

# Anti Money Laundering Exam Study Guide & Practice Exam

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# Chapter 1 - Introduction

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## Risks & Methods of Money Laundering and Terrorist Financing

Definition: the process of making dirty money (derived from criminal activity) look clean by disguising the link to the source of the funds. This can be by moving the money or changing its form. Laundering is not just about cash, almost any medium can be used.

Money laundering requires knowledge that the money is the proceeds of crime, however, knowledge could also be inferred from wilful blindness (deliberate avoidance of the facts).

### Classic Money Laundering Process

<p>Placement</p> <p><b>P</b></p>	<p>Taking dirty money and physically depositing it with a financial institution or using it to purchase an asset. This is the highest risk area for the criminal, and most policing efforts are focussed here. Examples: depositing cash in a financial institution, purchasing high value assets such as art, precious metals or stones, which can then be sold with payment made by bank transfer or cheque.</p>
<p>Layering</p> <p><b>L</b></p>	<p>This distances the dirty money from its source by a series of transactions designed to help anonymity and disguise the audit trail. In this way the source, ownership, and location of the funds is disguised. Examples: wiring funds from one account to another, converting cash into depositary instruments (money orders, travellers cheques etc), buying and reselling high value goods or prepaid access or stored value items (like gift cards), investing in property or legitimate businesses, investing in stocks bonds or life insurance, using shell companies which disguise the beneficial owner.</p>
<p>Integration</p> <p><b>I</b></p>	<p>Placing clean money into the economy using an apparently normal business or personal transaction, so that criminals can add it to their wealth. By this stage separating illegal and legal wealth is very difficult.</p>

## Effects of Money Laundering

- Increased crime and corruption
- Undermine the legitimate private sector by undercutting their prices
- Weakening financial institutions, possibly to the point of collapse (BCCI, Barings Bank for example). Reputational risk of dealing with criminals, costs of investigations and fines
- Loss of control over monetary policy in smaller countries, as the size of money laundering transactions causes measurement errors. This can cause currency exchange rate and interest rate fluctuations
- Economic distortion, because money launderers are not interested in the economics of a transaction, they will put their money into schemes that offers privacy rather than economic benefit
- Loss of tax revenue, as the funds are disguised, so the collection of taxes is more difficult. This increases the burden of taxation on normal tax payers
- Risks to privatisation, as criminals can outbid legitimate purchasers, so key assets come under criminal control
- Reputation risk for the country
- Social costs e.g. treating drug addicts



# Chapter 2 - Techniques

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## Money laundering techniques

### Electronic transfers

Wires, ACH, ATMs and credit/debit cards. Indicators of money laundering include:

- Transactions to secrecy havens or high risk areas without justification
- Many small incoming transactions that are then sent out of the account in one bulk payment
- Funds activity that is repetitive, unexplained, or with unusual patterns

### Correspondent banking

- This is where one bank (the correspondent) provides services to another bank (the respondent). Banks set up these correspondent relationships across the globe to provide services in jurisdictions where they have no physical presence. Large international banks have many thousands of correspondent banking relationships. The respondents obtain services such as: cash management (e.g. interest bearing accounts in a range of currencies), international wires, cheque clearing, payable through accounts, foreign exchange. Credit worthy banks can be offered credit products such as letters of credit or credit card account services.

- Correspondent banking is vulnerable for two reasons:
- The financial institution carries out transactions for the customers of another institution. This indirect relationship means the customer's identity hasn't been verified by first hand knowledge
- The volumes of transactions mean that it's not possible to know which transactions represent legitimate business and which are suspicious
- Additional risks:
- Although the regulatory regime may be understood, the effectiveness over a specific respondent bank may be difficult to ascertain
- The level of AML controls at the respondent can be assessed using standard questionnaires, however the effectiveness of the due diligence may be difficult to ascertain
- Nesting of respondent banks means that the correspondent is further away from the actual customer
- Note that the USA Patriot Act enforced a number of provisions against correspondent banking – see separate section for details.

### **Payable Through Accounts (PTAs)**

These are accounts, similar to respondent accounts, but where the respondent bank offers the service direct to their customers. This means that they could send a wire transfer without first clearing the transaction with the respondent. This means that the respondent's customers can directly control funds at the correspondent bank without oversight from the respondent.

The PTA account has a number of subaccounts that can be offered to customers such as individuals, commercial businesses, exchange houses, or other banks.

Aspects of PTAs that could impact AML efforts:

- PTAs with banks in offshore locations may have weak licensing or supervision
- PTAs where the CDD is performed only on the respondent, not the respondent's customers
- PTAs where the sub account holders can deposit and withdraw currency
- PTAs used by a subsidiary of a respondent bank, which can perform banking activity without direct supervision

### **Concentration Accounts**

- Also known as special use, omnibus, settlement, suspense, intraday, sweep or collection accounts. They are internal accounts used to assist with the settlement and processing of customer transactions, often in conjunction with private banking, trust and custody accounts, funds transfers.
- They pose an AML threat if the customer identifying information is lost when the account is used, this loses the audit trail. Good practices include:
- Require dual signatures on all general ledger entries
- Prevent direct customer access to concentration accounts
- Capture information in customer statements
- Prevent customer knowledge of concentration accounts