



Proximal Consulting Archived White Papers



The Proximal Consulting white paper series began when Proximal Consulting launched in 1999. The white papers provided precise and detailed information on cutting edge business crime topics during a period when the Internet as a source of business information was in its infancy. We are now making these white papers available again.

Whilst the specific cases and examples used in the white papers are historical, the fundamental issues and potential red flags have remained the same.

Please note that the white papers are provided as an un-edited archive: any content, laws, regulations or similar were correct at the time of publishing, but may now be out of date.

PROXIMAL CONSULTING WHITE PAPER 2 PROCEDURES & CONTROLS TO STOP MONEY LAUNDERING

Based in Paris, the Financial Action Task Force (FATF) was created by the G7 group of economic powers to examine international money laundering and recommend ways to prevent it. In 1990 they drew up forty recommendations to combat money laundering that were subsequently revised in 1996. The complete set of recommendations provide a basic framework for a universally applicable anti-money laundering program, covering:

- Criminal justice and law enforcement
- The financial system and its regulation
- International co-operation

Rather depressingly however it is worth noting that in 1988 the UN Convention Against Illicit Traffic in Narcotic Drugs and Psychotropic Substances made money laundering an internationally recognized crime - but ten years later in 1998 the UN itself observed that only 145 out of the UN's 185 members have ratified it and less than 30 are implementing it properly.

The following key suggestions are based on the FATF's recommendations, and should be viewed as the very minimum for any organization to implement. Whilst they are obviously vital for banks and related bodies to fulfil, our view is that any prudent organization should also install them (in fact it is very likely that there will be governmental moves to import these types of controls to non financial institutions). Already United Kingdom authorities and other governments worldwide have identified the following types of commercial activities which may be "unwitting accomplices" to money laundering activities:

- Stockbrokers and securities houses
- Insurance companies and brokers
- Accountants and lawyers
- Surveyors and estate agents
- Company formation agents
- Dealers in precious metals and bullion
- Antique dealers
- Car dealers
- Any other entities which sell high value commodities and luxury goods

Ignorance is no defence!

1 KYC - KNOW YOUR CUSTOMER - CLIENT IDENTIFICATION & VALIDATION

In very simple terms if your organization starts a new business or financial relationship of any type you should request official documents (passport, national ID card, driving licence, company records) that prove the identity of the person and/or existence of any relevant companies.

However you shouldn't just ask for these documents and not examine and validate them - you must check that they are both genuine and apply to the person who is entering into business with you.

Also remember that there are still offshore banks that are opening truly anonymous accounts and those in blatantly fictitious names. More dangerously there are "banks" that are merely offshore vehicles that don't exist in reality and could be owned by

criminals themselves. So...don't rely on some other organization to do your due diligence. Just because someone approaching you appears to have an account with a reputable bank means nothing. You have to check it yourself - because it will be you who will be both liable and the subject of adverse publicity if it all goes horribly wrong.

2 KEEP YOUR RECORDS

A bare minimum requirement is to keep detailed financial records for five years so that transactions can be reconstructed and the documents used as evidence in criminal prosecutions.

The FATF recommend that records on customer identification (e.g. copies of documents produced), account files and business correspondence should be retained for a minimum of five years after the account is closed or relationship ended.

3 MONITOR AND HIGHLIGHT SUSPICIOUS TRANSACTIONS

Organizations need to identify and act upon:

- Complex, unusual or large transactions (or a mixture of all three)
- Unusual patterns of transactions
- Patterns of transactions which exhibit money laundering characteristics
- Transactions which have no logical, economic or lawful purpose
- Account patterns that appear to be inconsistent with the customer's business or known history/background

If you suspect money launderers are using you, you should pass information onto the relevant authorities without any fear of legal retribution from the subjects. Neither should you (or any of your staff, colleagues or management) warn the suspect that you have passed information on to the authorities about them (known as "tipping off").

4 CONTROL THE PROBLEM

You need an ongoing dynamic and robust program to detect and prevent money laundering. You must have:

- Internal policies, procedures & controls
- A senior person responsible for all money laundering issues
- An adequate screening procedure to ensure high standards when recruiting staff (don't hire crooks to help their friends!)
- An ongoing employee-training program
- An audit function or fraud department to test the system for compliance

5 IDENTIFY RISKS IN NEW TECHNOLOGIES, PRODUCTS AND SERVICES

Organized criminal groups operate at the cutting edge of technology: there is already evidence that they are exploiting opportunities to launder money on the Internet through such facilities as stock trading. E-commerce with a lack of regulation opens up a new world of opportunity in cyber space. You should evaluate new products, services and technology to see what gaps exist for criminals to crawl through.

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Proximal Consulting have unrivalled experience in providing KYC enhanced due diligence background reports on individuals and companies on a global basis. We also offer a complementary range of services including AML training, country risk reports and bespoke investigations.

Our enhanced due diligence reports are tailor-made to our clients' specifications. They are totally different from the usual database-led reports that often fail to meet enhanced due diligence requirements. Our reports present clear, accurate and confidential findings which enable our clients to make informed business decisions and to fulfil their AML obligations.

We work with a variety of global clients including regulatory agencies, law firms, individual companies, private banks, trust companies and other firms in the financial sector.