A world map where the landmasses are filled with various colorful financial symbols including the dollar sign (\$), euro (€), pound sterling (£), yen (¥), and Chinese yuan (¥).

# Global Regulatory Principles

Anti-money-laundering (AML),  
Combating the Financing of Terrorism (CFT),  
& Privacy

# Background

While countries have their own regulators and formulate their own laws and guidelines to govern the global institutions based within them, there are some global regulatory principles that have been agreed on to achieve common objectives. This presentation will delve into 3 such principles the banking sector has mandated:

1. Anti-money-laundering (AML)

2. Combating the Financing of Terrorism (CFT)

3. Privacy



# 1. Anti-money-laundering (AML)

## *What is money laundering?*

Money laundering can be broadly defined as the process of disguising the financial earnings of the crime.

The **U.S Custom Service** defines it as “money laundering is the legitimization of proceeds from the illegal activity”

The **International Monetary Fund (IMF)** defines money laundering as a “process in which assets generated or obtained by criminal activities are concealed or moved to create a link between the crime and the assets which is difficult to understand.”

## *What is anti-money-laundering?*

- Anti-money laundering refers to a set of laws, regulations, and procedures intended to prevent criminals from disguising illegally obtained funds as legitimate income.
- Though anti-money-laundering (AML) laws cover a relatively limited range of transactions and criminal behaviors, their implications are far-reaching.
- **For example,** AML regulations require that banks and other financial institutions that issue credit or allow customers to open deposit accounts follow rules to ensure they are not aiding in money-laundering.

It is estimated by the World Bank that approximately \$2 trillion is laundered every year

## Fun Fact/ Etymology

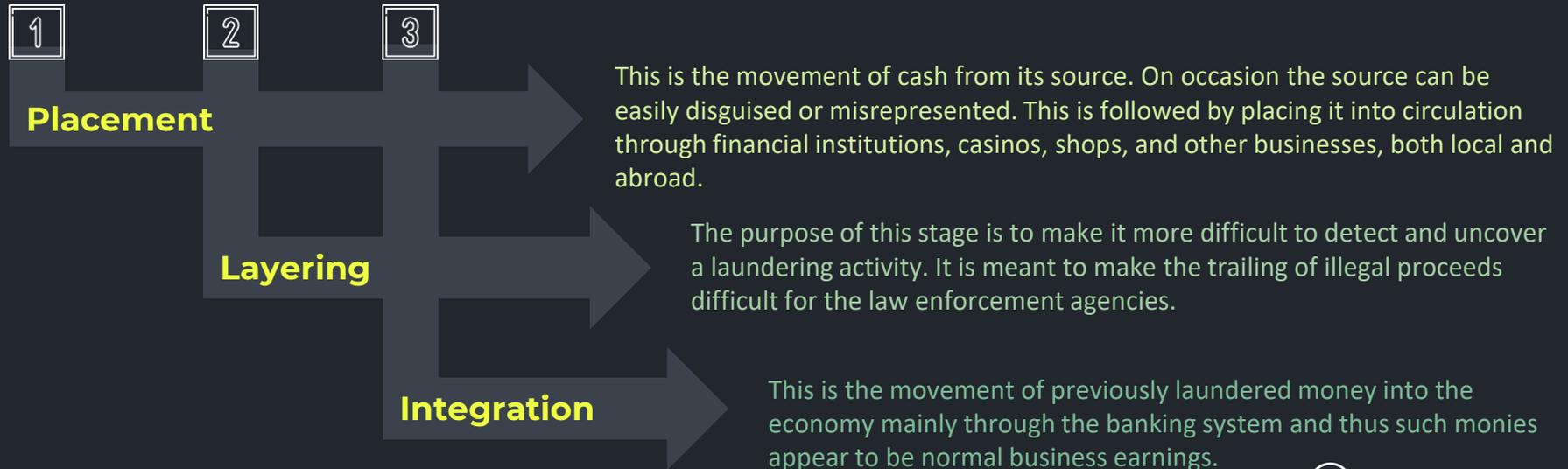
The term "**money laundering**" is said to have originated with the Italian mafia and such criminals as Al Capone who allegedly purchased 'Laundromats' to commingle (or mix) their illegal profits from prostitution and bootlegged liquor sales with legitimate business sales from the 'Laundromats' to obscure their illegal profit.



Al Capone.  
American gangster and  
businessman

# Stages of Money Laundering

In order to understand how anti-money-laundering works, it is important to understand how money laundering works:



# History (Part I)

1920s

According to legend, the term money laundering was originated in 1920's during the period of prohibition in the United States. The organized criminals in the United States got greatly involved in the profitable alcohol smuggling industry and for legalizing their profits they started combining their profits with the profits from legislative business.

1973

The term was first used in 1973 in relation with the Watergate scandal. This case describes the money laundering perfectly despite of its origin. In that case the dirty or illegal money was put through a series of transactions and the money appears clean or legal at the other end

## History (Part II)

1980s

In the 1980s, the war on drugs led governments again to turn to money laundering rules in an attempt to track and seize the proceeds of drug crimes in order to catch the organizers and individuals running drug empires. Law enforcers normally have to prove an individual is guilty to seize their property, but with money laundering laws money can be confiscated and it is up to the individual to prove that the source of funds is legitimate to get the money back.

1990

The UN General Assembly declaration in 1990 was the first constructive global step against money laundering focusing on prevention of financing to the illicit drug trade.

2001

The 9/11 attacks led to a new emphasis on money laundering laws to combat terrorism financing. The Group of Seven (G7) nations used the Financial Action Task Force on Money Laundering to put pressure on governments around the world to increase surveillance and monitoring of financial transactions and share this information between countries.

## 2. Combating the financing of terrorism (CFT)

Combating the Financing of Terrorism (CFT) involves investigating, analyzing, deterring, and preventing sources of funding for activities intended to achieve political, religious, or ideological goals. By tracking down the source of the funds that support terrorist activities, law enforcement may be able to prevent some of those activities from occurring.

Money laundering and the financing of terrorism are financial crimes with economic effects.

Money laundering is the process of making illegally sourced money appear to be legitimate, and this process, which has a significant role in the financing of terrorism, is the target of a large portion of CFT efforts, from detection to prosecution.

# Global Objective of AML/CFT

Even though the use of cash is in decline, given the rise of internet-based financial vehicles, along with the rise of bank cards and mobile payments, money laundering remains a huge problem for government, businesses and especially law enforcement agencies.

- AML/CFT controls, when effectively implemented, mitigate the adverse effects of criminal economic activity and promote integrity and stability in financial markets.
- The aim is to stop money earned through illegal means from coming into the traditional financial system and being converted into legitimate money.
- It is to be a combined effort to fight the funding of global terrorism, illicit trading, and trafficking.

# AML Regulators (Part I)

## GLOBAL

The Financial Action Task Force is an intergovernmental organization dedicated to combating money laundering and the financing of terrorism. With 36 member states, the FATF's jurisdiction spans the world and takes in every major financial centre. Its primary function is to set global standards for AML compliance and monitor their effective implementation. In pursuing that objective, the FATF regularly issues updated AML/CTF guidance. To comply with FATF regulations, member states and their financial institutions should:

- Implement Know Your Customer (KYC) ID verification measures.
- Perform FATF recommended due diligence measures.
- Maintain suitable records of high-risk clients.
- Regularly monitor accounts for suspicious financial activity and report that activity to the appropriate national authority.

## AML Regulators (Part II)

### USA

The Bank Secrecy Act (BSA) is the United State's primary anti-money laundering regulation and is administered by the Financial Crimes Enforcement Network (FinCEN). The BSA focuses on money laundering, but its scope has expanded to include other financial crimes. For example, it was amended by the Patriot Act in 2001 to include countering of terrorist financing (CTF) measures. Under the BSA financial institutions must satisfy a number of requirements:

- Compliance Program: US financial institutions must develop and implement an internal anti-money laundering program to suit their risk profile.
- Reporting: The BSA involves various AML reporting and filing obligations
- Record Keeping: Financial institutions must keep detailed records of suspicious activities, including the identities of purchasers and the value of their transactions.

# Compliance

The objective of KYC/AML/CFT guidelines is to prevent banks from being used, intentionally or unintentionally, by criminal elements for money laundering or terrorist financing activities. KYC procedures also enable banks to know/understand their customers and their financial dealings better which in turn help them manage their risks prudently.

There are two parts to the Know Your Customer (KYC) process:

i) identity ii) knowing more about the person

While it may seem that identity documents are extremely disparate across the world, all regulatory processes establish just two things: Proof of identity (PoI) & Proof of address (PoA)

At its core, identity verification globally can be described as a proof of sovereign identity and a physical local address.



# New Global Regulatory theme: Privacy

In the past few years, the headlines have been replete with worrying instances from the digital world. From large scale data breaches to controversial targeted political ad policies and inconclusive investigative hearings on privacy.

The **Facebook–Cambridge Analytica data scandal** of 2018 exposed how unethically sourced personal data could be used for thought manipulation. Data of about 87 million Facebook users was inappropriately harvested by the political consulting firm, Cambridge Analytica, and was used for electoral advertising.

The mammoth scale and global repercussions of this scandal altered the history of the privacy debate. It revealed the imperative need to have wide-scale legal mechanisms. A system needed to be enforced to regulate what data will be collected, what it will be used for, and how permission should be sought from its owners.

# GDPR (EU)

- The European Union set precedence with the European [General Data Protection Regulation](#) (GDPR).
- The GDPR was adopted in 2016 and enforced on 25 May 2018. It is not a mere directive, but a regulation. This implies that it is directly binding and applicable although it does allow for some flexibility to individual member nations to adjust the provisions.
- The GDPR is also not an Act, which means that its members have passed their own legislations based on the regulation.

# PDP Bill (India)

- In India, a regulation governing [data privacy and data protection](#) is set to be passed this year.
- The need stemmed from the 2017 Supreme Court judgement on the [Right to Privacy](#).
- A draft data protection bill was then composed by a committee headed by [Justice B. N. Srikrishna](#).
- After about 2 years of contentious debate on the bill, during which it was floated for public feedback from stakeholders, it was [tabled in the Indian Parliament on 11 December 2019](#).
- Currently, a joint parliamentary committee is scrutinizing the revised draft of the bill, codified as the [Personal Data Protection Bill 2019 \(PDP Bill\)](#).
- Post this, it will be debated in the Indian Parliament and finally passed.

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