



# The Importance of fighting Money Laundering / Terrorist Financing

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Course Leader



## Agenda

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- Conversation around ML: definitions and legal standards, how it works, scale of ML, digital aspects overview
- Practical Exercise
- Overview of importance /investigations / detection / etc.
- Upcoming sessions during the week



## What is Money Laundering - Definition?

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*“The conversion or transfer of property, knowing that such property is derived from any offence or offences [...], or from an act of participation in such offence or offences, for the purpose of concealing or disguising the illicit origin of the property or of assisting any person who is involved in the commission of such an offence or offences to evade the legal consequences of his actions”*

United Nations Convention against Illicit Traffic in  
Narcotic Drugs and Psychotropic Substances (Vienna,  
1988)



Illegal funds – “Money”

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**Financial Investigations  
are firstly and  
preliminarily focused  
on money trails**

Edmond Locard (1877 – 1966), French physician and criminologist, one of the founders of criminal forensics. The Sherlock Holmes of Lyon.



## Following the Money Trail

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- **Locard's Exchange Principle: Every contact leaves a trace.**
- Applied to criminal investigations: The perpetrator of a crime will bring something into the crime scene and leave with something from it.
- And in financial crime investigations this means:
  1. Physical changes (assets move, are transferred, etc.)
  2. Changes in ownership and/or controlling entity
  3. Sophisticated structures
  4. Different systems
  5. ....anything that hides the origin of the funds



Everybody leaves a trace

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## Simple Principles of investigation

- Check and assure – never assume
- Use all the information
- Every contact leaves a trace

**Follow the (money / value) trail**



## Follow the Money

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***“You follow drugs, you get drug addicts and drug dealers. But you start to follow the money, and you don't know where the f... it's gonna take you.”***

***Detective Lester Freamon,  
TV series ‘The Wire’.***



## ML versa TF – The Difference

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- **Money Laundering** is **circular**: the money ends up landing with the individual who generated it.

**ML Goal: to use dirty money in legal transactions**

- TF (Revers ML) is **linear**: its goal is to move money, irrespective of its origin, to finance terrorist activities  
in TF, we are not trying to disguise the origin of the funds, but to disguise its use/destination



## Main parts of ML

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- Offence – illegal gains - ML
- Predicate offence: in order to launder money, it must have an illicit origin (But! The income must be illicit, the transaction not necessarily)
- By laundering the money, the offender seeks to hide its illicit origin in order to use it legally
- Difficulty of tracing the origin of cash transactions (vs. credit cards, checks, etc.).
- Special area: Crypto currencies/Digital Assets



## Main parts of TF

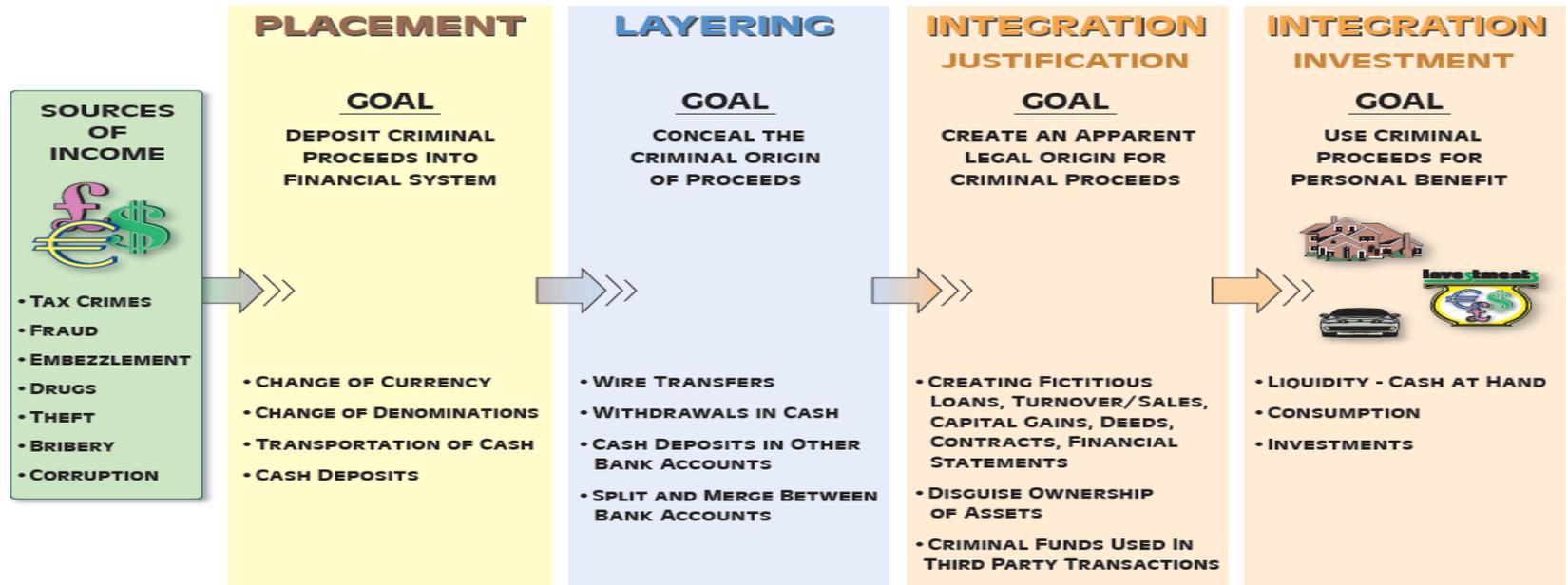
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- Almost no illegal gains – no predicate offence – the crime follows
- Origin of funds are often known - difficulty of tracing the destination of funds by breaking the traces
- Special areas:
  - Non profit organizations – detection difficult behind a curtain of eG human aid activities
  - Multiple sources of funds
  - Smaler amounts of money
  - Different or even crypto currencies



# Three stages in the ML process

## OVERVIEW OF MONEY LAUNDERING





## Scale of ML

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- Worldwide 500 Bi upto 1 Tri US\$ (estimated amount)
- Transfer into Crypto recognizable within the last years
  - 2018-2019 0,5-1% of crypto transfers are regarded as ML related
  - 2022 3% !! By increasing volume of transfers
- ML is a large scale problem - worldwide
- Why and How to fight it?



Why is it important to fight ML?

Practical Exercise – 15 min



## Importance of fighting ML

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- Agency overlapping investigations
  - Multiple experts working at the same case
  - Different investigative techniques
  - Different sources of information
  - Different possibilities for international cooperation
  - Criminal and civil investigations are / could be combined



## Importance of fighting ML - inter-agency cooperation

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Tax  
administration

Police or  
public  
prosecutor

Financial  
intelligence  
unit

Anti-  
corruption  
authorities

Customs

Financial  
regulator



## eG Tax and FIU co-operation

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- **FIU:** “a central national agency responsible for receiving (and, to the extent possible, requesting), analysing and disseminating financial information in order to combat money laundering and the financing of terrorism”
- **Suspicious Transaction Report (STR/SAR)**  
Investigators should familiarize themselves with them in order to be able to file them
- **Tax crime as a predicate offence for ML:** allows investigating both crimes simultaneously. Use of enhanced international cooperation mechanisms



## Importance of fighting ML

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- Recovery of illegal gains
  - Often direct link established to assets
  - Nature of ML leads to assets
  - There are almost always tracing possibilities by combining civil and criminal investigations



# Importance of fighting ML

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## - International aspects

- ML can often be investigated and prosecuted although the predicate offences is not established in the jurisdiction where ML is detected
- International cooperation is faster by intelligence networks like FIUs
- Non law enforcement entities are involved
- Tax secrecy regulations often are not a burden in exchange of info

## - National aspects

- Reporting obligations between civil and / or criminal agencies  
Eg TAX ADMINISTRATIONS
- Taxation of illegal income although no crime/offence is established
  - Burden of proof - unknown wealthy/origin of money/sources of income/ etc



## The role of reporting entities in the fight against ML

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- Identifying and reporting unusual or suspicious transactions, in accordance with the laws and procedures in force in their country.
- Reporting entities are often well placed to spot the first signs of possible money laundering or terrorist financing activity. Their skills and training enables them to detect suspicious transactions quickly.
- Also: collaboration with law enforcement (joint investigation teams)



## Red Flag Indicators

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- Unusual income.
- Unusual rise in net worth.
- Unusual possession or use of assets.
- Unusual debt.
- Unusual transactions (standalone / patterns).
- Unusual timelines (quick turnaround of funds).



## ML risk indicators

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- How to identify possible ML in the course of a tax audit
  1. Physical movement of cash (transportation, currency exchanges, deposits, purchases)
  2. Use of well-known ML schemes
  3. Unexplained increases in income or capital (unrelated to declared turnover)
  4. Unusual loans
- Overall: Detection should focus on what is **unusual**.



## Tax Returns and Tax Audit Information

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- Unusual balance sheet items (e.g. cash injections).
- Unusual profit and loss items (compare with the economic sector)
- Upon questioning, owner/responsible person shows poor knowledge of their business and business sector.
- Transaction in goods or services not fitting company's profile, no commercial basis, lack of supporting documents.
- Offshore company transactions / high risk jurisdictions / opaque corporate structures.
- Business associates share common addresses / have criminal linkage.
- Asset sales not substantiated.



## Unusual Turnover/Sales

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- Significant increase in anonymous cash turnover/sales.
- Large cash payments received for goods never delivered (fictitious buyer).
- No economical basis for transaction and missing paperwork.
- Sales invoiced by non-transparent businesses.
- Costs incurred not leading to turnover/sales.
- Business transacted with entities suspected of criminal links or association.



# Examples of high-risk economic activities

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CASH-  
INTENSIVE  
BUSINESSES



REAL ESTATE



GAMBLING /  
LOTTERY



TRADING  
COMPANIES



Upcoming sessions during the week

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*Basics of ML*

*Stages*

*Case examples*

*TF examples*

*Trends*

*ML in the Crypto world*

*Detection possibilities*

*Investigation possibilities*

*Prosecution aspects*

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