Module 1

Introduction to Money Laundering ("ML")/ Terrorist Financing "(TF")

(August 2007)

What is Money Laundering/ Terrorist Financing?

❖ Money laundering covers a wide range of activities and processes intended to alter the identity of the source of criminal proceeds in a manner which disguises their illegal origin.

❖ Quoting from Narcotics Division's public information leaflet,

"Under the legislations in Hong Kong, illicit proceeds mainly come from criminal activities such as drug trafficking, smuggling, illegal gambling or bookmaking, tax evasion, corruption, [10 other examples], financial fraud and deception, insider trading and market manipulation."

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What is Money Laundering/ Terrorist Financing?

❖ Terrorist financing includes the financing of terrorist acts, and of terrorist and terrorist organisations. It extends to any funds, whether from a legitimate or illegitimate source.

Stages of Money Laundering

❖ There are three common stages in the laundering of money, and they frequently involve numerous transactions. These stages are:

II – Layering

I - Placement

III - Integration

Stages of Money Laundering

❖ Stage I – Placement : This is the physical disposal of cash proceeds derived from illegal activities.

❖ Stage II – Layering : This is separating illicit proceeds from their source by creating complex layers of financial transactions designed to disguise the source of money, subvert the audit trail and provide anonymity.

Stages of Money Laundering

❖ Stage III – Integration : This is creating the impression of apparent legitimacy to criminally derived wealth. In situations where the layering process succeeds, integration schemes effectively return the laundered proceeds back into the general financial system and the proceeds appear to be the result of, or connected to, legitimate business activities.

Potential Use of securities/ futures industry in the ML/TF process

❖ Placement

- Through structuring large deposits of cash in a way that disguises the original source of the funds

❖ Layering

- More likely to be used in the second stage of ML

- Alter the form of funds in whatever form to an entirely different asset or range of assets such as securities or futures contracts

❖ Integration

- The ability to readily liquidate investment portfolios and the availability of a vast array of possible investment mediums offer attractive ways to integrate criminal proceeds into the general economy.

Potential Use of securities/ futures industry in the ML/TF process

❖ Illegal funds laundered through the securities and futures sector may be generated by illegal activities both from outside and from within the sector.

  ❖ Outside the sector: securities transactions may be used as the mechanism for concealing the source of the illegal funds

  ❖ Within the sector: e.g. insider trading, market manipulation and embezzlement etc.

❖ ML and TF are evolving in nature, all licensed persons need to be alert to various ML and TF methods and tactics.