

Description of Money Laundering and Terrorist Financing

What is Money Laundering?

Deception is the heart of money laundering: at its most basic level money laundering is deception by attempting to make assets appear to have been obtained through legal means with legally-earned funds or to be owned by third parties who have no relationship to the true owner.

The goal of a large number of criminal acts is to generate a profit for the individual or group that carries out the act. From the perspective of the criminal, it is no use making a profit from criminal activities if that profit cannot be put to use. A proportion of the profit will often be re-invested into further criminal ventures, but criminals will often wish to use the rest for other purposes. If this activity is to be achieved without being detected the money must be 'laundered'. Money laundering can be described as the processing of criminal proceeds to disguise their illegal origin. Criminals seek to put their proceeds of crime into a state in which it appears to have an entirely respectable origin. If this act is carried out successfully it allows criminals to maintain control over their proceeds and ultimately to provide a legitimate cover for their source of income. Where criminals are allowed to use the proceeds of crime, the ability to launder such proceeds makes crime more attractive.

However, this does not mean that all criminals need to resort to elaborate schemes in order to create the perception of legitimacy of the source and ownership of their assets. Small-time criminals rarely do; they deal in cash and avoid financial institutions as much as possible. Even with regard to larger criminal activities the need to launder money will vary from jurisdiction to jurisdiction.

The money laundering process is generally made up of three stages:

The placement stage where illegitimate funds find their way into the financial system via payment into legitimate accounts. For example, depositing cash in banks which ask no questions, using business entities that are cash intensive in nature to commingle funds, buying precious metals/diamonds, or artwork/stamp collections;

The layering stage which is used to disguise the audit trail between the funds and the original point of entry into the financial system. This is achieved by moving the funds around so that the origins of the money become obscured. For example, by transferring funds across borders, purchasing investment bonds, gambling at the race track or at casinos, and making use of foreign financial centres;

The integration stage where funds are reintroduced as legitimate wealth to fund further activities or to acquire assets.

What is Financing of Terrorism?

For terrorists, the acquisition of funds is not an end in itself but a means of committing a terrorist attack. With terrorist financing, it does not matter whether the transmitted funds come from a legal or illegal source. Indeed, terrorist financing frequently involves funds that, prior to being remitted, are unconnected to any illegal activity. Examples have occurred when legitimate funds have been donated to charities that, sometimes unknown to the donors, are actually fronts for terrorist organisations.

Tracking terrorist financial transactions arising from legitimate sources is more difficult than following the money trails of the proceeds of crime because of the often relatively small amount of funds required for terrorist actions and the range of legitimate sources and uses of funds. While many organised crime groups are adept at concealing their wealth and cash flows for long periods of time, their involvement in the physical trade of illicit drugs, arms, and other commodities, often exposes the revenues and expenditures connected to these illegal dealings. In contrast, terrorist attacks are in many cases comparatively inexpensive, and their financing is often overshadowed by the larger financial resources allocated for the group's political and social activities, making it more difficult to uncover the illicit nexus.

Identifying and disrupting the mechanisms through which terrorism is financed are key elements in the overall efforts to combat terrorism. As well as reducing the financial flows to terrorists and disrupting their activities, action to counter terrorist financing can provide vital information on terrorists and their networks, which in turn improves law enforcement agencies' ability to undertake successful investigations.