Committee: Economic and Financial Committee (GA2)

Issue: Promotion of international cooperation to combat money laundering and to foster financial capital movement transparency

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INTRODUCTION

The global economy is currently being faced with many challenges and issues, which have impacted each and every nation in different ways. Money laundering is one of those constantly growing major issues and has captured the attention of the international community in recent years, due to its high incidence.

Crime, in all its aspects, has been facilitated through emerging money-laundering techniques. All kinds of criminals, such as terrorists or drug lords, have been able to transfer any illegally-obtained sums of money across international borders, thus disguising the initial origin of those sums and subsequently their identities, while avoiding any suspicion which may have arisen among law officials in their operating country. Nevertheless, the whole concept of money-laundering does not limit itself on conventional criminal offenders. Even major financial institutions, government officials and individual citizens tend to perpetrate money laundering, especially in countries where governments are financially corrupt, such institutions are not controlled regularly and citizens have to confront over-taxation, thereby resorting to tax evasion. The damage money laundering causes to national economies is imperceptible though inconceivable as well.

Many LEDCs (Less Economically Developed Countries) have considered the "acceptance" of incoming money to-be laundered as a means of fostering economic growth. However, the process of money laundering consists of specific stages and the lawbreakers tend to transfer their money across a considerable amount of countries. As a result, LEDCs are only provided with short-term economic boosts. Those short-term benefits do subsequently lead to rising inflation rates and economic instability. Furthermore, many MEDCs (More Economically Developed

Countries) as well have been accused of insufficient anti-money laundering laws in conjunction with secrecy jurisdictions and low taxation. Such factors constitute the cornerstone for a so-called tax haven. The absence of financial capital movement transparency in both cases is noticeable as well.

All in all, individuals and whole countries as well are to be held accountable for money laundering. It is imperative that transparency in the world of finance be achieved so as to combat money laundering effectively. However, in the era of economic globalization, while countries continue to adhere to their own policies so as to pursue their own interests, the initiation of international cooperation is of utmost importance.

DEFINITION OF KEY TERMS

Tax evasion

Tax evasion is defined as “a willful and especially criminal attempt to evade the imposition or payment of a tax”.

Such criminal attempts have a huge effect on each country, and as estimated by the US Senate the United States’ government loses out approximately 100 billion dollars annually owing to tax evasion. As a result, every nation facing such revenue losses will be missing funds normally used for the initiation of development in cutbacks on infrastructure and services, such as education and health, thus affecting the living standard as well.

Tax evasion encompasses a wide range of financial crime sub-categories, such as filing invalid tax returns, identity theft in terms of the exploitation of additional dependents so as to grant access to tax deductions and submitting false information concerning one’s taxable income. The latter is directly related to money laundering, since the potential unreported income, regardless of its origin, could be “hidden” through the process of money laundering so as to avoid its taxation.

Money laundering

Money laundering is the criminal act of placing money obtained from illegal activities, as known as “dirty” money, through a process so as to conceal its origin and owner, hence making it look like it has come from legitimate sources. The main purpose of money laundering is to avoid capturing the attention of law enforcement officials, so as to be able to reintegrate the “dirty” money into the economy in the future. Despite the fact that criminal money could be transferred to other countries without the involvement of any financial institution, figures indicate contrariwise. There are many traditional and modern money laundering strategies, however the whole process can be divided into three basic common stages: Placement, Layering, Integration.

Tax haven

Tax havens are areas (mostly countries) where taxation rates are extremely low and a very customer-protective legal framework concerning the origin of capital flows prevails. Thus, individuals and companies prefer to transfer their assets to such countries so as to avoid taxation in their operating country. However, secrecy jurisdictions apply to tax havens as well and as a result criminals can take advantage of tax havens so as to launder illegally-obtained money.

Financial capital movement transparency

Financial capital movement transparency refers to the non-exclusive provision of valid information concerning sums of money being transferred between individual accounts in financial institutions either nationally or internationally. The exchange of such information so as to achieve transparency hasn’t been taking place in recent years owing to many factors. One of them, of course, is bank secrecy.

Bank secrecy

Bank secrecy describes the jurisdiction of many financial institutions, according to which any information concerning the financial activity of clients is deemed confidential and thus is not to be disclosed to the government or any other stakeholder. Secrecy jurisdictions are closely related to tax havens, as aforementioned, and hinder financial transparency.

Shell company

A shell company is a corporation which has no official record of any employees or offices, does though have reported financial activity, more specifically it may own financial accounts or assets. Shell companies are mostly located in tax havens and are often used by companies based elsewhere seeking to move capitals or any assets to the shell companies so as to evade the financial responsibilities of the original company, which again brings us to tax evasion. Money laundering could be facilitated as well, especially since they can be used so as to either hide criminal money from law enforcement or to simply launder money which hasn't been accounted for.

Offshore company

An offshore company is a corporation or entity whose administration is based in a different country than the one it was originally formed. Offshore companies are usually established in jurisdictions with the aim to operate outside of them. Such jurisdictions tend to benefit offshore companies owing to lower levels of taxation and secrecy legislation.

Offshore bank

An offshore bank is a financial institution formed and located in jurisdictions with either lower or non-taxation and a supportive legal framework for the protection of the customers' data. Therefore, offshore banks are more often than not used to disguise money and thus facilitate money laundering. It is also worth noting that conventional banks may also have offshore banking units based elsewhere than the original bank's headquarters.

BACKGROUND INFORMATION

The stages of money laundering

The first stage of the process is the so-called "Placement" of the money. The cash enters the financial system, possibly through a bank account in a financial institution, which may be located in the country or abroad. At this point the criminal is not the holder of the money and cannot be accused of possession of unaccounted money, after it has been officially placed in the financial institution. Placement may involve converting the money to different currencies or even dividing the cash into smaller sums of money and placing it in different financial institutions so as to limit suspicion. Furthermore, the criminal benefits from the liquidity of the deposit money, since it can be easily transferred and hence layering can ensue.

During “Layering”, the money is transferred many times consecutively through multiple bank accounts, offshore banks and shell companies. Its form changes as well; criminals tend to purchase assets of high value, such as jewels or pieces of art, while the amount of money is unstable. The main purpose of all those transactions of high complexity is to prevent law authorities from tracing the “dirty” money and its owner, whose identity is almost anonymous after the process of layering. Moreover, the money may again be divided and invested in smaller amounts, while multiple transnational transactions take place at a rapid rate. Given the fact that a tremendous amount of wire transfers occurs daily, it would be impossible for law officials to track down suspicious transactions involving small amounts of money. Therefore, after layering the integration of the money is an inevitability.

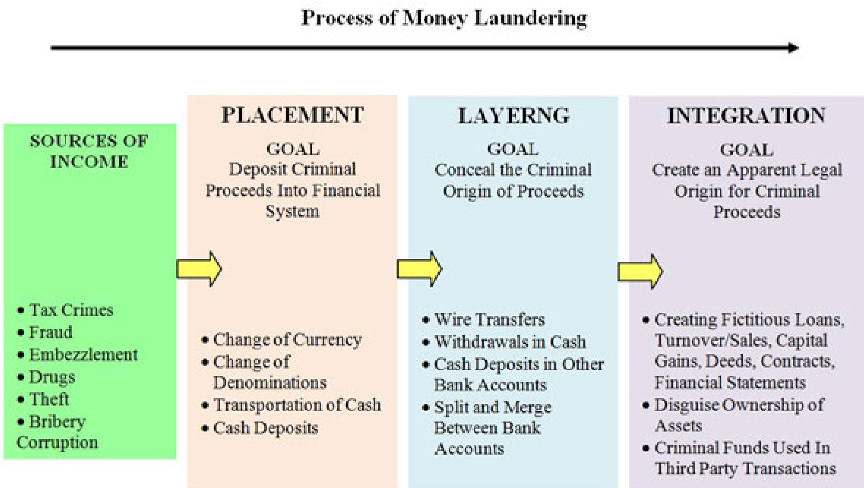

Figure 1: The three stages of money laundering and the processes they involve

“Integration” is the final stage of the money laundering process. After the money has been layered, its initial illegal source has been concealed and the criminal

Figure 2: A common money laundering scheme according to the UNODC

manages to retrieve the money from an allegedly trustworthy source. The disguised money is reintegrated into the economy, in a way so as to avoid raising any suspicion. Most of the times, this is achieved by purchasing indubitable businesses, such as hotels, restaurants, parking lots etc.

Reverse money laundering

Reverse money laundering refers to money obtained from legitimate sources which is used afterwards in illegal activities.

It is closely connected to terrorism financing, since most of the times those legitimate fund from trustworthy organizations such as charities is sent to terrorist organizations. Terrorism financing could also include funds derived from illegitimate sources though. Reverse money laundering works in the favor of terrorists, while providing them with the opportunity to avoid any suspicion raised concerning the final transfer of the money headed to the terrorist organization, thus hiding their identities and protecting both their organization and its sponsors as well. Nevertheless, reverse money laundering can also involve conventional criminal organizations with the purpose of retrieving sums of money the criminals had placed in a legal business. The fact though that bankers tend to abuse their authorization and facilitate the reverse money laundering process, if offered any cash in return, is remarkable. This is detrimental to identifying a terrorism financing offense, which requires proving that the sole purpose of the money laundered is to proceed with illegal activities in the future. As a result,

Comparison	Money Laundering	Terrorist Financing
Motivation	Profit-seeking	Ideological
Intention	To clean ill-gotten gains or dirty money so that they appear to be proceeds from legal activities.	To intimidate a population or to compel a government or an international organization to do or abstain from doing any specific act through the threat of violence.
Source of funding	• Unlawful sources - Extortion, kidnapping, narcotics trafficking, smuggling, fraud, theft, robbery, identity theft, improper use of charitable or relief funds.	• Unlawful sources - Extortion, kidnapping, narcotics trafficking, smuggling, fraud, theft, robbery, identity theft, improper use of charitable or relief funds and donors many have no knowledge that their donations have been diverted to support terrorist causes. • Legitimate sources - Charitable donations, foreign government sponsors, business ownership and personal employment.
Methods	Placement – Layering - Integration	The same as or similar to those methods used by other criminals that launder funds.
Life circle	Circular life circle Funding Placement Layering Integration	Linear life circle Funding Placeme Layerin Integration Terrorist activity

Figure 3: Comparison between money laundering and terrorist financing

tracking reverse money laundering becomes much more challenging than following a typical money laundering scheme.

Digital money in correlation to money laundering

Digital money, mostly in the form of cryptocurrencies, has risen in popularity in recent years. Cryptocurrencies are virtual assets used for online transactions. They are based on the blockchain, a newly devised technology, which manages to ensure the security of exchange through cryptography. In the context of money laundering, cryptocurrencies actually facilitate it by allowing a certainly high percentage of anonymity for their users. There are cryptocurrencies like Bitcoin, which are pseudonymous, whereas other such as Monero and zCash are anonymous. All pseudonymous cryptocurrencies, also known as semi-anonymous, are not connected to real people or email addresses, but a specific address or key. Anonymous cryptocurrencies are based on ring signatures, which are digital signatures of groups of people and can be used by any individual belonging to the specific group, without revealing his identity. The use of such cryptocurrencies enables criminals to hide their identity, proceed with secure transactions, purchase valuable goods and convert the virtual money to another currency. The combination of all those possibilities could lead to a potential money laundering scheme if not for the immediate regulation of the cryptocurrencies' percentage of anonymity. Criminals do also tend to convert their money into virtual currencies in online gaming so as to pursue money laundering.

Figure 4: A typical money laundering scheme via gaming currencies

Impact on the global economy

Money laundering, as mentioned in the introduction, has affected adversely lots of countries, the majority of which belonging to the Less Economically Developed ones.

Emerging economies are under threat when incorporated to the international financial market. The impact of money laundering on such economies has various aspects. First and foremost, the private sector has to deal with excessive competitiveness and economic disparities. Criminals tend to reintegrate the disguised money into the economy by investing in front-end businesses. When such companies are provided with those subsidized illegal funds, they proceed with the production of goods and services at a lower cost and their sale at a lower price. Thus, they can easily surpass the productivity and profitability of respective businesses funded by legitimate sources and criminal organizations can dominate the private sector. Moreover, money laundering and relevant criminal activities undermine the normal function of banks and other financial institutions. During the whole process of money laundering, and especially in the layering stage, perpetrators proceed with the placement and transfer of large sums of money in various financial institutions over a short time period. Such behaviors pose a threat to the liquidity of a bank and criminal offense in general has been linked to the collapse of multiple financial institutions over the years. Furthermore, money launderers are usually seeking to make short-term investments for the sole purpose of protecting their proceeds and not to foster economic growth in a developing country. Investments in construction and hotels, for instance, do subsequently fall apart after that short-term interest is lost. This leads to economic instability and essentially hinders development.

Major money laundering scandals

Many despicable money laundering scandals have been reported over the last couple of years. One of the most notable recent money laundering incidents was the one involving the renowned bank, going by the name of HSBC. HSBC was accused of facilitating money laundering and thus allowing cash flows for the purposes of drug cartels and terrorism. Responsible for the bank's failure to prevent money laundering was the insufficient anti money laundering policy implemented by HSBC. Eventually, HSBC was fined with 1.92$ billion, one of the highest amounts ever charged for money laundering. Nevertheless, money laundering has occurred substantially in the past as well. One of the most remarkable cases would be the one of Pablo Escobar, a world-famous successful drug lord. Pablo Escobar managed to become the seventh richest man in the world in 1989, which he had achieved through drug cartel and money laundering.

MAJOR COUNTRIES AND ORGANISATIONS INVOLVED

United Arab Emirates (UAE)

The United Arab Emirates are considered to be a major money laundering area. This belief can be attributed to the high vulnerability for money laundering, since the area is comprised of major financial centres such as Dubai. There are considerable deficiencies owing to the inadequate observation of financial institutions, exchange houses and general trade companies. Apart from that, the UAE consists of a wide offshore financial network with just 57 free-trade zones, thus complicating the current situation to a far greater extent.

Pakistan

Pakistan failed to comply with all of the Financial Action Task Force's recommendations, including the 6 core recommendations, as stated in the evaluation report published in 2009 by the FATF. The key to the money laundering problem in Pakistan is the government, which has failed to devise and implement sufficient legislation in order to combat money laundering and corruption effectively. The issue also stems from the Federal Investigation Agency (FIA) inability to initiate financial investigations, owing to the lack of information provided by the Pakistani Financial Intelligence Unit (FIU) concerning transactions.

Nigeria

Nigeria does not comply with all of the FATF's recommendations too, and has also been accused by other countries for being a major money laundering centre. It is famous for working as a great drug hub and thus a location for financial crime such as money laundering as well. In Nigeria there is an utmost need for legislation so as to ensure the effective functioning of its Financial Intelligence Unit (FIU). The recent emergence of digital currencies as a means of money laundering in Nigeria is remarkable as well.

Blacklisted tax havens

In 2009 the Group of Twenty (G20) established a list including countries and financial centres which have committed to the international tax standard set by the G20, but not actually implemented it, and are being referred to as tax havens. Later, in

2017, the European Union created another blacklist, consisting of 17 uncooperative jurisdictions. However, most of them managed to enhance their taxation system and get removed from the list, with the ones remaining being: American Samoa, Guam, Namibia, Palau, Samoa, Trinidad and Tobago and the US Virgin Islands.

European Union

The European Union (EU), apart from its efforts to eliminate tax havens, has developed an anti-money laundering directive (AMLD) aimed at the prevention and confrontation of money laundering. The first versions of the AMLD failed though to allow for financial institutions operating both in and outside of the EU, especially in the United States, to improve their financial transparency programs, owing to the different policies applying. Nevertheless, after the implementation of the fourth version (AMLD IV), such financial institutions will be able to improve their operations in both regions, where identical policies will apply.

Financial Action Task Force (FATF)

The Financial Action Task Force is an intergovernmental organization created in 1989. Its main goals are to devise and implement effective methods so as to combat money laundering, terrorism financing and other relevant issues threatening the sovereignty of the global economy. The FATF has published certain recommendations (40 recommendations on money laundering and 9 special recommendations concerning terrorist financing) and any countries not willing to comply with the aforementioned are listed by the FATF in special reports and have to face economic sanctions.

United Nations Office on Drugs and Crime (UNODC)

The UNODC is a United Nations organization aimed at combating drugs and crime as well as other sub-categories of those. It was established in 1997, after a merger between the United Nations Drug Control Programme and the Centre for International Crime Prevention. The UNODC boasts an Anti-Money Laundering (AML) Unit and is responsible for running the Global Programme against Money Laundering, Proceeds of Crime and Financing of Terrorism. The UNODC plays a key role in international cooperation and has been providing technical support and knowledge to countries so as to achieve a common goal.

Transparency International

Transparency International is an international anti-corruption organization established in 1993. Ever since its main purpose has been to eliminate corruption in all its aspects. Money laundering is a form of corruption and thus Transparency International focuses its efforts on money laundering as well. In order to specifically combat money laundering, Transparency International has managed to approach professionals in the private sector so as to ensure the effective implementation of anti-money laundering standards. Its main aims are accountancy and real estate, two sectors where the enhancement of transparency concerning laundered money is of utmost importance in order to limit the incidence of money laundering.

TIMELINE OF EVENTS

Date	Description of Event
2000 BC	The earliest form of money laundering, taking place in China by merchants who wanted to hide and protect their money
December 19, 1988	UN Convention Against Illicit Traffic in Narcotic Drugs and Psychotropic Substances (Vienna Convention)
1989	Establishment of the Financial Action Task Force (FATF)
December 9, 1999	International Convention for the Suppression of the Financing of Terrorism
September 11, 2001	World Trade Center Twin Towers terrorist attack by Al-Qaeda, the international community started taking the close connection between money laundering and terrorist financing into consideration
November 15, 2001	UN Convention against Transnational Organized Crime
December 14, 2005	UN Convention against Corruption

December 2012	HSBC charged with 1.92$ billion and got accused of facilitating money laundering and terrorism financing
June 2014	BNP Paribas was fined for the violation of U.S. sanctions against Cuba, Iran and Sudan and for providing false information of business records

UN INVOLVEMENT: RELEVANT RESOLUTIONS, TREATIES AND EVENTS

- UN Convention Against Illicit Traffic in Narcotic Drugs and Psychotropic Substances (December 19, 1988), aimed at eradicating money laundering in the context of drug trafficking
- Palermo Convention: UN Convention Against Transnational Organized Crime, November 15, 2001, promotion of the regulation and supervision of the financial sector so as to identify suspicious transactions
- Merida Convention: UN Convention Against Corruption, December 14, 2005
- ECOSOC Resolution 2003/36: Establishment of national networks to counter money-laundering in the framework of national and international drug control plans
- E/CN.7/2015/L.9/Rev.1: Strengthening international cooperation in preventing and combating illicit financial flows linked to drug trafficking, from the anti-money-laundering perspective
- UN Security Council Resolution 2005/1617, which calls for the implementation of the international tax standards published by the Financial Action Task Force (FATF)
- UN General Assembly Resolution 60/288 (20 Sept 2006), urging member states to implement the FATF's international standards, meaning the forty recommendations on money laundering and the nine special recommendations on terrorist financing

PREVIOUS ATTEMPTS TO SOLVE THE ISSUE

The UNODC (United Nations Office on Drugs and Crime) is the supervisor of the Global Programme against Money-Laundering, Proceeds of Crime and the Financing of Terrorism (GPML). The GPML is aimed at the promotion of international cooperation to combat money laundering by developing online databases including relevant information and sharing model anti-money laundering legislation in collaboration with the International Monetary Fund (IMF). The FATF, established by the G7, has put in a great effort to eradicating money laundering as well. By setting the international tax standards, promoting efficient measures and evaluating the progress countries have made in implementing them, it is vital to an appropriate international response to money laundering. However, the aforementioned steps taken by the international community have only been able to benefit few countries. Many other jurisdictions and countries, either facing economic sanctions or strict regulations, are not cooperative and refuse to assist in the process of international anti-money laundering investigation.

The European Union has offered a huge contribution to fight against money laundering. The European Commission for Migration and Home Affairs has managed to launch an anti-money laundering directive, whose third complete version is already being implemented. In addition, the commission has facilitated communication and teamwork between Financial Intelligence Units (FIUs) across Europe and supervised the equivalent penalization of money laundering across different European countries.

Transparency International played an important role in combating money laundering as well. In 1995 Transparency International formed the Corruption Perceptions Index, which demonstrates which countries have the highest and lowest levels of corruption. Its campaign for international cooperation to combat corruption entailed the renowned UN Convention against Corruption in 2003, which brought about major changes in the fight against corruption.

POSSIBLE SOLUTIONS

The promotion of international cooperation on such a relevant issue as money laundering is of utmost importance, while taking into consideration the fact that it prevails all around the globe. Delegates should focus on the promotion of international cooperation, though provide actual solutions to eradicate money laundering and enhance transparency in the financial sector as well.

First and foremost, the international community could take a more subtle approach towards tax havens, so as to ensure their cooperation. As mentioned before, tax havens are key factors contributing to the problem. Imposing tighter regulations would probably not turn out to be effective, since they would discourage certain jurisdictions facing them from cooperating with other countries and organizations.

Furthermore, it is imperative that countries commit to the existing standards and conventions, and that awareness be raised among them so as to be informed concerning the existing resources provided by the international community. More often than not money launderers take advantage of loopholes and flaws in the countries' anti-money laundering policies. For instance, most countries have a different approach towards bank secrecy. Moreover, financial institutions have to act on their part as well, by for example providing accurate information concerning financial activity and business records and applying strict Customer Due Diligence (CDD). Customer Due Diligence refers to the information gathered by financial institutions so as to identify any risks posed to the institutions themselves by the customer's background and purposes. Such threats could be money laundering or terrorist financing. The amelioration of legislation and law enforcement could lead to an increase in financial transparency on a national level, in combination with the implementation of Financial Intelligence Units (FIUs) as well. International cooperation should also involve support between individual countries, especially neighboring ones where suspicious activities may be connected to money laundering in a larger area.

Finally, the emerging complex problem of cryptocurrencies and their anonymity has to be addressed by the international community through the development of standard guidelines for the restriction of the cryptocurrencies' use for money laundering and via the information of each and every country concerning the rising threat cryptocurrencies pose to the global economy. Countries ought to take action as well, since any relevant policies

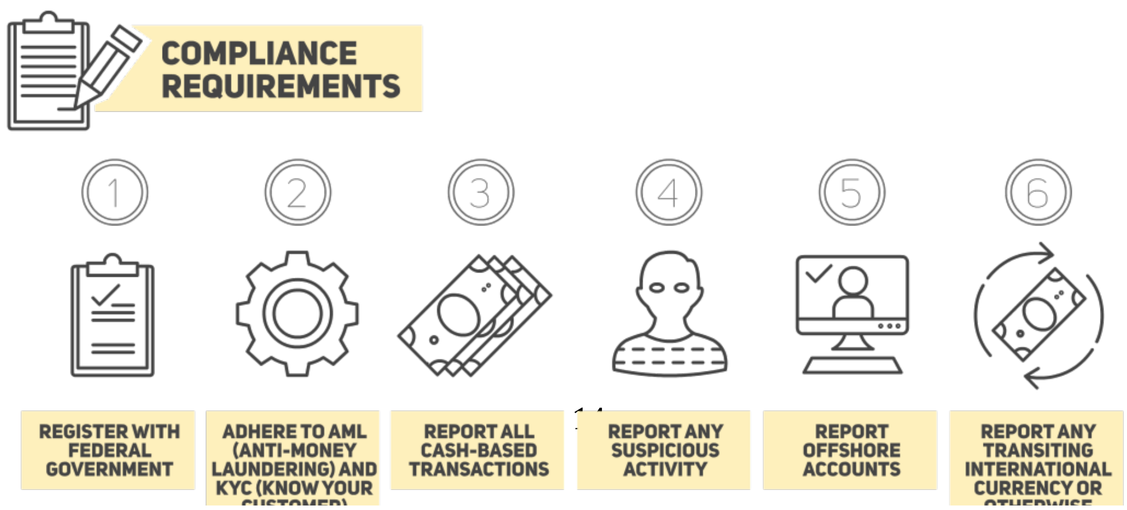

Figure 5: A possible solution for the regulation of cryptocurrencies

have to apply to the case of money laundering via any virtual currencies in each and every country, while taking into consideration that cryptocurrency units are virtual assets and not in the form of physical or digital money. Thus, already existing anti money laundering legislation has to apply to both physical or digital money and digital assets such as cryptocurrency units as well.

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