

# ANTI-MONEY LAUNDERING: THE BASICS

## Installment 1: Introduction to Anti-Money Laundering for Professional Accountants



### WHAT IS MONEY LAUNDERING?

Money laundering is the process that turns dirty money into funds that appear lawful and can therefore be spent as if they were from legal sources. Money laundering legitimizes the proceeds of crime and allows drug gangs, human traffickers and other criminals to expand and benefit from their operations. It is estimated that the potential annual scale of money laundering may exceed \$1 trillion USD globally\*

\* United Nations Office on Drugs and Crime

### What is this guide?

This series is meant to help professional accountants enhance their understanding of how money laundering works, the risks they face, and what they can do to mitigate these risks and make a positive contribution to the public interest. It is meant to be accessible and easy-to-use. As a result, it cannot cover every issue or local requirement. Instead, it addresses key issues for professional accountants.

### Why should accountants care?

The fight against money laundering is not just a compliance exercise. Economic crime, including money laundering, affects more citizens, more often than any other security threat. Money laundering corrodes wider society, whether from illicit investments in high-value property, drug-related violence in disadvantaged neighborhoods, or the trauma caused by human trafficking and modern slavery. The criminals responsible exploit some of the most vulnerable in our communities, and bring illegal drugs and violence to our streets, damaging the fabric of society.

As a public interest profession, we must play our part to keep our societies safe. As gatekeepers to the financial system, professional accountants are the first line of defense to prevent these illicit funds finding their way into the economy.

### What is Money-Laundering risk?

Money laundering presents professional accountants with three key risks. Accountants may:

- Be used to launder money (e.g., by holding criminal proceeds in a bank account or taking a role in an arrangement that disguises the beneficial ownership of criminal proceeds)
- Be used to facilitate money laundering by another person (e.g., by creating a corporate vehicle to be used for money laundering or by introducing a money launderer to another professional adviser)
- Suffer consequential legal, regulatory or reputational damage because a client (or one or their associates) is involved in money laundering having failed to spot the red flags and report it

## HOW DOES MONEY LAUNDERING WORK?

Money laundering works by taking proceeds of illegal activity and disassociating them from the underlying crime by placement, layering, and integration into the legitimate financial system.

### PLACEMENT

The launderer introduces the illegal profits into the financial system. This might be done by breaking up large amounts of cash into less conspicuous smaller sums that are then deposited directly into a bank account, or by purchasing a series of monetary instruments (check, money orders, etc.) that are then collected and deposited into accounts at another location. Possible methods include:

- **Change currency & denomination**
- **Transport cash**
- **Cash deposits**

### LAYERING

The launderer engages in a series of conversions or movements of the funds to distance them from their source. The funds might be channeled through the purchase and sales of investment instruments, or the launderer might simply wire the funds through a series of accounts at various banks across the globe. This use of widely scattered accounts for laundering is especially prevalent in those jurisdictions that do not cooperate in anti-money laundering investigations. In some instances, the launderer might disguise the transfers as payments for goods or services, thus giving them a legitimate appearance. Possible methods include:

- **Wire transfers**
- **Withdraw cash**
- **Split and Merge Accounts**

### INTEGRATION

The illicit funds re-enter the legitimate economy. The funds may be invested in real estate, luxury goods, and businesses. Possible methods include:

- **Fictitious loans/turnover/contracts**
- **Disguise ownership of assets**
- **Use in third party transactions**

## KEY CONCEPTS OF ANTI-MONEY LAUNDERING FOR PROFESSIONAL ACCOUNTANTS

### Customer or Client Due Diligence

The purpose of Client Due Diligence (CDD) is to know and understand a client's identity and business activities and use this knowledge and understanding to assess the risk that the client might be involved in money laundering, or seek to use the accountant to assist them in this activity.

### Politically Exposed Person

A Politically Exposed Person (PEP) is an individual entrusted with prominent public functions, such as a politician or leader of a state-owned organization. Additional due diligence may be needed for PEPs and their family members due to the risk of bribery and corruption.

### Ongoing Monitoring

In addition to performing CDD for new clients, it is important to update these checks for ongoing clients, especially when ownership of the client or their activity changes. This is a regulatory requirement in many jurisdictions.

### Suspicious Activity Reporting

In some countries there is a legal obligation for professional accountants to report suspicions of money laundering to the Financial Intelligence Unit. These are often called Suspicious Activity Reports.

### What does the *International Code of Ethics for Professional Accountants* say about money laundering?

The principle of professional behavior requires professional accountants to comply with relevant laws and regulations. The Non-Compliance with Laws and Regulations (NOCLAR) provision in the International Ethics Standards Board for Accountants (IESBA) Code creates an ethical obligation for professional accountants to speak out if they become aware of or suspect non-compliance with law and regulations, including in relation to money laundering. For more information, see the [IESBA NOCLAR Factsheet](#), as well as installments 8 and 9 of [Exploring the Code](#), an IFAC and IESBA series to promote understanding and awareness.

### ADDITIONAL ASSISTANCE



For general anti-money laundering guidance, see the Financial Action Task Force's *Guidance for a Risk-Based Approach for the Accountancy Profession*. For ethics-related issues, see the *International Code of Ethics for Accountants*. For detailed local information, including applicable regulatory requirements, contact your professional accountancy organization.



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