



## Objectives

In this module, we will address the following questions:

- What is money laundering?
- Why do criminals launder money and what are the consequences?
- What is AUSTRAC's role in the fight against money laundering?
- What are the three stages of money laundering?

Your key learning objectives will be to respond effectively to each of the questions listed above.

## What is money laundering?

Let's start by having a common understanding of the definition of money laundering and the scale of the problem.

Every year, huge amounts of funds are generated from illegal activities such as drug trafficking, tax evasion, people smuggling, theft, arms trafficking and corrupt practices. These funds are mostly in the form of cash.

The criminals who generate these funds need to bring them into the legitimate financial system without raising suspicion. The conversion of cash into other forms makes it more useable. It also puts a distance between the criminal activities and the funds.

'Money laundering' is the name given to the process by which illegally obtained funds are given the appearance of having been legitimately obtained.

By some estimates, more than AUD1.5 trillion of illegal funds are laundered worldwide each year!

This is more than the total output of an economy the size of the United Kingdom. Of the world-wide total, an estimated AUD200 billion is laundered in the Asia-Pacific region.

By combating money laundering, we can reduce crime and weaken criminals. For example, if it becomes very difficult for drug traffickers to use the money generated by trafficking, this activity is likely to diminish.

## Why do criminals launder money and what are the consequences?

There are several reasons why people launder money. These include:

- **hiding wealth:** criminals can hide illegally accumulated wealth to avoid its seizure by authorities
- **avoiding prosecution:** criminals can avoid prosecution by distancing themselves from the illegal funds
- **evading taxes:** criminals can evade taxes that would be imposed on earnings from the funds
- **increasing profits:** criminals can increase profits by reinvesting the illegal funds in businesses
- **becoming legitimate:** criminals can use the laundered funds to build up a business and provide legitimacy to this business

There are severe economic and social consequences of money laundering.

These include:

- **undermining financial systems:** money laundering expands the black economy, undermines the financial system and raises questions of credibility and transparency
- **expanding crime:** money laundering encourages crime because it enables criminals to effectively use and deploy their illegal funds
- **'criminalising' society:** criminals can increase profits by reinvesting the illegal funds in businesses
- **reducing revenue and control:** money laundering diminishes government tax revenue and weakens government control over the economy

## What is AUSTRAC's role in the fight against money laundering?

The Australian Transaction Reports and Analysis Centre (AUSTRAC) is Australia's anti-money laundering and counter-terrorism financing regulator and specialist financial intelligence unit. AUSTRAC is part of the Attorney-General's portfolio and reports to the Minister for Home Affairs.

AUSTRAC's primary objective is to implement the reform of Australia's anti-money laundering and counter-terrorism financing partnership with industry, partner agencies, government and the community.

AUSTRAC was established under the *Financial Transaction Reports Act 1988* (FTR Act) and continued in existence by the *Anti-Money Laundering and Counter-Terrorism Financing Act 2006* (AML/CTF Act).

The FTR Act is currently being phased out by the AML/CTF Act. For the time that both Acts are in operation, regulated entities may have obligations under one or both Acts. AUSTRAC is responsible for ensuring compliance with the provisions of the FTR and AML/CTF Acts.

## Example: third parties used to launder funds

In the example below, we will see how AUSTRAC can play a role in an ongoing investigation.

**Suspicion:** AUSTRAC's automated monitoring system identified a set of financial transactions in which a person was trying to avoid the FTR Act's reporting requirements. Financial transaction reports provided to AUSTRAC by a 'cash dealer' showed that more than \$4 million had been sent (remitted) internationally by this person to accounts at two different banks in Asia.

**Comment:** AUSTRAC's monitoring system detects:

- patterns of suspicious transactions in the data it receives from reporting entities
- hidden links between different persons (common address transfer of funds)

**Investigations:** Acting on AUSTRAC's information, an Australian law enforcement agency commenced an investigation. It turned out that the suspect collected cash from a third person and then remitted the funds to Asia through a particular reporting entity.

**Comment:** In many cases, money laundering involves transfers to and from other countries. Filing of international funds transfer instruction (IFTI) reports by cash dealers is essential for such detection.

**Apprehension:** The suspect was subsequently arrested. Investigators learned that a resident of Asia paid the suspect a commission in return for the remittance of funds to Asia. Packages of \$100,000 in cash were delivered within Australia and then electronically remitted overseas through a series of structured transactions.

**Comment:** The suspect was convicted and imprisoned and over \$600,000 was recovered. In this case, AUSTRAC proactively assisted the law enforcement agency in identifying the criminal activity.

## What are the three stages of money laundering?

The money laundering process is typically segmented into three stages:

- placement
- layering
- integration

### Placement

At this stage, illegal funds or assets are first brought into the financial system. This 'placement' makes the funds more liquid. For example, if cash is converted into a bank deposit, it becomes easier to transfer and manipulate. Money launderers place illegal funds using a variety of techniques, which include depositing cash into bank accounts and using cash to purchase assets.

### Layering

To conceal the illegal origin of the placed funds and thereby make them more useful, the funds must be moved, dispersed and disguised. The process of distancing the placed funds from their illegal origins is known as 'layering'. At this stage, money launderers use many different techniques to layer the funds. These include using multiple banks and accounts, having professionals act as intermediaries and transacting through corporations and trusts. Funds may be shuttled through a web of many accounts, companies and countries in order to disguise their origins.

### Integration

Once the funds are layered and distanced from their origins, they are made available to criminals to use and control as apparently legitimate funds. This final stage in the money laundering process is called 'integration'. The laundered funds are made available for activities such as investment in legitimate or illegitimate businesses, or spent to promote the criminal's lifestyle. At this stage, the illegal money has achieved the appearance of legitimacy.

It should be noted that not all money laundering transactions go through this three-stage process. Transactions designed to launder funds can also be effected in one or two stages, depending on the money laundering technique being used. The following case studies involve the use of two or more of the three stages of money laundering.

## The Spence Network case

Between 2003–04, a Melbourne criminal network laundered \$70 – \$100 million of illegal drug money. The network involved 24 key people including a Tasmanian-based diplomat, a Western Australian police officer, two lawyers, a stockbroker, an assistant bank manager, two rabbis, a fire fighter and two Swiss bankers.

A law firm organised the scheme by setting up two shell corporations, one involved in a non-existent trucking business and the other in a non-existent beer distribution business.

A number of members of the gang acted as couriers. From locations in and around Melbourne, they collected cash proceeds from drug trafficking operations and brought the cash to the lawyers or fake businesses.

With the help of the lawyers and the assistant bank manager, the illegal cash funds were deposited into various bank accounts in Victoria.

The funds were transferred from the Victorian accounts to various European financial institutions including a Swiss bank. The Swiss bankers remitted the illegal funds to accounts belonging to the money launderers.

The funds from the accounts belonging to the money launderers were used to purchase assets and invest in business ventures.

## The Spence Network case – takeaways

**Networks:** Money laundering networks can be quite large.

**Participants:** Participants may consist of people you would not quite expect.

**Fronts:** Fake businesses known as 'fronts' are often used in the money laundering process.

**Intermediaries:** Intermediaries such as lawyers and bankers often play a critical role in the process.

## The Douglas case

In the following case, the money launderers used multiple layers and stages to achieve their objectives.

Bob Douglas laundered close to \$50 million for an Adelaide drug syndicate. In the first stage, he would arrange for cash in different amounts to be deposited into bank accounts.

**Comment:** The initial deposit of cash into the banking system (placement) is the riskiest part of the process because the money is in cash form and still close to its illegal origins.

Over three years, Douglas coordinated the transfer of funds from the banks into more than 100 accounts in 68 banks in nine countries – Austria, Denmark, the United Kingdom, France, Germany, Hungary, Italy, Luxembourg and Monaco. The amount of each transfer ranged from \$50,000 to \$1 million.

**Comment:** In this stage (layering), the funds were moved deeper into the banking system and spread across many banks, accounts and countries. Douglas transferred large amounts into accounts in countries which he perceived as having lax anti-money laundering rules – in particular, Austria, France, Hungary and the UK's Channel Islands.

In the next stage, the funds were transferred into the accounts of European individuals. In many cases, fictitious names, such as Tim Jones and Mohammed Rosa, were used to open accounts.

**Comment:** By using European individuals and names in this layering stage, Douglas managed to avoid the extra scrutiny imposed on account openings by individuals with Australian or European names. Had account opening and monitoring policies been stricter, perhaps the fictitious individuals could have been detected.

In the next stage, the funds were transferred into the accounts of European front companies. These companies then invested the funds into apparently legitimate businesses, such as restaurants, construction companies, pharmaceutical enterprises and real estate.

**Comment:** In this layering and integration process, Douglas assessed that transfers of money to and from European front companies would not arouse suspicion. These companies provided no immediate reason, such as geographic, legal or cultural, for bankers to investigate the assets or underlying transactions.

The scheme was interrupted when a bank failure in Monaco exposed several accounts linked to Douglas. While in Luxembourg, endless noise from a money-counting machine in Douglas's house prompted a neighbour to alert the local police! Douglas was arrested in 1990, convicted of money laundering in a Luxembourg court in 1992 and extradited to face charges a few years later.

**Comment:** It is instructive that it took a bank failure and a chance occurrence to expose the scheme. Douglas was able to manipulate the normal banking processes of account opening, monitoring, deposits, transfers and payments without arousing suspicion!

## Summary

**Definition:** Money laundering refers to the process by which illegal funds and assets are converted into seemingly legitimate funds and assets.

**Sources:** The funds come from drug trafficking, tax evasion, people smuggling, theft, arms trafficking, corrupt practices and other illegal activities.

**Effects:** By laundering these illegal funds, the role and power of criminals is substantially strengthened.

**Placement:** The first stage of the money laundering process, in which illegal funds or assets are first brought into the financial system.

**Layering:** The second stage of the money laundering process, in which illegal funds or assets are moved, dispersed and disguised to conceal their origin. Funds can be hidden in the financial system through a web of complicated transactions.

**Integration:** The third stage of the money laundering process, in which the illegal funds or assets are successfully cleansed and appear legitimate in the financial system, making them available for investment, saving or expenditure.

## Money laundering quiz

This quiz will test your understanding of money laundering.

Select the single correct response.

### Question 1 – sources of laundered money

Money laundering:

- a) is itself a crime and it is built upon another crime
- b) is not itself a crime but is built upon a crime

### Question 2 – using laundered money

Complete the following statement with the most appropriate phrase or phrases.

By laundering money from criminal activity, criminals are able to:

- a) distance themselves from the criminal source of the funds
- b) more easily hide and transfer the illegal funds
- c) increase their profits by investing in legitimate assets
- d) a and b above
- e) a, b and c above

### Question 3 – effects of money laundering

Please complete the following statement with the most appropriate phrase.

The effect of money laundering on the financial system is to:

- a) create an opportunity for banks to increase profits
- b) undermine credibility and expand control by criminals
- c) improve and enhance money flows by bringing cash into the system

### Question 4 – AUSTRAC's role

Complete the following statement with the most appropriate phrase.

AUSTRAC's role in Australia's anti-money laundering campaign is to:

- a) act as an investigator to the private and government sectors, making best practice recommendations.
- b) implement the FTR Act and AML/CTF Act by reporting to other government agencies on financial transaction reports received by non-compliant businesses.
- c) implement the FTR Act and AML/CTF Act collecting, analysing and disseminating financial transaction reports information and assisting designated partner agencies.



### **Question 5 – AUSTRAC's role**

Which of the following functions is NOT part of AUSTRAC's role?

AUSTRAC's role does not include:

- a) receiving financial transaction reports from regulated entities.
- b) licensing financial institutions.
- c) inspecting regulated entities and solicitors to ensure compliance with the FTR Act and AML/CTF Act.
- d) educating and guiding regulated entities and the public about the FTR Act and AML/CTF Act.

### **Question 6 – defining the stages**

Identify the stage in the money laundering process where funds are being constantly moved or re-characterised to conceal their origins.

This stage is known as:

- a) placement
- b) layering
- c) integration

### **Question 7 – the Spence Network case**

In the Spence Network case, which of the following statements best describes the integration stage?

- a) The funds from the accounts belonging to the money launderers were used to purchase assets and invest in business ventures.
- b) The funds were transferred from the New York accounts to various European financial institutions including a Swiss bank.
- c) With the help of the lawyers and the assistant bank manager, the illegal cash funds were deposited into various bank accounts in New York.

### **Question 8 – three degrees of detection**

At which of the three stages of money laundering is it generally easiest to detect money laundering activity?

- a) Placement
- b) Layering
- c) Integration

## Answers – Money laundering quiz

1. a) Correct. Money laundering involves the disguising and processing of criminally obtained funds. The underlying crime (also called the 'predicate crime') can be varied and may involve crimes such as drug trafficking, smuggling, theft and extortion.
2. e) Correct. Money laundering helps criminals to hide criminally obtained funds, manipulate such funds and extend their reach into legitimate business activities.
3. b) Correct. Money laundering seriously weakens the credibility of the financial system and tilts control towards criminal elements in society.
4. c) Correct. AUSTRAC is an analytical conduit between the broader financial community and AUSTRAC's law enforcement, revenue collection, national security and social justice partner agencies. AUSTRAC collects and analyses financial transaction reports from regulated entities and disseminates the resulting financial intelligence to these partner agencies. AUSTRAC's partner agencies can also directly access the AUSTRAC database.
5. b) Correct. AUSTRAC does not have any jurisdiction over the licensing of financial institutions. It is focused on administering the FTR Act and AML/CTF Act.
6. b) Correct. At this stage, money launderers are trying to distance themselves from the illegal monies as much as they can. To do this, they move the funds by transferring them through numerous accounts and across many borders. They can also use professionals, such as lawyers, to act as additional buffers in the layering process.
7. a) Correct. Integration is the final stage in the money laundering process where funds are legitimised. In this case, asset purchases and business investments were used as a means to integrate the funds into the economy and thereby complete the money laundering cycle.
8. a) Correct. It is easiest to detect money laundering at the placement stage. At this stage, funds are closest to the criminals and criminal activities which generate the funds and are often in the form of cash.

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**AUSTRAC Help Desk via:**

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