversee onshore financial institutions. In 1993, the Bank Negara Malaysia (BNM), the Malaysian central bank, issued "Guidelines on Money Laundering" and "Know Your Customer Policy" to educate financial institutions on money laundering issues in 1989. These guidelines were further revised in December 1993 in compliance with the Financial Action Task Force (FATF) 40 Recommendations through the requirement of customer identification and verification, financial record keeping and mandatory reporting of suspicious activity. The purpose of these guidelines was to require banking institutions to determine the true identities of customers opening accounts and to develop a "transaction profile" of each customer with the intent of identifying unusual or suspicious transactions.

In 1998, Malaysia imposed foreign exchange controls that restrict the flow of the local currency, the ringgit, from Malaysia. Some smugglers of currency have since been arrested. Under these exchange control laws, onshore banks must note cross-border transfers over 10,000 ringgit (approximately U.S. \$2,630).

The potential for money laundering activities at the offshore banking facility in Labuan is of concern, as there is no requirement for the beneficial owners of International Business Companies (IBCs) to be identified. The Labuan Offshore Financial Services Authority (LOFSA, often referred to simply as "Labuan") regulates the wide range of financial services, such as offshore banking and trust partnerships, provided by the offshore sector. Labuan hosts 54 offshore banks (46 foreign-owned), approximately 100 insurance companies, 4 mutual funds, 12 fund managers, and 18 active trust companies operating in Labuan. Because there is no requirement to register offshore trusts, their number is not known. Nominee trustees are permitted in Labuan, as are nominee directors of Labuan's approximately 2,300 IBCs incorporated or registered in Labuan. There is no requirement to disclose the beneficial owner of a corporation. There is, however, a government registry of corporate directors and shareholders, although this information is not available to the public. In April 2001, the Asia/Pacific Group (APG) and the Offshore Group of Banking Supervisors jointly gave a favorable evaluation of the Labuan offshore financial center. Malaysia has several pieces of legislation dealing specifically with Labuan.

## Money Laundering and Financial Crimes

---

Malaysia has no bilateral agreements for the sharing of information on money laundering, but does allow foreign countries to check the operations of their banks' branches. The GOM is drafting mutual legal assistance legislation that will make specific provision for the exchange of information with foreign governments.

Malaysia is a party to the 1988 UN Drug Convention. Malaysia has endorsed the Basel Committee "core principles" and is a member of the Offshore Group of Banking Supervisors and the Asia/Pacific Group. In May 2001, the Malaysian Government hosted the annual meeting of the APG in Kuala Lumpur.

The GOM should continue to improve the viability of its evolving anti-money laundering regime by amending its anti-money laundering legislation to include all serious crimes, including terrorist financing. The GOM should also require the identification of the beneficial owners of IBCs and the registration of trusts. With these changes and a fully-operational FIU, the GOM should consider joining the Egmont Group of FIUs through which it would be able to share critical information with other jurisdictions in the global fight against money laundering.

**Maldives.** The Maldives does not have legislation that specifically addresses money laundering, nor does it have procedures or policies such as a suspicious transaction reporting system that would detect money laundering. However, there is no significant financial activity in the Maldives.

Although some officials in the Government of the Maldives have wanted to establish an offshore financial center, the Maldives's antiquated banking laws and regulations, combined with currency controls, continue to hinder progress in this area.

The Maldives is a party to the 1988 UN Drug Convention.

**Mali.** Mali is not a regional financial center nor is money laundering considered to be a problem.

Mali was one of 14 West African countries in attendance of a meeting in November 2000 to establish the Intergovernmental Group of Action Against Money Laundering, a regional FATF-style body that is not currently functional. In December of 2001, Mali participated in a meeting for the West African Economic and Monetary Union and the Economic Community of West African States.

Mali is a party to the 1988 UN Drug Convention, and has signed but not yet ratified the UN Convention against Transnational Organized Crime.

**Malta.** Malta does not appear to have a serious money laundering problem. The Maltese Financial Services Center (MFSC), the regulatory agency responsible for licensing new banks and financial institutions, monitors financial transactions going through Malta.

The Government of Malta (GOM) criminalized money laundering in 1994. Maltese law imposes a maximum fine of approximately U.S. \$2 million and/or 14 years in prison for those convicted. In 1994, the Central Bank of Malta issued the Prevention of Money Laundering Regulations, applicable to financial and credit institutions, life insurance companies, and investment and stock firms. These regulations impose requirements for customer identification, record keeping, the reporting of suspicious transactions, and the training of employees in anti-money laundering topics. In 1996, the Central Bank of Malta issued guidance notes to assist the banking sector in implementing the regulations. In accordance with the regulations, suspicious transaction reports are filed with the competent authority that supervises an institution (in the case of banks, the Central Bank of Malta), which then forwards them to the Economic Crimes Unit of the Maltese Police.

Bank secrecy laws are completely lifted by law in cases of money laundering (or other criminal) investigations. Bearer shares or anonymous accounts are no longer permitted in Malta.

In December 2001, Malta's parliament passed legislation establishing the Financial Intelligence Analysis Unit (FIAU). When the FIAU is fully established, its board will consist of members of the Central Bank of Malta, the Malta Financial Service Center, the Ministry of Finance, the police, Malta's custom and security service, and the Attorney General.

Malta is a member of the Offshore Group of Banking Supervisors but has publicly announced that offshore business will completely cease by 2004. No further offshore registration of banks or international business corporation (IBCs) has been possible since January 1997. The Financial Action Task Force (FATF), which reviewed Malta's financial regime via the FATF Non-cooperative Countries and Territories exercise in 2000 did not name Malta as non-cooperative jurisdiction but did urge Malta "to accelerate the phasing-out of the nominee company system." As a result, the number of IBCs has declined from 757 in 2000 to 417 IBCs in 2001, and the number of offshore banks has declined from 4 to 3.

Malta is also a member of the Council of Europe's Select Committee of Experts on the Evaluation of Anti-Money Laundering Measures (PC-R-EV). Malta is a party to the 1988 UN Drug Convention and the Council of Europe Convention on Laundering, Search, Seizure and Confiscation of the Proceeds from Crime. Malta has signed but not yet ratified the UN Convention against Transnational Organized Crime.

**Marshall Islands.** The Republic of the Marshall Islands (RMI), a group of atolls located in the North Pacific Ocean, is a sovereign state in free association with the United States with a population of approximately 65,000.

In June 2000, the Financial Action Task Force (FATF) identified the Marshall Islands as non-cooperative in international efforts to fight money laundering. The FATF in its report cited several concerns. At that point, the RMI lacked a basic set of anti-money laundering regulations and laws, including the criminalization of money laundering, customer identification and a suspicious transaction reporting system. While the Marshall Islands financial sector was small, with only three onshore banks and no offshore banks, the jurisdiction had registered about 3,000 international business companies (IBCs). Relevant information about the IBCs was guarded by excessive secrecy provisions and was not accessible by financial institutions, international regulatory bodies or law enforcement agencies.

Subsequent to the FATF's naming of the RMI as a non-cooperative jurisdiction, in June 2000, the U.S. Treasury Department issued an advisory to U.S. financial institutions, warning them to give enhanced scrutiny to all financial transactions originating into or routed to or through the Republic of the Marshall Islands or involving entities organized or domiciled, or persons maintaining accounts in the Marshall Islands.

Since June 2000, the Marshall Islands has enacted significant legislative reforms to address most of the deficiencies identified by the FATF. The Marshall Islands passed the Banking (Amendment) Act of 2000 on October 31, 2000. This amendment to the 1987 Banking Act criminalizes money laundering, requires customer identification for accounts, and makes the reporting of suspicious transactions mandatory. The Marshall Islands also issued guidance to its financial institutions for the reporting of suspicious transactions. In addition, the Marshall Islands has drafted anti-money laundering regulations. These regulations have not yet come into force.

In November 2000, the GRMI approved the establishment of a financial intelligence unit that may exchange information with international law enforcement and regulatory agencies. The Financial Intelligence Unit was established under the auspices of the October 2001 Amendment to the Banking Act and the Cabinet Minute 236 (2000). The Marshall Islands is in the process of making this FIU fully operational.

Marshall Island non-resident corporations (NRCs), the equivalent of international business companies (IBCs), are of the greatest concern with respect to money laundering. By December 2000, there were reportedly 4000 NRCs registered, half of which are companies formed for registering ships. NRCs are allowed to offer bearer shares. Corporate officers, directors, and shareholders may be of any nationality and live anywhere. NRCs are not required to disclose the names of officers, directors and shareholders or beneficial owners and corporate entities may be listed as officers and shareholders. The authorities also do not actually possess the relevant information on non-resident companies. Although NRCs must maintain a registered office in the Marshall Islands, corporations can transfer domicile into and out of the Marshall Islands with relative ease. Marketers of offshore services via the Internet promote the Marshall Islands as

## Money Laundering and Financial Crimes

---

a favored jurisdiction for establishing NRCs. NRCs are prohibited from engaging in financial activities defined in section two of the Banking (Amendment) Act 2000. In addition to NRCs, the Marshall Islands offers non-resident trusts, partnerships, unincorporated associations, and domestic and foreign limited liability companies. Offshore banks and insurance companies are not permitted in the Marshall Islands.

In June 2001, FATF determined that although the Republic of the Marshall Islands had taken steps to remedy deficiencies in its anti-money laundering regime, the RMI will need to take further steps to warrant removing it from FATF's list of non-cooperative countries.

The Marshall Islands will need to finalize and promulgate the necessary regulations in order to bring the legislation into full force and will need to ensure that the recently enacted reforms are fully and effectively implemented.

**Mauritius.** Mauritius is a developing regional financial center. Mauritius is also a major route for foreign investments that come into India. Money laundering activities in Mauritius take place through shell companies using the financial system to launder funds. There is also plausible evidence that foreign investors have used the financial system in Mauritius to funnel laundered monies through the Indian stock market.

In 2000, the Financial Action Task Force (FATF) conducted a review of Mauritius's anti-money laundering regime against 25 specified criteria. Mauritius was not identified by FATF as a noncooperative country in the international fight against money laundering. The FATF June 2000 report indicated that 'despite concerns identified regarding the identity of directors and beneficial owners of offshore trusts, Mauritius's Economic Crime and Anti-Money Laundering Act, passed on 13 June 2000, reinforced existing legislation in the prevention of and fight against money laundering. The Economic Crime and Anti-Money Laundering Law (ECAMLL) of 2000 requires financial institutions, cash dealers, and professionals to report suspicious transactions to the country's central bank, the Bank of Mauritius, which forwards the reports to the independent Economic Crimes Office (ECO). The ECO is responsible for investigating suspicious transactions reports (STRs) and prosecuting money laundering cases. Members of professions who deal with financial transactions, including notaries and lawyers, are required to file STRs directly with the ECO. In 2001, the ECO had initiated more than 20 investigations based on STRs. The ECAMLL also authorizes international cooperation in money laundering investigations, and requires financial institutions to maintain adequate records of financial transactions.

Mauritius has an active offshore financial sector. On May 15, 2001, the Financial Services Development Act was passed. This Act established the Financial Service Commission (FSC) that will perform all functions that were formerly carried out by the Mauritius Offshore Business Activities Authority. The FSC will also be responsible for licensing and regulation of non-banking financial services. All applications to form offshore companies must be reviewed by the FSC. Information on companies can also be requested from the FSC. Along with reviewing of applications, the FSC supervises activities of offshore companies.

Mauritius' Financial Intelligence Unit (FIU) has the responsibility of gathering information for money laundering cases. Along with the FIU is the ECO that has the responsibility of prosecuting criminals. The FIU is developing the capability to work with international FIUs for information sharing.

Mauritius became a party to the 1988 UN Drug Convention on March 6, 2001. Mauritius has signed but not yet ratified the United Nations Convention against Transnational Organized Crime. Mauritius has signed the Memorandum of Understanding of the Eastern and Southern Africa Anti-Money Laundering Group (ESAAMLG) and is a member of the Offshore Group of Banking Supervisors.

**Mexico.** Mexican drug trafficking organizations continue to exploit Mexican banks and money exchange institutions by transferring illicit proceeds to financial systems worldwide. The smuggling of bulk shipments of U.S. currency into Mexico and the movement of the cash back into the United States via couriers and armored vehicles, as well as through wire transfers, remain favored methods for laundering drug proceeds. Mexico's financial institutions engage in currency transactions involving international

narcotics-trafficking proceeds that include significant amounts of U.S. currency or currency derived from illegal drug sales in the United States. Although drug trafficking continues to be the principal source of the laundered proceeds, other crimes including corruption, kidnapping, firearms trafficking, and immigrant trafficking are also major sources of illegal proceeds. President Fox continues to place strong emphasis at combating corruption throughout the government, which in the past has hindered anti-money laundering efforts and compromised criminal investigations and prosecutions.

Mexico's anti-money laundering system contains the essential elements to meet international standards such as those of the Financial Action Task Force (FATF) Forty Recommendations. Article 400 bis of the Federal Penal Code (in effect since 1996) extends the money laundering offense to all criminal activity and includes the proceeds of offenses committed in foreign jurisdictions. Penalties are increased by 50 percent when the crime involves a government official in charge of the prevention, investigation or prosecution of money laundering.

In January 2001, the Second Appellate court for Penal Matters in Mexico City ruled that prosecutors no longer must prove an underlying predicate offense, such as an actual narcotics sale, to bring a case against money launderers. Prior to this decision the courts required that prosecutors prove an underlying illicit activity and then a linkage with the actual funds in question.

Strict regulations have been implemented for banks and other financial institutions (mutual savings companies, insurance companies, financial advisers, currency exchange houses, stock market, money remittance companies, and credit institutions) to know and identify customers, and maintain records of transactions. They must report "relevant transactions (transactions over \$10,000), "transactions of concern" (transactions involving employees of financial institutions who engage in unusual activity); and unusual transactions to Hacienda's Attached General Directorate for Transactions Investigations (DGAIO), Mexico's financial intelligence unit (FIU). A Presidential Resolution of April 30, 2001 relocated the DGAIO from under the Office of the Federal Fiscal Prosecutor to the Under Secretariat of Incomes (comparable to the Internal Revenue Service). During 2001, the financial industry reported 2,877 suspicious transaction reports with an estimated value of \$27,315,070,912 pesos compared to 4,048 in 2000. Four of the reports were forwarded to the Office of the Attorney General for investigation.

The special prosecutorial unit established in 1998 within the Office of the Attorney General (PGR) is now a separate prosecutorial unit. The unit continues efforts at training its investigators and strengthening the money laundering cases presented to the judiciary. During 2001, the unit initiated 28 prosecutions that resulted in the arraignment of 31 individuals. However, there were no sentences handed down for money laundering convictions in 2001.

The Secretariat of Finance and Public Credit (Hacienda), the National Banking Commission (CNBV), and the PGR have made greater efforts at enforcing the measures available to them under the existing law and closed loopholes by expanding preventive measures. These included new regulations issued in December 2000 that extended reporting, record keeping, and customer identification requirements to non-bank financial institutions. These regulations entered into force February 1, 2001.

In January 2000, the U.S. Department of the Treasury and the Mexican Hacienda entered into a Memorandum of Understanding (MOU) for the exchange of information on the cross-border movement of currency and monetary instruments. The responsible authorities for the implementation of this MOU are the U.S. Treasury's Financial Crimes Enforcement Network (FinCEN) and the DGAIO. The two agencies are working jointly to implement the MOU. In December 2000, Mexico amended its Customs Law to reduce the threshold for reporting inbound cross border transportation of currency or monetary instruments from \$20,000 to \$10,000. At the same time, it established a requirement for the reporting of outbound cross-border transportation of currency or monetary instruments of \$10,000 or more. The Secretariat of Finance and Public Credit (Hacienda), reports 3,795 inbound cross-border transportation of currency or monetary instruments entries totaling \$2,448,718,318 pesos, and 195 outbound totaling \$589,127,152 pesos.

## Money Laundering and Financial Crimes

---

During 2001, the Government of Mexico reported U.S. currency seizures valued at \$408,543,137 pesos. All of the seizures were on the US-Mexico border. During July and August 2001 at the Mexico City International Airport, Mexico and the U.S. identified 10 individuals suspected of suspicious financial activity. As a result, there was one arrest and one seizure.

Mexico is a full and active partner in the Money Laundering Group of the U.S./Mexico High-Level Contact Group. Mexico and the U.S. continue to implement their bilateral treaties and agreements for cooperation in law enforcement issues, including the Mutual Legal Assistance Treaty (MLAT), the Executive Agreement on Asset Sharing, and the Financial Information Exchange Agreement (FIEA). In a coordinated bilateral law enforcement effort, the 18 month long Operation Marquis, targeting a Nuevo Laredo-based poly-drug organization, resulted in 261 arrests in the U.S. and Mexico, and identified a network of money launderers in June 2001. The investigation continues in Mexico. Mexico has also entered into bilateral agreements with other countries that provide for international cooperation on money laundering matters.

In 2001, Mexico also established suspicious transaction reporting requirements to the smaller foreign exchange houses that process most of the remittances from Mexican workers in the U.S.

In October 2001, the U.S. Customs Service and Mexico City entrepreneurs inaugurated a Business Anti-Smuggling Coalition (BASC) that includes the establishment of a financial BASC chapter created to deter money laundering.

Since 1997 the CNBV has issued 120 sanctions against Mexican banks for not following proscribed reporting procedures. The CNBV assesses that a majority of the large value transaction reports submitted do not have the required signature of the conveyor of the money and nearly three-quarters have insufficient data about the client's economic activity. About 25 percent of the reports are incomplete with information on the depositor's location. These shortfalls will be addressed in 2002 as the Mexican Banking Association (ABM) works to improve reporting and will include joint measures for training with the major money exchange houses.

In June 2000, Mexico became a member of FATF, and joined the Caribbean FATF as a cooperating and supporting nation. Through membership and participation in the FATF, the Egmont Group of FIUs and the OAS/CICAD Experts Group to Control Money Laundering, Mexico continues to expand its presence at international anti-money laundering fora. Mexico is a party to the 1988 UN Drug Convention, and the December 2000 United Nations Convention against Transnational Organized Crime.

Through workshops with industry representatives, the Mexican Secretariat of Finance and Public Credit continues to assist the financial sector implement the regulation for transaction reporting. Mexico also continues to position itself to guard against electronic money laundering and the use of "smart cards" by examining domestic industry standards since these new technologies present a great challenge as Mexico integrates into a global economy.

Mexico has established a sound legislative basis for its anti-money laundering policies, and has demonstrated an international commitment to combat money laundering. Customer identification provisions still do not apply to third party beneficiaries, which affect high value transactions made by individuals on behalf of the principal account holders. Identifying the true owners of the bulk cash that transits the US-Mexican border must remain a priority item for both governments to stem transactions involving international narcotics-trafficking proceeds. Additional efforts also need to be directed towards developing cooperative relationships among law enforcement, financial regulators, and the financial sector to reduce vulnerabilities.

**Micronesia.** The Federated States of Micronesia (FSM) is a sovereign state in free association with the United States. It is not a regional financial center. There has been no known money laundering schemes related to narcotics proceeds. Financial crimes, such as bank fraud, do not appear to be increasing in frequency. Contraband smuggling, centered on alcohol and tobacco products may generate illicit proceeds.

There are four financial institutions in the country: Bank of Hawaii, Bank of Guam, Bank of the FSM, and the FSM Development Bank. Only the Bank of the FSM and the FSM Development Bank are local institutions. The Bank of the FSM is the only non-U.S. bank insured by the Federal Deposit Insurance Corporation (FDIC).

Legislation aimed at enhancing law enforcement cooperation in investigating serious crimes with the U.S. and other countries is pending before the FSM Congress. The legislation would set forth procedures for requesting assistance and responding to requests from other countries.

In 2000, Micronesia adopted legislation based on the Basel banking standards. Micronesia began drafting implementing regulations for the new law in 2001.

**Moldova.** Moldova is not considered an important regional financial center. Moldova's banking system is relatively new and is vulnerable to money laundering.

No specific tie between narcotics proceeds and money laundering activity is apparent. However, there are reports that Russian crime groups purchase businesses in Moldova through which to launder illegal proceeds. The passage in November 2001 of a landmark money laundering law, which criminalizes money laundering and requires banks to report suspicious transactions, was a major step in the development of the Moldovan legal and banking system. The government and banking system are now in the process of developing mechanisms that will permit the tracking and review of suspicious transactions.

Moldova is a party to the 1988 UN Drug Convention and has signed but not yet ratified the UN Convention against Transnational Organized Crime. Moldova is a member of the Council of Europe Select Committee of Experts on the Evaluation of Anti-Money Laundering Measures (PC-R-EV), a FATF-style body.

**Monaco.** The Principality of Monaco is considered vulnerable to money laundering because of its strict bank secrecy laws and extensive network of casinos. Russian organized crime and the Italian Mafia reportedly have laundered money in Monaco.

There are approximately 70 banks and financial institutions in Monaco, with more than 300,000 accounts (with a population of about 5,000 Monagesque nationals and another 25,000 foreign residents). Approximately 85 percent of the banks' customers are non-resident.

Most of the banking sector is concentrated in portfolio management and private banking. The subsidiaries of foreign banks operating in Monaco can withhold customer information from the parent bank. Monaco also has an offshore sector, and permits the formation of both trusts and five different types of international business companies (IBCs): limited liability companies; branches of foreign parent companies; partnerships with limited liability; partnerships with unlimited liability; and sole proprietorships. However, ready-made "shelf companies" are not permitted. The incorporation process generally takes four to nine months. Monaco does not maintain a central registry of IBCs, and authorities have no legal basis for seeking information on the activities of offshore companies.

Money laundering in Monaco is a criminal offense. Banks, insurance companies, and stockbrokers are required to report suspicious transactions and to disclose the identities of those involved. (There is a report that suspicious activity reporting has been extended to many professions and business activities, including lawyers and estate agents.) Casino operators must alert the government of suspicious gambling payments possibly derived from drug trafficking or organized crime. Another law imposes a 5-10 year jail sentence for anyone convicted of using ill-gotten gains to purchase property (which is itself subject to confiscation).

Monaco established its financial intelligence unit, the Service d'Information et de Controle sur les Services Financiers (SICCFIN), to collect information on suspected money launderers. In 2000, the Financial Action Task Force criticized the anti-money laundering regime of Monaco for the insufficient resources provided to SICCFIN. According to a press report of November 2001, the French Finance Ministry

## Money Laundering and Financial Crimes

---

stated that SICCFIN had doubled the number of its staff, and that there had been a “noteworthy” increase in the number of suspicious activity reports being filed.

In April 2001, Monaco and Luxembourg signed an agreement to cooperate with one another in the fight against money laundering. The agreement includes provisions for information exchange between the two countries. Monaco has similar agreements with France, Spain, Belgium, Portugal the United Kingdom, and Switzerland.

Monaco is a party to the 1988 UN Drug Convention and in June 2001 submitted a notification indicating that it had ratified UN Convention against Transnational Organized Crime, which is not yet in force internationally. SICCFIN is a member of the Egmont Group of FIUs.

Monaco’s actions to increase the resources of SICCFIN should increase the efficacy of Monaco’s anti-money laundering regime, particularly in the area of cooperation with SICCFIN’s foreign counterparts. Monaco should establish a central registry for IBCs, and grant SICCFIN the authority to obtain information on the activities of offshore companies.

**Mongolia.** Mongolia is not a regional financial center. However, Mongolia’s vulnerability to transnational crimes such as money laundering most likely has grown with the country’s increased levels of international trade and tourism. Mongolia’s long, unprotected borders with Russia and China make it particularly vulnerable to smuggling and narcotics-trafficking. Illegal money transfers and public corruption are other sources of illicit funds in Mongolia. Mongolia does not have anti-money laundering legislation. Moreover, Mongolia’s ability to fight all forms of transnational crime is hampered by a weak legal system, and an inability to effectively patrol its borders, to detect illegal smuggling, and to conduct transnational criminal investigations.

Mongolia is not a party to the 1988 UN Drug Convention. However, in recent years the Government of Mongolia (GOM) has increased its participation in regional and international fora that focus on transnational criminal activities. For example, Mongolia is working with other countries in the region to join the Asia-Pacific Group on Money Laundering.

**Montserrat.** Montserrat is a Caribbean Overseas Territory of the United Kingdom. Volcanic activity between 1995 and 1998 reduced the population and business activity on the island, although an offshore financial services sector remains that may attract money launderers. As with the other British Caribbean Overseas Territories, Montserrat underwent an evaluation of its financial regulation in 2000, co-sponsored by the local and British governments.

Montserrat’s offshore sector consists of approximately 15 offshore banks and approximately 22 international business companies (IBCs). The Financial Services Centre (FSC) regulates offshore banks, whereas the Eastern Caribbean Central Bank supervises Montserrat’s three domestic banks. IBCs may be registered using bearer shares, providing for anonymity of corporate ownership.

The Proceeds of Crime Act (POCA) 1999 criminalized the laundering of proceeds from any indictable offense and mandated the reporting of suspicious transactions to a Reporting Authority. However, the Reporting Authority has not yet been established. Although the Act directs the Governor to issue a code of practice establishing further regulations for financial institutions, the code of practice has not yet been issued.

U.S. law enforcement cooperation with Montserrat is facilitated by a treaty with the UK that governs mutual legal assistance in criminal matters with several of the UK’s Caribbean overseas territories. Montserrat is a member of the Caribbean Financial Action Task Force (CFATF), and through the UK, is subject to the 1988 UN Drug Convention.

Montserrat should issue regulations to implement the POCA and establish the Reporting Authority to act as a financial intelligence unit. It should enact measures to identify and record the beneficial owners of IBCs. It should also increase resources to financial supervision, especially as it looks to expand its offshore sector, to help ensure that money launderers do not abuse Montserrat’s financial services.

**Morocco.** Morocco is not a regional financial center and the extent of money laundering in Morocco is not known. There have been reports of money laundering activities within the country related to intercontinental arms smuggling. Morocco remains an important producer and exporter of cannabis, which generates proceeds that may be laundered in Morocco and abroad. Moroccan government officials have indicated that they believe money is being laundered through bulk smuggling of cash and the purchase of smuggled goods. Banking officials have indicated that the country's system of unregulated money exchanges provides opportunities for launderers. Morocco has not criminalized money laundering.

The Moroccan banking system is modeled after the French system and consists of 16 banks, five government-owned specialized financial institutions, approximately 30 credit agencies, and 12 leasing companies. The monetary authorities in Morocco are the Ministry of Finance and the central bank, Bank Al Maghrib, which monitors and regulates the banking system. Bank Al Maghrib has decreed that all financial institutions must institute a customer identification policy and maintain certain transaction records for a certain (unspecified) period of time.

A mutual legal assistance treaty entered into force between the United States and Morocco in 1993. Morocco is a party to the 1988 UN Drug Convention and has signed but not yet ratified the United Nations Convention against Transnational Organized Crime.

Morocco should enact an anti-money laundering law and construct a viable anti-money laundering regime.

**Mozambique.** Mozambique is not a regional financial center. Money laundering in Mozambique is related to bank fraud and corruption. The extent of money laundering is most likely limited because of the country's small commercial banking sector. However, lax oversight and weak banking regulations, as demonstrated by recent bank scandals, suggest that Mozambique's financial institutions are vulnerable to money laundering. In particular, there is concern that the proceeds of arms trafficking, stolen vehicles sales, narcotics-trafficking, prostitution, and contraband smuggling may be laundered through Mozambique's financial institutions.

Mozambique's National Assembly passed a money laundering law in December 2001. The law extends the crime of money laundering predicate offenses beyond narcotics-trafficking to most other serious crimes. The law also required financial institutions to verify the identity of their customers, keep transaction records for at least 15 years, and report suspicious transactions. The law protects financial institution employees who cooperate with money laundering investigations and exempts such cooperation from bank and professional secrecy rules. Banker negligence provisions in the new law hold individual bankers responsible for money laundering. Bankers have the right to refuse service to anyone who refuses to identify the beneficiary of an account. Judicial authorities are given the right to request account information from financial institutions, and to gain access to computer records from banks, individuals, and companies that are suspicious. Judicial authorities also have the right to tap phone conversations as related to financial investigations. Tapping of telephone lines must go through the approved judicial process and be signed by a judge. Customs regulations require those entering or leaving the country with foreign currency or negotiable instruments in amounts greater than U.S. \$5,000 to file a report with customs. Taking local currency out of the country is prohibited.

Mozambique is a party to the 1988 UN Drug Convention, and has signed the Eastern and Southern Africa Anti-Money Laundering Group Memorandum of Understanding. It has signed but not yet ratified the UN Convention against Transnational Organized Crime.

**Namibia.** Namibia is neither a regional financial center nor a haven for money laundering activities. Namibia houses one government bank and six commercial banks. Of particular concern in Namibia is the smuggling of precious minerals and gems, the proceeds of which Namibian authorities think may then be laundered.

In August 2001, Namibia hosted the Eastern and Southern Africa Anti-Money Laundering Group (ESAAMLG) Task Force and Ministerial Council Meeting of which Namibia is a member. Namibia was elected to serve as the Chair of ESAAMLG until the next August's Plenary to be held in Swaziland.

## Money Laundering and Financial Crimes

---

Namibia does not have legislation that criminalizes money laundering activities. The Banking Institutions Act, No 2 of 1998 enforces the “know your customer rule.” However, Namibia is in the process of drafting anti-money laundering legislation and developing a viable anti-money laundering regime.

Namibia is not a party to the 1988 UN Drug Convention. Namibia has signed but not yet ratified the United Nations Convention against Transnational Organized Crime.

**Nauru.** Nauru is a small central Pacific Island nation with a population of approximately 10,600. It is an independent republic and an associate member of the British Commonwealth. The Republic of Nauru is an established “zero” tax haven, as it does not levy any income, corporate, capital gains, real estate, inheritance, estate, gift, sales, or stamp taxes. It is an offshore banking center with a number of weaknesses in its regulatory structures. The government-owned Bank of Nauru acts as the central bank for monetary policy but it has no regulatory function over offshore banks. Nauru’s legal, supervisory, and regulatory framework has provided significant opportunities over time for the laundering of the proceeds of crime. However, Nauru’s new anti-money laundering law is a first step to address these concerns.

In June 2000, the Financial Action Task Force (FATF) identified Nauru as non-cooperative in international efforts to fight money laundering. The FATF in its June 2000 report cited several concerns, including excessive bank secrecy provisions, a lack of basic anti-money laundering regulations, and Nauru’s failure to criminalize money laundering. In July 2000, the U.S. Treasury Department issued an advisory to U.S. financial institutions, warning them to give enhanced scrutiny to all financial transactions originating in or routed to or through Nauru, or involving entities organized or domiciled, or persons maintaining accounts in Nauru. In June 2001, FATF determined that Nauru had made insufficient progress towards remedying deficiencies in its anti-money laundering regime and warned that FATF would impose countermeasures by September 30, 2001 if Nauru failed to address such deficiencies.

In response to mounting international pressure, the Government of Nauru passed the Anti-Money Laundering Act (AMLA 2001) in August 2001. The AMLA 2001 requires financial institutions to maintain accounts in the name of the account holder, thus prohibiting anonymous accounts and accounts held in fictitious names. It also requires financial institutions to record and verify the identity of account holders, to report suspicious activity, and to develop internal anti-money laundering policies and procedures. Section 33 of AMLA 2001 protects financial institutions from liability for reporting suspicious activity. The AMLA 2001 allows for the establishment of a Financial Institutions Supervisory Authority (FISA), with the authority to supervise financial institutions’ compliance with the Act. The FISA will also be the recipient of reports of suspicious transactions filed by financial institutions. Finally, the AMLA 2001 provides for mutual assistance with respect to money laundering investigations. There were, however, limitations placed on compliance with foreign requests for assistance. Nauru may refuse to comply with a request if the action sought by the foreign authority is contrary to any provision of the Republic of Nauru Constitution, or would prejudice the national interest.

On September 7, 2001, FATF issued a press release recognizing the passage of the AMLA 2001. FATF, however, found the legislation to have several deficiencies, and urged Nauru to enact appropriate amendments by November 30, 2001 in order to avoid the application of countermeasures. On December 5, 2001, FATF called upon its members to impose countermeasures against Nauru because of Nauru’s failure to remedy deficiencies in its anti-money laundering regime. Countermeasures may include heightening requirements on financial institutions to identify their customers and expanding suspicious activity reporting, among other measures. On December 6, 2001, Nauru amended the AMLA 2001 to address certain deficiencies in the original act, including clarifying that the law applies to all financial institutions incorporated under the laws of Nauru (as opposed to just financial institutions conducting business within Nauru), and by broadening the definition of money laundering. Despite the passage of anti-money laundering legislation with amendments, there is a lack of a legal framework and effective regime for the regulation and supervision of offshore banks. Nauru has only recently begun to address international concerns about its anti-money laundering regime, and has expressed a willingness to cooperate with the international efforts to combat money laundering. The Government of Nauru has

cooperated with officials from the United States and other countries in certain criminal investigations involving Nauruan institutions. Nauru recently joined the United Nations. Nauru should immediately tackle the problem of its process of licensing, regulating, and supervising its offshore banking sector.

**Nepal.** Nepal is not a regional financial center. There are no indications that Nepal is used as an international money laundering center. The Government of Nepal (GON) has not criminalized money laundering, and legislative action on money laundering, mutual legal assistance, and witness protection remained stalled in 2001. The GON has explored the development of an offshore sector.

The GON exchanges information in connection with international narcotics investigations and proceedings. Regulations to ensure the availability of adequate records do not meet international standards.

Nepal is a party to the 1988 UN Drug Convention. Nepal is an observer jurisdiction to the Asia/Pacific Group on Money Laundering.

**The Netherlands.** The Netherlands is a major regional financial center and as such, is vulnerable to the laundering of funds generated from a variety of illicit activities, including narcotics-trafficking and financial fraud. Money laundering in the Netherlands is believed to occur through the banking system, bureaux de change, casinos, credit card companies, insurance and securities firms, stockbrokers and money transfer offices. Money laundering in the Netherlands is most likely controlled by major drug cartels and other international criminal organizations. According to the Office for the Disclosure of Unusual Transactions' (MOT) latest 2001 quarterly newsletter, the Netherlands' Internal Security Service has just begun to investigate terrorist-related money laundering and is looking into the possibility of cooperation with other law enforcement entities that are experienced in this area. Although terrorist-related money laundering is a crime in the Netherlands, in the past, previous investigations were focused mainly on drugs.

Money laundering relating to any crime has been an offense in the Netherlands since 1994, although prosecutors must first prove the predicate offense before prosecuting for money laundering. The Dutch parliament passed legislation in December 2001 that, upon enactment in early 2002, will make money laundering a separate offense and would ease somewhat the government's burden of proof regarding the criminal origins of proceeds; the government believes the prior standard is too high and can adversely affect money laundering prosecutions. Under the new bill, the government need only prove that the proceeds "apparently" originated from a crime.

All financial institutions in the Netherlands, from banks to bureaux de change to credit card companies, are required to report unusual transactions and cash transactions over 10,000 Euros, as well as any less substantial transaction that appears suspicious. The laws governing these disclosures, the Identification Act and the Disclosure Act, have been in place since 1994 and 1995. They are also required by law to maintain records necessary to construct financial transactions for at least five years and to respond quickly to government requests for information in narcotics-related cases. The requirements also have been applicable to the Netherlands Central Bank (inasmuch as it provides covered services) since 1998. There are no secrecy laws or fiscal regulations that prohibit Dutch banks from disclosing client and owner information to bank supervisors or law enforcement. The reporting requirements have since been expanded to include trust companies, including churches, foundations and charities, financing companies, and people dealing commercially in high-value goods.

The 1994 Identification Act also compelled banks to identify their clients, either at the time of the transaction or at some point prior to the transaction, before providing financial services.

Since 1996, entities providing commercial services, such as accountants, lawyers and notaries, have applied money laundering reporting procedures within their professions. The Office for the Disclosure of Unusual Transactions (MOT), which was established in 1994, is the Netherlands' financial intelligence unit (FIU). The MOT is currently negotiating with notaries to implement suspicious activity indicators for disclosure in connection with the activities of this professional group, in preparation to implement the

## Money Laundering and Financial Crimes

---

Second European Union (EU) Directive on Money Laundering. The Money Transfer and Exchange Offices Act, which was submitted to Parliament in mid-2001, would require money transfer offices, in addition to exchange offices, to obtain a permit to operate and would subject them to supervision by the Dutch Central Bank.

The 1992 Asset Seizure and Confiscation Act, which went into effect in March 1993, allows the government to seize and confiscate the proceeds of all crimes, whether the proceeds themselves were illicitly obtained or were connected to other criminal acts, and to forfeit seized assets. The proceeds from such seizures and forfeitures are held in the general fund of the Ministry of Finance.

The MOT reviews and analyzes the unusual transactions and cash transactions filed by banks and financial institutions. It forwards suspicious transactions with preliminary investigative information to a unit of the Public Prosecutor's Office (BLOM). In 2000, the last year for which complete figures are available, the MOT recorded 47,780 unusual transactions into its database, of which it forwarded 11,023 to BLOM as suspicious. In 2001, a Dutch court ruled that unusual transactions related to tax fraud must also be reported to the MOT.

In order to facilitate the forwarding of suspicious transactions, the MOT and BLOM have created an electronic superhighway called Intranet Suspicious Transactions (IVT), and as of 1 July 2001, MOT had stopped its paper output and was reporting all suspicious transactions to BLOM via the IVT. A web site for the actual reporting of unusual transactions by financial institutions was developed, thus completing the superhighway.

The MOT is a member of the Egmont Group of FIUs and has information-sharing agreements with eight other countries. It is also involved in efforts to expand cooperation between disclosure offices, particularly within the EU. In June 2001, the MOT hosted and chaired the ninth annual plenary session of the Egmont Group.

In December 2000, the Netherlands signed the United Nations Convention against Transnational Organized Crime. The Netherlands is also a party to the 1988 UN Drug Convention and the 1990 Strasbourg Convention on Money Laundering and Confiscation. The Dutch participate in the Basel Committee, and have endorsed the Committee's September 1997 Core Principles for Effective Banking Supervision. The Netherlands is a member of the Financial Action Task Force (FATF) and participates in the Caribbean Financial Action Task Force (CFATF) as a Cooperating and Supporting Nation. (The Netherlands is extending measures to counter money laundering to Aruba and the Netherlands Antilles as well.) The Netherlands is also a member of the Dublin Group, and chairs its Central European Regional Group.

There is a Mutual Legal Assistance Treaty in effect between the Netherlands and the United States, which entered into force in 1983, as well as a forfeiture cooperation and asset sharing agreement that entered into force in 1994.

The Netherlands should continue to refine its anti-money laundering regime, particularly with respect to increasing its ability to prosecute money laundering and financial crimes.

**Netherlands Antilles, The.** The Netherlands Antilles forms part of the Kingdom of the Netherlands with full internal autonomy. The Netherlands Antilles is comprised of Curacao, Bonaire, and the Dutch part of Sint Maarten/St. Martin, Saba and Sint Eustatius. The Government of the Netherlands Antilles (GONA) is located in the capital of Curacao called Willemstad, which is also the financial center of the five islands. There is a lack of border control between Sint Maarten and St. Martin that creates opportunities for money launders. The Netherlands Antilles is also becoming increasingly vulnerable to money laundering because of its offshore sector and the presence of the gaming industry, including Internet gaming.

The Netherlands Antilles has a large number of offshore financial service providers, including 33 offshore banks, mutual funds, international finance companies, trust companies, and approximately 20,000 international business companies (IBC). IBCs may be registered using bearer shares. The law on bank

supervision states that offshore banks must have a physical presence on the island, hold their records there, and not give or receive payments in cash. The central bank supervises offshore banks, and some mutual funds are supervised by other entities. The central bank also indicates that banks on Curacao usually maintain copies of bearer share certificates for IBCs maintaining accounts, which include information on the beneficial owner. There is a proposal to require that the name of the ultimate beneficiary owner of the bearer share is recorded and accessible to law enforcement officials with a treaty-based request for the information.

In 2000, the Government expanded the anti-money laundering law to include suspicious activity reporting requirements for gem and real estate dealers. Also, senior government officials reached an agreement on the “underlying crime” portion of the money laundering law. As a result, prosecutors are no longer required to prove that a suspected money launderer also committed an underlying crime in order to obtain a money laundering conviction. It is now sufficient to establish that a money launderer knew, or should have known, of the money’s illegal origin. In 2000, the Association of Public Notaries introduced a list of indicators to use to report unusual transactions.

On August 3, 2001 a national ordinance modified existing legislation penalizing money laundering using currency and securities by including the use of valuable goods. Various decrees through the year refined indicators to be used by those subject to a reporting requirement, including a decree that indicators will remain valid for six months.

On August 1, 2000, the Netherlands Antilles Asset Seizure Law became effective. This law allows a public prosecutor to seize the proceeds of any crime once the crime is proven in a court of law. Unusual transactions by law are reported to the financial intelligence unit called the Netherlands Antilles Reporting Center, Meldpunt Ongebruikelijke Transacties (MOT NA). During 2001, the MOT NA had a fluctuating staff of two to four. The MOT NA received 7,700 unusual transaction reports, and despite the small staff the unit analyzed and passed 800 unusual transaction reports to authorities. The staff at the MOT NA continues to work diligently to enhance the effectiveness and efficiency of their reporting system. New software has been developed to enable institutions to send reports to the MOT NA electronically.

The MOT NA is a member of the Egmont Group. During 2001, the Central Committee of Parliament approved legislation providing for the exchange of information between the MOT NA and other financial intelligence units. The MOT NA currently has an information sharing agreement with the Netherlands and Aruba financial intelligence units. Currently before parliament is a draft from the MOT NA requesting separation powers from the government comparable to that of the central bank.

Recommendations for more specific indicators of suspicious activity for financial reporting and the proposal to bring credit card and currency transactions into the reporting system for unusual financial transactions were both approved in 2001. The central bank has completed the guidelines on detecting and deterring money laundering and issued them to the banking sector.

At the request of the Committee Against Money Laundering, the Gaming Control Board of Curacao extended the unusual transaction reporting requirement to casinos in Curacao in April 2001. The Netherlands Antilles has 25 casinos. Indicators for casino reporting are not identical to those that the financial and non-financial institutions are required to report; therefore, a new form has been created for casinos. The MOT NA will collect the unusual transaction reports from the casinos, and has drafted a manual for casinos on how to file reports. The MOT NA also plans to install software in the casinos that will allow the reports to be submitted electronically.

As part of the Kingdom of the Netherlands, the Netherlands Antilles participates in the Financial Action Task Force. It is a member of the Caribbean Financial Action Task Force. In 1999, the Netherlands extended application of the 1988 UN Drug Convention to the Netherlands Antilles. The Netherlands’s Mutual Legal Assistance Treaty with the United States applies to the Netherlands Antilles, though it is not applicable to requests for assistance relating to fiscal offenses addressed to the Netherlands Antilles.

## Money Laundering and Financial Crimes

---

During 2001, the Netherlands Antilles implemented most of its anti-money laundering legislation. The GONA has shown a commitment to combating money laundering by establishing a solid anti-money laundering program. However, the lack of funding provided to the MOT NA hinders the staff from receiving appropriate training to analyze and report unusual transactions. The GONA should increase the MOT NA staff and outsource training in order to maintain proficiency.

**New Zealand.** Evidence exists that money laundering takes place in New Zealand, although not to a significant extent. Narcotics proceeds and commercial crime are the primary sources of illicit funds. International organized criminal elements are also present in New Zealand.

A 1995 amendment to New Zealand's Crimes Act 1961 criminalized the laundering of proceeds knowingly derived from a serious offense. The amendment also contains a "safe harbor" provision and requires the reporting of large cross-border currency movements. The Financial Transaction Reporting Act 1996 contains obligations for a wide range of financial institutions, including banks, credit unions, casinos, real estate agents, lawyers, and accountants. These entities must identify clients, maintain records, and report suspicious transactions.

New Zealand is a party to the 1988 UN Drug Convention and has signed but not yet ratified the United Nations Convention against Transnational Organized Crime. New Zealand is a member of the Financial Action Task Force (FATF), the Asia/Pacific Group on Money Laundering (APG), and the Pacific Islands Forum. Its financial intelligence unit is a member of the Egmont Group.

**Nicaragua.** While Nicaragua is not a regional financial center, Nicaragua's status as a drug transit zone and its highly vulnerable banking system make Nicaragua an attractive target for narcotics-related money laundering.

The Government of Nicaragua (GON) has pledged to fight terrorism, money laundering, and drug trafficking. However, resource constraints and corruption complicate efforts to counter these threats. Four of Nicaragua's eleven banks failed between August 2000 and August 2001 amid allegations of fraud and mismanagement. Nicaragua suffers generally from economic instability, weak regulation, and lax oversight of its financial system.

Nicaragua's Law 177 of 1994 criminalized money laundering related to drug trafficking. However, the GON has yet to prosecute a money laundering case. Law 285 of 1999 reformed Law 177 and requires banks to report cash deposits that exceed U.S. \$10,000 to the Bank Superintendency, which would forward these reports for analysis to the Commission of Financial Analysis (CFA) within the National Anti-Drug Council. However, this Commission is not yet functional. Once operational, the CFA would be responsible for detecting money laundering trends, coordinating with other investigative agencies, and reporting its findings to the National Anti-Drug Council. The CFA is designed to be composed of representatives from various elements of law enforcement and banking regulators.

Law 285 prohibits anonymous accounts and requires financial institutions to identify customers and maintain transaction records for five years. Law 285 also requires travelers entering the country to declare cash, monetary instruments, or precious metals exceeding U.S. \$10,000 or its foreign equivalent. Law 285's implementing measure, Decree 74, requires that financial institutions report all complex, unusual, and significant transactions, and transactions with no apparent legal purpose, to the Bank Superintendency and to the CFA.

Nicaragua is a party to the 1988 UN Drug Convention, and has signed but not yet ratified the UN Convention against Transnational Organized Crime. Nicaragua is a member of the Organization of American States Inter-American Drug Abuse Control Commission (OAS/CICAD) Experts Group to Control Money Laundering. Nicaragua has signed the Central American Treaty for the Prevention and Repression of Money and Asset Laundering Related to Illicit Activities Connected with Drug Trafficking and Related Crimes. Nicaragua was suspended from the Caribbean Financial Action Task Force (CFATF) because of a lack of participation with that organization since signing the CFATF MOU in 1996.

The GON should broaden its anti-money law to include all serious crimes. Furthermore, it should begin allocating resources and developing technical expertise for the establishment and operation of the Commission of Financial Analysis in order to strengthen its financial systems and ensure compliance with relevant anti-money laundering controls. The GON also should take a more active stance vis-à-vis the international community and participate in CFATF, which could provide useful support and anti-money laundering training.

**Niger.** Niger is not a money laundering center. While there are criminal activities that take place within the region, there is no evidence to suggest that money laundering activities take place on a large scale within Niger. Seven small commercial banks and one modest-sized local bank operate in Niger.

Currently there are talks of the creation of a regional currency to be used by Gambia, Ghana, Guinea, Nigeria, Sierra Leone, Niger, Liberia, Cape Verde, Benin, Burkina Faso, Côte d'Ivoire, Guinea Bissau, Mali, Senegal, and Togo. As of now Niger uses the CFA franc that is also used by Benin, Burkina Faso, Côte d'Ivoire, Guinea Bissau, Mali, Senegal, and Togo.

Niger is a party to the 1988 UN Drug Convention, and in August 2001 it signed the UN Convention against Transnational Organized Crime. Niger is a member of the West African Economic and Monetary Union (WAEMU).

**Nigeria.** The Federal Republic of Nigeria is Africa's largest fledging democracy. It is a hub of money laundering and criminal financial activity not only for the West African sub-region but also increasingly for the entire continent. Nigerian trafficking and money laundering organizations have proven adept at devising new ways of subverting law enforcement efforts, and evading detection. Their success in avoiding detection and prosecution has led to an increase in financial crimes of all types, including bank fraud, advance fee fraud, and money laundering. Despite the determined efforts of the new government to counter years of rampant corruption, crime continues to plague Nigerians.

Nigerian Advance Fee Fraud is one of the most lucrative financial crimes committed by Nigerian criminals worldwide, with conservative estimates indicating hundreds of millions of dollars in illicit profits generated annually. This type of fraud is referred to internationally as "Four-One-Nine-Scams," (419 is the reference to fraud in Nigeria's criminal code). The gist of the scheme is to trick victims into parting with money by persuading them that they will receive a substantial benefit in return for providing a relatively modest payment of fee in advance. Businesses and individuals around the world have been and continue to be targeted with these "get rich quick" offers that have been known to involve violence. Substantial evidence exists that narcotics traffickers have utilized 419 Scams to fund their illicit smuggling efforts.

No significant changes have been made in anti-money laundering legislation since The Money Laundering Decree went into effect in 1995. The Decree criminalizes only drug-related money laundering. The National Drug Law Enforcement Agency (NDLEA) and the Money Laundering Surveillance Unit (MLSU) of the Central Bank of Nigeria are responsible for ensuring compliance with the provisions of the Decree and entrusted with the responsibility of receiving suspicious transactions. Cash payments that exceed N500, 000 (U.S. \$4,500) for an individual and N2 million (U.S. \$18,000) for corporate bodies are to be reported. The obligation to identify customers in exchange transactions arises only upon exceeding the threshold amount of U.S. \$100,000.

Implementation of the Money Laundering Decree has been hampered by the bifurcation of responsibilities between the MLSU and the NDLEA. The MLSU often provides assistance to the NDLEA in its investigations due to its familiarity with banking processes. However, the NDLEA, in the furtherance of its primary charter, requires the drug nexus as a precondition for the initiation of an investigation. NDLEA's attempts to prosecute narcotics and money laundering kingpins have been stymied by a dysfunctional judicial system and by government corruption. There has been no successful money laundering investigations and/or prosecutions in Nigeria.

The 1995 Money Laundering Decree also provides for the seizure of property and assets of suspected narcotics-trafficking and money laundering organizations. Forfeiture must, however, be preceded by a

## Money Laundering and Financial Crimes

---

conviction in a court of law. Despite some seizures, there have been no convictions. Some properties remain in forfeiture and others have been conditionally returned to their owners of management. Enforcement of the legislation is inconsistent because the enforcement structures are slowed by corruption, bureaucracy, and lack of training in the preparation of money laundering cases.

The Corrupt Practices and other Related Offences Act was signed into law in June of 2000. The Independent Corrupt Practices Commission was established to enforce the newly enacted law and granted powers of investigation, arrest and prosecution. Individuals were arraigned in May 2001 as the Commission's first public trials began. Nigeria is a party to the 1988 UN Drug Convention and in June 2001 provided notification that it had ratified and the 2000 UN Convention against Transnational Crime, which is not yet in force internationally. The United States and Nigeria signed an MLAT in 1989, which was ratified by the United States in 2001, and is currently pending approval by the Nigerian Parliament.

In June 2001, the Financial Action Task Force (FATF) listed Nigeria as a non-cooperative jurisdiction in the international fight against money laundering. The FATF report noted that Nigeria did not cooperate with the review of its system, and so has a broad number of inconclusive criteria. The FATF report also noted that the Nigerian anti-money laundering system that was susceptible to review has a significant number of deficiencies. These deficiencies include but are not limited to a discretionary licensing procedure to operate a financial institution, the absence of customer identification under very high threshold (U.S. \$100,000) and the lack of the obligation to report all suspicious transactions if the financial institution decides to carry out the transaction. In addition, the scope of the application of the decree on money laundering is unclear, because it generally refers to financial institutions, and it does not seem to be applied to insurance companies and stock brokerage firms. The FATF report also noted that corruption in Nigeria continued to be of concern.

In October 2001, the Government of Nigeria drafted a revised anti-money laundering bill to create a Financial Crimes Commission and to criminalize all forms of money laundering, which is expected to be introduced in the National Assembly as early as the first half of 2002.

Nigeria must take steps to criminalize money laundering beyond narcotics. Nigeria should develop and fund a strong law enforcement mechanism to ensure compliance with anti-money laundering laws. Nigeria should also increase resources to fight corruption and advance fee frauds, both of which take advantage of Nigeria's lax law enforcement. Additionally, the government should establish a centralized unit to receive and analyze currency and suspicious transaction reports and work directly with its foreign counterparts in investigations and protect its financial system from mounting abuse by criminals and criminal organizations.

**Niue.** Niue is a small, self-governing island in the South Pacific Ocean that relies on New Zealand to manage its external affairs. Niue's economy is heavily dependent upon subsistence agriculture, the sale of postage stamps to foreign collectors, tourism and its financial services industry.

Niue's financial sector includes one domestic bank, one offshore bank, and approximately 6000 International Business Companies (IBCs) registered in Niue. Although IBCs are the most attractive feature of Niue's offshore sector, Niue also offers trusts, partnerships, financial management, and insurance services. Niue allows the creation of asset protection trusts that are impervious to many types of legal claims arising in other jurisdictions. In addition, trusts in Niue are exempt from taxation if the parties to the trust are not residents of Niue.

The Niuean government enacted a series of laws in 1994 aimed at establishing itself as an offshore financial center. The International Business Companies Act of 1994, as amended in 1996, is the legislative basis for establishing IBCs. Marketers of offshore services promote Niue as a favored jurisdiction for establishing IBCs for a variety of reasons. These IBCs operate under strict secrecy laws unless compelled by courts. Niue does not require the disclosure of beneficial ownership, permits bearer shares, allows the marketing of shelf companies, and does not allow public access to registers of IBC directors or managers. In addition, IBC names may be incorporated in Chinese, Cyrillic, or other languages. Internet marketers

offer shelf companies, complete with associate offshore bank accounts and mail drop forwarding services. These features make Niuean IBCs ideal mechanisms for money laundering schemes. IBCs are legally formed and registered by a Panamanian law firm on behalf of the government of Niue.

The Offshore Insurance Act of 1994 establishes a basic regulatory framework for offshore insurance entities. All offshore insurance companies must apply for and receive a valid license from the GON before conducting business. The application process gives the GON the opportunity to review the company's financial standing and its shareholders and management. All offshore insurance companies are subject to basic record keeping requirements and financial audits and must produce accounting records, share registers, transaction ledgers, and any other records upon request of an authorized inspector. The Offshore Insurance Act also imposes strict secrecy requirements relating to offshore insurance transactions that can only be lifted under certain circumstances specified in the law. Breaches of professional secrecy are punishable by up to two years in prison and/or a maximum fine of \$20,000.

The International Banking Act of 1997 (IBA) is a consolidation of legislation related to the licensing of international banks. There are three classes of banking licenses that can be issued in Niue: A, B, and C. The licenses primarily differ according to the amount of capital backing and the conditions placed on transacting business within Niue, with Class A banks having the highest capital backing and the fewest conditions on conducting business. The IBA imposes similar record keeping, auditing, inspection and secrecy requirements to the Offshore Insurance Act.

Niue's Proceeds of Crime Act of 1998 complements the laws regulating the financial sector. The Proceeds of Crime Act criminalized money laundering and made it punishable by a fine or 20 years imprisonment, or both. Under the Proceeds of Crime Act financial institutions may report suspicious transactions either to the police or to the Attorney General. However, there have been no such reports, and there are not relevant procedures in place to deal with their possible collection and analysis.

Despite the legislative framework, Niue continues to suffer from ineffective supervision of its financial sector. Niue provides no ongoing supervision of its licensed offshore bank. Financial institutions are not prohibited from issuing anonymous accounts. The government has delegated some of its financial supervisory and regulatory responsibilities over financial institutions to foreign private sector interests.

Niue's commitment to financial secrecy concerning banks and IBCs and the absence of effective Niuean supervisory or enforcement mechanisms aimed at preventing and detecting money laundering prompted the Financial Action Task Force (FATF) to identify Niue as non-cooperative in the international fight against money laundering in June 2000. The FATF in its report of June 2000 cited several concerns about Niue's anti-money laundering regime: inadequate customer identification requirements for banks, and ineffective regulatory regime to supervise IBCs. FATF also indicated that Niue's willingness to cooperate in money laundering investigations was untested. In July 2000, the U.S. Treasury Department, citing similar concerns, issued an advisory to U.S. financial institutions, warning them to "give enhanced scrutiny" to all financial transactions involving Niue.

Since June 2000, Niue has taken some steps to address deficiencies identified by the FATF. In July 2000, Niue suspended the registration of new offshore banks. It is unclear whether Niue has resumed registering new offshore banks. In November 2000, the government enacted the Financial Transactions Reporting Act (FTRA), which imposes reporting and record-keeping obligations upon banks, insurance companies, securities dealers and futures brokers, money services businesses and persons administering or managing funds on behalf of IBCs. The FTRA requires financial institutions to report suspicious transactions, verify the identity of its customers, and keep records of financial transactions for six years. However, the Act contains a number of loopholes that result in inadequate customer identification requirements, among other deficiencies. The FTRA also calls for the establishment of a financial intelligence unit (FIU) within the office of the Attorney General. To date, the FIU has not been established. Niuean officials have said that the establishment of the FIU will depend upon the outcome of ongoing discussions among the Pacific Islands Forum of a proposed regional FIU for Forum member countries. Niue supports the establishment of a regional FIU to share information among Pacific Island states.

## Money Laundering and Financial Crimes

---

In June 2001, FATF acknowledged that Niue had made some progress towards addressing shortfalls in Niue's anti-money laundering regime but not enough to warrant de-listing Niue from FATF's list of nations that are non-cooperative in the global fight against money laundering.

Niue is trying to establish itself as a partner in the global fight against money laundering. In 1998, Niue passed the Mutual Assistance in Criminal Matters Act, which authorizes the Attorney General of Niue to provide certain types of legal assistance to other countries regarding criminal investigations. Niue has no bilateral cooperation agreements with other countries for the exchange of information on money laundering though the government has expressed a willingness to cooperate with international efforts to combat money laundering. Niue was admitted as a member of the Asia/Pacific Group on Money Laundering during the 4th Annual Meeting of this organization held in Kuala Lumpur in May 2001.

Implementation of Niue's anti-money laundering legislation and effective supervision of offshore financial sector are needed to protect Niue's financial services industry and economy from abuse by criminals and criminal organizations. Recent reforms address some of the deficiencies in Niue's anti-money laundering regime. Niue, however, still needs to finalize and promulgate the necessary regulations in order to bring the legislation into full force. Niue will need to ensure that the recently enacted reforms are fully and effectively implemented.

**Norway.** Norway is not an important regional financial center; there are 19 commercial banks in the country and approximately 125 savings banks. Money laundering in Norway is related mainly to funds generated by the smuggling of liquor and cigarettes. According to Oekokrim, which serves as Norway's financial intelligence unit, Norway has been experiencing an increase in financial crime such as bank fraud. These types of crimes overshadow narcotics-related money laundering in Norway.

Most money laundering in Norway takes place outside its financial system because financial institutions are obliged by law to report large and suspicious transactions to Oekokrim. The structuring of deposits appears to be a problem for financial institutions. Large cross-border cash transactions by banks are routinely reported to the central bank and kept on file.

All forms of money laundering are criminal offenses, according to the Norwegian Penal Code. Current money laundering statutes require financial institutions to verify the identity of their customers and to keep records of transactions for at least 5 years. Individual bankers may be held responsible if their institutions launder money. Norway's anti-money laundering legislation has been strengthened in recent years to conform to the FATF Forty Recommendations. Oekokrim receives suspicious transaction reports and is a member of the Egmont Group.

There were approximately 30 major arrests and/or prosecutions for money laundering in Norway in 2001. Law enforcement authorities have the authority to freeze and confiscate assets during money laundering investigations.

Norway is a member of the Financial Action Task Force (FATF). Norway is a party to the 1988 UN Drug Convention and has signed but not yet ratified the United Nations Convention against Transnational Organized Crime.

**Oman.** Oman does not have a significant money laundering problem. Its small banking sector is supervised by the Central Bank of Oman (CBO), which has the authority to suspend or reorganize a bank's operations. Oman has six commercial banks with 304 Omani branches and 10 foreign branches. There are also nine foreign incorporated banks with 27 branches in the country.

In 2001, Article 38 of the Law of Combating Drug and Psychotropic Substances, Royal Decree, criminalized money laundering. Currently, there is legislation pending that will further strengthen Oman's anti-money laundering regime.

The Royal Oman Police (ROP) is responsible for investigating money laundering activities. Banks are required to report all suspicious transactions to the ROP. Banks also are required to identify customers.

Oman is a party to the 1988 UN Drug Convention, and a member of the Gulf Cooperation Council (GCC), which is a member of the Financial Action Task Force (FATF). In June 2001, Oman underwent a FATF mutual evaluation.

**Pakistan.** The primary sources of illicit funds in the Islamic Republic of Pakistan are narcotics-trafficking, smuggling and corruption. Production of narcotics in Pakistan is negligible, but Pakistani narcotics-traffickers actively transship Afghan-produced narcotics to international markets. The proceeds from these activities are sometimes laundered abroad by means of the alternative remittance system called hawala, which is widely used by the population for mostly legitimate purposes.

The Control of Narcotics Substances Act of 1996 criminalized the laundering of narcotics related proceeds. The Act contains provisions for the freezing and forfeiture of assets associated with narcotics-trafficking and the reporting of financial transactions believed to be associated with narcotics-trafficking. The Ministry of Finance recently announced plans to introduce amendments to the Anti-Terrorism Act of 1997 that would declare the laundering of terrorist funds and fundraising by terrorists to be illegal.

Currently, Pakistan does not have a financial intelligence unit (FIU). Pakistan's National Accountability Bureau, Anti-Narcotics Force, and Customs all play major roles in anti-money laundering efforts.

Pakistan is a party to the 1988 UN Drug Convention and has signed but not yet ratified the UN Convention against Transnational Organized Crime. Pakistan became a member of the Asia/Pacific Group on Money Laundering in 2000. In July 2001, Pakistani authorities met with a UN panel examining compliance with UN sanctions on the Taliban. The UN group discussed with these authorities Pakistan's efforts. The UN group examined measures imposed by the UN Security Council with regard to arms embargoes, financing of terrorism, counter-terrorism, drug trafficking, and money laundering.

Pakistan needs to enact legislation that criminalizes money laundering beyond drug proceeds. It also needs to issue financial regulations that mandate the reporting of all suspicious transactions, and to set up an FIU. In addition, in light of the role that hawala plays in money laundering in Southeast Asia, Pakistan should develop and enforce a system of countermeasures against hawala.

**Palau.** An archipelago in the Western Pacific with a population of about 18,000 and per capita GDP of about \$7,000, Palau is not a major financial center. Upon its independence in 1994, Palau entered the Compact of Free Association with the United States. The U.S. dollar is legal tender. Amid reports in late 1999 and early 2000 that offshore banks in Palau had carried out large-scale money laundering activities, a few international banks banned financial transactions with Palau. In response, Palau established a banking commission that recommended financial control legislation to the National Congress in 2001. Following that, Palau took several steps toward addressing financial security through banking regulation and supervision and putting in place a legal framework for an anti-money laundering regime. Several pieces of legislation were enacted in June 2001.

The Money Laundering and Proceeds of Crimes Act of 2001 criminalized money laundering and created a financial intelligence unit. This legislation imposes threshold and suspicious transactions reporting and record keeping requirements for five years from the date of the transaction. Credit and financial institutions are required to keep regular reports of all transactions made in cash or bearer securities in excess of U.S. \$10,000 or its equivalent in foreign cash or bearer securities. This threshold reporting also covers domestic or international transfers of funds of currency or securities involving a sum greater than U.S. \$10,000. All such transactions (domestic and/or international) are required to go through a credit or financial institution licensed under the laws of the Republic of Palau.

The Financial Institutions Act of 2001 established the Financial Institutions Commission, an independent regulatory agency, which is responsible for licensing, supervising and regulating financial institutions in Palau. Credit and financial institutions are required to verify customers' identity and address. In addition, these institutions are required to check for information by "any legal and reasonable means" to obtain the true identity of the principal/party upon whose behalf the customer is acting. If identification cannot, in fact, be obtained, all transactions must cease immediately.

## Money Laundering and Financial Crimes

---

Palau has enacted several legislative mechanisms to foster international cooperation. The Mutual Assistance in Criminal Matters Act (MACA), passed in June 2001, enables authorities to cooperate with other jurisdictions in criminal enforcement actions related to money laundering and to share in seized assets. The Foreign Evidence Act of 2001 provides for the admissibility in civil and criminal proceedings of certain types of evidence obtained from a foreign State pursuant to a request by the Attorney General under the MACA.

Palau has taken several steps toward enacting a legal framework by which to combat money laundering. It has signed Pacific Island Forum anti-money laundering initiatives and has sought to abide by the Honiara Declaration, which calls for Forum countries to implement the Financial Action Task Force 40 Recommendations. Palau should continue with these efforts and begin a broad-based implementation of the legal reforms already put in place.

**Panama.** Despite significant amendments to Panama's anti-money laundering regime since October 2000, Panama's proximity to major drug-producing countries, its sophisticated international banking sector, U.S. dollar-based economy, and the Colon Free Zone's (CFZ) role as an originating or transshipment point for goods purchased with narcotics dollars through the Colombian Black Market Peso Exchange make the country vulnerable to money laundering. Panama's financial institutions engage in currency transactions involving international narcotics-trafficking proceeds that include significant amounts of U.S. currency or currency derived from illegal drug sales in the United States.

Panama's large offshore sector is comprised of international business companies (over 370,000 currently registered in Panama), offshore banks (approximately 34 banks), captive insurance companies (corporate entities created and controlled by a parent company, professional association, or group of businesses), and trusts. Captive insurance has become one of the most important sectors of Panama's offshore financial industry, following banking. Panama offers three types of banking licenses: a general license for local and foreign operations, an international license for offshore banking, and a representation license for establishing representative offices.

In June 2000, the Financial Action Task Force (FATF) identified Panama as non-cooperative in international efforts to fight money laundering. The FATF in its June 2000 report cited several concerns about Panama's anti-money laundering regime: (1) Panama had not criminalized money laundering for crimes other than drug trafficking; (2) Panama had an ineffective process for transmitting suspicious transaction reports to competent prosecuting authorities; (3) Panama's financial intelligence unit (FIU) was unable to exchange information with its foreign counterparts; and (4) and for maintaining certain outdated civil law provisions that precluded the identification of the beneficial owners of trusts and corporations. In July 2000, the U.S. Treasury Department issued an advisory to U.S. financial institutions advising them to "give enhanced scrutiny" to financial transactions involving Panama, including transactions involving the CFZ.

These events prompted the Government of Panama (GOP) to engage in a coordinated effort to enact and implement laws, executive orders, and regulatory agreements with banks to bring Panama's anti-money laundering program into compliance with international standards. In October 2000, the GOP enacted two laws and issued two Executive decrees to address FATF's concerns about its anti-money laundering regime:

Law No. 41 (Article 389) of October 2, 2000 amends the Penal Code by expanding the number of predicate offenses for money laundering beyond drug trafficking to include criminal fraud, arms trafficking, trafficking in humans, kidnapping, extortion, embezzlement, corruption of public officials, terrorism, and international theft or trafficking of motor vehicles. Law No. 41 establishes a punishment of 5 to 12 years imprisonment and a fine.

Law No. 42 of October 2, 2000 requires financial institutions (banks, trust companies, money exchangers, credit unions, savings and loans associations, stock exchanges and brokerage firms, and investment administrators) to report to the Financial Analysis Unit (UAF)—Panama's financial intelligence unit—

currency transactions in excess of U.S. \$10,000 and suspicious financial transactions. Law 42 also mandates casinos, CFZ businesses, the national lottery, real estate agencies and developers, and insurance/reinsurance companies to report to the UAF currency or quasi-currency transactions that exceed U.S. \$10,000. Furthermore, Law 42 requires Panamanian trust companies to identify to the Superintendency of Banks the real and ultimate beneficial owners of trusts.

Executive Decree No. 163 of October 3, 2000, which amends the June 1995 decree that created the UAF, authorizes the UAF to share information with FIUs of other countries, subject to entering into a Memorandum of Understanding (MOU) or other information exchange agreement. The Panamanian UAF and the United States FIU, the Financial Crimes Enforcement Network (FinCEN), concluded an informal information sharing arrangement and have since shared information through letters of exchange on a case-by-case basis. The Panamanian UAF has signed MOU and sent them for signature to Spain, France, Croatia, Bulgaria, Colombia, Brazil, and El Salvador. MOUs with other Egmont Group countries are pending in those countries. Executive Order No. 163 also allows the UAF to provide information related to possible money laundering directly to the Office of the Attorney General for investigation. The UAF continues efforts to raise the level of compliance for reporting suspicious financial transactions particularly by non-bank financial institutions and businesses in the CFZ.

Executive Order 213 of October 3, 2000, amends Executive Order 16 of 1984 relative to trust operations, provides for the dissemination of information related to trusts to appropriate administrative and judicial authorities. Furthermore, in October 2000, Panama's Superintendency of Banks issued an Agreement No. 9-2000 that defines requirements that banks must follow for identification of customers, exercise of due diligence, and retention of bank records.

Although Panama has not yet successfully prosecuted a significant money laundering case, the UAF has begun transferring cases to the UIF for investigation. To increase GOP interagency coordination, the UAF and Panamanian Customs are developing an office at Tocumen International Airport to expedite the entry of customs currency declaration information into the UAF's database. This will enable the UAF to begin more timely investigations. In 2001, Panama's Customs initiated an aggressive anti-money laundering program at Tocumen International Airport to deter currency smuggling by seizing and forfeiting all undeclared funds in excess of \$10,000 from arriving passengers. In one 30-day period, Panamanian Customs officers at Tocumen International Airport seized over one million dollars in undeclared currency.

In light of these significant legislative and regulatory reforms and the GOP's efforts to implement these reforms, the FATF recognized in June 2001 that Panama had remedied the serious deficiencies in its anti-money laundering regime and removed Panama from FATF's list of non-cooperative countries. Similarly, the U.S. Treasury Department withdrew its advisory against Panama in June 2001.

Panama continues to participate in the multilateral Black Market Peso Exchange Group (BMPEG) Directive. Panama is a member of the Organization of American States Inter-American Commission on Drug Abuse Control (OAS/CICAD), the Caribbean Financial Action Task Force (CFATF), and the Offshore Group of Banking Supervisors (OGBS). Panama is a party to the 1988 UN Drug Convention, and in December 2000, signed the UN Convention against Transnational Organized Crime. The UAF is a member of the Egmont Group and hosted the Egmont Group plenary in 2000. Panama also hosted the Fifth Hemispheric Congress on the Prevention of Money Laundering in August 2001. Panama and the United States have a Mutual Legal Assistance Treaty that entered into force in 1995.

Panama should continue implementing the significant reforms it has undertaken to its anti-money laundering regime to help reduce the vulnerability of Panama's financial sector to financial crime, including money laundering.

**Papua New Guinea.** Papua New Guinea has no significant exposure to money laundering or other financial crime. Its banking sector is very small, and it has no offshore financial sector. However, there are no laws against money laundering.

## Money Laundering and Financial Crimes

---

Papua New Guinea is not a party to the 1988 UN Drug Convention.

**Paraguay.** Paraguay is a principal money laundering center, and although accurate figures are unknown, the National Anti-Drug Secretariat (SENAD) suspects that narcotics-trafficking may generate about 40 percent of money laundering. The Secretaria de Prevencion de Lavado de Dinero o Bienes (SEPRELAD) was hampered by financial woes and the loss of key trained personnel in 2001, and continues to suffer from the burdensome bureaucratic structure that makes it extremely difficult for money laundering cases to be approved for prosecution by its governing council. In 2001, the Government of Paraguay (GOP) proposed legislative measures that would allow SEPRELAD's Financial Analysis Unit (FAU) to improve the flow of information to investigative authorities by allowing them to communicate directly with outside agencies.

The council approves an overwhelmingly small portion of the cases analyzed by the FAU. 14,500 suspicious financial transactions reported to SEPRELAD in 2001, and only 31 were referred for further investigation. Of six non-narcotics related cases passed to the Attorney General's Office for prosecution, only one was taken to trial and it was dismissed by the judge on procedural grounds. However, despite these difficulties, shortly after September 11 SEPRELAD compiled a dossier on 46 suspicious financial transactions by ethnic Arabs, as well as millions of dollars in wire transfers from Ciudad del Este to Lebanon, and submitted them immediately to the Attorney General's (AG) office for investigation. In early October 2001, two businessmen were arrested on suspicion of having terrorist links. Also in the wake of the September 11 attacks, and the call for a crackdown on illicit financial activities that may be fueling terrorist groups, the Central Bank established a complementary money laundering operation to SEPRELAD.

The U.S. has worked with SEPRELAD to augment the number of money laundering cases brought before the AG's office; is in communication with the AG's office for ways to increase the number of prosecutors assigned to narcotics and money laundering cases; and is working closely with the Central Bank's new money laundering unit.

Money laundering in Paraguay is facilitated by the multi-billion dollar contraband re-export trade centered in Ciudad del Este (CDE), the heart of Paraguay's informal economy. The area is suspected by government officials in Paraguay and the U.S. to be a source of terrorist financing. Paraguay has taken some measures to tackle this "grey" economy and to move to a more formal, diversified economy. Paraguay is looking to a "maquila" industry and tourism as alternatives for CDE and the entire Tri-border area. Paraguay continued to experience banking failures, including the closing of the National Worker's Bank (BNT). The most spectacular case involved \$16 million diverted from the Central Bank to private accounts linked to the President's family. The GOP is working with the U.S. Treasury and Justice Departments to trace and account for the missing funds.

Paraguay is an attractive offshore financial center for neighboring countries, particularly Brazil, because little is required to open a bank account or to make financial transactions. Paraguay does not license offshore banks and businesses. There are no international business trusts, insurance, mutual fund companies, casinos or Internet gaming sites. Foreign banks are registered in Paraguay and non-residents are allowed to hold bank accounts, but current regulations forbid banks from advertising or seeking deposits from outside the country. The Superintendent of Banks, who exercises his right to audit financial institutions, supervises all banks under the same rules and regulations. But there are few effective controls over businesses, and businesses can operate without paying taxes. The large informal economy is outside the government's regulatory scope.

Money laundering occurs in both the banking and non-banking financial system. Government officials backed the enactment of OAS/CICAD compatible law criminalizing money laundering linked to narcotics and organized crime. It is possible that Paraguay's financial institutions engage in currency transactions involving international narcotics-trafficking proceeds that include U.S. currency.

Paraguay ratified a financial information exchange agreement with the U.S. in 1994. FINCEN and the FAU are working to improve bilateral information exchange to support the investigation of financial crimes. Existing laws allow USG personnel and those of other government's adequate access to money laundering records. Paraguay entered into a bilateral agreement with Brazil in 2000 to permit the exchange of money laundering information. It also endorsed the 1987 Basel Committee core principles. It is a party to the 1988 UN Drug Convention. Paraguay participates in Summit of the Americas and CICAD-related meetings on money laundering and is a member of the Egmont Group. It is also a member of the South American Financial Action Task Force (GAFISUD). As there are no offshore banks, Paraguay is not a member of the offshore group of banking supervisors and does not have agreements with home country supervisors regarding supervision. Paraguay has signed but not ratified the Inter-American Convention on Mutual Assistance in Criminal Matters and the UN Convention against Transnational Organized Crime. Paraguay has signed the Organization of American States Inter-American Drug Abuse Control Commission (OAS/CICAD) Hemispheric Drug Strategy.

Money laundering is a criminal offense, and carries a prison term of two years. The money laundering law requires banks and financial institutions to know and record the identity of customers engaging in significant large currency transactions, and to report those suspicious activities to SEPRELAD. Bank secrecy laws do not prevent banks and financial institutions from disclosing information to bank supervisors and law enforcement entities. Bankers and other are protected under the anti-money laundering law with respect to their cooperation with law enforcement agencies.

The U.S. does not exercise its prerogative under the financial information exchange agreement to request cooperation from the GOP on financial crime investigations. Paraguayan authorities continue to review the problem of international transportation of illegal-source currency and monetary instruments.

Paraguay is a major re-exporter of smuggled goods, although this aspect of the informal economy has suffered as a result of increasing government actions against piracy. There is no evidence that the narcotics trade significantly funds this centuries-old practice. There are no controls on the amount of currency that can be brought into or out of the country, and there are no cross-border reporting requirements.

The money laundering law contains "due diligence" and "banker negligence" provisions. The law also applies money laundering controls to non-banking financial institutions, such as exchange houses. Banking groups have not objected to GOP money laundering laws and policies.

There was one arrest and prosecution for money laundering. The case was dismissed by the judge because of a technicality at the time of arrest. There were several other cases submitted to the AG's office by SEPRELAD in mid-September that are going through the judicial investigative phase. The Superintendent of Banks did report drops in transactions after September 11.

The anti-money laundering law provides a basic system for forfeiting narcotics-related assets, including bank accounts, and a system for forfeiting proceeds derived from narcotics-trafficking. The law authorizes sharing forfeited assets with other governments. Legitimate businesses can be seized if they are derived from illicit proceeds. They can be fined or subjected to administrative sanctions if merely used to launder money. All narcotics-related assets seized under Law 1340 are deposited in the counternarcotics police (DINAR) Central Bank Account. Under the anti-money laundering law, proceeds are distributed at the discretion of the judge adjudicating the case. The legal and widespread use of shell corporations, bearer share corporations, and front men are legal loopholes used to shield assets. Seized assets may only be forfeited once a suspect has been convicted. The law only provides for criminal forfeiture.

Asset forfeiture is rare given that a conviction is required before a narcotics-related asset can be forfeited. But the GOP enforces existing drug-related asset seizure and forfeiture laws. The dollar value of seized assets, however, is minimal.

The SENAD is the GOP entity with primary responsibility for tracing and seizing assets. It has adequate police but limited resources to trace and seize assets. The USG has not sought GOP assistance in tracing or seizing assets. The SENAD and SEPRELAD make use of tips from other country law enforcement

## Money Laundering and Financial Crimes

---

officials. To date, there have been no retaliatory actions taken by traffickers, nor has there been trafficker retaliation to the GOP's modest asset seizures.

While the GOP took some positive steps, particularly in the wake of September 11, there are other initiatives that should be pursued so that Paraguay's anti-money laundering regime can be effective. Conducting outreach activities to sensitize financial institutions about reporting requirements; improving coordination and information sharing protocols between the FAU and FIU that prevent compromise of law-enforcement sensitive information; and passing the proposed legislative changes that will allow the FAU to communicate its findings directly to investigative agencies are some of the steps that the GOP should take in the near future.

**Peru.** Peru is not a regional financial. It has not developed into a major money laundering haven. Narcotics-related money laundering nevertheless occurs, and numerous former government officials are under investigation for corruption-related crimes including money laundering. During the past two years, the Government of Peru (GOP) has made strong efforts at uncovering and recovering the millions of U.S. dollars believed to be the proceeds of money laundering activities carried out by Vladimiro Montesinos, former director of the Peruvian National Intelligence Service.

The GOP has put in place a limited anti-money laundering legislative and regulatory framework. The current system criminalizes the laundering of proceeds directly associated with narcotics-trafficking (since 1992) and narcoterrorism (since 1993). The existing Penal Code imposes a mandatory penalty of life imprisonment for bank and finance officials convicted of money laundering, which is more severe than that for the predicate offense of drug trafficking. The severity of this penalty has impacted on prosecutions, and to date, there have been no convictions for money laundering.

Additional anti-money laundering provisions were put in place with the enactment of the General Law of the Financial and Insurance System, and the Organic Law of the Superintendency of Banking and Insurance. These laws introduced requirements for banks and other financial institutions to identify customers and report unusual and suspicious financial transactions to the Office of the Attorney General with a copy to the Superintendency of Banking and Insurance. The Office of the Attorney General shares information with the Financial Investigative Office of the Peruvian National Police Directorate of Counternarcotics (DINANDRO). The laws also required the reporting of currency transactions over \$10,000, but this requirement was suspended in 1998. The Superintendency of Banking and Insurance reinstated the currency transaction reporting in June 2001 but it is not clear to what extent financial institutions have complied.

The charges of corruption and money laundering at the highest levels of the past administration have generated a groundswell of support for broader laws. The new administration of President Alejandro Toledo leads a coordinated effort to provide Peru with comprehensive anti-money laundering laws that will meet stringent international standards. Separate bills to amend the Penal Code and expand the predicate offenses for money laundering to include all serious crimes, widen the range of financial entities required to report cash and suspicious transactions; and create a Financial Intelligence Unit (FIU) were approved at committee levels but did not reach the full Congress for consideration before it adjourned in June 2001. The July 2001 Congress formed a new counternarcotics and anti-money laundering committee that is re-drafting the bills.

Peru is a party to the 1988 UN Drug Convention. On January 23, 2002, Peru deposited its instrument of ratification for the UN Convention against Transnational Organized Crime, which is not yet in force internationally. Peru and the USG signed a new extradition treaty in July 2001. Peru is a member of the Organization of American States Drug Abuse Control Commission (OAS CICAD) Experts Group to Control Money Laundering, and the South American Financial Action Task Force (GAFISUD). The Peruvian Ministry of Finance and the U.S. Treasury Department exchange financial information for money laundering investigations based on a 1991 Financial Information Exchange Agreement (FIEA).

Passage of the bills amending the Penal Code and establishing an FIU must remain a priority since they will provide the GOP with much needed mechanisms to detect and investigate money laundering activities.

**Philippines.** The Philippines has a gross domestic product of more than \$81 billion dollars and is a major financial center in the Pacific. In the past few years the illegal drug trade in the Philippines reportedly has evolved into a billion-dollar industry. Additionally, the Philippines has experienced an increase in foreign organized criminal activity from China, Hong Kong, and Taiwan. Insurgency groups operating in the Philippines fund their activities through narcotics and arms trafficking, and engage in money laundering through alleged ties to organized crime. Corruption of some government officials is also a source for laundered funds.

In June 2000, the Financial Action Task Force (FATF) identified Philippines as non-cooperative in international efforts to fight money laundering. The FATF in its report cited several concerns that included the failure to criminalize money laundering, the absence of mandatory suspicious transaction reporting, and excessive bank secrecy provisions.

In July 2000, the U.S. Treasury Department issued an advisory to U.S. financial institutions, warning them to give enhanced scrutiny to certain transactions or banking relationships involving the Philippines, in light of the suspicious transaction reporting obligations of financial institutions operating in the United States.

In June 2001, FATF determined that the Philippines had made insufficient progress towards remedying deficiencies in its anti-money laundering regime and warned that FATF would impose countermeasures by September 30, 2001 if the Philippines failed to address such deficiencies.

In the face of mounting international pressure, the Philippines enacted legislation in September 2001 that addressed many of the concerns noted by both the FATF and the United States. In light of these reforms, FATF withdrew its call for countermeasures against Philippines in September 2001. However, both the FATF designation and the U.S. advisory remain in place.

The Anti-Money Laundering Act of 2001 (ALMA) addresses many of the deficiencies identified by the FATF and the United States. For example, sections 4 and 14 of the AMLA criminalize money laundering, an offense defined to include the conducting of activity involving the proceeds of any unlawful activity. The penalty for money laundering under the AMLA includes a term of imprisonment of up to seven years.

Section 9 of the AMLA requires “covered institutions”—i.e., banks, insurance companies and broker-dealers in securities—to establish and record the true identity of their clients based on official documents, and to maintain records of all transactions for five years from the date of such transactions. Section 9 further requires that covered institutions report suspicious activity; under the AMLA, such suspicious activity reports will not be deemed to violate the strict bank secrecy laws of the Philippines. The provisions of section 9 build upon the customer identification and suspicious activity reporting requirements contained in the earlier Bank Circulars 251 and 253, respectively. The AMLA sets the threshold for reporting suspicious transactions at “PHP 4 million or an equivalent in foreign currency based on the prevailing exchange rate within five consecutive banking days.”

Section 7 of the AMLA establishes the Anti-Money Laundering Council (AMLC). The AMLC will be composed of the Governor of the Bangko Sentral ng Pilipinas as chairman, and the Commissioner of the Insurance Commission and the Chairman of the Securities Exchange Commission as members. The AMLC is authorized to, among other things, receive suspicious activity reports from covered institutions and to freeze assets alleged to be connected to money laundering.

Section 11 of the AMLA relaxes the strict bank secrecy laws of the Philippines and allows the AMLC to examine any particular deposit or investment with any banking institution or non-bank financial institution upon order of any competent court in cases of violation of the Act when it has been established that there

## Money Laundering and Financial Crimes

---

is probable cause that the deposits or investments involved are in any way related to a money laundering offense. Deposits made before the effective date of the ALMA are not subject to section 11.

As of year end, the AML Council had not yet been staffed.

The Philippines is a member of the Asia/Pacific Group (APG) on Money Laundering and is a party to the 1988 UN Drug Convention. In December 2000, the Philippines signed the United Nations Convention against Transnational Organized Crime. The Philippines and the United States have a Mutual Legal Assistance Treaty that entered into force in 1996.

The United States is in the process of delivering technical assistance to the Philippines. On November 19, 2001, U.S. Treasury Secretary Paul O'Neill, Philippine Secretary of Finance Jose Isidro Camacho and Philippine Central Bank Governor Rafael Buenaventura signed a Memorandum of Intent Concerning Technical and Other Assistance for an Effective Philippine Anti-Money Laundering Regime. The main purpose of the memorandum of intent is to outline how the U.S. intends to assist the Philippine Government with coming into compliance with international money laundering standards.

Efforts to establish a financial intelligence unit have just begun. In addition, the threshold for reporting suspicious transactions may be too high to be effective. It is also unclear how effective the AMLC may be at examining deposits, given that pre-ALMA deposits are "grandfathered" in for purposes of section 11 of the Act. The Philippines should address deficiencies in this law, staff the AML Council, and finalize and promulgate necessary implementing regulations. The Philippines should ensure that the recently enacted reforms are fully and effectively implemented. Such effective implementation would bring the Philippines' anti-money laundering regime into compliance with international standards.

**Poland.** As a gateway between the former state socialist countries and those of the European Union, as well as to lucrative markets beyond, Poland finds itself in the path of and victim to drug traffickers and organized crime groups bringing narcotics from the Golden Triangle, Latin America, and elsewhere. The burgeoning economy of Europe and open borders with former socialist countries has led to a significant growth in transnational crime. Narcotics-trafficking, organized crime activity, auto theft, smuggling, extortion, counterfeiting, burglary, tax fraud, tax evasion, and other crimes generate criminal proceeds in the range of U.S. \$2-3 billion yearly according to Polish government estimates. Poland's banks serve as transit points for the transfer of criminal proceeds. Polish currency exchange businesses and casinos are likewise venues for money laundering activity.

Various regulations have been enacted since 1992 to combat money laundering in Poland. In 1997, Poland criminalized money laundering. Prosecutors have investigated more than 75 cases involving money laundering in the last five years. To date, only one of the cases forwarded to the courts has resulted in a successful prosecution. Poland's current law allows for customer identification, record keeping and suspicious activity reporting.

In November 2000, the Law on Counteracting the Use of Material Assets from Illegal or Undisclosed Sources in Financial Transactions was adopted. The new Law broadens the offense of money laundering to encompass all serious crimes and increases penalties. The 2000 Law also provided for the creation of a financial intelligence unit (FIU), the General Inspectorate of Financial Information (GIIF), to collect and analyze large and suspicious transactions. The GIIF is housed within the Ministry of Finance and became operational in July 2001. The GIIF has the right to put a suspicious transaction on hold for 48 hours. The Public Prosecutor then has the right to suspend the transaction for three months further, pending a court decision.

A major weakness of Poland's former money laundering regime had been that it did not cover many non-bank financial institutions that had traditionally been used for money laundering. Under the new regime, the scope of institutions subject to identity verification, record keeping, suspicious transaction reporting (SAR) has been widened. Financial institutions subject to the reporting requirements include banks, brokerages, casinos, insurance companies, investment and pension funds, leasing firms, private currency exchange offices, real estate agencies, and notaries public. The 2000 Law also requires financial institutions

to report all transactions or series of related transactions over the equivalent of 10,000 Euros to the newly created GIIF, although these requirements were still being phased in as of the end of 2001. In addition, financial institutions are now required to put internal anti-money laundering procedures into effect.

Poland is a party to the 1988 UN Drug Convention, the European Convention on Extradition and its Protocols, the European Convention on Mutual Legal Assistance in Criminal Matters, and the Council of Europe Convention on Laundering, Search, Seizure and Confiscation of the Proceeds from Crime. As a member of the Council of Europe, Poland participates in the Council of Europe's Select Committee of Experts on the Evaluation of Anti-Money Laundering Measures (PC-R-EV) and has undergone a mutual evaluation by that group. In November 2001, Poland ratified the UN Convention against Transnational Organized Crime, which is not yet in force internationally.

A Mutual Legal Assistance Treaty between the United States and Poland came into force in 1999. In addition, Poland has signed bilateral mutual legal assistance treaties with Sweden, Finland, the Ukraine, Lithuania, Latvia, Estonia, Germany, Greece and Hungary. The GIIF has been invited by the Egmont Group of FIUs to become a member.

Poland has taken a number of steps to put in place a comprehensive anti-money laundering regime to meet international standards. Poland should fully implement and enforce the new anti-money laundering legislation, and the GIIF should join the Egmont Group of FIUs.

**Portugal.** Officials of the Government of Portugal (GOP) indicate that most of the money laundered in Portugal is drug-related. GOP officials also reported that bureaux de change, wire transfers, and real estate purchases are used for laundering criminal proceeds.

Portugal has a comprehensive anti-money laundering regime. Decree-Laws 15/93, 313/93, and 325/95 (amended by Decree-Law 65/98) criminalize money laundering related to narcotics-trafficking and other serious offenses such as terrorism, arms trafficking, extortion, kidnapping, corruption, and serious economic offenses (specified in a separate economic crimes law). Decree-Law 170/93 requires declaration of cross-border movements of currency that exceed 2.5 million Escudos (Esc.), which is approximately U.S. \$12,000. All financial institutions, including insurance companies, must: identify their customers; maintain records for a minimum of ten years, and demand written proof from customers regarding the origin and beneficiary of transactions that exceed 2.5 million Esc. Non-financial institutions, such as casinos, property dealers, lotteries, and dealers in high-value assets must also: identify customers engaging in large transactions, maintain records, and report suspicious transactions to the Office of the Public Prosecutor.

In October 2001, Parliament approved Decree-Law 5/2002 that established additional legislation to combat organized crime. Under this law, police have the jurisdiction to request files of individuals under investigation. Additionally, with a court order police are now able to obtain and use audio and videotape as evidence in court. The law allows the Public Prosecutor to request that a lien be placed on the assets of individuals being prosecuted in order to facilitate asset seizures related to narcotics and weapons trafficking, terrorism, and money laundering. The law will come into force in 2002.

When money laundering is suspected, financial institutions must cease processing the transaction in question and report it to the judicial authority and the Office of the Public Prosecutor. However, Portugal's system for reporting suspicious transactions is informal; bank officials contact the anti-money laundering authorities and file a formal suspicious transaction report (STR) only if those authorities indicate that one is necessary.

The Public Prosecutor forwards STRs to for analysis to the Judicial Police's Brigada de Investigação de Branqueamento de Capitais (BIB), which is Portugal's financial intelligence unit (FIU). If money laundering is indicated, the Portuguese Judicial Police conduct an investigation. The eight-person BIB consists of six inspectors, one administrator and a director. The BIB reported receiving approximately 100 STRs in the first half of 2001—mainly from banks and other FIUs—and approximately 500 since 1998. The BIB also reported 35 continuing money laundering investigations, with 3 arrests in 2000.

## Money Laundering and Financial Crimes

---

Portuguese laws also call for the confiscation of property and assets connected to money laundering, and authorize the Portuguese Judicial Police (PJP) to trace illicitly obtained assets—including those passing through casinos and lotteries—even if the predicate crime is committed outside of Portugal. The GOP reported 320 million Esc. (approximately U.S. \$1.4 million) in seized assets in 2000.

Public and private sector regulators and organizations play important roles in Portugal's anti-money laundering program. The Bank of Portugal monitors financial institution compliance through inspections and annual internal control reports. The Portuguese Banking Association provides regular training courses on money laundering for employees of banks and other financial institutions. The Portuguese Insurance Institute, through Circular No. 27/97, monitors compliance of insurance-related businesses, educates the insurance sector on industry-specific risks, and alerts judicial authorities to evidence of money laundering. The Securities Commission (CMVM) regulates the securities industry through: monitoring compliance by financial intermediaries; providing training for brokers; and alerting judicial authorities to evidence of money laundering. The CMVM has cooperated with foreign authorities in two major investigations that involved funds laundered in Portugal.

The GOP has comprehensive legal procedures that enable it to cooperate with foreign jurisdictions and share seized assets.

The Portuguese islands of Madeira offer one of the few offshore centers in the European Union (EU). The Madeira International Business Center (MIBC) has a free trade zone, an international shipping register, offshore banking, trusts, holding companies, stock corporations, and private limited companies. The latter two business entities are similar to international business corporations (IBCs), of which there are approximately 4,000 registered in Madeira. All entities established in the MIBC will remain tax exempt until 2011. Twenty-seven offshore banks are currently licensed to operate within the MIBC. The Madeira Development Company supervises offshore banks.

Companies can also take advantage of Portugal's double taxation agreements. Decree-Law 10/94 permits existing banks and insurance companies to establish offshore branches. Applications are submitted to the central bank of Portugal for notification, as in the case of EU institutions, or authorization, as in the case of non-EU or new entities. The law allows establishment of "external branches" that conduct operations exclusively with non-residents or other Madeiran offshore entities, and "international branches" that conduct both offshore and domestic business. Although Madeira has some local autonomy, its offshore sector is regulated by Portuguese and EU legislative rules, and is supervised by the competent oversight authorities. Bearer shares are not permitted.

Portugal is a member of the Council of Europe, the European Union, and the Financial Action Task Force (FATF). Portugal held the FATF presidency from 1999 to 2000. Portugal is a party to the 1988 UN Drug Convention, and has signed, but not yet ratified the UN Convention against Transnational Organized Crime. Portugal is also a party to the Council of Europe Convention on Laundering, Search, Seizure and Confiscation of the Proceeds of Crime. BIB is a member of the Egmont Group of FIUs.

Portugal has put into place comprehensive and effective measures to combat money laundering. The GOP should institute a more formalized system for reporting suspicious transactions, continue to exercise due diligence over its offshore sector, and closely monitor domestic non-bank financial institutions.

**Qatar.** Qatari has a relatively small population, with a low rate of crime, for both general and financial crimes. Its financial sector, though modern, is limited in size, and subject to strict regulation. Due to these facts, the risk of money laundering appears to be low.

While Qatar has not enacted any anti-money laundering laws to date, the Qatari Central Bank has implemented regulations that require its member financial institutions to review all large currency and suspicious transactions for possible involvement in money laundering. The government has anti-money laundering legislation pending. The police and prosecution authorities have had little experience in investigating any type of financial crime, much less money laundering or terrorist financing. To effectively combat these crimes, the capabilities of these agencies must be strengthened through effective and

extensive training in financial investigations, money laundering, confiscation and international cooperation.

Qatar has taken initial steps to combat money laundering and terrorist financing, but further measures are required. Qatar should proceed expeditiously to enact and implement a comprehensive set of penal and financial regulatory laws, regulations and guidelines, which will prevent its financial system from being misused by money launderers in the future.

**Romania.** Romania is in its third year of developing an anti-money laundering regime. Its geographic location makes it a natural transit country for trafficking in narcotics, arms, stolen vehicles, and illegal aliens and, therefore, vulnerable to money laundering. As in other countries in Eastern Europe, corruption and the presence of organized crime activity facilitate money laundering. Financial crimes and the smuggling of cigarettes, alcohol, coffee and other dutiable commodities round out the predicate crimes that contribute to laundered proceeds.

Romania criminalized money laundering with the adoption in January 1999 of Law N°21/99 “On the Prevention and Punishment of Money Laundering.” The law became effective in April 1999 and mandated provisions for customer identification, record keeping, transaction reporting of a suspicious or unusual nature, currency transaction reporting over 10,000 Euros, a financial intelligence unit (FIU), and internal anti-money laundering procedures and training for all domestic financial institutions covered by the law. The list of entities subject to the reporting requirements includes banks, non-bank financial institutions, attorneys, accountants, and notaries. While banking groups have not openly objected to the implementation of reporting requirements, there remains some discomfort on the part of the banking industry regarding requirements to assist law enforcement. This has been ameliorated by the publication of guidelines for suspicious indicators.

The National Office for the Prevention and Control of Money Laundering (NOPCML) is Romania’s FIU. The NOPCML receives and evaluates suspicious and unusual transaction reports as well as currency transaction reports. Since its establishment the NOPCML has reviewed over 2,000 suspicious transaction reports, eighty percent of which come from the banking sector, and has forwarded 200 preliminary cases to the Public Prosecutor’s Office for investigation. Of these, seven cases resulted in arrests. In 2000 Romanian prosecutors presented a complex case to court charging violations of the new money laundering law. The case involved an amount in excess of U.S. \$30 million.

The Directorate of Economic & Financial Crimes of the national police also has a mandate to pursue money laundering. There have been 200 money laundering cases in the two years since Law N°21/99 was passed. With the passage of Law N° 78 in 2000, corruption became a predicate offense for money laundering.

Romania is a member of the Council of Europe (COE) and participates in the Council of Europe’s Select Committee of Experts on the Evaluation of Anti-Money Laundering Measures (PC-R-EV). A mutual evaluation in April 1999 by the PC-R-EV uncovered a number of areas of concern. These include a high evidence threshold required for reporting suspicious transactions, a potential conflict with bank secrecy legislation, and the lack of provisions for cases in which the reporting provisions are intentionally ignored. Romania is currently working with EU legal experts to address the PC-R-EV concerns.

The NOPCML is a member of the Egmont Group. The Mutual Legal Assistance Treaty signed in May 1999 between the U.S. and Romania entered into force in October 2001. Romania has demonstrated its commitment to international anti-crime initiatives by participating in regional and global anti-crime efforts. Romania is a party to the 1988 UN Drug Convention and has signed but not yet ratified the UN Convention against Transnational Organized Crime. In 1997 Romania signed the Council of Europe Convention on Laundering, Search, Seizure and Confiscation of the Proceeds from Crime, but it has not yet become a party.

## Money Laundering and Financial Crimes

---

Romania should continue addressing the concerns of the Council of Europe evaluators as to further improve its anti-money laundering regime and continue its progress on money laundering investigations and prosecutions.

**Russia.** Russia's ability to transform its economy and implement a new anti-money laundering program will be crucial to its success in stemming the laundering of criminal proceeds domestically and fighting money laundering internationally.

Although precise figures are not available, the magnitude of money laundering is believed to be large given the scale of contributing factors involved. Russia's abundance of natural resources, infiltration of society by organized crime, porous borders, geographic role as a gateway to Europe and Asia and under-funding of regulatory and law enforcement agencies leave Russia vulnerable to money laundering.

In the past, capital flight often has been confusingly associated with money laundering since many of the same methods to transfer funds are used in both instances. False invoicing schemes involving the export of oil, precious metals, raw materials and alcohol, and other fictitious trade transactions have been used to facilitate capital flight and tax evasion, as well as to launder criminal proceeds.

Citing the lack of a legal and regulatory framework to combat money laundering, the Financial Action Task Force (FATF), in June of 2000, identified Russia as non-cooperative in the fight against money laundering. In its initial report on the Russian Federation, the FATF found the Russian anti-money laundering program lacking in several areas including: 1) the existence of laws and regulations subscribing to international standards; 2) customer identification requirements; 3) a suspicious transaction reporting system; 4) a fully operational financial intelligence unit with adequate resources; and, 5) effective and timely procedures for providing evidence to assist in foreign money laundering investigations.

These deficiencies also prompted the United States Treasury to issue an advisory in July of 2000 to U.S. financial institutions, urging them "to give enhanced scrutiny to transactions or banking relationships that do not involve established, and adequately identified and understood, commercial or investment enterprises, as well as to transactions involving the routing of transactions from Russia through third jurisdictions in ways that appear unrelated to commercial necessities." Most other FATF members issued similar advisories. In June of 2001, the FATF determined that Russia had made insufficient progress towards remedying deficiencies in its anti-money laundering regime and warned that it would recommend that its membership impose countermeasures by September 30, 2001 if adequate progress was not realized.

The Russian Duma passed a law on "Combating the Legalization (Laundering) of Income Obtained by Illegal Means" in July of 2001, which President Putin signed on August 6th. The effective date of this law is February 1st, 2002. Russia's new anti-money laundering law requires obligated financial institutions to monitor and report transactions to an authorized agency, to keep records and to identify their customers. Russian financial institutions (e.g., credit organizations, securities market professionals, insurance and leasing companies, funds transfer organizations and pawnshops must monitor and report to the government covered transactions that exceed 600,000 rubles. Financial institutions must also report transactions when they suspect money laundering is involved. Reportedly, the Central Bank has issued regulations regarding reporting requirements and procedures for banks. A presidential decree of November 1st, 2001 actualized a provision in the law that an executive agency be established as a financial intelligence unit. The decree set up a Committee on Financial Monitoring (CFM), making it accountable to the Ministry of Finance. The CFM chairman has been named and has been engaged in organizing CFM operations. The CFM will serve as an administrative financial intelligence unit, having no law enforcement investigative powers.

The new Russian law complements earlier reforms. In 1999, the Central Bank of Russia instituted regulatory measures to scrutinize offshore financial transactions. In the following six months, wire transfers from Russian banks to offshore financial centers dropped significantly. At the same time the Central Bank curtailed establishing correspondent relations with offshore banks by raising the standards

for “eligible” offshore financial institutions and thereby reducing the number. In July 2000, President Putin vetoed the law “On Free Economic Zones.” That law would have granted customs and tax advantages to various regions of the Russian Federation as a means to encourage economic development. A number of Russian businesses had flocked to these free economic zones in anticipation of passage of this and similar regional laws. Putin’s veto of the law laid to rest an initiative that would have effectively provided offshore status to Russian registered businesses.

In light of the reforms to Russia’s anti-money laundering regime, FATF withdrew its call for countermeasures against Russia in September 2001. Russia, however, remains on FATF’s list of non-cooperative jurisdictions in the international fight against money laundering.

Russia holds membership in the Council of Europe’s Select Committee of Experts on the Evaluation of Anti-Money Laundering Measures (PC-R-EV) and underwent a mutual evaluation in June 2000, which was discussed at the January 2001 meeting of the group. At the behest of President Putin, the Russian Duma ratified the Strasbourg Convention on Laundering, Search, Seizure and Confiscation of the Proceeds from Crime and Russia became a party in 2001. Russia is a party to the 1988 UN Drug Convention and has signed but not yet ratified the United Nations Convention against Transnational Organized Crime. The United States and Russia signed a Mutual Legal Assistance Treaty in 1999, which entered into force on January 31, 2002 and replaces the Mutual Legal Assistance Agreement of 1995.

U.S. law enforcement and regulatory agencies are engaged in a number of technical assistance projects designed to advance Russia’s anti-money laundering efforts. U.S. technical assistance programs have focused on providing law enforcement, regulators, and prosecutors with anti-money laundering training to combat financial crimes. In addition, technical teams have assisted Russian drafters in developing their new anti-money laundering legislation.

The enactment of comprehensive anti-money laundering legislation in 2001 marked a milestone in Russian efforts to strengthen its anti-money laundering regime. Russia should focus on implementation its revised anti-money laundering program, as this will be a key determinant of Russia’s ability to counter money laundering domestically and become a contributing partner in the global fight against money laundering.

**Samoa.** Samoa does not have a major organized crime, fraud, or drug problem. The most common crimes that generate revenue within the jurisdiction would appear to be low-level fraud and theft. The domestic banking system is very small and there is relatively little risk of significant money laundering derived from domestic sources. Samoa’s offshore banking sector is relatively small but insufficiently regulated. Samoa passed the Money Laundering Prevention Act (MLPA) in June 2000. This law criminalizes money laundering associated with numerous crimes, and sets measures for the prevention of money laundering and related financial supervision.

The MLPA requires financial institutions to report transactions considered suspicious to a Money Laundering Authority (MLA) to be appointed by the Minister of Finance. The MLA will receive and analyze these disclosures, and if it establishes reasonable grounds to suspect that a transaction involves the proceeds of crime, it will refer the information to the attorney general and the Commissioner of Police.

The MLPA compels financial institutions, offshore and onshore, to develop and apply internal policies, procedures, and controls to combat money laundering. It requires financial institutions to record new business transactions exceeding S\$30,000, to retain records for a minimum of seven years, and to identify all parties to the transactions, but still allows anonymous accounts for onshore and offshore banks. This threshold reporting system exposes the financial institutions to potential abuse. As it is written, financial institutions are under no obligation to maintain any record for either single or multiple transactions where the account is under S\$30,000. Section 12 of the MLPA establishes that all financial institutions have an obligation under this law to “develop and establish internal policies, procedures and controls to combat money laundering, and develop audit functions in order to evaluate such policies, procedures and controls.” There is nothing in the legislation that prohibits financial institutions from carrying out business transactions where the beneficial owner of the transactions is unknown, or represented by an intermediary

## Money Laundering and Financial Crimes

---

who will not disclose the identity of the beneficial owner. Section 8 of the Money Laundering Prevention Act states that the new legislation will override all secrecy obligations for the purpose of money laundering prevention and enforcement. The law requires individuals to report to the MLA if they are carrying with them \$10,000 or more in cash or negotiable instruments upon entering or leaving Samoa.

The Central Bank of Samoa, the Office of the Registrar of International and Foreign Companies, and the Money Laundering Authority (MLA) regulate the financial system. There are three locally incorporated commercial banks. Samoa is an offshore financial centre with eight offshore banks licensed. For entities registered or licensed under the various Offshore Finance Centre Acts there are no currency or exchange controls or regulations, and no foreign exchange levies payable on foreign currency transactions. No income tax or other duties, nor any other direct or indirect tax or stamp duty is payable by registered/licensed entities. The Central Bank supervises onshore banks. The Office of the Registrar of International and Foreign Companies has responsibility for regulation and administration of the offshore sector. There are no casinos, but two local lotteries are in operation.

Under the MLPA, the offense of money laundering is committed by “engaging directly or indirectly, in a transaction that involves property that is the proceeds of crime, knowing or having reasonable grounds for believing the same to be the proceeds of crime, or by receiving, possessing, concealing, disguising, transferring, converting, disposing of, removing from or bringing into Samoa any property that is the proceeds of crime, knowing or having reasonable grounds for believing the same to be the proceeds of crime.” A conviction for a money laundering offense is punishable by a fine not to exceed S\$1 million, a term of imprisonment not to exceed seven years, or both.

The MLPA removes any secrecy protections or prohibitions to the disclosure of relevant information. Moreover, the MLPA provides protection from both civil and criminal liability from disclosures related to potential money laundering offenses to the competent authority.

Samoa currently has 8 offshore banks, 5 international insurance companies, 4551 international business corporations (IBCs), 6 trustee companies, and 165 international trusts. Section 16 of the Offshore Banking Act does not prohibit persons who have been sentenced for an offense involving dishonesty from applying to be employed as directors or managers of offshore banks. The Act only requires prior approval, in writing, of the Minister before doing so without setting any criteria to guide the decision. In addition, there is no provision in the Act that specifies the qualifications for an owner/shareholder of an offshore bank. IBCs may be registered using bearer shares and shelf companies that conceal the identity of the beneficial owner and the date of incorporation of these entities. Corporate entities may be listed as officers and shareholders because Samoan IBCs have all the legal powers of a natural person. There are no requirements to file annual statements or annual returns. These provisions make IBCs particularly attractive to money launderers and have not yet been addressed by Samoan authorities.

International cooperation can only be provided where Samoa has entered into a mutual co-operation agreement with the requesting nation. Under the MLPA, the MLA has no powers to exchange information with overseas counterparts. The inability of the MLA simply to exchange information on an administrative level with its foreign counterparts is a material weakness of the current system.

Samoa is a member of the Asia/Pacific Group on Money Laundering and the Pacific Island Forum. Samoa has not signed the 1988 UN Drug Convention.

Since the passage of the June 2000 MLPA, the Government of Samoa (GOS) has continued to strengthen its anti-money laundering regime. The GOS should move quickly to implement this legislative effort, and issue guidelines to financial institutions so that they have a clear understanding of their obligations under the anti-money laundering law. The GOS should work to ensure that the MLA becomes fully operational. Particular emphasis needs to be directed toward regulation of the offshore financial sector, and eliminating anonymous accounts for onshore and offshore banks. The GOS should enact legislation to identify the beneficial owners of IBCs to help ensure that criminals do not use them for money laundering or other financial crimes.

**Saudi Arabia.** Saudi Arabia is not considered to be a major financial center. However, in recognition of the spread of worldwide money laundering activities, particularly those involving drugs, the Saudi Arabian Monetary Agency (SAMA) published in 1995 money laundering control guidelines to assist Saudi banks from being exploited as channels for illegal transactions and other criminal activity. In 1999, the Saudi Council of Ministers approved amendments to existing money laundering laws intended to bring Saudi Arabia into compliance with the Financial Action Task Force (FATF) 40 Recommendations. However, as of the end of 2001, these amendments had not been implemented.

There is relatively strong bank supervision in Saudi Arabia and individuals or banks suspected of money laundering are subject to criminal prosecution under Shari'a Islamic law, the Banking Control law, and Saudi Arabian labor law. Money laundering cases are heard in a Shari'a court, which bases its jurisdiction on a Koranic passage that states that "assets arising from illegal acts shall be forbidden and confiscated."

SAMA requires that each bank establish internal money laundering control units to review policies, institute necessary investigations, and implement training programs. If money laundering is suspected, banks are required to notify SAMA and the police. SAMA officials and bank compliance officers meet on a monthly basis to share information on money laundering trends. The Ministry of Interior does not publicly disseminate statistics regarding money laundering investigations and prosecutions in Saudi Arabia.

SAMA trains Shari'a judges and conducts semi-annual "awareness courses" designed to educate both bankers and enforcement officers about money laundering, and also presents "customized courses" for groups of security and intelligence personnel and for judges.

Saudi Arabia is a party to the 1988 UN Drug Convention and has signed but not yet ratified the United Nations Convention against Transnational Organized Crime.

Saudi Arabia should adopt the amendments to existing money laundering laws to bring these laws into compliance with the FATF 40 Recommendations.

**Senegal.** Senegal's banking system and informal money-exchange system are vulnerable to the laundering of proceeds from corruption, drug trafficking, illegal gems and arms trafficking, and trafficking in persons, all of which are prevalent in West Africa. There is also credible evidence to suggest that terrorist organizations use the West African region for money laundering activities through the formal and informal banking systems, as well as through Islamic banks. Article 102 of Senegal's 1997 drug code criminalizes drug laundering by providing punishment of up to 10 years imprisonment. The last money laundering prosecution under this law was in 1999. Senegalese banks also have provisions for suspicious transaction reporting. Some of these reports are sent to the Intergovernmental Group for Action Against Money Laundering (GIABA), the currently non-functional West African regional FATF-style body, established in 1999. A Senegalese magistrate is the nominal acting head of GIABA, which is centered in Dakar.

The Central Bank of West African States (BCEAO), based in Dakar, is the central bank for Benin, Burkina Faso, Guinea-Bissau, Cote d'Ivoire, Mali, Niger, Senegal, and Togo, all of which use the French-backed CFA franc currency. In July 2001 the BCEAO hosted a conference on money laundering.

Senegal is a party to the 1988 UN Drug Convention and has signed but not yet ratified the United Nations Convention against Transnational Organized Crime.

**Seychelles.** Seychelles continues to develop its offshore financial center, which makes the country vulnerable to money laundering.

The Government of Seychelles (GOS) has taken steps to develop an offshore financial sector in order to diversify its economy away from tourism and increase foreign exchange earnings. The GOS actively markets Seychelles as an offshore financial and business center that allows for the registration of non-resident companies. There are currently over 4800 registered international business companies (IBCs) in Seychelles that pay no taxes in Seychelles, and are not subject to foreign exchange controls. The Seychelles International Business Authority (SIBA), which acts as the central agency for the registration for IBCs,

## Money Laundering and Financial Crimes

---

promotes the fact that IBCs need not file annual reports. SIBA is part of the Ministry of International Trade, and also manages the Seychelles International Trade Zone. In addition to IBCs, Seychelles permits offshore trusts (registered through a licensed trustee), offshore insurance companies and offshore banking.

A major weakness of Seychelles' offshore program is that it still permits the issuance of bearer shares, a feature that can facilitate money laundering by making it extremely difficult to identify the beneficial owners of an IBC. Seychelles officials stated in 2000 that they were reviewing the question of bearer shares and intended to outlaw them. In the interim, the GOS has indicated that it will not approve the issuance of any more bearer shares.

The GOS enacted anti-money laundering legislation, the Anti-Money Laundering Act (AMLA), in 1996. The AMLA criminalizes the laundering of funds from all serious crimes, requires financial institutions and individuals to report to the Central Bank transactions involving suspected cases of money laundering and establishes safe harbor protection for individuals and institutions filing such reports. The AMLA imposes record keeping and customer identification requirements for financial institutions, and also provides for the forfeiture of the proceeds of crime. Under the AMLA, anyone who engages directly or indirectly in a transaction involving money or other property (or who receives, possesses, conceals, disposes of, or brings into Seychelles any money or property) associated with crime is guilty of money laundering. In addition, anyone who aids, abets, procures, or conspires with another person to commit the crime, while knowing, or having reasonable grounds for knowing that the money was derived from an illegal activity, is likewise guilty of money laundering.

The Central Bank of Seychelles in 1998 issued a comprehensive set of guidance notes that further elucidated and strengthened the provisions of the 1996 Act. The Central Bank of the Seychelles receives and analyzes suspicious activity reports and disseminates them to the competent authorities.

The major area of concern regarding anti-money laundering practices in the Seychelles related to the Economic Development Act (EDA) of 1995. The EDA provided concessions (protection from asset seizure and immunity from prosecution for crimes committed abroad and most crimes, other than violent crimes and drug trafficking, committed in the Seychelles) to individuals investing more than U.S. \$10 million in the Seychelles. While the EDA never came into force, it represented a threat to international efforts to combat money laundering. Enactment of such a law had the potential for attracting international criminal enterprises, seeking to shelter themselves and their proceeds from pursuit by legal authorities.

Both the Financial Action Task Force (FATF) and the United States condemned the EDA. Under the provisions of FATF Recommendation 21, the FATF urged financial institutions worldwide to scrutinize closely transactions and business relations with the Seychelles on February 1, 1996. That same year, the U.S. Treasury Department issued an advisory to U.S. financial institutions calling upon them to give enhanced scrutiny to all financial transactions involving the Seychelles. In February 2000, the FATF selected Seychelles for review as a possible non-cooperative jurisdiction in the international effort to combat money laundering. In order to avoid such a designation, the GOS maintained that the EDA had never become effective. Nevertheless, the GOS agreed to repeal the EDA, and it did in the summer of 2000. In October 2000 the FATF rescinded its Recommendation 21.

The Seychelles is a party to the 1988 United Nations Drug Convention, and in December 2000, signed the United Nations Convention against Transnational Organized Crime.

By eliminating its Economic Development Act, Seychelles has taken an important step in the fight against money laundering. The GOS should expand its anti-money laundering efforts by moving to outlaw bearer shares and requiring complete identification of beneficial owners of IBCs. The GOS should establish a financial intelligence unit to collect, analyze, and share financial data with foreign counterparts to effectively combat money laundering and other financial crimes. Seychelles should also sign the Memorandum of Understanding with the Eastern and Southern Africa Anti-Money Laundering Group and become an active participant.

**Singapore.** As a significant international financial and investment center, and in particular a major offshore financial center, Singapore is attractive to potential launderers. Bank secrecy laws and the lack of routine currency reporting requirements may make Singapore attractive to drug traffickers seeking to launder and move their money. As of October 2001, there were 83 offshore banks in Singapore, all branches of foreign banks. There are no offshore trusts, although banks may open trust, nominee, and fiduciary accounts. All banks in Singapore, whether domestic or offshore, are subject to the same regulation, record keeping and reporting requirements. There are also hundreds of offshore international and financial service businesses. An offshore company must have a locally-registered office with a physical address and a minimum of two directors, at least one of who must be a Singaporean citizen, permanent resident or employment pass holder. Bearer shares are not permitted. A company incorporated in Singapore has the same status and powers as a natural person.

Although legislation against money laundering has been on the books since the Drug Trafficking Act of 1992, it is the most recent legislation and regulations that significantly weaken bank secrecy in cases involving most serious criminal activity, including narcotics-related money laundering. To bolster law enforcement cooperation and facilitate information exchange, including information to combat narcotics related money laundering; Singapore and the U.S. signed the Drug Designation Agreement (DDA) in November 2000, after three years of negotiations. It entered into force in early 2001. The DDA facilitates the exchange of banking and corporate information on drug money laundering suspects and targets to include access to bank records, reciprocal honoring of seizure/forfeiture warrants to include the execution of these warrants and the freezing and/or forfeiture of the proceeds of the drug trafficking, testimony of witnesses, service of process, and the sharing of seized assets. Implementation and use of the DDA is expected to result in significant seizures of narcotics-related proceeds in the years ahead. The DDA is the first such agreement Singapore has undertaken with another government and is also the first agreement made under the auspices of Singapore's Mutual Assistance in Criminal Matters Act that was enacted early in 2000. The DDA, however, is limited to narcotics cases only and does not apply to non-narcotics related money laundering or financial fraud.

The GOS enacted the Mutual Assistance in Criminal Matters Act (MACM) in March 2000. The MACM paved the way for the signing of the DDA with the United States eight months later. The MACM consolidated the existing mutual assistance provisions of the Drug Trafficking Act (DTA) of 1993 and ensured that the GOS could share records in connection with narcotics investigations and proceedings. The MACM applies to countries that have concluded treaties, memoranda of understanding or other agreements with Singapore.

The Corruption, Drug Trafficking and other Serious Crimes (Confiscation of Benefits) Act of 1999 (CDSA) criminalized the laundering of proceeds from narcotics and over 150 other offenses. Financial institutions must report suspicious transactions and positively identify customers engaging in large currency transactions. Banks are required to maintain adequate records to respond quickly to Government of Singapore (GOS) inquiries in money laundering cases. However, there are no reporting requirements on amounts of currency brought into or taken out of Singapore.

The Monetary Authority of Singapore (MAS), which is part of the Ministry of Finance, serves as the de facto central bank of Singapore and is the regulator of all financial institutions. In 2000 MAS issued a series of regulatory guidelines (i.e., "Notices") requiring banks to apply "know your customer" standards, adopt internal policies for staff compliance, and cooperate with enforcement agencies on money laundering cases. Banks must obtain documentation, such as passports or identity cards, from all personal customers so that the bank can verify their names, permanent contact addresses, dates of birth, and nationalities, and conduct inquiries into the bona fides of company customers. The regulations specifically require that banks obtain evidence of the identity of the beneficial owners of shell companies or trusts. The guidelines also mandate specific record keeping and reporting requirements, outline examples of suspicious transactions that should prompt reporting, and establish mandatory intra-company point-of-contact and staff training requirements. MAS Notice 626 applies to banks; Notice 824 applies to Finance Companies; Notice 1014 applies to Merchant Banks; and Notice 314 to Direct Life Insurers and Brokers.

MAS issued similar guidelines for securities dealers and investment advisors, and futures brokers and advisors.

The Suspect Transaction Reporting Office (STRO) began operating on 10 January 2000 and receives and analyzes suspicious transaction reports filed by financial institutions. It is also authorized to exchange intelligence derived from these reports with foreign counterparts.

Singapore is party to the 1988 UN Drug Convention, and in December 2000 signed the UN Convention against Transnational Organized Crime. Singapore is a member of the Financial Action Task Force, the Asia/Pacific Group (APG) on Money Laundering, and the Offshore Group of Banking Supervisors.

The GOS should continue close monitoring of its domestic and offshore financial sectors. As a major financial center, it should also consider measures to monitor large currency movements into and out of the country to ensure that international criminals do not abuse Singapore's financial system.

**Slovakia.** The geographic, economic, and legal conditions that shape the money laundering environment in Slovakia are typical of those in other Central European transition economies. Slovakia's location along the major lines of communication connecting Western, Eastern, and Southeastern Europe make it a transit country for smuggling and trafficking in narcotics, arms, stolen vehicles, and illegal aliens. Organized crime activity and the opportunities to use gray market channels for laundering also lead to a favorable money laundering environment. Financial crimes such as fraud, tax evasion, embezzlement, and conducting illegal business have been quite problematic for Slovak authorities. Non-bank financial institutions have also been particularly susceptible to laundering, as until January 1, 2001 they were not subject to transaction reporting requirements.

Slovakia's previous anti-money laundering legislation, Act N°249/1994 (later amended by Act N° 58/1996 "To Prevent the Laundering of Proceeds of Most Serious Crimes, Particularly of Organized Crime and to Amend Some Other Statutory Provisions Enacted by the Authority of the National Council of the Slovak Republic") became effective on October 1, 1994. Article 252 "Legalization of Proceeds from Criminal Activity" of the Slovak Criminal Code came into force at the same time. These measures criminalize money laundering for all serious crimes and impose customer identification, record keeping, and suspicious transaction reporting requirements on banks.

In October 2000, Act No 249/1994 was supplanted when the Slovak Parliament adopted the law "On Protection against the Legalization of Proceeds from Criminal Activities" (367/2000). It required non-bank financial institutions to report suspicious transactions beginning January 1, 2001. Non-bank financial institutions subject to the new law are: casinos, post offices, brokers, stock exchanges, commodity exchanges, asset management companies, insurance companies, tax advisors, auditors, and credit unions. The law also abolishes new anonymous passbook savings accounts. A July 2001 Financial Action Task Force (FATF) evaluation concluded that "the Slovak Republic has a well functioning system to combat money laundering with enacted legislation and an established financial intelligence unit." However, the report also pointed out residual deficiencies in Slovakia's anti-money laundering regime such as the continued existence of anonymous bearer passbooks. Slovakia has since indicated that these passbooks are being phased out. Other deficiencies noted by FATF included the lack of institutionalized co-operation between the FIU and non-bank financial institutions supervisors; the absence of automatic reporting obligations for non-banking supervisory authorities; the need for identification requirements regarding beneficial owners; and the necessity to reconsider the term of three days within which a reporting entity should inform the financial police on an unusual business activity. Finally, the limited resources the financial police were noted as an area that needs improvement.

The financial intelligence unit (OFiS) of the Bureau of Financial Police (UFP) has jurisdictional responsibilities over money laundering violations. Established in 1996, the OFiS-UFP receives and evaluates the suspicious transaction reports, and collects additional information to establish the suspicion of money laundering. Once enough information has been obtained to warrant suspicion that a criminal offense has occurred, the OFiS-UFP forwards the case to the State Prosecutor's Office for investigation

and prosecution. Recently about seven percent (7 percent) of 1,000 suspicious transaction reports filed over a year's period triggered criminal prosecutions.

Slovakia is party to the European Convention on Mutual Legal Assistance and became a party to the Council of Europe Convention on Laundering, Search, Seizure and Confiscation of the Proceeds from Crime in 2001. Slovakia is a party to the 1988 UN Drug Convention, and has signed but not yet ratified the UN Convention against Transnational Organized Crime. Slovakia became a member of the Organization for Economic Cooperation and Development (OECD) in December 2000, which will expand opportunities for multilateral engagement on combating money laundering. Slovakia is a member of the Council of Europe (COE) and participates in the Council of Europe's Select Committee of Experts on the Evaluation of Anti-Money Laundering Measures (PC-R-EV). Slovakia underwent a mutual evaluation by this group in 1998 and has been implementing changes to its money laundering regime based on the report's recommendations.

The OFiS-UFP is a member of the Egmont Group. Slovakia has an MOU with the financial intelligence units of Slovenia and Belgium. The OFiS-UFP is the responsible authority for international exchange of information regarding money laundering under the Council of Europe Convention on Laundering, Search, Seizure and Confiscation of the Proceeds from Crime.

On January 26, 2001 Slovakia signed the International Convention on the Suppression of Financing Terrorism. Appropriate ministries have been directed to incorporate all requirements pursuant to the convention in the Slovak penal code and criminal legislation by year's end. The Convention is expected to be ratified during the first half of 2002.

Slovakia continues to improve its anti-money laundering legislation. Continued implementation of the provisions of Slovakia's newly passed anti-money laundering legislation will give the Slovak financial system greater protection by helping it prevent and detect money laundering in all financial sectors.

**Slovenia.** Slovenia's economic stability and location on the Balkan drug route offer attractive opportunities for money laundering. Major sources of illegal proceeds are auto theft, narcotics-trafficking, fraud, tax evasion, and alien smuggling. Organized crime activity is increasing. Money laundering occurs through the banking system, currency exchange houses, casinos, real estate transactions, and the physical transport of currency across borders.

Slovenia has a financial intelligence unit, the Office for Money Laundering Prevention (OMLP), which is a member of the Egmont Group.

Slovenia's 1994 Law on Prevention of Money Laundering criminalized money laundering. It requires all financial institutions, casinos, and legal and natural persons to report suspicious transactions and currency transactions above U.S. \$22,000. Records must be retained for a minimum of five years.

In October 2001, the Slovenian Parliament passed an anti-money laundering law that, among other provisions, expanded the OMLP's sources of available financial information and extended OMLP's authority to temporarily halt suspect transactions.

Slovenia is a member of the Council of Europe's Select Committee of Experts on the Evaluation of Anti-Money Laundering Measures (PC-R-EV) and has undergone a mutual evaluation by the Committee. Slovenia is a party to the 1988 UN Drug Convention and has signed but not yet ratified the United Nations Convention against Transnational Organized Crime.

**Solomon Islands.** The Solomon Islands has no significant exposure to money laundering or other financial crime. The Islands' banking system is small. The country has not criminalized money laundering.

The Solomon Islands is not a party to the 1988 UN Drug Convention.

**South Africa.** South Africa's position as the major financial center in the region and its relatively sophisticated and unprotected banking and financial sector make that nation a very attractive target for transnational criminal syndicates. The Russian Mafia, Chinese Triads, and Nigerian drug traffickers have

## Money Laundering and Financial Crimes

---

been identified in South Africa, along with native South African criminal groups. Diamonds and weapons smuggling, trade in endangered species, narcotics-trafficking, and money laundering are major criminal activities challenging local law enforcement. Reportedly, between \$2 and \$8 Billion U.S. dollars are laundered through South African institutions every year.

The Proceeds of Crime Act, No. 76 of 1996, criminalized money laundering for all serious crimes. This Act was superseded by the Prevention of Organized Crime Act, No 121 of 1998 (POCA), which also criminalizes money laundering, mandates the reporting of suspicious transactions, and provides a “safe harbor” for good faith compliance. Subsequent regulations directed that these reports be sent to the Commercial Crime Unit of the South African Police Service. Both of these Acts contain criminal and civil forfeiture provisions. However, South Africa has yet to successfully implement this legislation.

In November 2001, The National Council of Provinces, the upper chamber of parliament, passed the Financial Intelligence Center Bill (FICB). The FICB provides for the establishment and staffing of a Financial Intelligence Center (FIC) that would coordinate policy and efforts to counter money laundering activities and act as a centralized repository of information. The FICB creates new legal categories of accountable and reporting institutions—that is companies and businesses considered particularly vulnerable to money laundering activities—such as banks, life insurance companies, foreign exchange dealers, casinos and estate agents. FICB requires these institutions to report suspicious transactions, identify customers, maintain records of transactions for at least five years, and appoint compliance officers to train employees to comply with the law. Suspicious transactions are to be reported to the FIC. If it has reasonable grounds to suspect that a transaction involves the proceeds of criminal activities, the FIC will forward this information to the investigative and prosecutorial authorities.

The FICB also establishes a Money Laundering Advisory Council to advise the Minister of Finance on policies and measures to combat money laundering. Regulations to implement the FICB are being drafted. Reportedly the first phase of implementation will begin in June 2002 when banks will be required to know their clients and start reporting suspicious and unusual transactions. Plans are to have the FIC operational by the spring of 2002.

South Africa is a party to the 1988 UN Drug Convention and the UN Convention against Transnational Organized Crime. The U.S. and South Africa have concluded a bilateral extradition treaty and a Mutual Legal Assistance Treaty, both of which entered into force on June 25, 2001. South Africa has not yet signed the Memorandum of Understanding with the Eastern and Southern Africa Anti-Money Laundering Group (ESAAMLG). Enactment and implementation of the newly enacted legislation will significantly strengthen South Africa’s anti-money laundering regime and help protect South Africa’s banking sector from abuse by criminals and criminal organizations.

**Spain.** Money laundering in Spain derives primarily from the proceeds of the cocaine trade, and there is also a significant black market for smuggled goods. The laundering occurs primarily in the financial system although there are indications money is also laundered through the real estate sector. Drug traffickers continue to resort to courier networks to remit large amounts of bulk cash to South America and the Middle East.

The Government of Spain (GOS) remains committed to combat drug trafficking, terrorism and financial crimes. Its 1993 Anti-Money Laundering Law (No. 19) and corresponding 1995 regulations cover laundering linked to illicit drugs, terrorism, and organized crime. The law and regulations require the financial sector to identify customers, keep records of transactions, and report suspicious financial transactions. The law established the Commission for the Prevention of Money Laundering and Monetary Offenses to coordinate the government’s anti-money laundering efforts and carry out regulatory and training functions for the financial sector. The financial sector includes banks, mutual savings associations, insurers, financial advisers, postal services, currency exchange outlets, and casinos.

The Executive Service of the Commission for the Prevention of Money Laundering (SEPBLAC) serves as Spain’s financial intelligence unit. SEPBLAC receives and analyzes the reports of suspicious financial

transactions and forwards those, which may indicate money laundering activity to law enforcement agencies.

Under Spain's 2000-2008 National Drug Strategy, the government targets money laundering and illicit commerce in chemical precursors and allows for increased counternarcotics and anti-money laundering cooperation with other countries. It also established regional police units in zones with high intensity organized crime activity.

Spain is a member of the FATF, an observer member of the South American Financial Action Task Force (GAFISUD), and a cooperating/supporting member of the Caribbean Financial Action Task Force (CFATF). It is a party to the 1988 UN Drug Convention and has signed but not yet ratified the 2000 UN Convention against Transnational Organized Crime. SEPBLAC is a member of the Egmont Group of FIUs.

Spain has signed criminal legal assistance agreements with Argentina, Australia, Canada, Chile, the Dominican Republic, Mexico, Morocco, Uruguay, and the United States. Spain's Mutual Legal Assistance Treaty with the U.S. has been in effect since 1993. Spain also has entered into bilateral agreements for cooperation and information exchange in money laundering issues with Bolivia, Chile, El Salvador, France, Israel, Italy, Malta, Mexico, Panama, Portugal, Russia, Turkey, Venezuela, Uruguay, and the United States.

The Government of Spain should continue its strong enforcement of its anti-money laundering program and leadership in the international arena. It should consider if additional measures are required to address possible money laundering in the stock market to ensure that the sector is not used for financial crimes.

**Sri Lanka.** Sri Lanka is not considered to be a money laundering center or important financial center in the region. Sri Lanka maintains strict currency controls that inhibit money laundering activity.

Sri Lanka's Bank Secrecy Act makes financial transactions relating to narcotics-trafficking illegal. Sri Lanka has drafted an anti-money laundering bill that contains know your customer provisions and would hold bank directors liable if their institutions are used for money laundering. This legislation has not yet been presented to Parliament.

Sri Lanka is a party to the 1988 UN Drug Convention and has signed but not yet ratified the United Nations Convention against Transnational Organized Crime. Sri Lanka is a member of the Asia/Pacific Group on Money Laundering (APG).

**St. Kitts and Nevis.** St. Kitts and Nevis continues to be listed by the Financial Action Task Force (the FATF) as a non-cooperative country or territory (NCCT). In addition, the advisory issued by the U.S. Department of the Treasury relating to transactions with St. Kitts and Nevis remains in effect. However, St. Kitts and Nevis recently enacted legislation addressing many of the concerns noted by both the FATF and the U.S. Department of the Treasury.

St. Kitts and Nevis is a federation composed of two islands located in the eastern Caribbean Sea. It is at major risk for corruption and money laundering due to the high volume of drug trafficking activity through and around the islands, the presence of known traffickers on the islands, an improperly regulated economic citizenship program and offshore services that protect client secrecy. Most of the financial activity in the federation is concentrated in Nevis, whose economy has become increasingly dependent upon the fees generated by the registration of offshore entities. Nevis offshore sector has one offshore bank, approximately 22,000 international business companies, and 3,000 trusts. The Eastern Caribbean Central Bank now has direct responsibility for supervising the offshore bank in Nevis and for making recommendations regarding approval of offshore bank licenses.

In June 2000, FATF identified St. Kitts and Nevis as non-cooperative in international efforts to fight money laundering. The FATF in its report cited several concerns surrounding the anti-money laundering regime of St. Kitts and Nevis. Among the problems identified by FATF were the narrow definition of money laundering as a punishable offense, the absence of mandatory suspicious transaction reporting, and

## Money Laundering and Financial Crimes

---

the lack of effective supervision of the Nevis offshore sector. In July 2000, the U.S. Treasury Department issued an advisory to U.S. financial institutions, warning them to give enhanced scrutiny to all financial transactions originating in or routed to or through the Federation of St. Kitts and Nevis, or involving entities organized or domiciled, or persons maintaining accounts, in St. Kitts and Nevis.

St. Kitts and Nevis has taken some steps to address the deficiencies in its counter-money laundering regime. For example, the Proceeds of Crime Act No. 16 of 2000 criminalizes money laundering from serious offenses (defined to include more than drug offenses) and imposes penalties ranging from imprisonment to monetary fines. The Act also overrides secrecy provisions, which may have constituted obstacles to access information with respect to account holders or beneficial owners on the part of administrative and judicial authorities. In addition, the Financial Intelligence Unit Act of 2000 authorizes the creation of a financial intelligence unit (FIU). The FIU formed in 2001 and has a director, deputy director, two legal representatives, and five police officers.

In 2001, St. Kitts and Nevis continued to enact measures designed to remedy shortcomings in its counter-money laundering regime. For example, St. Kitts and Nevis issued regulations that require financial institutions to identify their customers, to maintain a record of transactions, to report suspicious transactions, and to establish anti-money laundering training programs. St. Kitts and Nevis also enacted legislation requiring that certain identifying information be maintained about bearer certificates, including the name and address of the bearer of the certificate, as well as its beneficial owner. In addition to these measures, Nevis issued regulations aimed at facilitating the identification of beneficial owners of corporations and corporate shareholders.

St. Kitts and Nevis is a member of the Caribbean Financial Action Task Force and the Organization of American States Inter-American Drug Abuse Control Commission (OASCIAD) Experts Group to Control Money Laundering. A mutual legal assistance treaty between St. Kitts and Nevis and the United States entered into force in early 2000. St. Kitts and Nevis is a party to the 1988 UN Drug Convention and in November 2001 signed the UN Convention against Transnational Organized Crime.

Notwithstanding its recent progress, St. Kitts and Nevis remains a jurisdiction of concern with respect to money laundering. It is not clear whether St. Kitts and Nevis is devoting enough resources to effectively implement its new counter-money laundering regime. Moreover, it remains to be seen whether Nevis can effectively supervise its offshore sector. St. Kitts and Nevis need to take those steps necessary to effectively implement its new counter-money laundering laws. Such effective implementation would bring St. Kitts and Nevis's anti-money laundering regime into compliance with international standards.

**St. Lucia.** St. Lucia is not a major financial center; however, it has developed an offshore financial services center that could make the island more vulnerable to money laundering and other financial crimes.

The Government of St. Lucia (GOSL) established the Committee on Financial Services in 2001. The Committee, which meets monthly, is designed to safeguard St. Lucia's financial services sector. The Committee is composed of the Minister of Finance, the Attorney General, the Solicitor General, the Director of Public Prosecutions, the Director of Financial Services, the Registrar of Business Companies, the Commissioner of Police, the Deputy Permanent Secretary of the Ministry of Commerce, the police officer in charge of Special Branch, the Comptroller of Inland Revenue, and others.

The GOSL is also developing a financial intelligence unit, which it expects will become operational in 2002. It is also drafting legislation to include a new Criminal Code and Evidence Act.

The 1993 Proceeds of Crime Act criminalized money laundering in relation to narcotics. The Act also provided for a voluntary system of reporting account information to the police or prosecutor when such information may be relevant to an investigation or prosecution. In addition, the Act required financial institutions to retain information on new accounts and details of transactions for seven years. Many of the 1993 Act provisions were superseded by the 1999 Money Laundering (Prevention) Act, which criminalizes the laundering of proceeds relating to 15 prescribed offenses, including drug trafficking, corruption, fraud,

terrorism, gambling, and robbery. The Money Laundering (Prevention) Act mandates suspicious transaction reporting requirements, and imposes record keeping requirements.

In addition, the Money Laundering (Prevention) Act imposes a duty on financial institutions to take “reasonable measures” to establish the identity of customers, and requires accounts to be maintained in the true name of the holder. The Act also now requires an institution to take reasonable measures to identify the underlying beneficial owner when an agent, trustee, or nominee operates an account. These obligations apply to domestic and offshore financial institutions, including credit unions, trust companies, and insurance companies. In April 2000, the Financial Services Supervision Unit issued detailed guidance notes, entitled “Minimum Due Diligence Checks, to be conducted by Registered Agents and Trustees.”

Pursuant to the Act, the Money Laundering (Prevention) Authority was established in early 2000. The Authority consists of five persons “who have sound knowledge of the law, banking or finance.” The Authority’s functions include receipt of suspicious transactions reports, subsequent investigation of the transactions, dissemination of information within or outside of St. Lucia, and monitoring of compliance with the law. The Money Laundering (Prevention) Act imposes a duty on the Authority to cooperate with foreign competent authorities. Assistance includes the provision of documents, giving of testimony, undertaking of examinations, execution of search and seizure, and the provision of information and evidential items.

In 1999, the GOSL also enacted a comprehensive inventory of offshore legislation, consisting of the International Business Companies (IBC) Act, the Registered Agent and Trustee Licensing Act, the International Trusts Act, the International Insurance Act, the Mutual Funds Act, and the International Banks Act. The sector has one offshore bank, three insurance companies, and approximately 100 international business corporations (IBC).

The IBC Act does not provide for a licensing regime, but allows for a simple registration process, which is automatic upon submission of the correct documents. IBCs intending to engage in banking, insurance, or mutual funds business may not be registered without the approval of the Minister. An IBC may be struck off the register on the grounds of carrying on business against the public interest.

As a member of the Caribbean Financial Action Task Force (CFATF), St. Lucia underwent a first mutual evaluation in compliance with CFATF requirements. The report on the evaluation, which preceded the establishment of St. Lucia’s offshore sector, was reviewed at the July 1999 CFATF Plenary.

St. Lucia is a party to the 1988 UN Drug Convention and a member of the Organization of American States Inter-American Drug Abuse Control Commission (OAS/CICAD) Experts Group to Control Money Laundering. In February 2000, by an exchange of instruments of ratification, St. Lucia and the U.S. brought into force a Mutual Legal Assistance Treaty and an extradition treaty. St. Lucia signed the UN Convention against Transnational Organized Crime on November 20, 2001.

The GOSL should continue to enhance and implement money laundering legislation and increase supervision of the offshore sector. The GOSL needs to fully establish the financial intelligence unit to allow information exchange with foreign authorities.

**St. Vincent and the Grenadines.** St. Vincent and the Grenadines’ (SVG) vulnerability to money laundering stems from a rapid expansion and inadequate regulation of its offshore sector, deficient anti-money laundering regime, and strict secrecy laws. SVG is a transshipment point for cocaine, and marijuana production plays an important role in the local economy. However, the volume of drug production does not reach the major-producer threshold nor do they significantly affect the United States. In December 2001 SVG enacted several laws that, when fully implemented, will significantly improve the jurisdiction’s ability to detect, investigate, and prosecute financial crimes.

SVG’s offshore sector includes approximately 33 offshore banks, 10,135 international business companies (IBCs), 2 offshore insurance companies, 4 mutual funds trusts, international shipping companies, and Internet gaming licenses. IBCs may register on-line, issue bearer shares, and take advantage of pre-named “shelf-companies” that disguise the true dates of incorporation.

## Money Laundering and Financial Crimes

---

The Eastern Caribbean Central Bank (ECCB) supervises SVG's five domestic banks. SVG's Offshore Finance Authority (OFA) licenses, regulates, and supervises SVG's other offshore sector entities; however, its staff of 12 exercises only rudimentary controls over these institutions. The OFA is also engaged in marketing the offshore sector, thereby creating a conflict of interest. In October 2001, the OFA entered into an administrative agreement with the ECCB authorizing the ECCB to review and make recommendations regarding approval of offshore bank license applications and to directly supervise SVG's offshore banks in cooperation with the OFA. The agreement includes provisions for joint on-site inspections to evaluate the financial soundness of offshore banks. While cooperation has been launched in certain areas, the agreement will not take full effect until early 2002.

The Proceeds of Crime Act (PCA) 1997 criminalizes money laundering related to the proceeds of crime and organized fraud. However, the Act's definition of "proceeds of crime" is not clear. The PCA requires financial institutions to maintain records related to the opening and closing of accounts and transactions that exceed Eastern Caribbean \$5,000 (approximately U.S. \$1,800) for a minimum of seven years. As originally enacted, the PCA also authorized financial institutions to voluntarily report transactions to a police officer or the Director of Public Prosecutions if the institution had reasonable grounds to believe that the transaction involved the proceeds of crime.

According to SVG authorities, the Proceeds of Crime (Amendment) Act 1999 makes this reporting system mandatory, and requires financial institutions to report currency transactions that exceed U.S. \$10,000 to the Anti-Money Laundering Committee (AMLC). The AMLC is comprised of representatives from law enforcement, Customs, and the Offshore Finance Authority, and is tasked with reviewing reports from financial institutions and recommending further investigation if necessary. To date, the AMLC has not met.

In June 2000, the Financial Action Task Force (FATF) identified SVG as non-cooperative in international efforts to fight money laundering. The FATF in its report cited several concerns, including the fact that SVG had not put into place anti-money laundering regulations or guidelines with respect to offshore financial institutions including customer identification, record-keeping, or suspicious transaction reporting requirements. FATF also cited obstacles to international cooperation and rudimentary licensing and registration requirements for financial institutions in SVG. In July 2000, the U.S. Treasury Department issued an advisory to U.S. financial institutions, warning them to give enhanced scrutiny to all financial transactions originating in or routed to or through SVG, or involving entities organized or domiciled, or persons maintaining accounts, in SVG.

Since July 2000, SVG has acted on a number of fronts to address the concerns of the international community. In July 2000, SVG revoked the licenses of six offshore banks for non-compliance with certain provisions of the Offshore Banking Act (OBA), such as refusal to make quarterly statements of accounts and submit audited financial statements. In August 2000, SVG amended the International Banks Act (IBA) to increase the OFA's oversight of offshore banks, and amended the Confidential Relationships Preservation Act to allow the offshore finance inspector greater access to banking information. However, there continue to be significant restrictions on the sharing of such information with international authorities. In October 2000, SVG again amended the IBA to allow the Offshore Finance Inspector access to the name or title of an account of a customer and any other confidential information about the customer that is in the possession of a license.

In April 2001 SVG revoked its economic citizenship program, which provided the legal basis to sell SVG citizenship and passports; however, no passports had been issued. SVG also began appointing five new members to the OFA board, including a new interim chairman and individuals to regulate offshore insurance and mutual funds. In late June 2001, SVG regulators closed down two more offshore banks reported to be under investigation by U.S. authorities. SVG authorities also reported on efforts to establish a financial intelligence unit. In addition, the International Trust Act continues to restrict recognition of foreign judgments against asset protection trusts established in SVG.

In June 2001, FATF determined that although SVG had taken steps to remedy deficiencies in its anti-money laundering regime, SVG had made insufficient progress to warrant removing it from FATF's list of non-cooperative countries in the international fight against money laundering.

Reportedly, in December 2001, SVG took more comprehensive steps by enacting two major pieces of legislation—the Proceeds of Crime and Money Laundering Prevention Act (PCMLPA) 2001, and the Financial Intelligence Unit (FIU) Act 2001. According to SVG officials, the PCMLPA and FIU Act address many of the concerns noted by the international community with respect to anti-money laundering controls in SVG.

SVG is a member of the Caribbean Financial Action Task Force (CFATF) and has undergone a mutual evaluation by that body. In addition, SVG is a member of the Organization of American States Inter-American Drug Abuse Control Commission Experts Group to Control Money Laundering. SVG is a party to the 1988 UN Drug Convention and acceded to the Inter-American Convention Against Corruption in May 2001. An updated extradition treaty and a Mutual Legal Assistance Treaty between the United States and SVG entered into force in September 1999.

SVG should address concerns raised by the international community concerning the remaining deficiencies in SVG's anti-money laundering regime. SVG should work to make the FIU fully operational. SVG also should ensure that it properly supervises the offshore sector and adequately trains regulatory and law enforcement personnel on money laundering operations and investigations.

**Suriname.** Suriname is not a regional financial center. Narcotics-related money laundering is believed to occur through the non-banking financial system and other means, primarily through the sale of gold purchased with illicit funds and manipulation of commercial and state controlled bank accounts. Casinos and cambios may also be used to facilitate money laundering. Suriname's overall anti-money laundering regime is considered weak.

Suriname enacted new counternarcotics legislation in 1999, which provides for greater police investigative and property seizure powers. Suriname is a member of the Caribbean Financial Action Task Force (CFATF), which conducted a mutual evaluation of Suriname's anti-money laundering regime in 2000. The CFATF is currently assisting Suriname in drafting anti-money laundering legislation.

Suriname is a party to the 1988 UN Drug Convention, and is a member of the Organization of American States Inter-American Drug Abuse Control Commission (OAS/CICAD) Experts Group to Control Money Laundering.

Suriname should make enactment of anti-money laundering legislation a priority in order to establish a viable anti-money laundering regime.

**Swaziland.** Swaziland is a growing regional financial center. International drug trafficking continues to grow in Swaziland, increasing the threat of money laundering. Swaziland's proximity to South Africa, lack of effective counternarcotics legislation; limited enforcement resources; a relatively open society; and a developed economic infrastructure contribute towards making Swaziland attractive for trafficking organizations and increases the risk for money laundering.

In November 2001, King Mswati III gave his assent to the Money Laundering Act of 2001, which addressed deficiencies in the 1929 narcotics law. The Money Laundering Act states that it is a criminal offense to commit or conspire to commit money laundering related to narcotics-trafficking and other serious crimes, outlines penalties for money laundering and conspiracy, designates the Central Bank of Swaziland as the supervisory authority, establishes a currency reporting requirement, requires banks to report suspicious transactions to the Central Bank, provides conditions when assets may be frozen and forfeited, and addresses international cooperation in money laundering investigations. The Act stipulates that terrorism, arms trafficking, and kidnapping, among other crimes are predicate offenses for money laundering. The penalty for money laundering is six years imprisonment, a fine amounting to roughly \$2,500, or both. The Act also allows for providing assistance to foreign countries that have entered into mutual assistance treaties with the Government of Swaziland.

# Money Laundering and Financial Crimes

---

Swaziland has an extradition treaty with South Africa, as well as a protocol and mutual understanding on narcotics with Commonwealth Countries.

Swaziland is party to the 1988 UN Drug Convention and has signed but not yet ratified the United Nations Convention against Transnational Organized Crime. In 2001, Swaziland signed the Memorandum of Understanding of the newly formed Eastern and Southern Africa Anti-Money Laundering Group (ESAAMLG), a FATF-style regional body, and actively participates in ESAAMLG's deliberations and working groups.

**Sweden.** Sweden does not appear to have a significant money laundering problem. In 1999, Swedish anti-money laundering legislation was amended to include all serious crimes. Previously, money launderers were usually prosecuted for a receiving offense, such as receiving stolen goods. This tightening up of existing money laundering control was intended to allow Sweden to fulfill the recommendations of the Hague Forfeiture Convention.

Swedish law requires financial institutions, insurance companies, and currency exchange houses to verify customer identification, inquire into a transaction's background, and verify identities for each transaction, particularly in the case of new customers involving amounts above SEK 110,000 (U.S. \$ 10,450). As of January 2001, these requirements applied to money transfer companies as well. Any suspicious transactions are required to be reported to the police financial intelligence unit (FIU). The law was changed in 1999 so that non-complying institutions would be sanctioned, rather than individual officers. Since 1999, the FIU has been entitled to demand customer information from dealers in antiques, jewelry, and art; companies buying and selling new and used vehicles; and firms dealing with gambling and sale of lottery tickets. Swedish law also provides for the seizure of assets derived from drug-related activity.

In 2001 the FIU received 4,163 suspicious transaction reports, a sixty-three percent increase from 2000.

Sweden has endorsed the September 1997 Basel Committee "Core Principles for Effective Banking Supervision." Sweden is a member of the Financial Action Task Force and the Council of Europe. Its FIU is a member of the Egmont Group. Sweden is a party to the 1988 UN Drug Convention and has signed but not yet ratified the United Nations Convention against Transnational Organized Crime. It is also a party to the Council of Europe Convention on Laundering, Search, Seizure and Confiscation of the Proceeds from Crime.

**Switzerland.** Switzerland's central geographic location, relative political, social and monetary stability, wide range of available financial services, and a long tradition of bank secrecy are all factors that make Switzerland a major international financial center. These same factors make Switzerland attractive to potential money launderers. However, Swiss authorities waive bank secrecy rules in the prosecution of money laundering and other criminal cases.

Reporting indicates that criminals attempt to launder proceeds in Switzerland from a wide range of illegal activities conducted worldwide, particularly narcotics-trafficking and corruption. Although both Swiss and foreign individuals or entities conduct money laundering activities in Switzerland, narcotics-related money laundering operations are largely controlled by foreign drug-trafficking organizations. For example, in June 2001 Swiss police arrested five ethnic Albanians on money laundering charges after discovering that their Lausanne travel agency was a front for moving drug money to southeastern Europe. Senior Swiss officials confirmed that some of the money generated by Albanian drug-trafficking rings in Switzerland was going to armed Albanian extremists in the region.

Article 305bis of the Swiss Penal Code criminalizes money laundering. Articles 58 and 305ter of the Swiss Penal Code CFB (Swiss Federal Banking Commission) Directive 98/1 of 1/17/98, and the Agreement on the Banks' Obligation of Due Diligence also address money laundering. Switzerland has also implemented legislation for identifying, tracing, freezing, seizing and forfeiting narcotics-related assets.

On April 1, 1998, Switzerland enacted the October 10, 1997 Money Laundering Act (MLA), which extended money laundering regulations to non-bank financial institutions. The MLA mandated that all financial intermediaries join an accredited self-regulating body (SRB), or apply by April 1, 2000 for direct

supervision under the Money Laundering Financial Control Authority (MLCA) of the Federal Finance Administration. The SRBs must be independent of the management of the intermediaries they supervise and enforce compliance with due diligence obligations. Non-compliance can result in a fine or a revoked license. Between 12,000-15,000 fiduciaries operate in this previously unregulated arena. Key non-bank intermediaries have failed to comply with the law. Some are challenging the law in court, while others are lobbying to have it weakened. Attorneys in the finance department ruled against prosecution of two precedent cases of non-compliance referred by the MLCA.

On December 22, 1999, Parliament passed the Efficiency Bill in an attempt to make the prosecution of organized crime, money laundering, corruption and other white-collar crime more effective. The Bill increased personnel and financing of the criminal police section of the Federal police office. The Bill gave the Federal police and Attorney General's Office the authority to handle cases that are international in scope, that involve several cantons, or that deal with money laundering, organized crime, corruption or white-collar crime. The law became effective on January 1, 2002.

The Money Laundering Reporting Office Switzerland (MROS) is Switzerland's financial intelligence unit, and is a member of the Egmont Group. All financial intermediaries (banks, insurers, fund managers, currency exchange houses, securities brokers, etc.) are legally obliged to establish customer identity when forming a business relationship. They also must notify the MROS, or a government authorized supervisory body, if a transaction appears suspicious. If financial institutions determine that assets were derived from criminal activity, the assets must be frozen immediately until a prosecutor decides on further action.

In October 2000, eleven international private banks, including the UBS and Credit Suisse Group, agreed to voluntary anti-money laundering guidelines (known as the Wolfsberg Anti-Money Laundering Principles) for private banking developed in collaboration with the NGO Transparency International. A recent anticorruption law makes bribery of foreign officials a predicate offense for money laundering.

Switzerland's banking industry offers the same account services for both residents and non-residents alike. These can be opened through various intermediaries who advertise their services. As part of Switzerland's international financial services, banks offer certain well-regulated offshore services, including permitting non-residents to form offshore companies to conduct business, which can be used for tax reduction purposes.

The Swiss Commercial Law does not recognize any offshore mechanism per se and its provisions apply equally to residents and non-residents. The stock company and the limited liability company are two standard forms of incorporation offered by Swiss Commercial Law. The financial intermediary is required to verify the identity of the beneficial owner of the stock company. The financial intermediaries must also be informed of any change regarding the beneficial owner. The stock company requires that U.S. \$64,000 of share capital be deposited prior to formation of the company. From this capital, bearer shares may be issued. The Limited Liability Company requires share capital of U.S. \$12,800 to be on deposit before the company can be formed. This type of company cannot issue bearer shares; the identity of the beneficial owner must be disclosed and is listed in the commercial register.

Switzerland cooperates with the U.S. to trace and seize assets, and has shared a large amount of funds seized with the USG and other governments. The Government of Switzerland has worked closely with the USG on numerous money laundering cases. The banking community cooperates with enforcement efforts. In addition, new legislation permits "spontaneous transmittal"—allowing the Swiss investigating magistrate to signal to foreign law enforcement authorities the existence of evidence in Switzerland. For example, the Swiss used this provision to signal to Peru regarding accounts linked to former Peruvian presidential advisor Vladimiro Montesinos.

Since September 11, 2001, Swiss authorities have been alerting Swiss banks and non-bank financial intermediaries to check their records and accounts against lists of persons and entities with links to terrorism. The accounts of these individuals and entities are to be reported to the Ministry of Justice as

## Money Laundering and Financial Crimes

---

suspicious transactions. Based on the “State Security” clause of the Swiss constitution, the authorities have ordered banks to freeze assets of firms and individuals included in the UN Security Council’s sanctions list of terrorist groups or supporters. As of mid-December 2001, the Swiss government had blocked thirty accounts, with a U.S. dollar total of \$20 million, from individuals and companies linked to international terrorism.

In December 2000, Switzerland signed the UN Convention Against Transnational Organized Crime. Switzerland has a Mutual Legal Assistance Treaty in place with the U.S. Switzerland has ratified the Council of Europe Convention on the Laundering, Search, Seizure and Confiscation of Proceeds from Crime of 1990 and is a member of the Financial Action Task Force. To date, Switzerland has not ratified the 1988 UN Drug Convention.

The GOS needs to resolve the problem of non-compliance with its MLA, on the part of the non-bank financial intermediaries, in order to more fully implement its anti-money laundering legislation.

**Taiwan.** Taiwan’s location in Asia and its sizable shipping industry make it a crossroads for commerce throughout the Asia-Pacific region. The involvement of Taiwan-based organized crime groups in international narcotics-trafficking exposes Taiwan’s financial institutions to the associated threat of money laundering. Criminal proceeds derived from domestic financial crime and corruption as well as from foreign sources are laundered through Taiwan’s financial system.

An alarming trend identified by Taiwanese authorities is the increasing use of the stock market for money laundering. According to statistics published by Taiwan’s financial intelligence unit (FIU), the Money Laundering Prevention Center (MLPC), 40 percent of money laundering cases prosecuted in Taiwan occurred through securities companies. In 50 percent of money laundering cases, criminal proceeds were transferred abroad. The U.S., Thailand, Hong Kong, and the People’s Republic of China were the primary destinations for laundered proceeds, respectively.

Taiwan’s Money Laundering Control Act (MLCA) of April 1997 criminalized money laundering for a wide variety of crimes, referencing specific predicate offenses. However, some concern has arisen because tax evasion and gaming were not among the predicate offenses referenced. The MLCA for the most part meets international standards for money laundering. However, Taiwan continues to consider various possible amendments to improve the effectiveness of the law. Currently, financial institutions are not prohibited from informing their clients about the reporting of client suspicious transactions to the MLPC. Discussions continue within the Taiwanese agencies to amend the MLCA to prohibit client notification of suspicious transactions. Another proposed amendment under consideration would require a number of non-bank financial institutions with known money laundering activity to report suspicious transactions to the MLPC. These include pawnshops, travel bureaus, antique dealers, auto dealers, and real estate businesses. Since becoming operational in April 1997, the MLCA has processed 436 Suspicious Activity Reports (SARs) in 1997; 1,218 in 1998; 1,199 in 1999; 553 in 2000; and 503 in 2001. Taiwan has successfully prosecuted several money laundering cases based on SARs. Currently, there are over 280 cases under investigation stemming from those suspicious transaction reports filed.

All financial institutions have an electronic system in place to identify transactions that exceed the reporting threshold. The present threshold amount for significant transaction amounts is NT\$ 1.5 million (U.S. \$ 43,600). There are 3000 transactions per day of NT\$1.5 million or more and 5000 per day of NT\$1 million or more.

Customer identification, including safe deposits, is verified through an ID card or a passport. Due to the use of false identity cards, the GOP set up a central database of lost and stolen ID cards, which financial institutions can access and use to verify the identification of potential customers.

Although Taiwan cannot be a party to the 1988 UN Drug Convention because it is not a UN member, the authorities on Taiwan have passed and implemented laws in compliance with the goals and objectives of the Convention. Taiwan is a founding member of the Asia/Pacific Group on Money Laundering and actively participates in the Group’s meetings. The MLPC is a member of the Egmont Group. The

successful prosecutions of money launderers based on SAR reporting attest to the effectiveness of Taiwan's anti-money laundering regime. Taiwan should act on the proposed amendments to the MLCA, especially in the areas of client non-disclosure of suspicious transaction reporting. These measures will enhance the progress Taiwan has made thus far in combating money laundering.

**Tajikistan.** Tajikistan is not a financial center, and its underdeveloped banking sector may keep it from being attractive for money laundering in the near future. However, with average monthly income in the country remaining at less than ten U.S. dollars, the temptation to become involved in narcotics-related transactions remains high for many segments of the society. Tajikistan has not criminalized money laundering.

Tajik authorities have been cooperative with U.S. efforts to trace and halt terrorist-related funds.

Tajikistan is a party to the 1988 UN Drug Convention and has signed but not yet ratified the United Nations Convention against Transnational Organized Crime.

**Tanzania.** Tanzania is not a regional financial center. Police and government officials confirm that Tanzania is vulnerable to money laundering. However, a very weak financial sector and an under-trained, under-funded law enforcement apparatus make such crimes difficult to track and prosecute. Officials believe that real estate and used cars are areas where money laundering is present. Government officials have also cited drug trafficking and the emerging casino industry as areas of concern for money laundering. The prevalence of hawala on the unregulated island of Zanzibar is also a potential area of concern. However, to date there have been no prosecutions for money laundering.

The Proceeds of Crime Act of 1991 criminalizes drug-related money laundering. However, the Act does not adequately define money laundering. The law obliges financial institutions to maintain records of transactions exceeding 10,000 shillings (approximately U.S. \$10.50) for a period of 10 years. If the institution has reasonable grounds to believe that a transaction relates to money laundering, it may communicate this information to the police for investigation, although such reporting is not required. A "safe harbor" provision protects such disclosure. There have been no prosecutions of money laundering cases not related to other violations of the law, and authorities lack the ability to seize assets in money laundering cases. The government is in the early stages of setting up a financial intelligence unit.

Tanzania is a party to the 1988 UN Drug Convention. Tanzania hosts the Secretariat of the East and Southern Africa Anti-Money Laundering Group (ESAAMLG), which was founded in 1999. The Government of Tanzania played a leading role in the creation of this FATF-style regional body, and served as the Chairman of the Interim Ministerial Council until August 2001. In addition to hosting the Secretariat of ESAAMLG, the GOT has seconded a government official to assist in the Secretariat's development. Tanzania has signed but not yet ratified the UN Convention against Transnational Organized Crime.

The GOT should enact money laundering legislation that is prosecutable and also provides for an accompanying asset forfeiture provision allowing government authorities to seize the assets of drug traffickers and money laundering criminal organizations.

**Thailand.** Thailand's location makes it a major risk for money laundering, as it is a transit country for Southeast Asian narcotics. Northern Thailand forms part of the Golden Triangle with Burma and Laos. Although Thailand has taken significant steps towards reducing the production of illicit narcotics, it still serves as a major narcotics-trafficking route for the Golden Triangle, because of its good transportation infrastructure and international connections. Thailand's banking system is used by drug traffickers to hide and move their proceeds. The underground banking system is also widely in use as a money laundering method. Money is transported in bulk from the United States to other Asian countries, and ultimately moved to Thailand. Gambling dens and underground lotteries account for a significant portion of Thailand's underground economy and remain attractive mechanisms for money laundering.

Thailand's anti-money laundering legislation, the Money Laundering Control Act B.E. 2542 (1999), came into effect in August 1999 and was implemented in October 2000. The Act criminalized money laundering

## Money Laundering and Financial Crimes

---

for the following predicate offenses: narcotics-trafficking, prostitution, pandering, arms trafficking, financial institution fraud, embezzlement, public corruption, smuggling, and other customs violations, extortion, and blackmail. Provisions of the Money Laundering Control Act require customer identification, record keeping, and the reporting of large and suspicious transactions. Reporting requirements for most financial transactions (including purchases of securities and insurance) exceeding 2 million baht (roughly \$50, 000) and property transactions exceeding 5 million baht (roughly \$125,000) have been in place since October 2000. The Act also created three agencies to enforce the different requirements within: the Money Laundering Control Board, the Business Transactions Committee, and the Anti-Money Laundering Office (AMLO).

The Money Laundering Control Board advises the Cabinet and formulates government policy on money laundering issues. It also monitors and evaluates the effectiveness of the Money Laundering Control Act and the performance of the Business Transactions Committee and Money Laundering Control Office.

The Business Transactions Committee executes operational aspects of the Act that address suspect transactions and the disposition of proceeds. It may audit and suspend suspect financial transactions related to money laundering for a period of up to ten days. The Committee may compel physical and juridical persons, as well as government agencies and officials, to provide oral or written testimony and documentation in money laundering investigations. It can conduct search and seizure operations for the purpose of investigating, monitoring, and freezing of assets or evidence of money laundering offenses. In addition, the committee may freeze assets related to a money laundering investigation for a period of up to ninety days if there is probable cause that the assets are perishable.

The Anti-Money Laundering Office (AMLO) is Thailand's financial intelligence unit (FIU). Financial institutions (such as banks, finance companies, insurance companies, savings cooperatives, etc.) and registration offices and persons who act as solicitors for investors are required to report significant cash, property, and suspicious transactions. It receives, analyzes, and processes suspicious and large transaction reports as required by the Act. The Business Transactions Committee tasks the AMLO with administrative functions such as collecting evidence and identifying witnesses for money laundering investigations. The Office is also tasked with providing training to the public and private sectors concerning the provisions of the Act. AMLO works with the Business Transactions Committee, which has the authority to seize suspicious money and property and pursue the forfeiture of assets through civil proceedings. AMLO has the responsibility for the custody, management, and disposal of seized property. It was during 2001 that AMLO began to function in money laundering investigations and enforcement actions.

Licenses were first granted to Thai and foreign financial institutions to establish offshore units, known as Bangkok International Banking Facilities (BIBFs) in March 1993. BIBFs may perform a number of financial and investment banking services but can only raise funds offshore (through deposits and borrowing) for onward lending into Thailand or offshore. BIBFs were listed by the United Nations Drug Control Program and by the World Bank as potentially vulnerable to money laundering activities because they serve as transit points for funds. Thailand's 44 BIBFs are now subject to the recently enacted Money Laundering Control Act. Implementation of the Act may discourage the use of BIBFs as money laundering mechanisms.

The U.S.-Thai Mutual Legal Assistance Treaty entered into force in 1993. Thailand is a member of the Asia/Pacific Group on Money Laundering (APG) and co-chairs the APG's Working Group on Alternative Remittance Systems. In December 2000, the Thailand signed the UN Convention against Transnational Organized Crime. In June 2001, Thailand became a member of the Egmont Group of Financial Intelligence Units. Thailand is not a party to the 1988 UN Vienna Convention.

The Government of Thailand should continue to implement its strong anti-money laundering program and participate in international efforts. It should also consider additional measures to address underground financial systems to further strengthen its anti-money laundering regime against crime.

**Togo.** Togo's poor infrastructure makes it an unlikely venue for money laundering. Its porous borders, however, make it a transshipment point in the regional and sub-regional trade in narcotics. The Government of Togo believes increased drug flows through Togo have led to an upsurge in violent crime in general. It is also aware that increased international trade may expand opportunities for narcotics-trafficking. Togo Customs is charged with combating the laundering of narcotics proceeds.

Togo is a regional banking center. The establishment of the ECOWAS bank sponsored by the Economic Community of West African States brought increased financial activity to the country. Togo is home to around 13 national and international banks. There has also been an increase in the amount of 419 ("advanced fee") scam letters intercepted that originates in Togo. In a typical scam letter a victim is solicited into a money laundering scheme for a percentage of the funds. Scam letters often claim to have access to millions of dollars of funds that need to be transferred out of their respective countries. The scam artist aims at gaining access to the target bank account information. The scam artist then uses this information to drain the account of funds. Some letters also try and lure the victim to the country of the scam artist's origin where they are threatened with physical harm.

Togo is home to ECOBANK, which has branches in 12 West African countries. One of the newest services is Western Union Money Transfers. If left unchecked, this has the potential to be used as a conduit for money laundering activities.

Togo's 1998 drug law penalizes drug money laundering with up to 20 years in prison. In January 2001, President Eyadema created the National Anti-Corruption Commission (NACC) to combat corruption and money laundering. In 2001 the NACC recovered more than \$1 million in embezzled and laundered funds.

Togo is a party to the 1988 UN Drug Convention and has signed, but not yet ratified, the United Nations Convention against Transnational Organized Crime. Togo is a member of the West African Economic and Monetary Union (WAEMU), and in November 2001, participated in a WAEMU meeting of officials from 14 West African countries in Senegal.

Togo should continue to monitor 419 fraud letters originating within the country. Togo should also work towards implementing legislation that criminalizes money laundering beyond drugs.

**Tonga.** Tonga is not a regional financial center. In 2000, Tonga reportedly enacted the Money Laundering Act of 2000, the Mutual Assistance in Criminal Matters Act of 2000, and the Foreign Evidence Act of 2000. Money laundering is a crime in Tonga.

Tonga is a party to the 1988 UN Drug Convention.

**Trinidad and Tobago.** Trinidad and Tobago has a well developed and modern banking sector, but it is not an important regional financial center. Nevertheless, the country is experiencing an increase in financial crimes, mostly in the form of counterfeiting and credit card fraud. It is likely that money laundering takes place in banks, credit unions, stock brokerages, insurance companies, casinos, and some retail businesses. Importers under-invoicing goods for money laundering purposes are common as well.

In late 2001, a senior Customs official was assassinated outside his home. The official was instrumental in investigating allegations of fraud, corruption, and under-valuation of goods by customs employees. A police investigation is ongoing.

The Proceeds of Crime Act of 2000 (POCA) expanded money laundering predicate offenses to include all serious crimes and instituted reporting requirements for suspicious transactions. Failure to comply with the POCA's record-keeping and reporting requirements can result in a fine of 250,000 TT (approximately U.S. \$40,000) and imprisonment for two years for summary conviction, and a fine of 3,000,000 TT (approximately U.S. \$500,000) and seven years of imprisonment for conviction on indictment. Upon summary conviction for money laundering an offender can be liable for a fine of \$10 million TT (approximately U.S. \$1,600,000) and imprisonment for 7 years; and upon conviction on indictment for money laundering an offender can be liable for a fine of 25,000,000 TT (approximately U.S. \$4,000,000).

## Money Laundering and Financial Crimes

---

and 25 years imprisonment. Furthermore, under the POCA, any officer who aids and abets the money laundering activities of an institution can be convicted of money laundering even if the institution itself has not been prosecuted or convicted. The POCA also enables the courts to seize the proceeds of all serious crimes.

The Government of Trinidad and Tobago (GOTT) has legislation in place that allows it to trace, freeze, and seize assets, including intangible assets such as bank accounts. Authorities may seize legitimate businesses if they are used to launder drug money. GOTT customs regulations require that any sum above U.S. \$5000 (in currency or monetary instruments) entering or leaving the country be declared. Cash above U.S. \$10,000 may be seized, with judicial approval, pending determination of its legitimate source. The GOTT does not have legislation that specifically authorizes the sharing of forfeited assets with other countries, but has done so in the past on a case-by-case basis through bilateral agreements.

The Government of Trinidad and Tobago (GOTT) has approved a UNDCP plan that will draft updated guidelines for anti-money laundering legislation, exchange of information, record keeping, independent regulatory structures, suspicious transaction reporting, know your customer requirements, and international cooperation.

The central bank has set money laundering guidelines, including due diligence provisions, that apply to all financial institutions subject to the Financial Institutions Act of 1993. These include banks, finance companies, leasing corporations, merchant banks, mortgage institutions, unit trusts, credit card businesses, and financial services businesses. Credit unions and exchange houses are not subject to the guidelines.

The GOTT has an inter-ministerial counternarcotics/crime task force that investigates drug trafficking and related money laundering.

The IRS is providing technical assistance to the Trinidad and Tobago Bureau of Inland Revenue to develop a comprehensive criminal investigations system to reduce corruption and enforce the criminal statutes relative to tax administration and related financial crimes. This is being done in order to achieve compliance with the GOTT Income Tax Act.

Trinidad and Tobago is a party to the 1988 UN Drug Convention. Trinidad and Tobago is also a member of the CFATF, which is headquartered in Port of Spain. It underwent a CFATF mutual evaluation in 1997 and the report was endorsed by CFATF's Council of Ministers in 1997. Trinidad and Tobago is also a member of the Organization of American States Inter-American Drug Abuse Control Commission (OAS/CICAD) Experts Group to Control Money Laundering. In 1999, an MLAT with the United States came into force. In 2000 the U.S. and GOTT signed a joint statement on law enforcement cooperation which pledges in part to expand cooperation on the detection and prosecution of money laundering and related criminal activities.

**Tunisia.** There is little information about possible money laundering in Tunisia. It is not a regional financial center, and the government keeps a close hand on the management of the economy. However, the lack of a money laundering law makes Tunisia vulnerable to money laundering. There are roughly 12 offshore banks that are closely regulated by the Tunisian Ministry of Finance and the Central Bank, which regularly conducts surprise audits of accounts and transactions. Because the Tunisian Dinar is not readily convertible, there is a very clear paper trail on such transactions. There are also approximately 1,200 offshore manufacturing companies (regulated by the Ministries of Commerce and Industry) and 300 offshore trading companies (regulated by the Ministry of Commerce). Offshore companies may be 100 percent foreign-owned. Anonymous directors are not permitted, and the names of all directors and companies must be listed in the official government journal when the company is organized or when there is a change in directorship. The trading companies, as a rule, operate by matching up third country supply and demand and brokering trade deals, with no goods ever entering or leaving Tunisia. The government closely monitors offshore manufacturing and tightly limits foreign ownership of Tunisian companies.

There is no limit on the amount of foreign currency that may be brought into the country, but amounts over 1,000 Tunisian dinars (TND) or its equivalent must be declared (the current rate of exchange is approximately 1.4 TND to U.S. \$1).

Tunisia has no specific anti-money laundering law. The only material legislation is contained in a 1992 counternarcotics law that makes it illegal to assist anyone involved in drug trafficking, including transferring funds for them, offering them services, or procuring facilities for them that enable them to invest or disguise drug trafficking income. The law applies even if the illegal activity takes place in another country.

Tunisia is a party to the 1988 UN Drug Convention and has signed but not yet ratified the UN Convention against Transnational Organized Crime.

**Turkey.** Turkey is an important regional financial center for Central Asia and the Middle East and continues to be a major transit route for Southwest Asian opiates moving to Europe. Most money laundering that takes place appears to involve tax evasion rather than narcotics transactions, according to U.S. law enforcement sources, and local narcotics-trafficking organizations are responsible for only a small portion of the total of funds laundered in Turkey. Terrorist financing is also an issue, although Turkey has traditionally taken a strong stance against terrorism. Money laundering takes place in both banks and non-bank financial institutions. Traditional money laundering methods in Turkey involve the cross-border smuggling of currency, bank transfers into and out of the country, and the purchase of high-ticket items such as real estate, gold and luxury automobiles. Illicit funds are also integrated into the economy through the financing of the construction of large apartment complexes and other buildings. Turkey has no secrecy laws that prevent disclosure of client and ownership information to bank supervisors and enforcement officials.

The Government of Turkey (GOT) has been active in the fight against money laundering for several years. Turkey criminalized money laundering in 1996 for a wide range of predicate offenses, including narcotics-related crimes, smuggling of arms and antiquities, terrorism, counterfeiting, and trafficking in human organs and in women. The Council of Ministers subsequently passed a set of regulations that mandate the filing of suspicious transaction reports (STRs), and require customer identification and the maintenance of records for five years. These regulations apply to banks and a wide range of non-bank financial institutions, including insurance firms and jewelry dealers. The number of STRs being filed is steadily rising, as banks and financial institutions become more aware of what constitutes an STR. Turkey also has in place a system for identifying, tracing, freezing and seizing narcotics-related assets, although Turkish law allows for only criminal forfeiture.

The Turkish government has broadened the definition of money laundering in 2001, through adopting three conventions of the Council of Europe: the Council of Europe Convention on Laundering, Search, Seizure and Confiscation of the Proceeds from Crime and the Criminal Law Convention on Corruption; and the civil law on corruption. By becoming a party to these conventions, the Turkish Government agreed to include proceeds of all serious crimes in the definition of money laundering, and to specify corruption as a predicate offense for money laundering.

On 19 June 2001, the Turkish Ministry of Finance issued a circular mandating that a tax identity number be used in all financial transactions as of 1 September 2001. The circular applies to all Turkish banks and to branches of foreign banks operating in Turkey, as well as other financial entities. The new requirements are intended to increase the government's ability to track suspicious financial transactions.

In July 2001, the Ministry of Finance issued a circular of banking regulations as follows:

- Banks: All banks, including the Central Bank, securities companies and post office banks, must record tax identity information for all customers opening new accounts, applying for checkbooks or cashing checks. Tax identity disclosure will also be obligatory for cash transfers exceeding U.S. \$4,000.

## Money Laundering and Financial Crimes

---

- Exchange offices: are required to sign contracts with their clients and to record tax identity information for all transactions over U.S. \$3,000.
- Finance institutions: have to obtain tax identity information before cashing customers' securities.
- Non-interest bearing entities: Islamic financial institutions are required to record tax identity information for all transactions.

The 1996 anti-money laundering law established the Financial Crimes Investigation Board (MASAK), which receives and investigates suspicious transaction reports and serves as Turkey's financial intelligence unit (FIU). MASAK cooperates closely with the United States in money laundering investigations, and has requested and received U.S. assistance in obtaining information on several cases.

Turkey is a party to the 1988 UN Drug Convention and is a member of the Financial Action Task Force. MASAK is an active member of the Egmont Group. Turkey has a Mutual Legal Assistance Treaty in force with the United States. In December 2000 Turkey signed, but has not yet ratified the United Nations Convention against Transnational Organized Crime. Turkey has also signed a police and security cooperation protocol with India, which among other things provides for joint efforts to combat money laundering.

Turkey has continued to demonstrate a commitment to fighting money laundering, as exemplified by its 2001 initiative on tax identity numbers. The GOT should maintain the momentum it has generated in setting up its anti-money laundering regime and continue measures designed to ensure increased reporting of STRs.

**Turkmenistan.** Turkmenistan has only a few international banks and a small, underdeveloped domestic financial sector. Due to the presence of organized criminal groups, the country's several foreign-owned hotels and casinos could be vulnerable to financial fraud and money laundering. In addition, the national currency, the manat, has an accepted black market exchange rate that is four times the official rate. These rates create conditions that are favorable to money laundering. Corruption in Turkmenistan is also a source of concern due to the low salaries and broad general powers of Turkmen law enforcement officials. The Government of Turkmenistan has not reported any suspected cases of money laundering.

Turkmenistan has no specific law addressing money laundering. Presidential Resolution 0210/02-2 of 1995 gives the central bank authority over all international financial transactions. Under this resolution, any firm making an electronic transfer of funds to an account abroad must provide documentation that establishes the source of the funds.

Turkmenistan is a party to the 1988 UN Drug Convention.

**Turks and Caicos.** The Turks and Caicos Islands (TCI) is a Caribbean Overseas Territory of the United Kingdom (UK). TCI is comprised of two island groups and forms the southeastern end of the Bahamas archipelago. The U.S. dollar is the currency in use. TCI has a significant offshore center, particularly with regard to insurance and international business companies (IBCs). Its location has made it a transshipment point for drug traffickers. The TCI is vulnerable to money laundering because of a large offshore financial services sector offering tax advantages as well as bank and corporate secrecy.

The TCI's offshore sector has eight banks (five of which also deal with onshore clientele), approximately 2,500 insurance companies, 1,000 trusts, and 13,000 "exempt companies" (IBCs), including those formed by the Enron Corporation. The Financial Services Commission (FSC) licenses and supervises banks, trusts, insurance companies, and company managers; it also licenses IBCs and acts as the Company Registry for the TCI. The Financial Services Commission employs a staff of 14 and conducts limited on-site inspections. The FSC became a statutory body under the Financial Services Commission Ordinance 2001, and now reports directly to the Governor. Previously, the FSC reported to the Minister of Finance on domestic issues and to the Governor concerning offshore financial issues.

The offshore sector offers “shelf company” IBCs and all IBCs are permitted to issue bearer shares; however, the Companies (Amendment) Ordinance 2001 requires that bearer shares be immobilized by depositing them, along with information on the share owners, with a defined custodian. This applies to all new shares issued and will be phased in for existing bearer shares within two years. Trust legislation allows establishment of asset protection trusts inoculating assets from civil adjudication by foreign governments; however, the Superintendent of Trustees has investigative powers and may assist overseas regulators.

The 1998 Proceeds of Crime Ordinance criminalized money laundering related to all crimes and established extensive asset forfeiture provisions and “safe harbor” protection for good faith compliance with reporting requirements. The Law also established a Money Laundering Reporting Authority (MLRA), chaired by the Attorney General, to receive, analyze, and disseminate financial disclosures such as suspicious activity reports. Its members also include the following individuals or their designees: Collector of Customs, the Superintendent of the FSC, the Commissioner of Police, and the Superintendent of the Criminal Investigation Department. The MLRA is authorized to disclose information it receives to domestic law enforcement and foreign governments.

The Proceeds of Crime (Money Laundering) Regulations came into force January 14, 2000. The Money Laundering Regulations place additional requirements on the financial sector such as identification of customers, retention of records for a minimum of five years, training staff on money laundering prevention and detection, and development of internal procedures in order to ensure proper reporting of suspicious transactions. The Money Laundering Regulations apply to banking, insurance, trustees, and mutual funds. Although the customer identification requirements only apply to accounts opened after the Regulations came into force, TCI officials indicated banks would be required to conduct due diligence on previously existing accounts by December 2005.

In 1999 the Financial Services Commission, acting as the secretary for the MLRA, issued non-statutory Guidance Notes to the financial sector, in order to help educate the industry regarding money laundering and the TCI’s anti-money laundering requirements. Additionally, it provided practical guidance on recognizing suspicious transactions. The Guidance Notes instruct institutions to send SARs to either the Royal Turks & Caicos Police Force or the FSC. Officials forward all SARs to the Financial Crimes Unit (FCU) of the Royal Turks and Caicos Islands Police Force, which analyze and investigate financial disclosures. The FCU also acts as TCI’s financial intelligence unit. As of mid-2001, the FCU had received and begun investigating nine SARs.

The TCI cooperates with foreign governments—in particular, the United States and Canada—on law enforcement issues including narcotics-trafficking and money laundering. The FCU also shares information with other law enforcement and regulatory authorities inside and outside of the TCI. The new Overseas Regulatory Authority (Assistance) Ordinance 2001, allows the TCI to further assist foreign regulatory agencies. This assistance includes search and seizure powers and the power to compel the production of documents.

The TCI is a member of the Caribbean Financial Action Task Force, and a party to the 1988 UN Drug Convention. The Mutual Legal Assistance Treaty between the United States and the UK was extended to the TCI in November 1990.

The Turks and Caicos have put in place a comprehensive system to combat money laundering with the relevant legislative framework and an established financial intelligence unit. The TCI should move forward with conducting proper due diligence on all customer accounts. TCI should expand recent efforts to cooperate with foreign law enforcement and administrative authorities, and join the Egmont Group in order to further ensure criminals do not abuse the TCI’s financial sector.

**Uganda.** Uganda is not a regional money laundering center. Ugandan law enforcement agencies suspect that Uganda’s banks are used to launder money, but thus far have been unable to prove their suspicions because of the country’s inadequate legal framework. In 2001, Uganda criminalized narcotics-related money laundering.

## Money Laundering and Financial Crimes

---

Uganda has signed the Eastern and Southern Africa Anti-Money Laundering Group MOU and participated in the August 2001 Plenary of ESAAMLG in Namibia. Uganda is a party to the 1988 UN Drug Convention and has signed but not yet ratified the United Nations Convention against Transnational Organized Crime.

**Ukraine.** The lack of a comprehensive anti-money laundering system severely limits Ukraine's ability to combat money laundering and other financial crime.

High level and widespread corruption, organized crime, smuggling and tax evasion continue to plague Ukraine's economy. Ukraine's former Prime Minister, Pavlo Lazarenko is in a United States prison awaiting trial on a variety of charges, including that he laundered over \$100 million dollars, which he allegedly obtained illegally while serving as Prime Minister. Ukraine has provided assistance to the United States in connection with this prosecution. In 1999, the International Monetary Fund suspended lending to Ukraine because of the corruption and lack of economic reform. In October 2000, President Kuchma publicly acknowledged that Ukraine's industrial and commercial sectors were "criminalized."

As a member of the Council of Europe, Ukraine underwent a mutual evaluation by that group's Select Committee of Experts on the Evaluation of Anti-Money Laundering Measures (PC-R-EV) in May 2000. Although Ukraine criminalized drug money laundering in 1995, the mutual evaluation report was highly critical of Ukraine, noting significant deficiencies throughout the law enforcement, legal, and financial sectors. Paramount among the noted deficiencies was the "absence of a comprehensive anti-money laundering preventive law."

The Government of Ukraine (GOU) criminalized money laundering in the newly adopted Criminal Code of Ukraine, which became effective September 1, 2001. Provisions in the criminal code also address drug related money laundering offenses and provide for the confiscation of proceeds generated by criminal activities. The Rada draft of a comprehensive anti-money laundering law in its first reading on November 15, 2001. The President of Ukraine has determined that the enactment of such legislation is a priority initiative and has requested that such legislation be adopted this year.

The GOU enacted the "Act on Banks and Banking Activities" (Act) of January 2001, which imposes counter-money laundering measures upon banking institutions. The Act prohibits banks from opening accounts for anonymous persons, requires the reporting of large-scale transactions and suspicious transactions to state authorities and provides for the lifting of bank secrecy pursuant to an order of a court, prosecutor or specific state body. However, the lack of an operational financial intelligence unit and the maintenance of bank secrecy limit the effectiveness of the reporting system to combat financial crime.

Since July 2001, "The Law on Financial Services and State Regulation of the Market of Financial Services," has been awaiting the president's signature. If signed, the law would establish some regulatory control over non-bank financial institutions that manage insurance, pension accounts, financial loans, or "any other financial services involving savings and money from individuals." Specifically, the draft law would define financial "institutions" and "services," impose record-keeping requirements on covered entities, and identify the responsibilities of regulatory agencies. The proposed law would create a Committee on Supervising Financial Operations and Markets, which, with the National Bank of Ukraine and the State Commission on Securities and Stock Market, would have the primary responsibility for regulating financial services markets.

In an effort to overcome parliamentary delays in passing a comprehensive anti-money laundering law, President Kuchma signed several Presidential decrees in 2001. The first, signed on July 19, 2001 and entitled "On Additional Steps to Combat the Laundering of Criminal Proceeds," authorized the establishment of an inter-agency anti-money laundering task force and the creation of a special unit within the State Tax Administration (STA) to focus on money laundering rather than on monitoring untaxed income and capital flight. Reportedly, a decree issued on July 25, 2001 established this special unit within the STA.

On September 7, 2001, the Financial Action Task Force (FATF) identified Ukraine as non-cooperative in international efforts to fight money laundering. The FATF in its report noted that Ukraine lacks (1) a complete set of anti-money laundering laws; (2) an efficient mandatory system for reporting suspicious transactions to an FIU; (3) adequate customer identification requirements; and (4) adequate resources at present to combat money laundering.

On December 10, 2001 the Presidential Decree “Concerning the Establishment of a Financial Monitoring Department.” The Decree mandates the creation of the Financial Monitoring Department (FMD) by January 1, 2002 to function as an FIU. Under the terms of this decree, the FMD will be an independent authority that operates under the Cabinet of Ministers instead of the STA where the president had placed the special anti-money laundering unit. The Cabinet of Ministers will be required to report quarterly to the President on the progress of Ukraine’s anti-money laundering program.

Ukraine is a party to the 1988 UN Drug Convention as well as the 1990 Council of Europe Convention on Laundering, Search, Seizure and Confiscation of the Proceeds from Crime, which came into force with respect to Ukraine in January 1998. The U.S.-Ukraine Treaty on Mutual Legal Assistance in Criminal Matters was signed in 1998 and entered into force in February 2001. Ukraine has signed the United Nations Convention against Transnational Organized Crime but not yet deposited its instrument of ratification.

Ukraine should enact comprehensive anti-money laundering legislation prior to the June plenary of the FATF or risk having countermeasures levied against it by the 29-member state organization.

**United Arab Emirates.** The United Arab Emirates’ (UAE) is a major financial and trading center in the Gulf region of the Middle East and located at the crossroads of major narcotics smuggling routes. It has growing ties with financial centers in Europe, Asia, southern Africa, and North America. The financial sector is modern and outward looking. Its robust economic development and liberal business environment have attracted a massive influx of people and capital. Approximately 70 percent of the UAE population is comprised of non-nationals. Over 14 million people passed through Dubai’s airport in 2000 and 50 million are projected by the year 2010. There are no foreign exchange controls; no corporate or income taxes; and the UAE has free trade zones. The UAE, like all countries in the region, is a cash-intensive society. In addition, Dubai is the regional gold center with integrated gold trading ties between Europe and South Asia. Gold is often manipulated by money launderers round the world via trade or as part of alternative remittance systems such as the South Asia based hawala system of transferring funds. All of these factors suggest that the UAE is at high risk for money laundering. Due to the volume of goods passing through the UAE and Gulf Arabs’ traditional role as business brokers, the UAE is particularly vulnerable to trade related money laundering.

As of December 2001, the UAE had not enacted a comprehensive anti-money laundering law. However, the GOUAE expected that the final draft of a comprehensive bill to be enacted and in force by January 2002. Article 407 of the Penal Code can be used to prosecute some aspects of money laundering crimes. However, there have been no prosecutions to date. UAE anti-money laundering measures can be found in a series of rules and regulations issued by the Central Bank and thus are generally applicable to those financial entities that fall under its supervision. There are a number of circulars issued by the Central Bank requiring customer identification and providing a basic suspicious transaction-reporting obligation. Current regulations require that all cash transactions exceeding 200,000 dirhams (U.S. \$54,500) be reported. When suspicious activity is reported from a financial institution, the Central Bank is able to freeze suspect funds, make appropriate inquiries, and coordinate with law enforcement officials.

In July 2000, the UAE established the National Anti-Money Laundering Council, under the Chairmanship of the Central Bank’s Governor, with representatives from most of the key law enforcement authorities and regulatory bodies. It has overall responsibility for coordinating anti-money laundering policy. Following a review of current practices by the Council, the Central Bank issued Circular 24/2000, which consolidates and expands anti-money laundering requirements for the financial sector in November 2000. It is applicable to all banks, money exchanges, finance companies and other financial institutions operating

## Money Laundering and Financial Crimes

---

in the UAE. The Circular provides the procedures to be followed for the identification of natural and juridical persons, the types of documents to be presented, and rules on what customer records must be maintained on file at the institution. Other provisions of Circular No24/2000 call for customer records to be maintained for a minimum of five years and further require that they be periodically updated as long as the account is open.

With implementation of the new circular came the establishment of the Anti-Money Laundering and Suspicious Case Unit (AMLSCU), which is located within the Central Bank. Financial institutions under the supervision of the Central Bank are required to report suspicious transactions to the AMLSCU, which is charged with examining suspicious transactions and coordinating the release of information with law enforcement and judicial authorities. It has the authority to request information from foreign regulatory authorities in carrying out its preliminary investigation of suspicious transaction reports, however, there does not appear to be authority for exchanging such reports with financial intelligence units of other countries. Officials indicate that such exchanges are possible provided the exchanges are conducted on a basis of reciprocity. The AMLSCU, which is not yet a member of the Egmont Group, is exploring areas of information sharing with other financial intelligence units.

Many local businessmen offer services equivalent to those associated with traditional offshore centers, such as nonresident incorporation. Someone seeking to use the UAE as a base of operations can pay a local businessman a fee for the use of his business name, or in a somewhat more formal arrangement, enter into a partnership arrangement. In these partnerships, a UAE citizen must own at least 51 percent of the business. Many UAE nationals earn their living by serving as the local “agent” of foreign businessmen operating in the UAE. The foreign businessman will capitalize the business and then pay an annual fee to the national to continue its operation. It is very common for the UAE national to be a totally “hands-off” owner and often there is no record of the identity of the foreign partner.

The UAE is noted for its growing free trade zones (FTZs). There are well over a hundred multinational companies located in the FTZs with thousands of individual trading companies. The FTZs offer one hundred percent foreign ownership, no import duties, full repatriation of capital and profits, no taxation, and easily obtainable licenses. Companies located in the free trade zones are treated as being offshore or outside the UAE for legal purposes.

The UAE is a party to the 1988 UN Convention Against Illicit Traffic in Narcotic Drugs and Psychotropic Substances, and it has entered into a series of bilateral agreements on mutual legal assistance. The UAE is a member of the Gulf Cooperation Council, which is a member of the Financial Action Task Force (FATF). The UAE hosted a FATF mutual evaluation team in 2001. The UAE has been generally receptive to U.S. Government overtures to cooperate on money laundering issues, and has welcomed money laundering related training and visits by U.S. officials to discuss money laundering.

The UAE government has demonstrated that it recognizes the need to implement an effective anti-money laundering system to protect its financial sector from potential money laundering, and has taken several of the necessary steps to deal with money laundering; however, there remain a few areas requiring further action. The UAE should also examine trade related and alternative remittance money laundering vulnerabilities and work closely with other jurisdictions to ensure that the UAE is not used in the future as a way station for money laundering.

**United Kingdom.** The United Kingdom (UK) plays a leading role in European and world finance and remains attractive to money launderers because of the size, sophistication, and reputation of its financial markets. Although drugs are still the major source of illegal proceeds for money laundering, the proceeds of other offenses such as financial fraud and the smuggling of goods have become increasingly important. The trend over the past few years has witnessed the movement away from High Street banks and mainstream financial institutions for the placement of cash. In laundering funds, criminals continue to use bureaux de change (small tourist-type currency exchanges); cash smuggling in and out of the UK; professional money launderers (including solicitors and accountants); and the purchase of high-value assets as disguises for illegally obtained money.

The United Kingdom has implemented the provisions of the European Union's Anti-Money Laundering Directive and the Financial Action Task Force Forty Recommendations. Drug-related money laundering has been a criminal offense in the UK since 1986. Subsequent legislation criminalized the laundering of proceeds from all other crimes. The UK has a requirement for the reporting of suspicious transactions that applies to banks and non-bank financial institutions.

The Bank of England Act 1998 transferred responsibility for UK bank supervision from the Bank of England to the newly established Financial Services Authority (FSA). The FSA's primary responsibilities are in areas relating to the safety and soundness of the institutions in its jurisdiction. The FSA plays an important part in the fight against money laundering through its continued involvement in the authorization of banks and investigations of money laundering activities in banks. Where appropriate, the FSA even assembles small teams of investigators to follow-up leads in newspapers and other public sources. The Financial Services and Markets Act was implemented in December 2001. The FSA administers a new civil-fines regime and prosecution powers. The FSA has the power to make regulatory rules in relation to money laundering, and enforce those rules with a range of disciplinary measures (including fines) if the institutions fail to comply.

In October 2001, the Proceeds of Crime Bill was introduced to improve the efficiency of the forfeiture process and increase the amount of illegally obtained assets recovered. The bill proposes to consolidate the existing laws on forfeiture and money laundering into a single piece of legislation. Additionally, it would create the Assets Recovery Agency (ARA) with lead responsibility for asset recovery and containing a "center of excellence" for financial investigation training. This would bring forward the time at which a freeze order may be issued by a court to any time after an investigation has commenced, and provide for new powers to recover criminal assets through civil proceedings without need for a criminal conviction. The Bill is currently in the committee stage, and should be submitted to Parliament in 2002.

Secondary regulations, affecting the financial sector only, require that systems be in place to prevent and detect money laundering.

In 1997, Guidance Notes on best practices were issued by the Money Laundering Steering Group of professional and trade bodies. The government also has specific provisions in secondary legislation to extend thorough money laundering controls to other sectors, including to lawyers, accountants and other professionals. In December 2000 the government also proposed legislative changes to allow tax authorities to share information with police in serious criminal cases. The proposed changes have been shelved temporarily, and will be re-introduced at a later date.

Suspicious transaction reports are filed with the Economic Crime Unit of the National Criminal Intelligence Service (NCIS), which serves as the UK's financial intelligence unit (FIU). The NCIS analyzes reports, develops intelligence, and passes information to police forces and Her Majesty's Customs for investigation. The NCIS is an active member of the Egmont Group and has Memoranda of Understanding (MOU) for sharing intelligence with foreign counterparts. An arrangement is in place with the U.S. Financial Crimes Enforcement Network (FinCEN), and also the FIUs of Belgium, France, and Australia.

The UK's banking sector provides accounts to residents and nonresidents, who can open accounts through various intermediaries that often advertise on the Internet and also offer various offshore services, or as a part of private banking activities. Private banking constitutes a significant portion of the British banking industry. Both resident and nonresident accounts are subject to the same reporting and record-keeping requirements. Individuals typically open non-resident accounts for taxation or investment purposes.

The UK cooperates with foreign law enforcement agencies of other countries investigating narcotics-related financial crimes. The UK is a party to the 1988 UN Drug Convention and a member of the Financial Action Task Force and the European Union. The UK signed the United Nations Convention against Transnational Organized Crime in December 2000. The Mutual Legal Assistance Treaty (MLAT)

## Money Laundering and Financial Crimes

---

between the UK and the U.S. has been in force since 1996. The UK also has an MLAT with the Bahamas. Additionally, there is an MOU between the U.S. Customs Service and Her Majesty's Customs and Excise.

The UK should continue the strong enforcement of its comprehensive anti-money laundering program and its active participation in international organizations to combat the domestic and global threat of money laundering.

**Uruguay.** Traditionally, Uruguay's strict bank secrecy laws, currency exchange regulations, and overall economic stability have made it vulnerable to money laundering. Although the extent and exact nature of money laundering in Uruguay is unknown, law enforcement entities believe the profits of drug trafficking, contraband smuggling, and other illicit activities are laundered through Uruguayan financial institutions.

During the past two years, the Government of Uruguay (GOU) has instituted several legislative and regulatory reforms to its anti-money laundering program. In May 2001, it enacted Law 17,343 which extended the predicate offenses for money laundering beyond drug trafficking and corruption to include terrorism, smuggling (above the threshold of U.S. \$20,000); illegal trafficking in weapons, explosives and ammunition; trafficking in human organs, tissues or medications; trafficking in human beings; extortion; kidnapping; bribery; trafficking in nuclear and toxic substances; and illegal trafficking in animals or antiques. The courts have the power to seize and later confiscate property, products or financial instruments linked to money laundering activities.

Safeguarding the financial sector from money laundering activities remains a priority for the GOU. A series of regulations issued by the Central Bank of Uruguay had already required banks (including offshore), currency exchange houses, and stockbrokers to implement anti-money laundering policies including the recording of transactions over U.S. \$10,000, and the reporting of suspicious transactions. During 2000 and 2001, the Central Bank issued additional rules toughening those requirements. Under these new rules, the insurance and re-insurance sector (Circular 55), stock market (Circular 1.737), and currency exchange houses (Circular 1.713) must know and thoroughly identify their customers; and report suspicious financial transactions to a Financial Information and Analysis Unit (UIAF). Under Circular 55, the insurance and re-insurance sectors are required to maintain a registry of "relevant" transactions, i.e. payments of insurance premiums of \$10,000 or more. Under Circular 1.737 the stock market and investment funds administrators are required to identify and maintain a registry of those individuals and/or entities exchanging currency, precious metals, or other valuables in amount greater than \$10,000. Further, Central Bank Circular 1.712 of October 2000 requires all financial institutions under its control to set up internal databases to register all transactions in cash over U.S. \$10,000 involving deposits, or the conversion of paper currency for checks, stocks, precious metals or other easily negotiable valuables. It instructs financial institutions not to proceed with transactions when there is reason to believe they may be connected with the laundering of assets derived from criminal activities such as drug trafficking, terrorism, or trafficking in weapons.

In December 2000 the Central Bank issued Circular 1722 creating the UIAF within the Superintendency of Financial Intermediation Institutions, to coordinate all anti-money laundering efforts. The UIAF, which serves as Uruguay's financial intelligence unit receives, analyzes, and remits to the judicial authorities, when appropriate, suspicious transaction reports. The Circular generally provides for the ability of the UIAF to respond to requests for international cooperation.

There are twelve offshore banks and six offshore mutual fund companies. The offshore banks are subject to the same laws and regulations as local banks, and are required to be licensed by the GOU, a process involving background checks on license applicants. There are no records of the number of Uruguayan offshore firms or shell companies, although, a large number are believed to exist. Offshore trusts are not allowed. Bearer shares may not be used in banks and institutions under the authority of the Central Bank, and any share transactions must be authorized by the Central Bank.

Uruguay remains active in international anti-money laundering efforts. It is a party to the 1988 UN Drug Convention, and a member of the South American Financial Action Task Force (GAFISUD) as well as

the OAS Inter-American Commission on Drug Abuse Control Experts Group to Control Money Laundering. The USG and the GOU are parties to an extradition treaty and a mutual legal assistance treaty, which entered into force in 1984 and 1994 respectively. Uruguay has signed but not yet ratified the UN Convention against Transnational Organized Crime.

Effective implementation and enforcement of these anti-money laundering measures must remain a priority for the GOU in order to eliminate the potential for money laundering activities throughout its financial sector.

**Uzbekistan.** Uzbekistan is not a regional financial center or a significant country for money laundering. Uzbekistan has no specific laws against money laundering, but its currency is not freely convertible and banking services are unsophisticated, and the country does not appear to be used by money launderers to any significant extent. There is a significant black market for smuggled consumer goods in the country. However, there is no evidence that the market is funded by narcotics proceeds.

Article 243 of the Uzbek Criminal Code criminalizes money laundering related to any criminal activity. A decree issued in October 1998 allowed banks to offer anonymous hard currency accounts, but the measure failed to attract significant deposits.

There are strict controls on the amount of currency that can be carried across Uzbekistan's borders. Residents and non-residents may bring the equivalent of U.S. \$10,000 into the country tax-free. Amounts in excess of this limit are assessed a one-percent duty. Non-residents may take out as much currency as they brought in; however, residents are limited to the equivalent of U.S. \$1,500.

Uzbekistan is a party to the 1988 UN Drug Convention and has signed but not yet ratified the United Nations Convention against Transnational Organized Crime.

**Vanuatu.** Vanuatu's offshore sector is vulnerable to money laundering as it historically has maintained strict secrecy provisions that have the effect of preventing law enforcement agencies from identifying the beneficial owners of offshore entities registered in the sector. Due to allegations of money laundering, a few United States-based banks announced that they would no longer process U.S. dollar transactions to or from Vanuatu in late December 1999. The Government of Vanuatu (GOV) responded to these concerns by introducing reforms designed to strengthen financial regulation both domestically and offshore.

Vanuatu's financial sector includes five licensed banks (that carry on domestic and offshore business) and 60 credit unions, regulated by the Reserve bank of Vanuatu. The Financial Services Commission (FSC) regulates the offshore sector that includes 55 offshore banks and approximately 2500 "international companies" (i.e., international business companies or IBCs), as well as offshore trusts and captive insurance companies. IBCs may be registered using bearer shares, shielding the identity and assets of beneficial owners of these entities. Secrecy provisions protect all information regarding IBCs and provide penal sanctions for unauthorized disclosure of information. These secrecy provisions, along with the ease and low cost of incorporation, make IBCs ideal mechanisms for money laundering and other financial crimes.

The Serious Offences (Confiscation of Proceeds) Act 1989 criminalized the laundering of proceeds from all serious crimes and provided for seizure of criminal assets and confiscation after a conviction. The Financial Transaction Recording Act of 2000 requires financial institutions to identify customers and beneficial owners when establishing business relations or account accommodations. Regulatory agencies in Vanuatu have instituted stricter procedures for issuance of offshore banking licenses and continue to review the status of previously issued licenses. This legislation requires all financial institutions, both domestic and offshore, to report suspicious transactions and to maintain records of all transactions for six years, including the identities of the parties involved. Safe harbor provisions are provided under this legislation to all suspicious transactions reported in good faith.

The Financial Transaction Reporting Act 2000 provides for the establishment of a financial intelligence unit (FIU) within the State Law Office. The FIU will receive suspicious transaction reports filed by financial institutions and may distribute them to the Public Prosecutors Office, the Reserve Bank of

## Money Laundering and Financial Crimes

---

Vanuatu, the Vanuatu Police Force, the Vanuatu Financial Services Commission and law enforcement agencies or supervisory bodies outside Vanuatu. The FIU will also issue guidelines to, and provide training programs for financial institutions regarding record keeping for transactions and reporting obligations. The Act also regulates how such information can be shared with law enforcement agencies investigating financial crime. The law further states that preventative measures are to be imposed by financial institutions. Financial institutions within Vanuatu must establish and maintain internal procedures and provide a written statement to the FIU.

Every financial institution is required to keep records of all transactions. Four key pieces of information are required to be kept for every financial transaction: the nature of the transaction, the amount of the transaction and the currency in which it was denominated, the date the transaction was conducted, and the parties to the transaction. These records must be kept for a period of six years after the completion of the transaction.

There are three bases for cooperation in international matters: the Mutual Assistance in Criminal Matters Act 1989, the Serious Offences (Confiscation of Proceeds) Act 1989, and the Extradition Act 1988. The Attorney General, designated as the central authority for requests of mutual assistance, possesses the authority to grant requests for assistance and may require government agencies to assist in the collection of information pursuant to the request. In an effort to strengthen mutual legal assistance, Vanuatu has drafted a Bill to amend the Mutual Assistance in Criminal Matters Act and a Bill for the Proceeds of Crime Act.

The E-Business Act No. 25 of 2000 and the Interactive Gaming Act No. 16 of 2000 are two pieces of legislation that regulate e-commerce. Section 5 of the E-Business legislation permits the establishment of a Vanuatu-based website where business can be conducted without residency, directors, shareholders, or a registered office. Reportedly, the E-Business Act requires online operations to maintain stringent customer identification and record keeping requirements, as well as reporting suspicious transactions. The Financial Transaction Reporting Act of 2000 applies to e-commerce or businesses by defining any company listed under the Vanuatu Interactive Gaming Act 2000 as a financial institution.

Vanuatu is a member of the Asia/Pacific Group on Money Laundering (APG), the Offshore Group of Banking Supervisors (OGBS), the Commonwealth Secretariat, and the Pacific Island Forum.

The GOV has taken steps to strengthen their counter money laundering program, especially within the banking sector. The GOV should continue to strictly implement its anti-money laundering legislation-with a focus on enforcing new reporting requirements on offshore banks, as well as enacting measures to require complete identification of the beneficial ownership of IBCs to ensure that Vanuatu's offshore sector is not used for money laundering or other financial crimes. It should also move expeditiously to establish and staff its FIU.

**Venezuela.** Venezuela is not considered a regional financial center nor does it have an offshore financial sector. The relatively small but modern banking system (77 financial institutions classified as banks) primarily serves the domestic market. Venezuela's proximity to drug-source countries, corruption, and weaknesses in the anti-money laundering system continue to make it a prime target for money laundering. The main source of money laundering in Venezuela stems from proceeds generated by Colombia's cocaine and heroin trafficking organizations.

The September 1993 Organic Drug Law provides the only legal mechanism for the investigation and prosecution of money laundering crimes. Under this law, a direct connection between the illegal drugs and the proceeds must be proven to establish a money laundering offense. The Government of Venezuela (GOV) freezes assets of individuals charged in international drug trade or money laundering cases directly related to drug trafficking. If a conviction is obtained, the frozen assets are turned over to the Ministry of Finance for use in drug demand reduction programs. After the introduction of a new Code of Criminal Procedure in 1999, responsibility for initiating these actions shifted from judges to prosecutors, consequently there was a reduction in the number of cases where trafficker assets were seized. The

organized crime bill currently pending in the National Assembly would increase the scope of money laundering. Under this bill those who cannot establish the legitimacy of possessed or transferred funds and who have awareness of the illegitimate origins of those funds would be guilty of money laundering.

Since 1997, the Superintendency of Banks and Other Financial Institutions (SBIF) has implemented controls to prevent and investigate money laundering including stricter customer identification requirements and the reporting of currency transactions and suspicious activity. These controls apply to all banks (commercial, investment, mortgage, private), savings and loan institutions, financial rental agencies, currency exchange houses, money remitters, money market funds, capitalization companies, and frontier foreign currency dealers. The institutions are also required to report currency transactions of more than U.S. \$10,000 (or local currency equivalent), and suspicious transactions to a National Financial Intelligence Unit (UNIF) created in 1998 under the SBIF. The UNIF analyzes the suspicious activity reports and refers those deemed proper for further investigation to the appropriate enforcement authority, which could be the National Guard, Technical Judicial Police, or the Office of the Public Prosecutor. The UNIF is a member of the Egmont Group (since 1999) and has signed bilateral information exchange agreements with counterparts worldwide. Venezuela does not have banking secrecy laws. Comprehensive financial and law enforcement information is available to the UNIF.

Venezuela actively participates in the Organization of American States Inter-American Commission on Drug Abuse Control (OAS/CICAD) Experts Group to Control Money Laundering, and Caribbean Financial Action Task Force (CFATF). Venezuela is a party to the 1988 UN Drug Convention and has signed but not yet ratified the United Nations Convention against Transnational Organized Crime.

The GOV continues to share money laundering information with U.S. law enforcement authorities under the 1990 Agreement Regarding Cooperation in the Prevention and Control of Money Laundering Arising from Illicit Trafficking in Narcotics Drugs and Psychotropic Substances, which entered into force on January 1, 1991. The information shared has supported domestic operations resulting in the seizure of significant amounts of money and several arrests in the United States.

The GOV should adopt legislation that would criminalize the laundering of proceeds from all serious crimes, thereby providing the Government with more effective tools for the investigation and prosecution of money laundering and other financial crimes.

**Vietnam.** Vietnam is not considered an important regional financial center. Vietnam does not yet have a separate law on money laundering. However, Article 251 of the Amended Penal Code, which took effect July 1, 2000, criminalizes money laundering for the first time. The new counter narcotics Law, which took effect June 1, 2001, makes two narrow references to money laundering in relation to drug offenses; it prohibits the “legalizing” (i.e. laundering) of monies and/or property acquired by committing drug offenses (article 3.5) and it gives the Public Security force’s specialized counternarcotics agency the authority to require disclosure of financial and banking records when they believe there is a violation of the CN law (Article 13). However, the implementing regulations for the CN law have not yet been promulgated. Additionally, the World Bank continues to make progress with the GVN on draft Banking legislation that will also include a section money laundering. There is also increased interest by the GVN in general regarding supervision of international transactions stemming from their efforts to cooperate on combating terrorist financing.

However, the Vietnamese Banking sector is underdeveloped making it unlikely that major money laundering is carried on in Vietnam at this time. What “drug economy” exists in Vietnam is likely outside Vietnam’s formal financial system. Vietnam has a large “shadow economy”, where U.S. dollars are the preferred currency. Vietnamese regularly transfer money through gold shops and other informal mechanisms to remit or receive funds from overseas. Vietnam is not considered an important regional financial center.

Due to the limited size of Vietnam’s banking system, even legitimate businesses carry on few transactions there through financial institutions preferring to use the large “shadow economy” of gold and

## Money Laundering and Financial Crimes

---

international transfers instead. Vietnam should pass anti-money laundering legislation covering all serious crimes and create a viable anti-money laundering regime.

**Yemen.** Yemen has no anti-money laundering legislation. Though the extent of money laundering is not known, the lack of legislation, the existence of Islamic banks and the prevalence of hawala make Yemen vulnerable to money laundering. Yemen's banking sector is small and rudimentary. It is composed of 11 commercial banks and two public sector specialized banks. The Central Bank of Yemen supervises the country's banks.

The government is in the process of preparing a new money laundering law. The governor of the Central Bank has prepared a primary draft that has been presented to the bankers' association and other financial bodies for further recommendations. The draft of the law places money laundering activities on the list of illegal actions, along with embezzlement, theft, and kidnapping. The proposed law would forbid opening bank accounts under fictitious names.

Yemen is a party to the 1988 UN Drug Convention and has signed but not yet ratified the UN Convention against Transnational Organized Crime.

**Federal Republic of Yugoslavia.** Narcotics-trafficking, smuggling, money laundering, and other criminal activities are continuing at a noticeable level in the Federal Republic of Yugoslavia (FRY). Estimates of money laundered by Yugoslavia's former president Slobodan Milosevic and his associates go as high as one billion U.S. dollars.

The Federal Assembly adopted an anti-Money Laundering Law in September 2001. The Law will come into effect in July 2002. The law defines money laundering to mean depositing or introducing money into the financial system in any other manner, which has been acquired through illegal activity. This includes, money derived from the gray market economy and arms and narcotics-trafficking. Among the entities required to take actions and measures aimed at uncovering and preventing money laundering under the law are: commercial and savings banks and other financial credit institutions; the postal savings bank, the post office and other commercial enterprises; all government entities, the National Bank of Yugoslavia and its clearing and payments department, foreign exchange bureaus, casinos, pawnshops, stock exchanges, and national lottery organizers. The obliged entities are required to identify persons opening an account "or establishing any other kind of lasting business cooperation with the client" and report on every transaction exceeding 600,000 dinars (about \$9,000)." Criminal penalties for money laundering violations range from six months to five years imprisonment, while civil penalties range from 45,000 to 450,000 (\$650 to 6,500) dinars per offense.

The FRY is a party to the 1988 UN Drug Convention and the UN Convention against Transnational Organized Crime.

Enactment of the Money Laundering Prevention Law was a significant act on the part of the FRY. The FRY should expand its anti-money laundering legislation to include all serious crimes and participate in international fora that offer training and technical assistance for police, customs, and judiciary officials involved with combating transnational organized crime.

**Zambia.** Zambia is not a major financial or money laundering center. It does not yet have in place comprehensive anti-money laundering legislation. Article 22 of Zambia's Narcotics Drugs and Psychotropic Substances Act, 1993, criminalizes money laundering related to narcotics-trafficking. In 2001, the National Assembly passed an anti-money laundering bill that, among other things, increased the investigative and prosecutorial powers of the Drug Enforcement Commission and stiffened penalties for financial crimes. However, as of the end of 2001 the Minister of Legal Affairs had not begun implementing the new law.

A team of officers known as the Anti-Money Laundering Unit was already in place before passage of the new law. Reports indicate that the team has seized approximately U.S. \$60,750, arrested seventeen individuals (four of whom were convicted), and confiscated U.S. \$198,900 from foreign nationals who

have failed to declare their monies upon entry into Zambia. By the end of October 2001, law enforcement authorities had impounded over U.S. \$250,000.

Zambia is a party to the 1988 UN Drug Convention. Although Zambia participated in the August 2001 Plenary of the East and Southern Africa Anti-Money Laundering Group, it had not signed the Memorandum of Understanding by year end. It should do so and it should implement its current anti-money laundering legislation and expand it to include all serious crime.

**Zimbabwe.** Zimbabwe is not a regional financial center and is not considered to be at significant risk for money laundering.

Zimbabwe's Anti-Money Laundering Act (AMLA) criminalizes narcotics-related money laundering. The Government of Zimbabwe (GOZ) reportedly drafted legislation prior to 2000 that would have required financial institutions to establish customer identification procedures and to report certain threshold transactions to a financial intelligence unit. However, the GOZ to date has not taken further action on these proposals.

Zimbabwe is a party to the 1988 UN Drug Convention and has signed but not yet ratified the United Nations Convention against Transnational Organized Crime. Zimbabwe should sign the Memorandum of Understanding of the East and Southern Africa Anti-Money Laundering Group and construct a viable anti-money laundering regime.