Committee: ECOFIN

Topic: The Question of Money Laundering

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Summary

Money laundering is the process of introducing illegally obtained money back into the economy. According to the United Nations Office on Drugs and Crime (UNODC), 2 to 5% of our global GDP is laundered yearly, which totals up to around $800 billion to $2 trillion USD. It facilitates organized crime, terrorism, and corruption - which all chip away at a nation's economic development and stability.

To combat this issue, governments globally have tried to intensify their anti-money laundering (AML) efforts, which include mandating financial institutions to implement systems that can precisely identify and report suspicious transitions. An example of this is the German Financial Intelligence Unit (FIU).

So far, the UN has focused on helping member states prevent money laundering operations from further unravelling in their nations. This includes offering direct expert help and training, such as educating people and working with other organizations, to create laws, systems, and skills to fight money laundering.

Definition of Key Terms

Money laundering: As addressed in the UN Vienna Convention 1988 in Article 3.1, Money Laundering has been described as: *"the conversion or transfer of property, knowing that such property is derived from any offense(s), for the purpose of concealing or disguising the illicit origin of the property or of assisting any person who is involved in such offense(s) to evade the legal consequences of his actions."*

Counter-terrorist financing (CTF): CTF regulations seek to stop the flow of illegal cash to terrorist organizations. It is closely tied to anti-money laundering (AML).

Underground banking: The use of secret financial networks by criminals to move money around, in order to avoid detection by regulatory authorities.

Cash smuggling: The act of physically transporting large amounts of cash across borders or within countries to conceal its illegal origins.

Money mules: A person who transfers or illegally moves acquired money, after receiving it from a third party in their bank account. Most of the time these money mules are unknowingly recruited as such intermediaries for thieves and fraudsters.

Misuse of legal business structures: The exploitation of legitimate businesses by criminal networks, to carry out illegal activities, in an attempt to make their transactions appear lawful.

Money laundering through high-value products: Investing illegal funds in high-value assets like real estate, luxury goods, or businesses, to integrate laundered money into the legitimate economy.

Misuse of cryptocurrencies: The use of cryptocurrencies, like those on dark web marketplaces, to launder money anonymously. This makes tracking and identification very challenging for authorities.

Money laundering cycle: A 3-stage cycle, which allows criminals to gain their profits without risking their sources of profit. However, each stage of money laundering may overlap, combine, or repeat within this cycle.

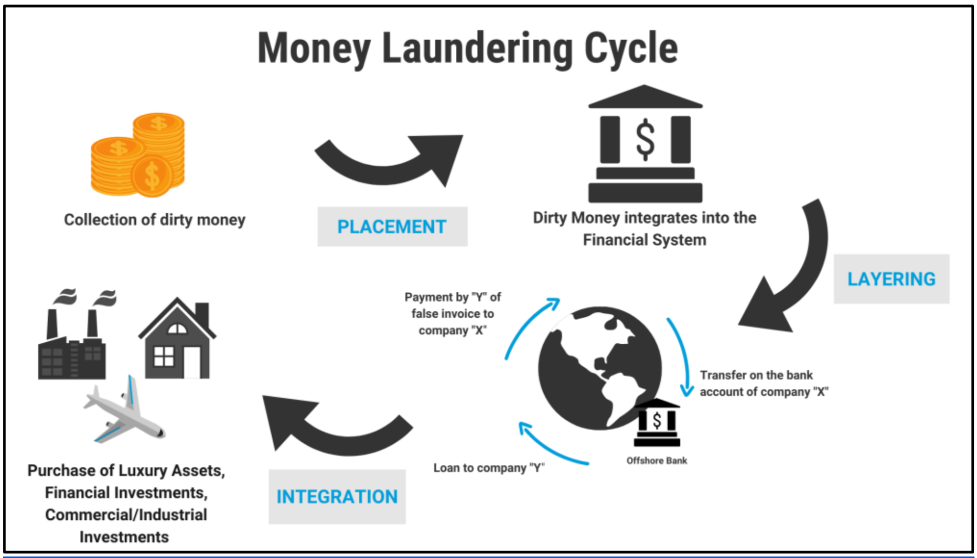

Image source: unodc.org

Placement: The first stage of money laundering, which involves funds being separated from their criminal origins.

Layering: The second stage of money laundering, where the trail of the funds is disguised, in order to make it difficult to track the origin of the money.

Integration: The third and final stage of money laundering, where laundered funds are re-integrated into the legitimate economy, making them appear as if they were derived from legal activities.

Predicate offense: The underlying crime that generates the proceeds being laundered, such as drug trafficking, corruption, or organized crime.

Proceeds of crime: The funds or assets generated by a predicate offense, which are then laundered to disguise their origin.

Anti-Money Laundering (AML): The set of laws, regulations, and practices aimed at preventing, detecting, and reporting money laundering activities.

Asset forfeiture: The process of confiscating assets that are proceeds of crime or have been used to facilitate crime.

Shell company: A company that only exists on paper, with no actual business activity, often used to launder money or hide assets. They often manipulate trade invoices, over-invoice or under-invoice goods and services to transfer value across borders.

Background Information

Money laundering has a long and complex history that dates back centuries. The history of money laundering traces back to over 2000 years ago, when wealthy Chinese merchants, according to historian Sterling Seagrave, started to “clean” their profits as a way to find a way around regional trading bans. As centuries passed, this nefarious practice adapted and thrived, notably during the Prohibition era in the United States. This period famously saw figures like Al Capone take advantage of the method of money laundering, which contributed to the modern understanding of the practice today.

Today, many common examples of money laundering methods include underground banking, cash smuggling, money mules, the misuse of legal business structures, money laundering through high-value products, and the misuse of cryptocurrencies.

In this day and age, money laundering is a grave problem that affects nearly every country. The costs of money laundering are far-reaching. These include allowing drug traffickers, smugglers, and other criminals to expand operations, and the transfer of economic power from the market, government, and citizens to criminals. In extreme cases, money laundering can lead to a complete takeover of a legitimate government. As a result, governments and international organizations have implemented a range of measures to combat money laundering.

A notable example of a governing body’s approach to this issue is the European Union’s risk assessments and legislation. The European Commission carries out periodic risk assessments, in an effort to identify and respond to risks affecting the EU internal market. Furthermore, the European Union has adopted robust legislation to fight against money laundering - the first anti-money laundering directive was adopted in 1990 in order to prevent the misuse of the financial system for the purpose of money laundering.

Likewise, the United States of America’s Anti-money Laundering act of 2020 is also a landmark legislation in the USA that has introduced nationwide anti-money laundering priorities. Its measures include having established a federal registry for beneficial ownership and strengthening its very own Financial Crimes Enforcement Network (FinCEN).

Major Countries and Organizations Involved

Financial Action Task Force (FATF): Founded in 1989 on the initiative of the G7, the FATF is an intergovernmental organisation that sets AML standards and guidelines. FATF monitors member countries' compliance with its recommendations and identifies jurisdictions that lack strategic AML.

International Monetary Fund (IMF): The IMF is an international organisation that has supported member countries for decades in implementing AML measures, by providing technical assistance and advice on policies. It has helped shape many global policies regarding money laundering, such as encouraging governing bodies to inhibit the financing of terrorism.

Australia: The Australian Transaction Reports and Analysis Centre (AUSTRAC), founded in 1989, is widely known for its proactive approach to the problem of money laundering. Australia is also a member of the FATF and actively participates in other international AML/CTF efforts.

Singapore: Singapore's Suspicious Transaction Reporting Office (STRO), along with the nation's Corruption, Drug Trafficking and Other Serious Crimes Act (CDSA), is notable for its strict regulations to combat money laundering. Like Australia, Singapore is also a member of the FATF and also actively participates in other international AML/CTF efforts.

Timeline of Events

Date **Description**

1970 - The United States enacted the Bank Secrecy Act (BSA), which requires financial institutions to maintain records and report certain transactions to the government.

1988 - The Basel Committee on Banking Supervision (BCBS) issued many guidelines for international banks to prevent money laundering.

1988 - The United Nations adopted the Vienna Convention against Illicit Traffic in Narcotic Drugs and Psychotropic Substances, which includes provisions related to money laundering and the confiscation of proceeds of crime.

1990 - The FATF issues its first set of 40 Recommendations for countries to combat money laundering and terrorist financing.

1994 - The UN General Assembly adopts the Naples Political Declaration and Global Action Plan, which recognized the threat of organized crime, and subsequently enacted international cooperation to combat money laundering and other forms of crime.

2001 - The US passed the USA PATRIOT Act, which created more AML regulations. This act also fortified surveillance and intelligence gathering to fight against terrorist financing.

2003 - The United Nations adopts the UN Convention against Corruption (UNCAC), which included provisions related to money laundering and the recovery of stolen assets.

2010 - The United States passed the Dodd-Frank Act, which included many AML/CFT provisions.

2015 - The European Union issued its Fourth Anti-Money Laundering Directive. This act included measures that strengthened existing AMLs and also introduced stricter customer due diligence requirements.

2015 - The UN General Assembly adopted the Sustainable Development Goals (SDGs), of which Goal 16 aims to "strengthen the recovery and return of stolen assets" and "combat organized crime and money laundering".

2020 - The USA's anti-money laundering act of 2020 introduced nationwide measures, such as having established a federal registry for beneficial ownership and strengthening its very own Financial Crimes Enforcement Network (FinCEN).

Relevant UN Treaties and Events

United Nations Convention against Transnational Organized Crime (UNTOC): A treaty established in 2000 that provided a framework for member states to criminalise and prosecute money laundering, as well as to cooperate with each other in investigations and prosecutions.

UN General Assembly Special Session on Corruption: The UN General Assembly Special Session on Corruption was a high-level meeting in 2011 that aimed to address the global problem of corruption, including money laundering.

UN Office on Drugs and Crime (UNODC) Global Programme against Money Laundering (GPML): Established in 1997, the GPML is a program established by the UNODC to provide technical assistance and capacity-building support to countries. The program's aim is to help countries implement more effective measures against this issue.

Possible Solutions

Increasing public awareness and engagement on this issue: The more people are aware of how serious the problem of money laundering is, the more competently this issue can be solved. This could be carried out through the launching of public awareness campaigns or encouraging civil society organisations and the private sector to engage in AML/CFT efforts. Other educational programs and materials could also be developed to better teach the public about these concepts.

Leveraging technology and innovation: The better technology gets, the easier it is to detect suspicious financial transactions. This could include the development of innovative technology, such as blockchain and artificial intelligence, or encouraging the integration of more digital identity verification systems.

More international coordination and cooperation: Even though there seems to be many robust international organizations already, a better mechanism that facilitates information sharing could be developed for better coordination and cooperation. Also, a general risk-assessment framework for all countries could be implemented, so that high-risk countries and sectors can be prioritized.

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