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Money Laundering: Its history, evolution and deterrents

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Agenda

- Background: What, Who and Why
- Common Methods of Money Laundering
- Legislation
- Manheim's story
- Current limitations
- Why should You care
- Questions

What is Money Laundering?

It is the process of disguising money obtained through illegal activity to appear that it was obtained from legitimate sources.

Why Launder Money?

- To pay expenses related to their illegal activity.
- To invest their proceeds in the criminal cycle and boost illegal activity.
- Eventually, to sustain a luxurious lifestyle.

Who Launders Money?

- Terrorists
- Businessmen
- Politicians
- Drug Dealers
- Mercenaries

History of Money Laundering in the USA

- 1920s – Prohibition Era; Al Capone
- 1940s – Meyer Lansky and Benjamin “Bugsy” Seigel
- 1970s and 1980s – Large currency deposits of illicit profits; drug trade
- 1990s – Government turned its focus to Money Services Businesses (MSB)
- 2011 – Terrorists attack the World Trade Center & Pentagon; Financial war on terrorism
- Present – USA government continues to regulate industries prone to money laundering

How Money Laundering Works

The Stages

- **Placement:** Funds derived from criminal activity are physically disposed.
- **Layering:** The source of funds are disguised.
- **Integration:** Cash is integrated into the legitimate economy and financial system.

How Money Laundering Works



Goes in *DIRTY*



Comes out **CLEAN**

Common Methods of Money Laundering

Structuring
or
Smurfing



Common Methods of Money Laundering

Informal Value Transfer System (IVTS)

A hawala primer

The informal structure of hawala makes it an effective way to transfer money quickly – and, on occasion, illegally. The key to hawala is that money is transferred but not moved. Here's how it works.

FOR EXAMPLE:

A Pakistani working in San Francisco as a taxi driver wants to send \$5,000 to his brother in Karachi. He can go to a bank, but the bank is likely to want him to open an account. It also will charge him to change and send the money.



The taxi driver has sent the money more quickly and cheaply than possible through a bank and avoided the complications inherent in an overseas bank transaction. He also has avoided the bureaucracy — no papers are necessary to send money through hawala, and no paper trail is generated. If the U.S. dealer has any record of the transaction at all, it probably will focus on her financial relationship with the Karachi dealer.

Sources: "The Hawala Alternative Remittance System and its Role in Money Laundering" by Patrick M. Jost and Harjit Singh Sandhu; Treasury Department Financial Crimes Enforcement Network / Interpol; The Washington Post

The Chronicle

Common Methods of Money Laundering



CASH

Bulk Cash Smuggling

Photos from presentation by Chuck Taylor, 16th Annual Int'l Anti-Money Laundering Conference, March 21-23, 2011

Common Methods of Money Laundering

Human Trafficking



I'm a car seat!



I'm an engine

Photos from presentation by Chuck Taylor, 16th Annual Int'l Anti-Money Laundering Conference, March 21-23, 2011

Common Methods of Money Laundering

Cash Intensive Businesses



Photos from presentation by Chuck Taylor, 16th Annual Int'l Anti-Money Laundering Conference, March 21-23, 2011

Common Methods of Money Laundering

- Casinos
- Trade-based laundering
- Overseas banking
- Shell Companies and trusts
- Bank capture
- Real Estate
- Terrorist Financing
- “Black salaries”

Common Methods of Money Laundering

“Technological Advancements” in Money Laundering

Online Payment Services

- Online shopping
- Electronic bill payments
- Person to person transfer

Money Service Business

- Issuers & Redeemers of Prepaid cards
- Check cashers
- Currency Exchangers
- Money transmitters

Legislation to Combat Money Laundering

- The Bank Secrecy Act of 1970 was designed to:
 - *Prevent tax evasion and provide tools to fight organized crime.
 - *Create an investigative “paper trail” for large currency
 - *Verify the identity of customers
 - *Impose civil and criminal penalties for noncompliance with its reporting requirements.
 - *Improve detection and investigation of criminal, tax, and regulatory violations.

Bank Secrecy Act (BSA) Regulations – Money Laundering Schemes, Gregory J. Cook, EA CPA

Legislation to Combat Money Laundering

- The Money Laundering Control Act of 1986 made money laundering a federal crime.
- It created three new criminal offenses for money laundering activities:
 - * Knowingly helping launder money derived from criminal activity.
 - * Knowingly (including being willfully blind) engaging in a transaction of more than \$10,000 that involves property or funds derived from criminal activity.
 - * Structuring transactions to evade BSA reporting requirements.

Bank Secrecy Act (BSA) Regulations - Money Laundering Schemes, Gregory J. Cook, EA, CPA

Legislation to Combat Money Laundering

- The Anti-Drug Abuse Act of 1988 reinforced anti-money laundering efforts in several ways:
 - *Significantly increases civil and criminal penalties for money laundering
 - *Requires strict identification and recording of cash purchases
 - *Permits the Department of the Treasury to require certain financial institutions to file additional BSA reports of currency transactions
 - *Directs the Department of the Treasury to negotiate bilateral international agreements.
 - *Increases the criminal sanction for tax evasion when money from criminal activity is involved.

Bank Secrecy Act (BSA) Regulations - Money Laundering Schemes, Gregory J. Cook, EA, CPA

Legislation to Combat Money Laundering

The Annunzio-Wylie Anti-Money Laundering Act of 1992 strengthened penalties for financial institutions found guilty of money laundering, requiring Secretary of the Treasury to:

- * Adopt a rule requiring all financial institutions to maintain records of domestic and international funds transfers.
- * Require any financial institution, or any financial institution employee, to report suspicious transactions relevant to any possible violation of law or regulation.
- * Require any financial institution to adopt an anti- money laundering program.

Legislation to Combat Money Laundering

- In addition, The Annunzio-Wylie Anti-Money Laundering Act of 1992 :
 - *Makes it illegal for a financial institution, or an employee of a financial institution, to disclose to anyone involved in a suspicious transaction when a Suspicious Activity Report (SAR) has been filed.
 - *Protects any financial institution, and any director, officer, employee, or agent of a financial institution, from civil liability for reporting suspicious activity.
 - *Makes it a federal crime to operate an illegal money transmitting business

Bank Secrecy Act (BSA) Regulations - Money Laundering Schemes, Gregory J. Cook, EA, CPA

Legislation to Combat Money Laundering

The Money Laundering Suppression Act (MLSA) of 1994 addressed:

- *Requires each MSB to be registered by an owner or controlling person of the MSB.
- *Requires every MSB to maintain a list of businesses authorized to act as agents.
- *Makes operating an unregistered MSB a federal crime.
- *Recommends that states adopt uniform laws applicable to the MSBs.

Legislation to Combat Money Laundering

- The Money Laundering and Financial Crimes Strategy Act of 1998 requires:
 - *The President, acting through the Secretary of the Treasury and in coordination with the Attorney General, to develop a national strategy for combating money laundering and related financial crimes and to submit such strategy each February 1st to Congress.
 - *The Secretary of the Treasury, upon consultation with the Attorney General, to designate certain areas-by geographical area, industry, sector or institution-as being vulnerable to money laundering and related financial crimes. Certain areas were subsequently designated as High Intensity Financial Crime Areas (HIFCAs).

Legislation to Combat Money Laundering

The USA Patriot Act

Uniting and Strengthening America
by Providing Appropriate Tools
Required to Intercept and Obstruct
Terrorism...

Legislation to Combat Money Laundering

The USA PATRIOT Act of 2001 requires:

- *Establishment of anti-money laundering compliance programs by all financial institutions.
- *Establishment of a confidential communication system between government and the financial services industry.
- *Implementation of customer identification procedures for new accounts.
- *Enhanced due diligence for correspondent and private banking accounts maintained for non-U.S. persons.
- *Establishment of a highly secure network by FinCEN for electronic filing of BSA reports.

Bank Secrecy Act (BSA) Regulations - Money Laundering Schemes, Gregory J. Cook, EA, CPA

Manheim's Story

Sections applicable to Manheim:

- Section 326—Verification of identity
- Section 352—Anti-money Laundering programs

How does Manheim comply?

- IRS/FinCEN Form 8300 reporting
- Know your customer
 - ◆ Dealer Registration
 - ◆ OFAC compliance –Vetting process
- Know what business your customer is doing

Manheim's Story

We file:

When the auction receives cash in excess of \$10,000 in a single transaction or in a series of related transactions:

- *Vehicle purchases* – includes whole car, salvage, damaged and/or disabled vehicles
- *MAFS payments* – includes curtailments, payoffs, and balances due
- *Miscellaneous Accounts Receivable* – i.e. transportation, tow fees, repairs, etc.
- *Redemptions*

Limitations in the Current Money Laundering Laws

- Current legislation addresses only domestic problems
- It's not a crime:
 - To conduct financial transactions with the intent to promote and commit crime
 - To transport cash on highway, airport, bus or train for criminal purposes
- Forfeiture laws
- Does not permit pre-trial restraints of criminal proceeds upon indictment

Why YOU Should Care about Money Laundering

- Increased Terrorist activity
- More crime
- More violence
- More drugs

Which all attributes to increased corporate expenses to pay for compliance.

QUESTIONS?

Contact Information

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