Background Paper

Committee: The Commission on Crime Prevention and Criminal Justice

Topic: Money Laundering

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The Financial Action Task Force (FATF) defines money laundering as: "the processing of these criminal proceeds to disguise their illegal origin"(FATF). This process of disguising dirty money as clean money through a complex series of transactions and movement has become of critical importance, as it enables criminals to be able to get goods without being tracked. Day in and day out new methods of money laundering are being found, requiring delegates to the focus on resolving it as means to end the problems associated with money laundering, such as drug trafficking, prostitution, and terrorist funding.

According to the statistics on money laundering from the United Nations, around 2% to 5% of the world's Gross domestic product (GDP) is being laundered every year. This percentage amounts to around 800 billion to 2 trillion dollars. Money laundering brings very negative effects on developed and developing countries, although they mainly harm developing countries that have very light policies on Anti Money Laundering (AML). One problem that mainly occurs in developing countries is the effect on money demand where the uncontrolled amount of money coming into the country leads to crises. Problems arise such as significant increases in exports, imports, foreign payments deficit, inflation, interest, and unemployment. The demand for money in these countries becomes unstable making the country have issues with its monetary policies, leading to unsustainable economic growth.

The introduction of new technologies has led to evolution in the ways that Money Laundering is done, laundering money has been around for many years. According to the Inter-American Drug Abuse Control Commission (CICAD) the term of money laundering has its origins from the mafia's ownership of Laundromats in the US in the 1920's and 1930's. At these times money laundering rates were very high, to combat this all the money received needed to be declared and to go around this the mafia would use

these laundromats to declare its money. Since then Money laundering has received various changes in the way that money is laundered, now with the introduction of AML and other systems to counter money laundering .

In money laundering the process of passing dirty money to clean can differ from the simplest of ways to the most complex systems that give governments headaches when trying to track this money. But criminals generally stay true to 3 certain steps: placement, layering and integration.

First, the criminals begin with the placement which requires the secretive introduction of the dirty money into the financial system giving it value. According to ICAS placement can be done in several ways, some can include: cash businesses, the way this works is that criminals place the money into business as legitimate income, and smurfing, here criminals lodge the money in small amounts that go under AML policies reporting thresholds into banks. Foreign bank accounts are also used; in this method the money is taken physically to other countries that don't have strict AML's, lodging the money into bank accounts and then sending it back to the country where the money originated. Delegates are encouraged to further investigate these forms of placement.

After the first step comes "layering" where several transactions are made with the money to clean off its origin making it hard to track to the source thanks to some kind of encryption due to the amount of transactions. An example of this can be the use of Shell companies to obscure the ownership of assets to hide the money. Another example that is very common is the resale of high value objects, such as jewelry and artwork. Due to the policies of artwork auctions, the sellers of these pieces of art can be anonymous making the buyers hard to track and these high value items are sold and used for the next step of money laundering.

Integration is the last step of money laundering; here, the criminals look to use the money that is now legit to buy goods. After extracting this money, the criminals have no problem paying taxes as this legitimizes the money even more. This money can now have any use because it has been declared and there is no doubt that the money is "legal".

Criminals do not always stay true to these steps, as depending on the complexity of the laundered money, it can be cleaned through various methods that include the combination of these steps, the continued repetition of the steps to give more legitimacy, and other more complicated procedures.

In today's world cryptocurrency has become one of the most used methods by criminals to launder money. To not make it complex, cryptocurrencies decentralized currencies that work through a technology called blockchain, which is a shared database that works with blocks that unite as a timeline giving each block a track to where the coin first started. Since cryptocurrencies are decentralized there is no one who is in control of them, and so criminals use them as tax havens. Because no one controls them, criminals use crypto to move the money anywhere around the globe avoiding any type of tax authorities. Currently, Bitcoin is the strongest money on the crypto market and thanks to the way crypto works, criminals are attracted to it. The lack of regularization of cryptocurrencies makes it hard to counter criminals that use it. This topic is very extensive and delegates should investigate more about it.

Financing terrorism is one of the biggest uses of laundered money. The FATF has a black list of countries that have been marked of for being Non-Cooperative Countries, these countries support terrorist fundings or money laundering, the two countries that are in this list are North Korea and Iran. The FATF also has another list that can be related with issues in countries, it is the gray list. This list consists of countries that can be considered as a safe place for terrorist funding or money laundering. The gray list is more extensive as it contains 12 countries: Bahamas, Botswana, Cambodia, Ethiopia, Ghana, Pakistan, Panama, Sri Lanka, Syria, Trinidad and Tobago, Tunisia and Yemen. Being in the gray list is very harmful for the countries as it comes with various consequences such as economic sanctions, loan issues, and boycotts in international trade.

The FATF ranks countries through a system that evaluates countries on their risk that money laundering is likely to occur. Today, Afghanistan is the country with the highest risk of money laundering standing at an astonishing 8.16 on a scale of 10 being the greatest risk. After Afghanistan there is Haiti with 8.15 and Myanmar with 7.86. The country of Andorra got the best AML as they recorded the lowest risk for money laundering.

But what is being done about it? The main thing that is used for prevention and intervention of money laundering are the AML. AML's are laws, regulations, and procedures done in order to counter money laundering. These are made for governments to detect money laundering and stop criminals from cleaning their dirty money. AML makes financial institutions monitor how money is moved through transactions and report suspicious activity. Suspicious activity is tracked by verifying from where the money is coming from and also reports transactions over $10,000. In the world there is an organization which was funded by organizations and countries in the world which is FATF, FATF was created in 1989 and was created

with the goal of devising international anti money laundering policies and also with the objective of promoting these policies to other countries.

Money laundering activities cost the world 2 to 5% of the world GDP, leading to economies failing and as well as other problems that prevent the world from advancing. The immediate stop of money laundering should be the focus of the delegates.

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