

Countering Money Laundering

Definition and History

Money laundering is a process in which individuals or groups try to obscure or hide the illegal sources of their funding. Money laundering is typically used by criminal or terror groups in order to prevent government authorities from being able to identify and then stop the flow of funds. The United States Financial Crimes and Enforcement Center (FINCEN) says that, “Money laundering involves disguising financial assets so they can be used without detection of the illegal activity that produced them.”¹ Groups and individuals engage in money laundering as it allows them to mix their money from illicit sources into the legitimate economy, which then allows the group or individual to use the funds for whatever they want. Money laundering can be conducted within a country or can be used to move money between countries. Some money laundering methods are incredibly simple, while other are incredibly complex and involve money moving between a variety of different companies—real or shell companies—in order to obscure the origin of the funds.² Estimates on the scope of money laundering vary, but the United Nations Office on Drugs and Crime estimate that each year 2-% of global gross domestic product (GDP)—or roughly \$800 billion to \$2 trillion—is laundered each year.³

While money laundering has gained greater focus since the terror attacks on September 11th, 2001, money laundering is not a new concept. Money laundering-like activities have been used since ancient times to allow individuals and groups to conceal the size, scope, and origin of their money from governments and tax authorities.⁴ During the 1900s, money laundering took off in the United States as organized crimes groups, particularly, the mafia used the technique to try and hide their activities from the Federal Bureau of Investigation (FBI).⁵ But money laundering was first used during the Watergate Investigations in the 1970s when large volumes of cash were deposited in Mexican banks and then transferred to the United States in order to fund the campaign of President Nixon and other Republican candidates.⁶

As globalization has taken off since the end of the Cold War, so has international money laundering. For example, many Latin American drug cartels and criminal groups sell their drugs in Canada, Europe, and the United States, but are based in Latin America. In order to get the funds back to Latin America, they engage in money laundering. Money laundering legislation has been introduced since the 1990s, with the Money Laundering Suppression Act (1994); Money Laundering and Financial Crimes Strategy Act (1998); the USA Patriot Act; and the Intelligence Reform & Terrorism Prevention Act of 2004 all seeking to make money laundering more difficult.⁷ The final

¹ “What is Money Laundering?” *FinCen*. <https://www.fincen.gov/what-money-laundering>.

² “What is Money Laundering and What is its History?” *The Street*. <https://tinyurl.com/8kwzax4>.

³ “Money Laundering.” *The UNODC*. <https://www.unodc.org/unodc/en/money-laundering/overview.html>.

⁴ “What is Money Laundering and What is its History?” *The Street*. <https://tinyurl.com/8kwzax4>.

⁵ “Money Laundering: History, Regulations, and Techniques.” *Criminology and Criminal Justice*. <https://tinyurl.com/5725jva7>.

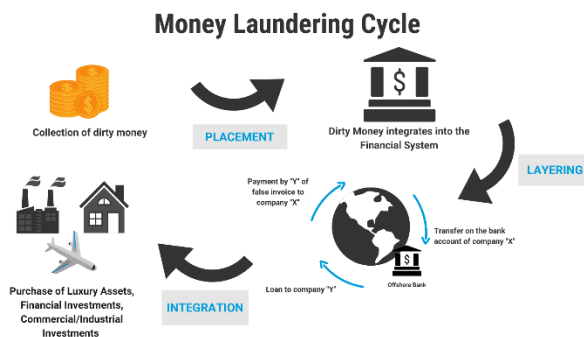
⁶ *Ibid*.

⁷ “History of Anti-Money Laundering Laws.” *FinCen*. <https://www.fincen.gov/history-anti-money-laundering-laws>.

two laws also broadened anti-money laundering efforts from just focusing on criminal groups to also focusing on money laundering by terror organizations.

The Methods of Money Laundering

There are many ways that groups and individuals seek to launder their money, but they all involve the same general concepts, placement, layering, and integration. Many illicit activities, such as drug sales, prostitution, and extortion, are cash intensive initiatives, meaning that groups need to be able to legitimize the cash and distance it from its illicit origins.



Placement, Layering, Integration

All money laundering schemes involve placement, layering, and integration—in some form or another. In the *placement step*, illicitly obtained funds are inserted into the financial system. Due to reporting requirements, deposits of more than \$10,000 must be reported by financial institutions to the government in the United States.⁸ To avoid additional reporting requirements, individuals and groups will make money deposits at different financial institutions under the reporting requirement in a process known as structuring or smurfing.⁹ Groups will often hire other individuals to make the deposits on their behalf into different accounts to further spread and reduce the risk of being caught by a financial institution or the government.

In the *layering step*, money with an illicit origin that has been placed into the financial system is transferred between various accounts owned by different companies. But these companies—known as shell companies—often have no legitimate purpose other than to facilitate the money laundering and further obscure the money’s origins.¹⁰ While bank transparency laws in the United States and other countries have complicated layering efforts, some countries have strict bank secrecy protections, making it difficult for authorities to track the ownership of different bank accounts. These secrecy protections can help money launderers—even if the protections serve other legitimate purposes. In the *integration step* the illicitly generated money is used by the criminal or terrorist organization to fund their efforts or participate in the legitimate economy. Groups use these funds to carryout terror attacks or pursue legitimate business activities in their home region or country. Because of the actions taken in the placement and layering steps, money in the integration step appears legitimate and often does not raise the alarm of authorities.

Shell Corporations

A shell corporation or company is a legal business entity that has no legitimate business activity and very few assets. Shell corporations are not inherently illegal, but they can be used in the money laundering process. Shell corporations are attractive for legal and illegal usages because they can help obscure the ultimate owner(s) or beneficiaries of the shell corporation.¹¹ In some cases, shell

⁸ “What would happen if I deposited \$10,000 into my bank account.” *SOFI*. <https://tinyurl.com/2a9u84ja>.

⁹ “Money Laundering: History, Regulations, and Techniques.” *Criminology and Criminal Justice*. <https://tinyurl.com/5725jva7>.

¹⁰ *Ibid*.

¹¹ “What is a shell company in money laundering.” *Sanctions.io*. <https://tinyurl.com/2rmx4yvc>.

companies can own other shell companies, which own other shell companies, and so-on-and-so-forth. When a criminal organization wants to layer its money into the economy, it can have a shell corporation create an invoice for a business activity and then use money it has already placed into the financial system to pay the invoice and transfer the funds to the shell company. On paper, this transfer looks completely legitimate—it simply looks like a business charging an individual for a service or product and then that individual paying for the service or product. But for money laundering, no business activity is taking place, the fabricated invoice is created so the money can be transferred to the shell company and eventually be used by the criminal or terror group. Shell companies continue to flourish in states and countries with strict privacy laws (such as parts of the United Kingdom including Gibraltar, Bermuda, and the Cayman Islands; as well as Switzerland; Barbados; and Wyoming, Delaware, Nevada, and North Dakota in the United States) and their complicated ownership structures make it a challenge for authorities to track and stop the flow of funds.¹² Shell companies are often used to facilitate other types of money laundering.

Gambling

Individuals and groups looking to launder money can take their illicit cash and convert it to casino chips. They then take these chips and gamble—losing a small portion of the chips—before cashing the chips out.¹³ By converting their illicit cash to chips and then back to cash, they are able to obscure their illicit origin and begin using the funds in the legitimate economy. Any losses made while gambling is simply a cost of doing business for the money launderer; and money launders often do not accept large winnings as it will trip additional reporting requirements. Money laundering through casinos is so effective because casinos often handle large numbers of cash transactions and money launderers can provide fake or incomplete information through the transaction with casinos.¹⁴ Money launderers can also use online gambling in a similar process to launder money. Anti-money laundering groups have criticized casinos and casino regulators in Australia; British Columbia, Canada; and Macau, China for their lax approach to money laundering efforts.¹⁵

To prevent money laundering through casinos, casinos in many jurisdictions are supposed to engage in anti-money laundering tactics including reporting bets above a certain money threshold in a certain period of time and engaging in due diligence on high-risk gamblers. In the United States, casinos must report the identities of those who place more than \$10,000 in bets in a 24-hour period.¹⁶ To get around this reporting threshold, money launderers will employ teams of individuals at casinos who make bets less than \$10,000 and then convert the chips to cash.¹⁷ Casinos should also be suspicious of money laundering in cases where “customers closing their casino account after the initial deposit; customers making changes to bets to avoid reaching the threshold; customers abandoning their jackpot winnings; and suspicious behavior and/or more than one gambler seeming to be working together.”¹⁸

¹² “What is a shell company in money laundering.” *Sanctions.io*. <https://tinyurl.com/2rmx4yvc>.

¹³ “Understanding Money Laundering in Casinos.” *Comply Advantage*. <https://tinyurl.com/b2snzbsw>.

¹⁴ “Money laundering through the gambling industry.” *Basel Governance*. <https://tinyurl.com/3juxze8w>.

¹⁵ “Understanding Money Laundering in Casinos.” *Comply Advantage*. <https://tinyurl.com/b2snzbsw>.

¹⁶ “In a Nutshell: What is Title 31?” *FraudFighter*. <https://tinyurl.com/54xvebkw>.

¹⁷ “Understanding Money Laundering in Casinos.” *Comply Advantage*. <https://tinyurl.com/b2snzbsw>.

¹⁸ “Understanding Money Laundering in Casinos.” *Comply Advantage*. <https://tinyurl.com/b2snzbsw>.

Real Estate

Real estate is an effective vehicle for money laundering because individuals can make large transactions in cash, allowing them to launder larger sums of money in fewer transactions. By paying with their illicitly generated cash, individuals can purchase property. They can then sell this property to use their cash for something else; they can rent or use the property; or they can hold onto the property until they need to access the funds.¹⁹ From 2015 to 2021 at least \$2.3 billion was laundered from foreign countries into the United States via real estate transactions according to Global Financial Integrity, a financial transparency group.²⁰ According to the Financial Times, some 60% of real estate transactions of more than \$2 million made by international investors in Manhattan and Miami were made through cash purchases.²¹

In some countries, including the United States, United Kingdom, and Australia professionals in the real estate industry have few or no cash transaction reporting requirements—making real estate even more attractive to would-be money launderers.²² Sometimes money launderers will also shell companies purchase the property, further concealing their identity. Money laundering through real estate also can have negative effects for local residents as it can price them out of being able to purchase homes and criminal money laundering groups can use their purchased property to further engage in illicit activities.

Trade-Based Money Laundering (TBML)

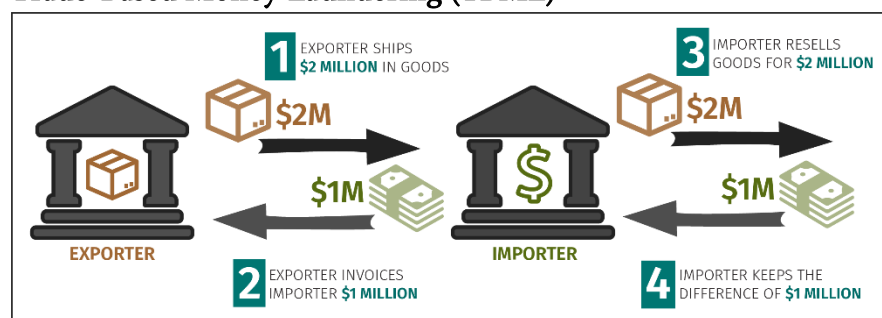


Figure 1: Example of a simple TBML scheme. Source image: ACAMS

International trade is a very attractive pathway for money laundering. Global trade was valued at \$25 trillion in 2022 and the large volume of trade and its monetary value make it perfect for laundering money.²³

When individuals or groups engage in TBML they use the legitimate international movement of goods to conceal the illicit origin of their funds.²⁴ For example, if a Mexican drug cartel sells drugs in the United States and wants to use the funds in Mexico, they will place those funds into the American financial system and then use the funds to purchase refrigerators in the United States. The drug cartel will then, typically through a variety of shell companies, ‘export’ the refrigerators to Mexico where they will be sold—sometimes at a loss. In this way, the drug cartel is using the refrigerators to launder their drug money back to Mexico. To Mexican authorities, the drug cartel shell or front company selling refrigerators looks like a legitimate business and so the money can be

¹⁹ “Understanding Money Laundering in Real Estate.” *Comply Advantage*. <https://tinyurl.com/2p8zctj6>.

²⁰ “Acres of Money Laundering.” *Global Financial Integrity*. <https://tinyurl.com/7bhfd35a>.

²¹ “US Treasury to track cash buyers of prime real estate.” *The Financial Times*. <https://tinyurl.com/ycyr7hvm>.

²² “Acres of Money Laundering.” *Global Financial Integrity*. <https://tinyurl.com/7bhfd35a>.

²³ “Global Trade Outlook and Statistics.” *World Trade Organization*. <https://tinyurl.com/42usdddd>.

²⁴ “TBML: What is Trade-Based Money Laundering.” *FICO Blog*. <https://tinyurl.com/msk8csp>.

used by the cartel throughout the Mexican economy without raising any alarms or providing a connection back to the original sale of drugs in the United States.

But not all TBML even involves the movement of actual goods, with money launderers often under or over invoicing on customs forms that they report customs, border, and bank officials. In the refrigerator example, the Mexican drug cartel through its front or shell company would likely report to US export and Mexican import officials that they were moving 1000 refrigerators from the United States to Mexico, when in reality they were moving 1500 refrigerators. In this way, by invoicing and reporting fewer refrigerators, the Mexican drug cartels are able to launder more money in a single transaction.²⁵ In many cases, invoices are completely fictitious with groups ghosting invoicing for 1000 refrigerators, but not moving any actual goods.

Most experts consider TBML to be the most widely used form of money laundering in large part because of the volume and lucrativeness of international trade and the complexity and scope of international supply chains. The United States, Mexico, Columbia, China, and Hong Kong were the most widely impacted by TMBL.²⁶ The volume of international trade makes it difficult for customs and border officials to stop and inspect every import and export. Each day \$1.9 billion worth of trade crosses the US-Mexican border, a slow down caused by greater inspections at the border would be costly to both countries.²⁷ Additionally, because of the volume and complexity of international trade it is not feasible for bank officials to check every invoice that is associated with every money transfer that they process. The scope of international trade allows money launderers the ability to launder funds to many different countries. If two countries engage in the trade of goods and/or services, it makes it easy to engage in TBML. For international criminal or terror groups, this makes TBML as they can move money between many different countries with relative ease. Moreover, because TBML involves two or more countries, it makes it difficult for countries to stop, particularly if their governmental officials and financial systems do not cooperate closely or have similar legal regimes.

Money Laundering and Criminal Enterprises

While money laundering is a crime in-and-of-itself in many areas, money laundering is concerning and government seek to stop it as laundered money can be used by individuals and groups to commit criminal acts or engage in terrorism. The idea is that if groups cannot use money laundering pathways to be able to actually use their funds, they may stop those illicit activities that generate revenue and it might prevent groups and individuals from engaging in additional crimes with the laundered funds. Organized crime groups commit an array of crimes including arm, sex, human, and drug trafficking; extortion; and counterfeiting. In addition, organized criminal groups often use their resources to corrupt local and national officials and security personnel, such as police departments, prosecutors, and judicial employees. If these criminal groups were cut-off from their money, then they would be less able to pursue their criminal agendas and spread corruption through the political, economic, and judicial systems in the areas in which they operate.

²⁵ "Trade Based Money Laundering." *Simmons & Simmons*. <https://tinyurl.com/26tpn9nz>.

²⁶ "Trade-Based Money Laundering: A Global Challenge." *Global Financial Integrity*. <https://tinyurl.com/ycmw5936>.

²⁷ "FACT SHEET: U.S. – Mexico Bilateral Cooperation." *The White House*. <https://tinyurl.com/32y7xjps>.

Terrorism

Criminal groups are not the only organizations interested in money laundering. Increasingly since 2001, terror groups have turned to money laundering in order to sustain financial support for their activities and prevent governments from impacting their ability to operate. Terror groups have an interest in ensuring that their money, which often, but not always, comes from illicit sources, is able to reach the group so that it can spend it. For example, Nazem Ahmad a diamond smuggler and art dealer is being prosecuted by the U.S. government for using shell companies to move and sell art in order to fund Hezbollah—a Lebanese Islamist group that has been designated a terrorist organization by the United States.²⁸ The United States alleges the Ahmad used shell companies to obscure his and Hezbollah’s involvement in the transactions and underreported the value of art it has shipped from New York to Lebanon.²⁹

Even as the fight against the so-called Islamic State has reduced the group’s territorial control, it remains active and a global threat because of its financial resources that it has laundered through the global financial system. When it controlled territory in Iraq and Syria, the Islamic state was able to raise incredible sums of funds through looting, pillaging, kidnapping, and the sale of looted artifacts and artworks.³⁰ In order to perpetrate acts beyond its territorial holdings, the group laundered money through the international financial system. They used money laundering to get roughly \$40,000 to the perpetrators of the 2019 Sri Lankan terror attacks.³¹ Given its current lack of territory, if the group’s laundered funds and money laundering pathways could be shutdown, then the group would struggle to carryout more attacks.

Cryptocurrency

Cryptocurrencies are a digital currency that have been not issued by a government but by private companies and cryptocurrency exchanges. These currencies are decentralized and not backed by any government’s central bank and governments provide very limited oversight of cryptocurrencies.³² Cryptocurrencies can also be sent between two people without passing through a bank.³³ Cryptocurrencies can be purchased with physical money or they can be ‘mined’ by computers solving complex mathematical problems.³⁴ Bitcoin, Ethereum, and Litecoin are several well-known cryptocurrencies. Cryptocurrencies are attractive to many as the transaction costs associated with cryptocurrencies can be lower than wiring money internationally; cryptocurrencies are easily accessible with a phone or computer; and they provide more security and privacy than other assets such as transactions through a bank.³⁵ Some use cryptocurrencies like real money, using it to pay for goods and services; while others treat it as an investment. The value of cryptocurrencies fluctuates as demand and supply changes.

²⁸ “OFAC-Designated Hezbollah Financier and Eight Associates Charged with Multiple Crimes Arising Out of Scheme to Evade Terrorism-Related Sanctions.” *U.S. Department of Justice*. <https://tinyurl.com/4tp7khvw>.

²⁹ Ibid.

³⁰ “The Economics of ISIS.” *F3 Magazine*. <https://www.un-ilibrary.org/content/journals/25190709/2016/11/9/read>.

³¹ “Destroyed on the Battlefield, ISIS begins new chapter of terror.” *CNN*. <https://tinyurl.com/yxzd9ews>.

³² “Cryptocurrency Explained: A Guide for Beginners.” *NerdWallet*. <https://www.nerdwallet.com/article/investing/cryptocurrency>.

³³ “What is cryptocurrency and how does it work?” *Kaspersky*. <https://tinyurl.com/4u4cd673>.

³⁴ Ibid.

³⁵ “Why Should You Use Crypto?” *The Motley Fool*. <https://tinyurl.com/29v7fyjy>.

Some in the popular press have argued that cryptocurrencies are completely anonymous, but that is not entirely true. Instead, the encryption involved with cryptocurrencies can protect and conceal the identity of a holder of cryptocurrency, but it is not entirely anonymous.³⁶ Private investigators, determined journalists, and some governments have been able to analyze cryptocurrency transactions to reveal the identity of specific groups. An investigation by the U.S. Government in 2021 was able to identify the creator of Bitcoin Frog a cryptocurrency service that was designed to conceal the identities of bitcoin transactions.³⁷ Still, the privacy provided by many cryptocurrencies make it a popular payment medium for those committing crimes or operating on the dark web. There was \$1 billion worth of Bitcoin transactions on the dark web in 2019.³⁸ Cryptocurrencies are less anonymous in the United States, Europe, and China where regulatory bodies do a better job at tracing exchanges in cryptocurrencies—trading done in countries with little regulatory oversight or familiarity with cryptocurrencies are much more difficult to trace and can effectively be done anonymously.³⁹

Despite not being completely anonymous, cryptocurrencies can still be appealing for money launderers as it can be easy to create an account to trade cryptocurrencies; volatility of cryptocurrency price makes it easy to explain large increases in wealth; and cryptocurrencies allow for rapid and low-cost transfer of funds across international borders. A cryptocurrency account can quickly and easily be created from a phone or laptop, this makes it easier to start an account than forming a shell company.⁴⁰ Because cryptocurrencies fluctuate in value so much, an individual can easily explain a large increase in wealth as simply the result of an increase in the value of a cryptocurrency—unexplained wealth can often be a sign authorities use to detect money laundering activities. Cryptocurrencies also do not involve the movement of goods or wiring money as the cryptocurrencies can be easily sent between different holders in different countries. Cryptocurrency groups estimate that \$23.3 billion in value was laundered through cryptocurrencies in 2022.⁴¹

Combatting International Money Laundering

Combatting money laundering is a challenge. Many countries have implemented reporting requirements for their banks, casinos, and financial institutions that mandate the reporting of suspicious activities and transfers and deposits above a certain monetary value. But these laws can easily be avoided by using shell corporations, opening multiple accounts, making deposits at a variety of institutions just under the reporting requirements, etc. The Financial Action Task Force (FATF) is an intergovernmental group that combats money laundering. FATF produces anti-money laundering recommendations such as criminalizing money laundering; increasing transparency in corporate ownership structures and financial institutions; mandating customer due diligence for financial institutions and high value transactions (to ensure that customers are who they say they are the

³⁶ “Cryptocurrency’s Myth of Anonymity.” *Wired*. <https://www.wired.com/story/gadget-lab-podcast-585/>.

³⁷ “State of Crypto: The Bitcoin Fog Indictment Shows the Permanence of User Data.” *CoinDesk*. <https://tinyurl.com/umman8w>.

³⁸ “The Truth About the Dark Web.” *The International Monetary Fund*. <https://tinyurl.com/2p9d8ev7>.

³⁹ “Terrorist Use of Cryptocurrencies.” *The RAND Corporation*. https://www.rand.org/pubs/research_reports/RR3026.html.

⁴⁰ “Money laundering through cryptocurrencies.” *The United Nations*. <https://tinyurl.com/56raz9an>.

⁴¹ “Crypto Money Laundering: Four Exchange Deposit Addresses Received Over \$1 Billion in Illicit Funds in 2022.” *Chain Analysis*. <https://blog.chainalysis.com/reports/crypto-money-laundering-2022/#activity-summarized>.

source of their funds is legal); and greater international cooperation.⁴² FATF also maintains a list of countries who are at sites of money laundering or have weak legal regimes against money laundering. Currently, Iran, North Korea, and Myanmar are the countries with a poor record on money laundering, while the actions of South Africa, Turkey, United Arab Emirates, Panama, Nigeria, Jamaica, and the Democratic Republic of the Congo on money laundering are also concerning.⁴³

The United Nations also has two major conventions that concern money laundering, the Vienna Convention of 1988 and the Palermo Convention of 2001.⁴⁴ The Vienna Convention was the first United Nations effort at criminalizing money laundering, particularly in the context of transnational criminal organizations.⁴⁵ The Vienna Convention also sought to encourage states to confiscate property and funds that were being laundered.⁴⁶ While the Palermo Convention deals with the many issues of transnational organized crime, article 6 specifically focuses on money laundering and designates that countries need to implement domestic laws to penalize money laundering activities.⁴⁷ Members are also obligated to apply anti-money laundering efforts to a wide range of criminal activities. Article 7 lays out specific measures that countries should adopt to combat money laundering such as comprehensive domestic regulatory and supervisory regimes for banks and non-bank financial institutions; the implementation of measures to detect and monitor the movement of cash and financial instruments across borders; and that countries should cooperate globally to facilitate efforts against money laundering.⁴⁸

Because of the international nature of crime and terrorism, money laundering is an international issue. Groups and individuals seek to move they illicitly generated funds from one area to another while obscuring its illicit origins. Only through international cooperation can money laundering be reduced and, in some cases, prevented.

Questions to Ponder

- To what extent can reporting thresholds be reformed to allow for better anti-money laundering efforts while protecting privacy and individual rights?
- How can the international community bring transparency to shell corporations when some countries have an economic incentive to allow for shell corporations to continue to exist?
- To what degree can the international community address money laundering through cryptocurrency?
- How have existing money laundering regulations (domestic and international) failed to prevent money laundering activities?

⁴² “INTERNATIONAL STANDARDS ON COMBATING MONEY LAUNDERING AND THE FINANCING OF TERRORISM & PROLIFERATION.” *FATF*. <https://tinyurl.com/2rr9mwnc>.

⁴³ “Black and Grey Lists.” *FATF*. <https://www.fatf-gafi.org/en/countries/black-and-grey-lists.html>.

⁴⁴ “Anti-Money Laundering Reference Material.” *The International Monetary Fund*. <https://tinyurl.com/yc4de3ez>.

⁴⁵ “The International Standards on Combating Money Laundering: a Brazilian Perspective.” *George Washington University*. <https://www2.gwu.edu/~ibi/minerva/Spring2009/Arnaldo.pdf>.

⁴⁶ “United Nations Convention Against Illicit Traffic in Narcotic Drugs and Psychotropic Substances, 1988.” *The United Nations*. https://www.unodc.org/pdf/convention_1988_en.pdf.

⁴⁷ “United Nations Convention against Transnational Organized Crime and the Protocols Thereto.” *The United Nations*. <https://www.unodc.org/unodc/en/organized-crime/intro/UNTOC.html>.

⁴⁸ *Ibid.*