BANKING REGULATIONS: WHAT CAN BE DONE ABOUT MONEY LAUNDERING?

Chapter 1

Money Laundering

Money Laundering is the practice of processing criminal proceeds to disguise their illegal origin. (FATF, 2002) The term derives from the fact that certain organized crime rings in the 1920's commingled the proceeds of their illicit operations with the practically untraceable proceeds from coin laundries operated by the ring, thereby making the funds appear to be legitimately derived. (Schroth, 1996) Though the term "money laundering" may have originated in the twentieth century, the practice of disguising ill-gotten gains pre-dates recent history and indeed traces its roots back to the dawn of banking itself. (Campbell, 1992) For instance, when the Roman Catholic Church in medieval times condemned usury, or lending money at interest, financiers devised methods to circumvent this restriction that are still in practice today. (O'Meara, 2000)

Stages of Money Laundering

In its simplest form, money laundering involves three stages; placement; layering, and integration. (Schroth, 1996) The placement stage is the process during which criminally derived funds are used to purchase an asset or are deposited into a financial institution. (p. 290) Next, launderers engage in one or a series of transactions to distance the funds from their original source. (p 290) This is the layering stage, which may include such transactions as multiple funds transfers between accounts and across state and international borders, complex loan arrangements, and purchases and resale of assets. (Bauer and Ullman, 2001) Finally, there is the integration stage. This is the point at which the illicitly derived proceeds are reintegrated with the legal financial system and made available for use without suspicion. (Schroth, 1996) As with any criminal enterprise, the variations on these three steps are myriad and have evolved apace both with the sophistication of the financial systems upon which they depend and the law enforcement tactics which threaten their existence.

Techniques used by Money Launderers

This part of the chapter shall discuss the methods employed by money launderers to stash their financial assets without the government noticing their crime. One such technique is called *smurfing*. In this technique, an individual who wants his finances undetected will open several bank accounts on different banks under different names. It is also possible for them to purchase bank drafts from several financial institutions to outwit ceilings for transaction reporting.

Another technique is by shipping huge amounts of money overseas and consequently orchestrates means of getting it back locally. On other accounts, less cumbersome substances such as diamonds, gold or anything that is extraordinarily valuable are purchased domestically. However, the value of their items being directly related to their bulk is a prerequisite, thus allowing an uncomplicated in terms of shipping them overseas and ensures the solvency of the items even if it is outside the borders of the country of origin. Generally, the American dollar is used as the currency of choice in the context of illegal transactions. The reason is that the US dollar considerably more widely circulated outside America compared to other leading currencies in the world.

Another technique is through electronic wire transfers. Scrupulous individuals are currently taking extensive utility of the payment on their transactions through electronic means and message systems for wire transfers. Recent innovations for financial systems authorize iniquitous individuals to transfer monetary remunerations amounting to millions though private desktop computers and satellite dishes. The swift passage of funds between financial records in various jurisdictions increases the intensity and complexity of scrutinizing and discovering the source of funds especially when non-customers and non-correspondent banks transmit to, by the same token, unheard of third parties.

On the other hand, each and every individual affianced in the business of dealing in securities must look after appropriate customer data and records. Unusual activity includes wishes by clients for investment management services, either foreign exchange or securities, where the origin of the funds is not in agreement with the customer's perceptible eminence, large or strange settlements of securities in cash arrangement and purchasing and acquiring a security with no noticeable objective. These should be taken into account because money launderers are also using investment related transactions in placing their stashed cash.

Alternatively, a noticeable conspiracy with the personnel of the financial institution as well as its agents would also be a means of laundering money without the head of the financial institution knowing. Doubtful indications include modification in employee characteristics such as lavish life styles or performance, remarkable or unexpected increase in business volume of selling products for cash; consistently high levels of single premium insurance business far in excess of any average company expectation. Similarly, a growing trend of money launderers moving away from the banking sector to the non-bank financial institution sector where the use of currency exchange houses and wire transfer companies to dispose of criminal proceeds remain among the most often cited threats.

Any modestly classy currency launderer will institute a bank account in a financial sanctuary as a company rather than as an individual with a numbered account. In order to augment the manifestation of legality it is preferable that such a company already have an account of tangible activity. Once the business is set up, a bank deposit is consequently completed in the haven state in the appellation of that offshore corporation. The inducement for businesses to be enlisted in offshore havens is to break away from the stern tax and registration policy on local companies. They can concentrate not inconsiderable quantity of financial assets to and from offshore countries devoid of the requirement to announce the dealings to domestic economic authorities. On the stipulation that it does no commerce where it is set up, having an international business (IBC) or "offshore" company facilitates its owners to operate with absolute anonymity and not disburse financial remuneration on taxes. In many fields it is not even necessary to shelve corporate books or records and thus is just the thing for concealing the derivation and destination of merchandise in international commerce. Similarly, companies could be capitalized with holder stocks such that while there is no owner on documentation anywhere, the individual who actually possesses the share certificates owns the corporation.

In many areas, trusts and IBCs are controlled by unfettered trust companies. Loads of decontaminating schemes then develop an additional stratum of cover where management of the company is conveyed to the offshore trust. Consequently, the trustees basically hand over the proprietor immediate admission and control over the assets while trouncing true ownership. The unregulated trust companies can help conceal assets by moving the shares of a corporation from one account to another, by changing corporate names, by merging corporations and by changing trust documents on the instruction of the account holder. They have also been known to manufacture false paper trails and false documentation to assist money launderers and they have routinely provided invoices, receipts and other documents to help fool the customs and tax authorities of other countries.

Furthermore, the path of the dirty money could be further complicated if the launderer acquires their own bank among several jurisdictions that propose such services. Consequently, the individual makes sure that his bank is one of those through which his cash passes so he can either shut down the bank or obliterate the records to elude authorities. Moreover, money launderers recurrently bring into play various legal representatives the length of the route so that they will also be sheltered by the discretion of the lawyer-client affiliation. There is also a mounting dependence in offshore centres on agents and representatives to engender a solid clientele, to function as mediators in instituting accounts, and trusts. Similarly, they are also employed to act as an added tier of insulation and confidentiality.

Proficient launderers include accountants, lawyers and private bankers who, at the same time as offering money-laundering assistance to an extensive range of felons, are adroit at not asking queries that would compel them to rebuff business or even to give an account of their clients or potential clients to the authorities. They are conscious that those who are unsuccessful to meet the terms with professional standards possibly will be predisposed under the want of probity principle.

Moreover, some offshore financial institutions will spawn false invoices, bills of lading, end-user certificates and other forms of documents to give the facade of legality to an assortment of dishonest transactions. Over-invoicing using phony documents can be an exceptional protection for moving the proceeds of drug trafficking and other crimes. On the other hand, fake invoices, bills and receipts can be utilized for an assortment of tax frauds.

Statement of the Problem

As stated earlier in the chapter, money laundering is implied as the venerable method of concealing the unlawful source and iniquitous character of finances which is normally acquired in unscrupulous undertakings such as arms sales, smuggling, human trafficking, organized crime, drug trafficking, prostitution rings, embezzlement, insider trading, bribery, and computer fraud. These funds are concealed by repositioning them indiscernibly and investing them in lawful commerce, securities, or bank deposits. Nevertheless, the plain description of the alleged crime disguises its more significant offence. Hiding a bulk of money and laundering it to specific places is an act of tax evasion, avoidance of tax, and blatant practice of fraud. Tax-related laundering nets between 10-20 billion US dollars annually from France and Russia alone. The convergence of criminal and tax reluctant funds in money laundering complex function to obfuscate its mutual sources.

Illegal as well as tax evaded finances are immobile and inefficient. Nevertheless, the incorporation of these funds to the financial system of an economy allows them to engage in commercial activity as a valuable not to mention inexpensive source of investment. The problem with this kind of laundered money is that it is shrouded by secrecy and eventually does away with transparency, especially those in powerful positions. It is thus a source of corruption among government officials. It also figuratively taints the legal segments of the economy. Being financial remuneration from unscrupulous origin, it displaces the availability of legitimate as well as the resources coming from other areas. Similarly, a huge amount of laundered money creates an erratic and irrepressible money supply while encouraging cross-border financial movements. This phenomenon enhances the precariousness of exchange rates

A joint, corresponding, endeavour is therefore mandatory to contradict the global proportions of money laundering. A lot of states chooses to engage in these actions for the reason that money laundering has as well develop into a local political and economic affair. The United Nations, the Bank for International Settlements, the Financial Action Task Force, the EU, the Council of Europe, and the Organisation of American States, all circulated their respective anti-money laundering principles.

Chapter 2

Legal and Financial Effects on Financial Institutions

Since the initiation of international anti-money laundering efforts in the mid-1980s, various substantive requirements have been established: the requirement to criminalize money laundering activities; the requirement that covered persons must know-their-customer; the requirement to identify and report to authorities suspicious transactions; the requirement to freeze, trace, seize, and ultimately forfeit the proceeds and instrumentalities of money laundering crimes; the requirement of covered persons to have a compliance officer and to train employees; the requirement for covered persons to have outside audits the compliance of their organization with anti-money laundering standards; and the prohibition of secrecy as a reason for a country and covered persons to refuse to follow any of the anti-money laundering obligations.

Preventive Measures of Financial Institutions to Curb Money Laundering

Financial institutions such as banks are normally used as intermediaries for cleansing laundered money. In order to curb out this crime, financial institutions must therefore be vigilant in regulating this activity. These institutions must investigate on any dubious accounts and peculiar undertakings of their clients in their system. Suspicious activity may include the use of Letters of Credit and other methods to move money between countries where such trade is inconsistent with the customer's usual business. Another is thing that should be looked into is those customers who make regular payments or receive wire transactions from countries which are tax havens. Similarly, frequent requests or use of travelers cheques, foreign currency drafts or other negotiable instruments should also be considered as a suspect for launderers. The reluctance to provide normal information or providing minimal or fictitious information that is difficult or expensive for the financial institution to verify when applying to open an account as well as those using accounts with several financial institutions then consolidating them prior to onward transmission of the funds are a good indication of money launderers. A greater or unusual use of safe deposit facilities as well as

companies' representatives avoiding contact with the branch should provide enough skepticism among the bank's top management regarding the sources of the assets deposited in their institutions. Finally, the requests to borrow against assets held by the financial institution or a third party, where the origin of the assets is unknown or the assets are inconsistent with the customer's standing should also be taken into account.

Chapter 3

United Kingdom Laws on Money Laundering

The expansion of the anti-money laundering efforts in the Western Hemisphere to include serious crimes rather than just drug trafficking brings this group current with practice in the rest of the world. The consideration of a multilateral evaluation mechanism, the exchange of information, training, and even a convention are all efforts to strengthen compliance and indicate broader political agreement and acceptance of the purposes of anti-money laundering.

The ongoing assessment, (Zagaris, 1997) the establishment of financial intelligence units (FIUs), and the typologies exercise are small steps towards cooperation in hemispheric anti-money laundering enforcement. Meaningful and effective cooperation, harmonization of laws and standards, and effective establishment of an anti-money laundering regime must await the establishment of a proper network. A solid legal infrastructure with funding for professionals is needed for intensive and daily work on compliance with conventions and resolutions, harmonization of laws, collaboration on common approaches to mechanisms and technology, and common approaches to operational problems. At present, the governments and international organizations in the Western Hemisphere are searching for ways to develop ad hoc solutions to individual criminal problems, such as anti-money laundering.

On the international front, anti-money laundering provisions multiplied at a comparable pace. Great Britain, for instance, enacted a counterpart to the American Money Laundering Control Act with the 1986 passage of the Drug Trafficking Offences Act. (Barbot, 1995; Weeling and Todd, 1996) The 1986 Act provides immunity from suit for breach of the implied banking secrecy contract if a person discloses to a police officer "a suspicion or belief that any funds or investments are derived from or used in connection with drug trafficking or any matter on which such a suspicion or belief is based." While the Drug Trafficking Offenses Act, and its successor, the Drug Trafficking Act, contained a defense against disclosure rather than an affirmative duty to disclose, (Helleiner, 1999) this latter obligation was not far behind. In fact, just three years later, Parliament enacted the Prevention of Terrorism Act of 1989, which imposed just such a duty upon any person who is "concerned in an arrangement whereby the retention or control ... of terrorist funds is facilitated."

In England, as in the United States, more stringent anti-money laundering statutes and regulations soon followed. (Walker, 1996) Shortly after the United States and Great Britain launched their first targeted strikes specifically against money laundering, the United Nations joined the fight against dirty money. (Quillen, 1991) The Vienna Convention of 1988, " recognizing the links between illicit traffic and other related organized criminal activities which undermine the legitimate economies and threaten the stability, security and sovereignty of States," enjoined its signatories to criminalize the act of money laundering and to adopt measures to enable the identification, tracing, freezing, seizing and confiscation of illicitly derived proceeds. The Vienna Convention of 1988 was important not only in that it was the first multi-national recognition of the seriousness of the money laundering problem, but because it marked the first major step in affording to law enforcement officials the same international reach formerly available to drug smugglers and organized crime rings, whose complex laundering schemes regularly involved cross-border funds transfers that made their transactions more difficult to trace.

Crime Prevention: International Level

Multilateral organizations have set the framework for anti-money laundering standards, mechanisms, and institutions. The United Nations pioneered the 1988 Vienna Convention Against the Trafficking in Illegal Narcotic and Psychotropic Substances, which contains the requirements to criminalize money laundering and immobilize the assets of persons involved in illegal narcotics trafficking. (Gilmore, 1999)

In 1989, the G-7 Economic Summit Group established the Financial Action Task Force (FATF), which operates out of the Office of Economic Cooperation and Development (OECD) headquarters in Paris. (Gilmore, 1999) FATF has issued a set of forty recommendations (Forty Recommendations) that concern legal requirements, financial and banking controls, and external affairs. FATF operates through a Caribbean FATF (CFATF) and is in the process of establishing a similar group in Asia. It issues an annual report that provides an overview of progress and problems in international anti-money laundering.

The G-10 Basle Group of Central Banks has actively provided guidelines for central bank supervisors and regulatory controls. As mentioned below, on September 23, 1997, the Basle Group issued guidelines on supervision. Regionally, the Council of Europe's 1991 Convention on Laundering, Search, Seizure and Confiscation of Assets has become the major international convention that obligates signatory governments to cooperate against anti-money laundering from all serious crimes.

The European Union, as a signatory to the 1988 Vienna Drug Convention and due to its own actions to combat financial crimes against the Communities, issued a 1991 Anti-Money Laundering Directive that it is poised to strengthen. As mentioned below, it is now in the process of an initiative against cybercrimes. An important regional organization in the anti-money laundering has been the Inter-American Drug Abuse Control Commission (CICAD). At its meeting on November 4-7, 1997, CICAD anti-money laundering experts recommended an ongoing assessment of compliance with standards and the creation of national financial intelligence units (FIUs). National governments and international organizations are striving to create mechanisms to monitor regularly compliance with international standards. Because the recent FATF annual reports and topologies provide cutting-edge discussions of the status of money laundering trends, they are discussed next.

A significant achievement of FATF during 1996-97 was the annual survey of money laundering methods and countermeasures. The survey provides a global overview of trends and techniques, especially the issue of money laundering through new payment technologies, such as smart cards and banking through the Internet. (Schroth, 1996) FATF reviewed the issue of electronic fund transfers and examined ways to improve the appropriate level of feedback that should be provided to reporting financial institutions. (Bauer and Ullman, 2001) While drug trafficking remains the single largest source of illegal proceeds, non-drug related crime is increasingly important. (Scroth, 1996) The most noticeable trend is the continuing increase in the use by money launderers of non-bank financial institutions and of non-financial businesses relative to banking institutions. The trend reflects the increased level of compliance by banks with anti-money laundering measures. The survey noted, "Outside the banking sector, the use of bureaux de change or money remittance businesses remains the most frequently cited threat." (Gilmore, 1999)

FATF members have continued to expand their money laundering laws, covering non-drug related predicate offenses, improving confiscation laws, and expanding the application of their laws in the financial sector in order to apply preventive measures to non-bank financial institutions and non-financial businesses. (Gilmore, 1999) FATF discussed money laundering threats that may be inherent in the new e-money technologies, of which there are three categories: stored value cards, Internet/network based systems, and hybrid systems. Important features of the systems that will affect this threat are the value limits imposed on accounts and transactions; the extent to which stored value cards become inoperable with Internet-based systems; the possibility that stored value cards can transfer value between individuals; the consistency of intermediaries in the new payment systems; and the detail in which account and transaction records are kept. (Hernandez, 1993) Future issues include the need to review regulatory regimes, the availability of adequate records, and "the difficulties in detecting and in tracking or identifying unusual patterns of financial transactions." (Summers and Reno, 2000) Since the application of new technologies to electronic payment systems is still in its infancy, law enforcement and regulators must continue to cooperate with the private sector. (Levi, 1991) Then authorities may understand the issues that must be considered and addressed as the market and technologies mature.

As a result of difficulties in tracing illicit funds routed through the international funds transfer system, the Society for Worldwide Interbank Financial Telecommunications (SWIFT) board "issued a broadcast to its members and participating banks encouraging users to include full identifying information for originators and beneficiaries in SWIFT field tags 50 (Ordering Customer) and 59 (Beneficiary)." (Helleiner, 1999) Many countries have acted to encourage compliance within their financial communities with the SWIFT broadcast message.

To strengthen the body of information on identifying the true originating parties in transfers, SWIFT has devised a new optional format (MT103) for implementation after November 1997. (Helleiner, 1999) The message format will have a new optional message field for inputting all data "relating to the identification of the sender and receiver (beneficiary) of the telegraphic transfer." Additionally, "SWIFT has issued guidance to users of its current system to describe where such information may appear in the MT 100 format." FATF has helped SWIFT devise the new mechanism and is encouraging the use of the new message format.

FATF recommends that at least the recipient of a suspicious transactions report should acknowledge receipt thereof. If the report is then subject to a fuller investigation, the institution could be advised of either the agency that is going to investigate the report or the name of a contact officer. If a case is closed or completed, the sending institution should receive timely information on the decision or result. Further cooperative exchange of information and ideas is required for the partnership between units that receive suspicious transaction reports, general law enforcement, and the financial sector to work more effectively.

Because of insufficient data, FATF has created an ad hoc group that "will consider the available statistical information and other information concerning the proceeds of crime and money laundering."(OOC, 1993) This ad hoc group will also "define the parameters of a study on the magnitude of money laundering and agree on a methodology and a timetable for the study."

Money laundering Laws after September 11

While the infamous Al Qaeda terrorists were furtively hatching their schemes of destruction that depended upon filtering money through the international financial system, policy-makers and legislators were publicly hatching schemes to combat the filtering of money derived from or used to support international illegal activity. Although the European Union's (EU) new Directive on money-laundering was recently adopted in the world-wide surge of counter-terrorism measures, it reflects legislative choices made before the world could imagine the terror that would be executed by Al Qaeda.

Nevertheless, trends have occurred due to the terrorists attack on the 11th of September. The slightest central trend is the contraction of financial regulations and the organization or enhancement of obligatory regulatory and enforcement agencies. New laws in the US which sums to broadening the command of the CIA and of the DOJ extra-territorially, was to a certain extent xenophobically described as proposed to make sure the banking system does not become a refuge for overseas fraudulent leaders or other type of foreign structured criminals. Confidentiality and bank privacy laws have been diluted.

Similarly, alliance with off shore shell banks has been prohibited. Dealing with patrons of correspondent banks was truncated. Banks were successfully altered into law enforcement agencies, accountable to verify both the characteristics of their clients and the origin of their funds. Cash transactions were to a certain extent proscribed. And the securities and currency trading industry, insurance companies, and money transfer services are introduced to developing inspection as an intermediary for laundered money.

Consequently, in excess of 150 countries guaranteed to lend a hand with the US in its struggle opposed to the bankroll of terrorism - 81 of which (including the Bahamas, Argentina, Kuwait, Indonesia, Pakistan, Switzerland, and the EU) in point of fact immobilized assets of distrustful individuals, supposed charities, and leery firms, or approved new anti money laundering laws and more stringent regulations. A listed EU instruction would compel lawyers to divulge incriminating information about their clients' money laundering actions. Pakistan commenced a "loyalty scheme", awarding expatriates who have a preference on official bank conduits to the much criticized Hawala, with extra baggage allowance and special treatment in airports.

Still, a worldwide system is emerging, established on the work of the OECD's FATF since 1989 and on the relevant UN conventions. All nations are anticipated by the West, on pain of probable punishments, to approve a homogeneous legal manifesto including reporting on dubious transactions and freezing assets and to apply it to all types of financial mediators, not only to banks.

Chapter 4

Future Methods of Laundering Cash

The relationship between technology and structure has been the topic of much writing and research (Woodward, 1965; Perrow, 1967; Thompson, 1967; Hickson, Pugh, and Pheysey, 1969; Mohr, 1971; Hage and Aiken, 1969; Barley, 1986). Although the accumulation of research studies has modified the concept of technological imperative, technology is still considered an important variable in relation to organizational structure (Rousseau, 1979). Yet, after decades of research relating organizational technology to organizational structure, "the evidence for technology's influence on structure, is at best, confusing and contradictory" (Barley, 1986: 78). The same may be said for the multitude of conceptions and methodologies employed in such studies (Rousseau, 1979). While technology may be generally defined as the transformation of organizational inputs into organizational outputs (Perrow, 1967; Rousseau, 1979), numerous definitions and operationalizations at varying levels of analysis and contexts demonstrate the diversity of technology research (Comstock and

Scott, 1977; Rousseau, 1979; Fry, 1982). Despite this diversity, little attention has been paid to the effects of technology over time. Cross-sectional research has typically focused on existing technologies and corresponding formal organizational structures. The majority of these cross-sectional studies treat technology as the independent variable, based on an assumption that organizational technology is inflexible and, correspondingly, that there is a need for structure to adapt to the requirements of technology. These assumptions are questionable. Technology can be a flexible organizational strategy that can be modified by an organization's structure, in particular, the informal structure. Structural arrangements act as the conduits of technological change and, as such, may influence organizational technology as well as be influenced by it. Investigation of the effects of a change in technology may illuminate the process by which structure affects technology, or vice versa. Few studies relating technology to structure have considered the relationship between organizational structure and power. Structural position is an important source of power in that it provides access to people, information, and other resources. As Pfeffer (1981) noted, power is first and foremost a structural phenomenon. Likewise, power strengthens existing structural configurations. Those in power seek to maintain power by reinforcing the existing organizational structure (Pfeffer, 1981). Thus, a change in structure may necessitate a change in the distribution of power, and vice versa.

Although minor, incremental changes in power and structure may occur gradually over long periods of time, the likelihood of a major restructuring may only occur when the organization encounters an "exogenous shock" (Barley, 1986: 80) such as the implementation of a new technology. Such a shock might be conceptualized as a sudden, dramatic increase in uncertainty (Tushman and Anderson, 1986). Attempts to reduce uncertainty may foster changes in interaction patterns, with those able to cope with uncertainty adjusting their social location and increasing their power (Salancik and Pfeffer, 1977; Tushman and Romanelli, 1983). Thus, it is possible that a change in technology may produce changes in structure, power, or both. However, as Pfeffer (1981) noted, stability, not change, is typical of the distribution of power and influence in most organizations. Those in power seek to perpetuate their power advantage. Such processes as commitment to previous decisions, institutionalization of beliefs and practices, and the ability of those in power to generate additional power contribute to stability (Pfeffer, 1981). Likewise, structural patterns of interaction become institutionalized over time and contribute to organizational stability. Thus, while a technological change may provide the opportunity for a redistribution of power and organizational structure, it does not guarantee it.

Unfortunately, even the cleansing dirty money through money laundering procedures has also been affected by technology. Example of these changes includes the new drug trafficking routes are spawned in Africa and the lower regions of the old Soviet regime, the list of countries more vulnerable to money laundering widens. Perhaps more dangerous is the absence of implementation of anti-money laws or even ratification of the 1988 Vienna-U.N. Drug Convention. (Bureau of International Narcotics and Law Enforcement Affairs, 1998) The INCSR lists Aruba, Colombia, Mexico, the Netherlands Antilles, Nigeria, Singapore, Turkey and Venezuela. Just as important, the anti-money laundering laws that governments enacted in the early 1990s are now no longer sufficient, especially given the increase in non-drug crimes, the use of new technologies, and more sophisticated ways to move money.

Moreover, the proliferation of financial crimes include the more common types of financial frauds and new variations, especially the use of prime bank guarantees, phony or fictitious letters of credit, counterfeit or stolen bonds, and other monetary instruments offered as surety for loans, and other scares. Some of the new methods include the use of secret telex codes for bank-to-bank transactions in order to move $42 million in cash from the Hong Kong and Shanghai Bank in Jakarta. (Bureau of International Narcotics and Law Enforcement Affairs, 1998) The use of fake certificates of deposit drawn on other branches of an international bank that can range from $10 million to $25 million recently occurred. "`Fraudsters' will also use counterfeit letters of agreement, drawn on bank letterheads, seemingly vouching for a client from another branch of that bank," or confirming the approval of a bogus deal.

Similarly, professional money launderers differ little in their money management than corporate money managers. Money brokers and transnational criminals collaborate to minimize their risk, partly through diversification of the means to transport, convert cash, or both, as well as to layer and integrate the laundered funds.(532)

Furthermore, banking is increasingly global, inter-connected, and operates twenty-four hours. Large multinational banks have global branch and subsidiary networks as well as correspondent relationships. Correspondent banking enables launderers to initiate transactions through the weakest link in the bank. Once launderers start a bank relationship, they can quickly move money globally within the bank. (Bureau of International Narcotics and Law Enforcement Affairs, 1998) At the June 1996 International Conference of Banking Supervisors, banking supervisors from 140 countries agreed to adhere to twenty-nine recommendations "designed to strengthen the effectiveness of supervision by both home and host-country authorities of banks that operate outside their national boundaries."(p 154) The recommendations were incorporated into a report by the Basle Committee on Banking Supervision, issued in October 1996. Home supervisors must be able to assess "all significant aspects of their banks' operations, using whatever supervisory techniques are needed, including on-site inspections." Means to overcome impediments to effective consolidated supervision are suggested. The Basle report sets forth "guidelines for determining the effectiveness of home country supervision, for monitoring supervisory standards in host countries, and for dealing with corporate structures which create potential supervisory gaps." Additional guidelines are provided for host country supervision.

Concurrently, when the recommendations conflict with bank secrecy or similar legislation in certain countries, supervisors have agreed to use best efforts to amend the secrecy legislation. Countries with further recommendations were reviewed prior to the international meeting scheduled for October 1998. (Bureau of International Narcotics and Law Enforcement Affairs, 1998) Much competition exists globally to attract high net-worth individuals and companies as private banking clients. The transactions of these clients are treated confidentially. Such customers are treated with more deference and receive various types of personal services. A concern exists that, in the competition to attract and maintain these clients, financial institutions or their officials may suspend or not implement anti-money laundering and other due diligence procedures.

In addition to that, the use of microchip-based electronic money for financial transactions, via smart cards and the Internet, has the potential to revolutionize the means for laundering money. Some new cyberpayments systems are engineered to be an electronic emulation of paper currency. Cybercurrency has the attributes of conventional currency: a store of value; a medium of exchange; a numeraire; potential anonymity; and convenience. Other features include transfer velocity--an almost instant electronic transfer from point to point--and substitution of electrons for paper currency and other physical means of payment. Cyberpayments also include other payment components, such as cyberchecks, cybercredit, cyberdebit, and so forth. This development requires close attention because the use of microchip and telecommunications technologies adds some significant new dimensions for law enforcement.

The existence of cyberpayments also include other payment components, such as cyberchecks, which emulate paper checks, cybercredit, cyberdebit, etc. Cyberpayments raise the issue of whether such payments can be made subject to monetary reporting and supervision measures. Law enforcement issues that will arise include fraud, counterfeiting, and computer hacking. High-speed, worldwide transfers add complexity to law enforcement's ability to trace criminal activity and recover illicit proceeds. (p. 512)

Other challenges to anti-money laundering enforcement include the counterfeiting of currencies and other monetary instruments, especially bonds, the rise in contraband smuggling, the acquisition of banks and other financial institutions by suspected criminal groups, and the resort by criminals to the use of smaller, pass-through banking, and electronic cash systems. As a result of the occurrence of financial crimes and money laundering with varying degrees of regularity in more than 125 jurisdictions, a continuing concern exists that some governments still have not criminalized all forms of money laundering.