



Arab Society of Certified Accountants (ASCA)



Talal Abu-Ghazaleh & Co. International (TAGI)

Member of Talal Abu-Ghazaleh Organization (TAGorg)

# Anti-Money Laundering Guide for Auditors and Accountants

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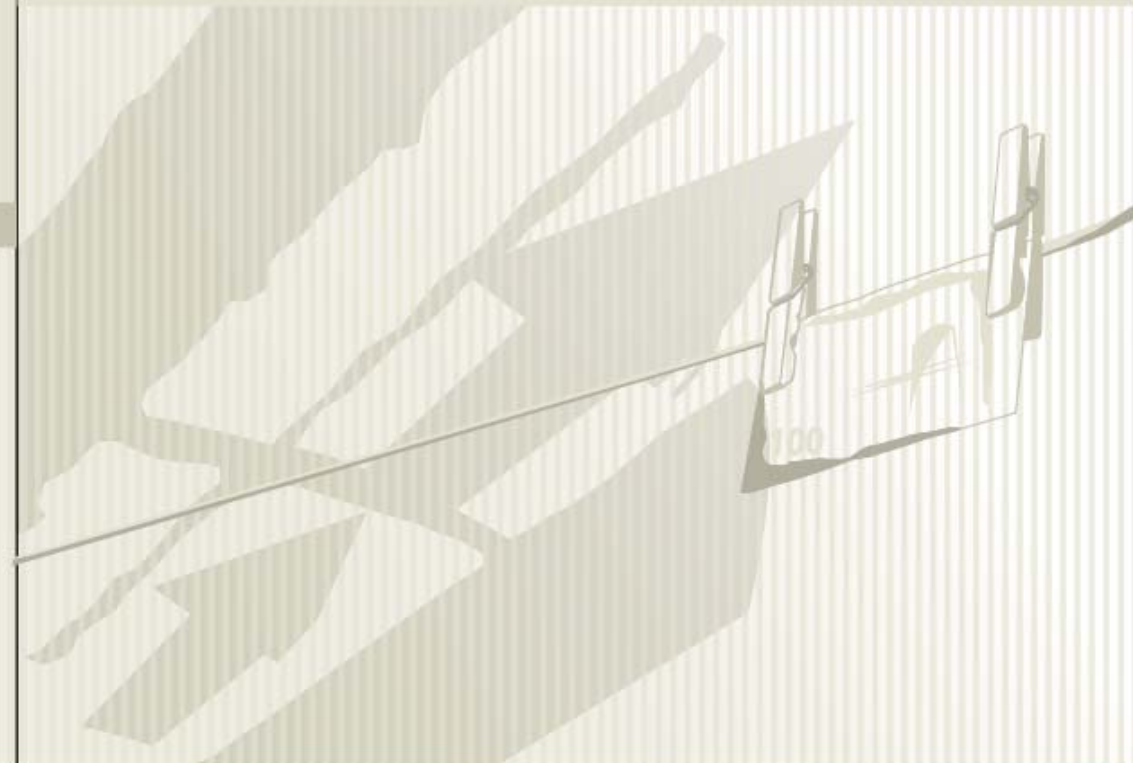
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## Foreword

To seek to disguise illegal funds, often obtained through criminal activities, and turn them into legal funds by transferring them through apparently legitimate channels is an activity which regrettably has become very common in recent years.



Professional accountants in general and auditors in particular have a special responsibility to be diligent in identifying such money laundering even if there are no particular specific legal or statutory requirements in the jurisdiction in which they operate.

In order to assist its members in this respect, the Arab Society of Certified Accountants (ASCA) has asked Talal Abu-Ghazaleh & Co. International (TAGI) to prepare for it a general guide to professional accountants and auditors on money laundering. This guide, of course, should always be used in conjunction with any relevant national laws and regulations where these exist.

I am sure that all of our members and students will find this guide, which will be available in both Arabic and English, very useful and I commend it to them.

**Talal Abu-Ghazaleh,**  
*Chairman of TAGI and President of ASCA*

## Definition

Money laundering, including terrorist financing, is any action that involves transmitting, transferring or depositing funds collected by criminal activities or actions aimed at concealing or falsifying the nature of these funds in an attempt to pretend that such funds are generated from legitimate sources.

Money laundering is concealing the unlawful source of money by transferring cash or other funds from illegal activities through legitimate channels, such as markets, banks and other financial institutions. The objective of money laundering is to disguise illegal (dirty) money and turn it into legal (clean) money.

## Money Laundering Stages

### **A - Placement:**

The placement stage involves placing funds generated from illegal activities into the financial system for the purpose of removing those funds from where they were originally generated to legitimate location so as to avoid detection.

In doing so, the money launderers, usually, possess fair knowledge of national laws, regulations and rules.

### **Common Methods:**

- Currency Smuggling – Illegal physical movement of funds out of a country.
- Currency Exchanges – Funds movement through currency exchanges resultant from various business transactions.
- Bank Involvement – Facilitating movement of funds when the financial institutions are owned or controlled by suspected individuals.
- Securities' Brokers – Facilitating money laundering through structuring large amount of funds in a way that disguises the original source.
- Blending of Funds – Using funds from illegal activities to set up front business entities which enable those funds to be hidden in legal transactions.

## **B - Layering:**

The Layering stage involves creating complex layers of financial transaction to conceal proceeds from illegal activities and disguise them from their original sources.

Layering techniques may make use of (i) electronic funds transfer (EFT), (ii) complex dealings with stock commodity, and (iii) financial instruments.

### **Common Methods:**

- Cash converted into monetary instruments through using banker's drafts and money orders.
- Buying assets with cash and then selling them locally or abroad in a way that makes the assets difficult to trace.

## **C - Integration:**

The integration stage is the final stage and it involves integrating the funds into the legitimate economy and financial system in such a way that they appear to be normal business funds.

### **Common Methods:**

- Property Dealing – To integrate laundered money into the financial system through selling property.
- False Import/ Export Transactions – Using false invoices for the purpose of overvaluing the import documents to eventually justify the deposit in domestic bank and the funds received from exports.
- Establishing Business Entities and False Loans – by which the money launderers who own those entities may lend themselves their own laundered money in apparently legitimate transactions.

## **Background to Anti-Money Laundering Laws and Regulations:**

For many years, money laundering has been of interest and concern to a number of international organizations and legal jurisdictions (See Appendix 1). It is now accepted that even if there are no statutory requirements concerning this, professional ethics and proper accounting practice require accountants and auditor firms to have in place both anti-money laundering procedures and a senior member(s) of staff responsible for ensuring that such procedures are properly applied.

## **Indications of Possible Money Laundering:**

There are many sophisticated schemes and techniques of money laundering. The following are the common observed signs of suspicious activities that usually end up with money laundering:

- Unusual transactions, by nature and/or size, unrelated to the client's activities.
- Unauthorized transactions and inadequate audit trails.
- Unusual large exchange of currency for negotiable instruments.
- Transactions made through intermediaries for non-legitimate reason.
- Opening bank accounts in order to receive deposits of amounts that are not part of the client's activity.
- Frequent recurring transfers between accounts with banks.
- Transactions with countries producing & selling drugs.
- Effecting exchange or transfer transactions of currencies that are consummated at prices less than the market.
- Purchase or sale of marketable securities without a clear objective or without a reason or in extraordinary circumstances.
- Transfers of large amounts of money outside the country which are not consistent with the client's activity.
- Usage of letters of credit in a manner not suitable with the client's activity.
- Settlement of loans before their expected maturity dates and in amounts exceeding expected settlement amounts.
- Transfers of funds to a person or persons with different addresses.
- Converting huge amounts in foreign currencies into local currency.
- Purchase of insurance policies and then canceling or liquidating such policies in cash before its maturity dates.
- Acquiring real estate loans followed by settlement of such loans in cash before their maturity dates.

## **Preventing Money Laundering Activities:**

Although not specifically concerned with money laundering as such, there are certain general good practice rules which all audit and accountancy firms should have such as:

- a) In no circumstances should a firm handle or store or allow passing any funds that belong to clients through its bank account(s).

- b) The provision of audit, accounting and related ancillary services for any financial institution should not be accepted unless approved by a senior member of the staff.
- c) Internal controls of clients who handle large cash/cash like transactions should be adequate and appropriate given the nature of the business concerned; if not, they should be reported immediately to a senior member of the staff.
- d) Audit trails of all transactions for all work done for clients must be established.

Business entities must establish policies and procedures that meet legal and regulatory requirements to prevent money laundering. The policies and procedures must cover the following aspects:

- Know Your Customer (KYC)
- Suspicious Activity Reporting (SAR)
- Reporting Requirements
- Money Laundering Reporting Officer (MLRO)
- Employees Awareness and Training

### Know Your Customer (KYC)

The business entities must set written procedures with respect to KYC policy in order to be able to protect themselves as well as their employees from inadvertently assisting in money laundering.

KYC guidelines recommend developing thorough understanding of essential facts relating to each customer, through appropriate due diligence procedures. Therefore, business entities need to operate on risk-based approach and not treat all customers the same. The KYC procedures must be performed in a way that enable business entities properly assess the risks posed by different customers and products and any combination of them as well.

Knowing your customer should be an ongoing process. Customers' profiles have to be updated regularly to ensure that risks are kept at acceptable levels and to provide customers the best services and products possible.

A new client must not be accepted unless verification takes place regarding who he claims to be whether the client is an individual, company, trust or any other body. Procedures for verification of the identity of the client are in

(Appendix 2). This applies to all new clients even if they have been introduced to us by an existing client and/or a highly-reputed person in the community.

### Client Verification

Records of the identity and addresses of the clients should be maintained. In case of companies and other legal entities, the identities and addresses of the individuals behind them must be verified.

For every client, a piece of evidence should be obtained with respect to who the client claims to be. In addition, it should be proved that the person who lives at the address given or the corporation or other legal entity has owners who can be identified and that their representatives can be contacted/are located at the address given.

### Individuals

Separate documents should be used for the confirmation of identity and for the confirmation of address. Acceptable confirmation documents include:-

#### Identity

- Passport
- Driving License (Photocard)
- Credit/Debit Card issued by a national bank of the country concerned (Photocard)
- Residence Permit (Copy as stamped on the passport)

#### Address

Any of the above which has not been used for identity purposes:

- Utility Bill
- Bank Statement
- Insurance Certificate
- Telephone Directory
- Vehicle Registration Document

If there is no face to face contact with the client, or if any of the above relates to him/her, these must be certified by a lawyer/accountant/or equivalent who is a national of and located in the country in which the audit firm concerned is located. In addition, if there is no face to face contact, which will be extremely rare, the client must not be accepted unless the approval of the AMLO has been given.

## Corporations /Trusts/Charities/Other Legal Identities

These are very common vehicles for those who wish to hide criminal money; therefore, particular attention must be paid to establishing the identity of those who control them and also those who represent them. Extreme care should be taken to verify their legal existence from official sources and that those who act on their behalf are fully authorized to do so.

Official sources include licenses and other documents issued by government ministries such as the Ministry of Justice ,Ministry of Labor ,and also statutory books of account maintained in accordance with generally accepted accounting principles and when required International Financial Reporting Standards(IFRS).

In addition, particular attention must be paid to the objectives of these entities. Thus, if the engagement is accepted, the outcome will fulfill these objectives.

### Review of Verification Information

It is important that the information and documentation concerning the client's identity remains accurate and up to date; thus, regular reviews should always take place. If, at any time, there is a lack of sufficient information and documentation or there are concerns about the accuracy of information, appropriate verification materials should be obtained.

### Reviews should always take place when:

- a) Documentations verify that the client's identity is changed
- b) A significant transaction with the client is expected to take place
- c) There is a material change in the business relationship with the client
- d) There is a material change in the nature or ownership of the client's business

### Suspicious Activity Reporting (SAR)

Suspicious activities are those financial related activities which give reasonable and solid belief that they are related to money laundering and

terrorist financing activities. Identification and reporting of suspicious activities require deploying sound judgment to whether the activities are classified suspicious or unusual.

### The importance of reporting suspicious activities pertains to:

- Identifying potential illegal activities such as money laundering and terrorist financing.
- Detecting and preventing flow of illicit funds.
- Analyzing patterns and trends of illegal activities.

### Examples of suspicious transactions indicators:

- Transactions that give rise to discomfort, apprehension or mistrust. For example, conducting unusual cash transactions when compared to the normal pattern of transactions of the customer.
- Customers' unusual behavior. For example, when customers do not want correspondence to be sent to home address or when customers show uncommon curiosity about internal control systems.
- Discovering false or vague documents and information about an activity.
- Transactions involving areas outside the residency area of the customer using wire transfer and electronic funding.
- Transactions related to offshore business activities.

### Generally, the following business entities are required to report suspicious activities:

- Transactions related to offshore business activities
- Financial Institutions
- Insurance Companies
- Brokers and Agents
- Securities Dealers
- Foreign Currency Dealers
- Mutual Fund Agencies
- Accountants
- Casinos

## Reporting Requirements

Suspicious transactions -as defined in the previous point- should be reported as soon as the circumstances give rise to the belief that suspicious transactions are identified.

The report is usually made by the entity's nominated officer. The nominated officer is normally known as the Money Laundering Reporting Officer (MLRO). Duties and responsibilities of MLRO are explained later.

The suspicious transactions report should include all the transactions that lead to suspicion. However, the reported information, normally, fall into the following categories:

- Where did the transactions take place
- How transactions were initiated
- Information about disposition
- Individuals conducting the transactions
- Entity on whose behalf the transactions were conducted (if applicable)
- Description of suspicious activity

SAR laws provide safe harbor to business and employees against lawsuits launched by suspects knowing that suspicious reports have been made about them. On the other hand, SAR laws included provisions to revoke the safe harbor when, for example, it can be proven that the business or employee tipped off the suspect.

Please refer to (Appendix 3) to find examples of suspicious activities as contained in the UAE Federal Law No.4 for the Year 2002 on the Criminalization of Money Laundering.

## Money Laundering Reporting Officer (MLRO)

Business entities should have a nominated person to carry out various functions including the receiving of internal suspicious information. This person is known as Money Laundering Reporting Officer (MLRO).

### Duties and Responsibilities of MLRO:

- Monitoring the daily operations of the business entity's anti-money laundering policies and procedures.

- Dealing with regulatory governmental departments with respect to money laundering.
- Receiving and reviewing suspicious activities reports.
- Understanding the business cycle.
- External reporting.
- Establishing necessary procedures to expand governance and conduct training programs related to money laundering.
- Preparing compliance reports to senior management.

### MLRO Rights:

- a) To act on his\ her own authority and act in an independent manner;
- b) To have direct access to the Chairman and Board of Directors;
- c) To have access to all documentation, files and any other material and information, confidential or otherwise, about the financial and business circumstances of a client or any person on whose behalf the client has been acting. This includes unrestricted access to relevant information about the features of the transactions which have been entered into or may have contemplated entering into with or for the client or that person.

Because the MLRO function is specialized and requires special skills, the MLRO job must be assigned to a person who has:

- Integrity
- Professional skill and care
- Competence and understanding of proper standards of market conduct
- An understanding of the laws
- The ability to deal with regulatory agencies as well as typologies of money laundering and business vulnerabilities to money laundering activities

At least once a year, the MLRO should prepare and submit to senior management his/her report highlighting:

- Entity's compliance with anti-money laundering regulations.
- Aspects and problems or deficiencies in KYC, monitoring procedures, reporting to regulatory agencies and staff training.
- Changes of anti-money laundering legislations and regulations.



## Employees Awareness and Training

Business entities must take necessary steps to ensure employees' awareness of transactions that may involve money laundering. Various awareness programs may be organized throughout the entity to make sure that the employees are aware of:

- Their responsibilities under the entity's anti money laundering policies and procedures including; identification, obtaining evidence and reporting of suspicious transactions.
- Roles and responsibilities of MLRO.
- Money laundering laws and regulations.

Training programs should provide employees with further knowledge in the following areas:

- How to deal with laws and regulations of money laundering.
- How to identify, assess and report suspicious transactions.
- Effects of new money laundering rules and regulations on the employees' duties, responsibilities and the way they perform their jobs.

## Auditor and Professional Accountant's Responsibilities toward Money Laundering:

Auditor and professional accountants should be aware of legal and operative definition of money laundering, suspicious activities and reportable conditions because governments are broadening the scope of reportable conditions and consequently the business entities need to expand their scope of monitoring for reporting of suspicious activities.

The accounting profession aims at promoting transparency in book-keeping and financial reporting and emphasizing effective internal control system which, by nature, is consistent with the context of the FATF 40 recommendations.

Professional accountant's responsibilities with respect to money laundering vary depending on the type of service performed.

However, general guidelines were defined to keep accountants aware of their duties and responsibilities toward detecting and reporting money laundering activities:

- Money laundering activities are less likely to directly affect the financial statements of business entities instead; their effect is indirect such as through the existence of potential contingent liability resultant from money laundering related lawsuits. Therefore, the professional accountants are required to be aware of whether illegal acts, with indirect effect on financial statements, have taken place.
- Professional accountants are not expected to be legal experts. However, they are expected to seek legal advice whenever suspicious activities are identified.
- Professional accountants should consider whether and how money laundering may affect the entity's going concern.
- Knowing that money laundering activities are different in nature and consequences than the fraudulent activities, professional accountants should consider control deficiencies that may contribute to fraudulent activities and money laundering activities at the same time.

The following are examples of control deficiencies that may indicate fraud and money laundering vulnerabilities:

- a) Poor internal control environment in terms of integrity, tone-at-the-top and competency.
- b) Poor compliance with rules and regulations.
- c) Poor risk management function.
- d) Lack of internal audit function.
- e) Significant unusual transactions.
- f) Lack of background checks of new customers.

Professional accountants may enter into engagements with business entities to investigate and report money laundering activities. When performing these types of engagements, professional accountants frequently identify unusual and suspicious activities and report their doubts to management.

However, before accepting such engagements, professional accountants should consider the nature of the engagement and whether there are any possible independent conflicts.

Normally, the objectives of such engagements fall under the following categories:

- Addressing regulatory requirements for independent testing of anti-money laundering programs and controls.

- Assisting business entities to meet the requirements imposed by governments.
- Identifying anti-money laundering program weaknesses, remedies and reporting them to management.
- Assessing vulnerability of business entity to money laundering activities.
- Helping regulators in conducting supervisory examinations.

## **Risks Associated with Anti- Money Laundering Procedures:**

The introduction of strict anti-money laundering procedures can present a firm with certain risks/difficulties.

### **1. Compliance Risk**

Money laundering activities represent significant compliance risk especially in the financial institutions. Normally compliance risk pertains to:

- Focusing on anti-money laundering record keeping and reporting more than focusing on compliance programs.
- Confusion about the concept of KYC and money laundering risk management.

### **2. Operational Risk**

Operational risk arises from the way the business operations are run. They pertain to internal control environment, information systems, entity's culture, and operating style.

### **3. Reputation Risk**

Reputation risk represents the risk which has damaging effect on the entity's reputation and it normally results from:

- Poor compliance with anti-money laundering program requirements.
- Deficiency in the entity's internal control system.
- Scandals related to money laundering operations.

### **4. Strategic Risk**

Strategic risk arises when the business entity is unable to effectively plan, implement and monitor changes within the industry. Because money laundering activities are becoming more sophisticated, the management control over strategic planning becomes challenging which indicates that management should consider the strategic risk effect of money laundering activities more commonly.

## References:

- 1- Money Laundering. A concise Guide for All Business, DOUG HOPTON, Gower Publishing Limited, 2003.
- 2- Responding to Money Laundering International Perspectives. ERNESTO U. SAVONA. Routledge
- 3- International Federation of Accountants (Anti-Money Laundering 2nd Edition).
- 4- [www.fatf-gafi.org](http://www.fatf-gafi.org)
- 5- [www.euractiv.com](http://www.euractiv.com)
- 6- [www.ex.ac.uk/~watupman/undergrad/ron/index.htm](http://www.ex.ac.uk/~watupman/undergrad/ron/index.htm)

## Appendix (1)

### Historical View of Anti-Money Laundering Laws and Regulations

In the past years, many organizations tried to decrease vulnerabilities, crimes, and corruption related to the money laundry. The national governments took various steps to detect and prevent all forms of criminal financing and corruption.

The countries, which were not engaged in fighting the money laundering, suffered economy drawbacks toward fighting money laundering.

**At the national level, four initiatives were developed and adopted:**

- 1- The juridical authorities must be effective in tracing, freezing, and seizing the proceeds of criminal activity.
- 2- The juridical authority's regulations must be enacted and implemented on criminals.
- 3- It is important to reinforce the international collaboration to reduce vulnerability of money laundering.
- 4- Beside the juridical regulations, it is important to enact legislation to encourage and support the domestic and international financial sector.

**In Jordan, the following initiatives were adopted:**

- 1- Banking Law
- 2- Addendum Criminal Law
- 3- Central Bank Regulation

At the international level, formal treaty-based mechanisms to respond against money laundering were raised in the late 1980s. The most well-known mechanisms were:

### **Financial Action Task Force (FATF):**

In 1989, after the convention of economic summit in Paris, a group of seven industrial democracies created a global money-laundering watchdog organization called the Financial Action Task Force (FATF), which has become the leading force in setting standards for fighting money laundering.

In 1990, the FATF issued 40 recommendations known as "FATF 40 Recommendations" in respect of the prevention of money laundering.

**FATF 40 Recommendations were classified under three major categories:**

- 1- Legal Systems: creating a legal framework for fighting money laundering.
- 2- Measures to be taken by financial institution, non-financial businesses and professions to prevent money laundering and terrorist financing.
- 3- Institutional and other measures necessary in systems for combating money laundering and terrorist financing.

In 2001, FATF produced special Recommendations on Terrorist Financing, it started with eight and then added one more and they are:

- 1- Ratification and implementation of UN instruments.
- 2- Criminalizing the financing of terrorism and associated money laundering.
- 3- Freezing and confiscating terrorist assets.
- 4- Reporting suspicious transactions related to terrorism.
- 5- International co-operation.
- 6- Alternative remittance.
- 7- Wire transfers.
- 8- Non-profit organizations.
- 9- Cash couriers.

Further, FATF issued in October 2003 a paper including its special recommendations known as International Best Practices for the Freezing of Terrorist Assets.

For further details about the 40 recommendations, please visit the FATF website at [www.fatf-gafi.org](http://www.fatf-gafi.org)

### **European Union (EU):**

The EU has established two directives to combat money laundering:

**First directive:**

To restrict using the financial systems in money laundering, this directive demanded all members to revise their national laws to avoid domestic financial systems from being exploited by the money laundering process.

The first directive was directed to credit and financial institutions because they are the most vulnerable in respect of money laundering process. The directive covered various aspects, for instance:

- Preventing money laundering
- Checking customer identity and maintaining record keeping
- Monitoring and controlling suspicious transactions
- Reporting to formal authorities about suspicious transactions
- Not revealing to the suspects that they are monitored
- Organizations should be committed to implement and maintain adequate internal controls

#### **Second Directive:**

This directive expands the reporting requirements by the non-financial business sector. Examples of non-financial organizations within the scope of second directive include:

- Auditors, external accountants, and tax advisors
- Estate agents
- Dealers in high value goods
- Casinos
- Auctioneers when cash payments exceed 15,000 euros

#### **Third Directive**

The third directive suffered lacking of precise definition of serious crime as well as not covering the Terrorist Financing. Thus, the members agreed to enact a new directive that replaces the previous one.

In November 2005, the final text of directive was published in the European Journal, and all members ought to implement it by the end of 2007. It focuses on the requirements of customer due diligence and procedures conducted on risk sensitive basis, it also highlights cases necessitate enhanced due diligence where the increased risk of money laundering:

- Where there is no face to face contact with the customer;
- Cross-frontier correspondent banking relationships; and
- Relations with politically exposed persons.

***For further details, please visit:***  
***[www.euractiv.com](http://www.euractiv.com)***

## **Vienna Convention:**

In 1988, the United Nations Conference in Vienna discussed illicit drugs money. The convention restricted drug-related money laundering through definition of money laundering which becomes the basis of law making.

## **Palermo Convention:**

In 2000, the Parliament of the United Nations enacted the United Nations Convention against Transnational Organized Crimes. Members are required to amend their national laws to include the following four criminal offenses:

- 1- Money laundering
- 2- Participation in an organization criminal group
- 3- Obstruction of Justice
- 4- Corruption

***For further details, please visit:***  
***[www.unodc.org](http://www.unodc.org)***

## **Basel Committee on Banking Supervision**

In 1974, the governors of the central banks in ten different countries found the Basel Committee that enacted many disciplines in fighting money laundering. In the 1988, and because of significant abuse of financial sector by money launderers, the Basel Committee issued the Basel principles to hinder money laundering process:

- Customer identification
- Compliance with legislations
- Compliance with highest ethical standards, local laws, and regulations
- Full collaboration with national laws and reinforcement authorities to the extent permitted without breaching customer confidentiality
- Record-keeping
- Staff training

***For further details, please visit:***  
***[www.bis.org/bcbs/](http://www.bis.org/bcbs/)***

## Commonwealth Secretariat:

Commonwealth Secretariat undertook various actions in fighting money laundering and terrorist financing, through providing policy advice, technical assistance and awareness to its member countries.

In 1996, it established a model law on the prevention of money laundering. In June of the same year, the Commonwealth Financial Ministers agreed to ratify inclusive and practical set of guidance for the financial sector to help the members implement effective anti-money laundering strategies, which were updated in 2000 and issued as a code of best practices. Later in 2003, the practices were revised to take into account the revised FATF Recommendations. They were further revised in 2004 and called as Model of Best Practices for Combating Money Laundering and Terrorist Financing in the Financial Sector.

*For further details, please visit:*  
[www.thecommonwealth.org/](http://www.thecommonwealth.org/)

## United Nations:

The United Nations Office on Drugs and Crime (UNODC) was mandated to help the countries in carrying out enactment of anti-money laundering legislation to ensure that there were no flaws in the international law. The (UNODC) has established the Global Program against Money Laundering (GPML), focusing on training and supporting financial investigations, and improving practitioner tools.

*For further details, please visit:*  
[www.unodc.org/](http://www.unodc.org/)

## International Monetary Fund (IMF) and the World Bank:

In 2001, the International Monetary Fund (IMF) issued an announcement asking all members to fully comply with the United Nations instructions to counter terrorism. In 2002, the IMF and World Bank started a program to assess the international standards established by the FATF. During 2003 and 2004,

the World Bank and IMF assisted more than 100 countries to establish appropriate directive to fight money laundering and terrorist financing.

*For further details, please:*  
[www.worldbank.org/](http://www.worldbank.org/)

## Paris Convention:

In 2002, the Paris convention issued announcement against money laundering to support and improve the strategy set out in the second European Union Directive. The announcement covered the following four main categories:

- 1- The transparency of capital movements
- 2- Sanction against uncooperative countries
- 3- Enact legal policies and administrative co-operation
- 4- Wisdom rules

*For further details, please visit:*  
[www.assemblee-nationale.fr/](http://www.assemblee-nationale.fr/)

The Wolfsburg Principles:

An association known as the Wolfsburg Group consisting of 12 global banks was established to produce and release anti-money laundering principles for private banking and correspondent banking.

## **Appendix (2)**

### **Client Verification**

Business entities must maintain records of the identity and addresses of their clients. In the case of companies and other legal entities, the identities and addresses of the individuals behind them must be able to be verified.

For every client, business entities must have evidence that the client is who he/it claims to be and that they have evidence that the person lives at the address given or that the corporation or other legal entity has owners who can be identified and that their representatives can be contacted/are located at the address given.

### **Individuals**

Separate documents should be used for the confirmation of identity and for the confirmation of address. Acceptable confirmation documents include:-

#### **Identity**

Passport  
Driving Licence (Photocard)  
Credit/Debit Card issued by a national bank of the country concerned (Photocard)  
Residence Permit (Copy as stamped on the passport)

#### **Address**

Any of the above which has not been used for identity purposes  
Utility Bill  
Bank Statement  
Insurance Certificate  
Telephone Directory  
Vehicle Registration Document

### **Corporations /Trusts/Charities/Other Legal Identities**

These are very common vehicles for those who wish to hide criminal money, therefore, particular attention must be paid to establishing the identity of those who control them and also those who represent them. Extreme care should be taken to verify their legal existence from official sources and that those who act on their behalf are fully authorized to do so.

Official sources include licenses and other documents issued by government ministries such as the Ministry of Justice, Ministry of Labor, and also statutory books of account maintained in accordance with Generally Accepted Accounting Principles (GAAP) and where required International Financial Reporting Standards (IFRS).

In addition, particular attention must be paid to the objectives of these entities so that if the engagement is accepted what is done appears to fulfill these objectives.

### **Review of Verification Information**

It is important that information and documentation concerning a client's identity remains accurate and up to date so regular reviews should take place. If at any time it appears that there is insufficient information/documentation or concern about the accuracy of such information/documentation, further verification must take place in due course. The following indicators trigger further verification of client's identity:

- a) Changes of original documentation which was used for Client verification
- b) Significant transaction with the client is expected to take place
- c) Material change in the business relationship with the client
- d) Material change in the nature or ownership of the client's business

### **Exception to Customer Identification Requirements**

It is not required to establish the identity of a customer if the customer is one of the following:

- a) An authorized firm
- b) An Ancillary Service Provider
- c) An Authorized Market Institution
- d) A credit institution or other financial institution which is covered by equivalent identification requirements which are as follows:

*(i) A credit institution or other financial institution whose entire operations are subject to regulations including Anti-Money Laundering by a Financial Services Regulator in a Financial Action Task Force (FATF) country or another relevant authority in a FATF country.*



- (ii) A subsidiary or a credit institution or other financial institution referred to in (i) above, provided that the law that applies to the parent company is observed by the subsidiary.*
- e) A person who is subject to anti-money laundering legislation equivalent to the provisions of the Anti-Money Laundering Rules issued by DFSA or subject to equivalent international standards applying in FATF countries.

## Appendix (3)

### Examples of Suspicious Activities

## Suspicious Circumstances

Suspicion is a subjective matter and is short of proof backed by evidence but it should be more than just speculation.

**Some of the circumstances which arouse suspicion and require reporting are:**

- a) Activities which do not seem in line with the entity's objectives.
- b) False accounting.
- c) Revenues and expenses which do not seem consistent with the client's activity.
- d) Persons (including customers) from whom large amounts are received via third parties.
- e) Establishment of companies or other legal entities with no apparent business objective.
- f) Unexplained changes in business activity such as unexpected selling/buying price changes not consistent with current market levels.
- g) Client getting used by customers /others to pass sums through the client's bank account to third parties.
- h) Reluctance to produce information, or information that can be verified, about any activity and the people involved.
- i) Receive and pay out large sums of money from one overseas country to another.
- j) Begin to receive or pay agents fees.
- k) Receipt or payment of unusually large sums.

## Examples of Money Laundering as Contained in the UAE Federal Law No.4 for the Year 2002 on the Criminalization of Money Laundering

1. Depositing huge amounts in bank (X) in a given country then transferring such funds to another bank in country (Y), followed by transferring this amount to bank (X) operating in the same country in a name of a certain person who in his turn converts the amount into the same currency of the country and ultimately collecting the amount in cash.

2. A person opens several accounts in one bank or with several banks, then depositing cash amounts in these accounts by amounts less than the specified threshold that mandate disclosure. Finally these amounts are transferred to and integrated into one account or withdrawn in cash to purchase, for example, a real estate.
3. Opening accounts by entities operating in other countries in the name of these entities. The accounts are then used by unknown persons in these countries or by banks providing the service. These accounts are then used by these individuals for transactions involving Money Laundering.
4. Financial transactions unrelated to client's activity.
5. Opening bank accounts in order to receive deposits or transfers of amounts that are not part of the client's activity.
6. Frequent recurring transfers between accounts with banks.
7. Deposits of cheques in large amounts that are endorsed in the name of the account holder.
8. Transactions with countries in which the production, manufacturing or being large markets of drugs.
9. Effecting exchange or transfer transactions of currencies that are consummated at prices less than the market prices.
10. Purchase or sale of marketable securities without a clear objective or without a reason or in extraordinary circumstances.
11. Transfers of large amounts of money outside the country which are not consistent with the client's activity.
12. Usage of letters of credit in a manner not suitable with the client's activity.
13. Settlement of loans before their expected maturity dates and in amounts exceeding expected settlement amounts.
14. Application for urgent loans not consistent as to amount with the client's activity or being obtained against assets provided from unknown sources.
15. External transfers to a client/clients followed by transferring such amounts directly abroad without recognizing it in the clients' accounts.