

How The Criminally Corrupt Hid Their Illegal Gains In This Case

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How The Criminally Corrupt Hid Their Illegal Gains In This Case

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BREAKDOWN OF TACTICS USED BY THE CRIMINALS:

The New York Times

Cover Photo

The house under construction on Strada Vecchia in Bel Air has been cited for code violations and is the subject of a neighborhood battle. The property is owned by a shell company. Credit Monica Almeida/The New York Times

A Mansion, a Shell Company and Resentment in Bel Air

In the booming high-end market of Los Angeles, where hidden ownership is common, one house stands out.

By [LOUISE STORY](#)

LOS ANGELES — The most notorious new house in Los Angeles hangs from a Bel Air hillside, high above the sprawl and smog, unfinished and unloved.

Outraged neighbors call it "the Starship Enterprise," and in truth it looks like nothing so much as an earthbound space station of curved glass and steel, draped in scaffolding and tarpaulin, roughly 30,000 square feet and nearly 70 feet high.

That height, about twice the legal limit, is among a litany of violations that have stalled construction at 901 Strada Vecchia for more than a year. Without the city's permission, workers tore down the original house and leveled the hillside. Though the site is in an "earthquake-induced landslide area," subsequent inspections found "unsecured open excavations" and other perils. Inspectors also uncovered a host of features, unapproved though befitting a house with an aspirational price tag of \$100 million, among them underground bedrooms and an IMAX theater.

[Towers of Secrecy: Piercing the Shell Companies](#)

From Manhattan condominiums to California mansions to gentrifying neighborhoods in Brooklyn, shell companies are increasingly pervasive in the world of real estate. These articles explore the people behind the opaque deals.

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Malaysia's Leader, Najib Razak, Faces U.S. Corruption Inquiry SEP 21

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At the Time Warner Center, an Enclave of Powerful Russians FEB 11

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Mexican Political Family Has Close Ties to Ruling Party, and Homes in the U.S. FEB 10

As unapologetically extravagant as the project is its impresario — [Mohamed Hadid](#), father of the celebrity models Gigi and Bella Hadid, sometime guest on "The Real Housewives of Beverly Hills" and one of the city's leading luxury developers. For years, Mr. Hadid's Instagram account has featured photos of himself amid the rebar at the Bel Air site. He calls it his "office" and labels the photos with the hashtag #themodernhouseofhadid.

Yet for all that, over four years of violation notices, inspections and hearings, efforts to hold someone accountable for the mess at 901 Strada Vecchia have repeatedly hit a legal wall. It is, as a judge said during an October session where once again nothing got done, "an extremely complicated case."

That is because "themodernhouseofhadid" belongs not to Mr. Hadid but to an entity that keeps the actual owner at a legal remove — a shell company named 901 Strada L.L.C.

Fueled largely by the vast streams of wealth crossing the globe as never before, a new generation of hyper-luxury homes with stratospheric price tags is colonizing the most gilded hillsides and canyons of Los Angeles. In some areas, every third or fourth home has been torn down, leaving gashes of dirt and debris where new mansions will rise.

Photo

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Mohamed Hadid is one of the city's leading luxury home developers. Credit Illustration by Michael Hoeweler.

And more often than not, the people behind the purchases are hidden by shell companies.

Here, as in other roosting places of the superrich, the recent influx of foreign money has gone hand in hand with the rising use of shell companies — generally limited liability companies. Shell companies were used in three-quarters of purchases of over \$5 million in Los Angeles over the last three years, a higher rate even than the roughly 55 percent in New York,

according to a New York Times analysis of data from [PropertyShark](#). What is more, in Los Angeles, where so many of the new palaces are spec houses — luxury magnets for global wealth — not only are the buyers shielded by shell companies, but the developers are, too.

L.L.C.s were created to protect individuals from legal liability, and they have a range of legitimate uses. In an interview, Mr. Hadid said he used L.L.C.s for liability reasons, adding, “One hundred percent of the time that people build, they create an L.L.C.”

Today in Los Angeles, as at 901 Strada Vecchia, L.L.C.s have provided insulation — some would say impunity — amid a gathering anti-development backlash.

“That’s my — that’s the property I’m developing,” Mr. Hadid explained. “I’m the developer. I develop for other people.”

Law enforcement officials and anticorruption groups worry that while many foreign buyers are simply seeking to safeguard their wealth in United States real estate, some are using shell companies to hide illicit gains, despite banking laws designed to flag the movement of large sums of money by foreign government figures, their families and close associates.

[Towers of Secrecy](#)

Articles in this series examine people behind shell companies buying high-end real estate.

Part 1

[Time Warner Center: Symbol of the Boom](#)

Part 2

[The Mysterious Malaysian Financier](#)

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Part 7

[A Mansion, a Shell Company and Resentment in Bel Air](#)

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This year, [articles in The Times pierced the secrecy of shell companies](#) owning units in one archetypal condominium complex in Manhattan — the Time Warner Center. Among the owners were a growing proportion of wealthy foreigners, including a number of government officials and people close to them. At least 16 owners had been the subject of government inquiries around the world, either personally or as heads of companies.

Here in several neighborhoods of the Platinum Triangle — Beverly Hills, Bel Air and Holmby Hills — a search for who is behind shell companies, based on property and incorporation records, as well as interviews, found a predictable mix of celebrities, lawyers, media executives and the like. But it also turned up owners from a diverse collection of countries, including some involved in current or past law enforcement inquiries.

Head up North Alpine Drive in Beverly Hills, for example, and on the right is a \$14.7 million home owned by a shell company tied to Kola Aluko, a Nigerian businessman who is a figure in an investigation of that country’s former oil minister.

A block away is one of several local properties that have been owned by shell companies tied to a son of Suharto, the corrupt and brutal former president of Indonesia.

And back down the hill is Le Palais, a faux chateau — with a swan pond and a Turkish bath with hand-carved Egyptian limestone columns — that a shell company tied to Mr. Hadid sold to a shell company tied to Lola Karimova-Tillyaeva, a daughter of the president of Uzbekistan. The Karimov family faces corruption investigations in several countries, according to two people who have worked in law enforcement and have knowledge of the inquiries.

Photo

Le Palais, a Beverly Hills estate featuring a swan pond and a Turkish bath, was sold to a shell company tied to Lola Karimova-Tillyaeva, a daughter of the president of Uzbekistan.

It is in Bel Air, though, that an army of resistance has risen, a coalition of influential neighbors with their own considerable resources. Call it the haves vs. the have-even-mores, or perhaps the old (for L.A.) money vs. the new. And while their bill of grievances extends to suspicions about shell companies hiding corrupt foreign money, what they talk about most is unethical and dangerous development — about dirt trucks run amok, the inevitability of mudslides and the waste of water in a time of drought. One of the Strada Vecchia neighbors, Nancy Walton Laurie, a Walmart heir, accused Mr. Hadid of encroaching on her land and harming her eucalyptus tree, damage she says will cost her \$75,000.

The property at 901 Strada Vecchia is the crystallization of all this — in its grandiosity, its 60 pages of violations and other notices and the ire it has provoked.

And for the maddening elusiveness of its provenance.

"The person who is in control of the property has every interest in remaining invisible," said James Spertus, a lawyer for the lawyer who is listed as 901 Strada L.L.C.'s manager and who became a co-defendant when the city took the highly unusual step of filing a criminal case. "They're not charged, and they want to stay that way, so there is no public record of that person."

'Let's Make a Deal'

Silver-maned at 67, Mr. Hadid, like many of his clients, is an immigrant. Born in Israel, he moved to Virginia as a teenager with his Palestinian family and spent his early business career in the Washington, D.C., area, developing office buildings and Ritz-Carlton hotels. Central to his success even then was his ability to woo foreign financiers — French and German backers, and in particular the SAAR Foundation, a group of Saudi investors.

In the 1990s, Mr. Hadid was involved with a number of small companies. Several ran into problems, and he filed for personal bankruptcy.

By the early 2000s, Mr. Hadid had moved to Los Angeles and begun his next act, as homebuilder to the stars. He built the estate where Michael Jackson died, as well as [Palazzo di Amore](#), a Beverly Hills estate now listed for resale for \$149 million. His clients were not always happy — among those who sued him and later settled was Sylvester Stallone — but new buyers kept coming.

Mohamed Hadid, a Luxury Developer Who Shines on Instagram

When it comes to Instagram celebrities, few people seem to lead as glamorous a life as Mr. Hadid.

□

Among his big-ticket sales was a Beverly Hills house, with a glowing pyramid in a reflecting pool, that was acquired in 2010 by a shell company tied to the stepson of the prime minister of Malaysia. (The prime minister is now a target of [corruption investigations](#) at home and abroad.)

When Mr. Hadid bought the 1950s ranch house on 1.2 acres at 901 Strada Vecchia for \$1.93 million in 2011, the building boom was starting to pick up steam. Bel Air and Beverly Hills are among the areas most popular with foreign buyers in Los Angeles County, where more than 1,400 homes have sold for more than \$5 million each since the start of 2013, according to PropertyShark.

While the prices are high — \$20 million, \$50 million, \$100 million — people in real estate say that in terms of square footage, Los Angeles is actually a deal.

"L.A., it's the cheapest real estate in the world," Mr. Hadid said, sipping tea during the interview at [Le Belvédère](#), the 48,000-square-foot mansion where he lives in Bel Air. "London is more, New York is more."

[Continue reading the main story](#)

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\$50 million Sold in 2010

Le Belvédère

630 Nimes Road, Los Angeles

Mohamed Hadid, a well-known developer in Los Angeles, sold this home to a shell company in 2010, but continues to live there.

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Aerial photo by Pictometry International

Los Angeles has another important advantage, according to a leading high-end real estate executive, Aaron Kirman of the John Aaroe Group: Buyers do not have to worry about being vetted by co-op or condominium boards. (In fact, as The Times reported in February, New York condo boards, at least, [almost never investigate](#) the identity of the individual behind a shell company or the source of a buyer's money. Nor are real estate brokers legally bound to ask such questions.)

"That's the beauty of L.A.," said Mr. Kirman, who says most of his buyers are foreign. "If somebody has the money to pay, let's make a deal."

Allan Alexander, a former Beverly Hills mayor who now practices real estate law, said he, too, had seen a steep increase in foreign buyers, especially from China.

"A lot of them are buying because of the safety of the investment here, and they don't care about the price so much because, candidly, they want to get their funds in a safe place," he said.

Some of those seeking a safe and secret harbor for their money are not buyers but investors, several real estate executives said. Developers pitch the projects with predictions of high returns, and the money flows in from shell companies with little scrutiny.

As for the new homes themselves, even the designation "mega-mansion" seems insufficient, so Angelenos have derisively labeled them "giga-mansions."

"It's another one of these — you walk in, and you're at the Forum or something," John Kelly, the lead investigator for the city's building department, said of the Strada Vecchia house.

Photo

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In Bel Air, a truck backed up to let another pass in January 2015. Neighbors said they were concerned about heavy truck traffic from luxury home development. Credit Maureen Levinson

Water features are popular — man-made streams and waterfall walls and manicured lawns that go on and on — even as poorer areas turn brown complying with drought restrictions.

To compensate for the city's strict height restrictions, a huge selling point is the "daylight basement," an expanse of subterranean luxury built into a hillside so that a wall of windows opens out to the view. But such vast basements require removing dirt, vast quantities of it. Last year, an out-of-control dump truck collided with a police car in Beverly Hills, killing an officer. Two months later, a concrete truck killed another officer.

"The trucks will come and fill up the whole road," said Maureen Levinson, a Bel Air resident who closely monitors the special hauling routes the city set up to manage the dirt-truck traffic. "I have feared for my daughters' lives."

[youtube <https://www.youtube.com/watch?v=-o3g8dnsLcl?wmode=transparent>]

A car belonging to a Qatari prince was caught on video racing through Beverly Hills in September; the prince fled the country, claiming diplomatic immunity. ABC News

Impunity is a word that comes up a lot these days. It was big news here when a car belonging to a [Qatari prince was caught on video racing](#) through a residential neighborhood of Beverly Hills in September; the prince then left the country, claiming diplomatic immunity. According to Steve Soboroff, vice president of the Los Angeles Police Commission, some motorists have taken to installing license plates that, with the touch of a button, flip around to display fake plates at the approach of the police.

"Ask a cop and they'll tell you that 50 percent of their day dealing with the privileged is miserable," Mr. Soboroff said.

Web of Political Connections

One of Mr. Kirman's top listings is [a home](#) perched on a promontory in the Trousdale Estates section of Beverly Hills, with seven bedrooms, 10 baths and \$2.5 million worth of Baccarat chandeliers. It is listed for \$135 million.

"It's the single best view in all of Los Angeles," said Stephen Shapiro of Westside Estate Agency. "I think most people would consider tearing it down."

Photo

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Gilbert R. Chagoury, a Lebanese-Nigerian businessman. A shell company traced to his family owns a home listed for \$135 million. Credit Illustration by Michael Hoeweler.

The house is owned by a shell company, Inch & Meter Limited, whose corporate filings trace to the family of Gilbert R. Chagoury, a Lebanese-Nigerian businessman who was a close associate of Sani Abacha, the general who ruled Nigeria with a fierce grip in the 1990s. Mr. Abacha is believed to have stolen \$4 billion from public coffers, which is the focus of a long-running international recovery effort.

In 2000, Mr. Chagoury was convicted of money laundering in Switzerland in connection with the Abacha family, court records show. He paid a fine, and in [2010 the PBS program "Frontline" reported](#) that his record was expunged. Mr. Chagoury's lawyer acknowledged that Mr. Chagoury had helped Mr. Abacha's sons open bank accounts at Credit Suisse.

In recent years, the Justice Department has been searching in the United States for Abacha money to return to Nigeria. Mr. Chagoury has never been accused of wrongdoing in this country.

At the estate, the house manager confirmed Mr. Chagoury's ownership and agreed to forward an email to Mr. Chagoury's deputy. The Times did not receive a response.

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\$135 million On the market

1187 North Hillcrest Road, Beverly Hills

Owned by a shell company traced to the family of Gilbert R. Chagoury, a businessman who helped Nigeria's military ruler move money out of the country.

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Aerial photo by Pictometry International

To the west of Trousdale is Beverly Park, a heavily guarded gated community of roughly 80 homes that is considered a classic redoubt of the celebrity class. The likes of Mark Wahlberg, Rod Stewart and the Viacom chairman Sumner Redstone have lived there.

Beverly Park also has a complement of homes that The Times traced to current or former political families from around the world.

Some owners' names could be found in corporate records, while others were in a 2007 lawsuit that pitted homeowners on the south side of the community against those on the north. (At issue was driving access for nannies, maids and other household employees.)

Just inside the gates, at No. 10, is a home owned by the Dastel Corporation. That company traces to the family of Mikhail Lesin, a former top aide to President Vladimir V. Putin of Russia and an architect of the government's media and technology apparatus. Mr. Lesin purchased the home for \$13.8 million in 2011, and then bought others in the area.

Last year, Senator Roger Wicker, Republican of Mississippi, asked the Justice Department to investigate the Lesin homes, questioning how a longtime public official could afford such expensive real estate. It is unclear if an investigation was begun.

Mr. Lesin was [found dead in a Washington hotel](#) in November. A family spokesman called him a "very successful media executive in Europe" who had purchased the homes legally and said the family knew of no Justice Department inquiry.

At No. 73 is a home owned by TBN Holdings Inc., which traces to a Saudi prince, Turki bin Nasser. As a high-ranking military official during the 1980s and '90s, Prince Turki was involved in arms deals with the aerospace company BAE that led to allegations of bribery and large fines in Britain and the United States. According to reports by The Guardian, the BBC and "Frontline," Prince Turki was a bribe recipient, but, as had long been their practice, American and British authorities prosecuted only the company.

Prince Turki did not respond to requests for comment.

At No. 58 is a home bought in 2004 by a shell company tied to another Russian politician, a former senator named Alexander Sabadash. Last spring, Mr. Sabadash was sentenced in Russia to six years in prison for attempted embezzlement of public funds, according to Russian news reports. A man who answered at the phone number listed for the shell company said the Sabadashes might be renting the house.

Photo

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A shell company tied to the family of Bambang Trihatmodjo, a son of the Indonesian leader Suharto, owns property in Beverly Park. Credit illustration by Michael Hoeweler.

Finally, at No. 27, is a home owned by a shell company that has ties to the family of Bambang Trihatmodjo, long a contentious figure in Indonesia because his businesses amassed great wealth during the reign of his father, Suharto. Though Mr. Suharto died in 2008, his family's fortune remains a focus of questions and legal action. Last summer, the Indonesian Supreme Court ordered the Suharto family to return \$324 million that was embezzled from a foundation established with public money, [according to news reports](#).

The money was to have paid for education for the poor.

A man who answered at the number listed for the shell company that owns the Beverly Park house acknowledged knowing Mr. Trihatmodjo, but hung up after learning the call was from The Times. Mr. Trihatmodjo did not respond to other messages seeking comment.

The home, with a fountain out front, is [being marketed online for \\$36 million](#).

Photo

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Joseph and Beatriz Horacek in their backyard in Bel Air. They have documented construction activity at 901 Strada Vecchia, which looms over their property. Credit Monica Almeida/The New York Times

A Neighborhood Battle

On Strada Vecchia, the neighbors tend to frame their cause as a campaign against the forces of greed.

It is not that they have not done well for themselves. Joseph Horacek III is a Hollywood lawyer; his wife, Beatriz, is a former bank compliance officer. Mr. Horacek likes to recall watching his client Michael Douglas film the famous Gordon Gekko "greed is good" speech in "Wall Street."

The Horaceks have made documenting the violations at No. 901 almost a part-time job. The battle over the property, Mr. Horacek said, "started out as a matter of principle, then it got to the point that, 'Oh my gosh, this is unsafe.'" They live directly down the hill, and they showed a reporter photos that appeared to show landslides.

The Horaceks are hardly the only upset neighbors. There is the Walmart heir, Ms. Laurie, with her damaged eucalyptus. Carole Cramer, who sang with Tommy Dorsey, says Mr. Hadid encroached on part of her property. Another critic is Fredric D. Rosen, well-known for his tough tactics in building Ticketmaster into a powerhouse.

"We all want to know how that house got to be the size it did," Mr. Rosen wrote in an email to city officials in February, adding, "We all feel that we are being gamed."

In the interview, Mr. Hadid said he did not want to discuss accusations about his construction practices. But he did want to discuss neighborly etiquette. His own neighbor, he said, has been doing construction for 11 years. Still, he said, "I never complain because I understand these complexities." They come with the business.

"I seek the highest end of the smallest percentage of the market," he explained. "There's a lot of need for the high end here."

Without naming names, Mr. Hadid said that the Strada Vecchia neighbors were "extortionists" and that they were the ones motivated by greed. Mr. Horacek, for one, dismissed that, saying Mr. Hadid had offered him \$2.5 million to drop his complaints but he had turned down the offer. It's not about money, he said.

Whatever the neighbors' intentions, city officials say the project is in extensive violation of the building code.

The list of violations, in summary, goes like this: After the unapproved teardown and leveling of the hillside, the construction team did ask permission to grade the hill but used a survey that made it appear that workers had not already removed significant loads of dirt. Then they joined two buildings that were supposed to be separate and built so high that they drastically violated the city's height limit.

"The house is nearly 70 feet high and it's only approved for 36 feet," said Mr. Kelly, the building department investigator.

Photo

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City officials say development of the Strada Vecchia property violates height limits and other regulations. Construction continued even after stop-work orders were issued. Credit Maureen Levinson

In July 2014, the city said it intended to revoke the project's work permits. That week, Mr. Hadid posted on his Instagram, "The construction must go on." It did, even after the permits were pulled. Neighbors documented workers on the site that Thanksgiving.

In the spring, after repeated reports from neighbors about continuing construction, city inspectors found that parts of the project had been hidden with tarpaulins, plants and taped-over doors. That was when they found the underground bedrooms and theater — an entire unapproved basement below the basement, in fact.

"As you've seen in evidence of pictures, during all these years after stop-work orders, that work continued," Larry Galstian, the chief of inspections at the city's buildings department, said at the hearing on the violations last summer, according to a recording.

Indeed, a lawyer who works with Mr. Hadid said at the hearing, "We're not challenging the fact that work that's unapproved appears on this site."

City officials said their offices had been utterly drained.

"We have no trust," Mr. Galstian said. "As a manager of this bureau, I have allocated multiple hundreds of hours of my staff to monitor this project. This is unfair." He added: "Every time you come to the project, gates are closed. Every time we knock on the door, they have to take 15 minutes to open the door." His belief, he said, was that workers were being hidden.

"There is no cooperation from 901 Strada Vecchia L.L.C.," he concluded.

Oil, Water and Accountability

Mr. Hadid is not the only developer flirting with nine-figure price tags. His main competitor is Nile Niami, a former film producer building a Bel Air home he has said he hopes to sell for \$500 million.

One of Mr. Niami's past projects was a boxy, modern house at 755 Sarbonne Road. In April 2012, a shell company tied to Mr. Niami sold it to a shell company traced to Kola Aluko, the Nigerian businessman.

What followed was a tangle of events spanning two continents, involving oil and water, a host of shell companies and lessons in the difficulty of tracing responsibility.

Photo

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A shell company tied to Kola Aluko, a Nigerian businessman, purchased this house for \$24 million. Credit Monica Almeida/The New York Times

Mr. Aluko, it turned out, was on a buying spree. In addition to purchasing the Sarbonne Road house for \$24 million, shell companies tied to him soon bought another Beverly Hills house for \$14.7 million and two others in Santa Barbara for \$33 million.

At the time, Mr. Aluko was a beneficiary of an agreement with Nigeria's state oil company; in the first four months of 2012, the company he co-owned, Atlantic Energy, shipped \$49 million in crude to the United States. But that deal came under fire back home amid growing questions about Mr. Aluko's friendship with the oil minister at the time, Diezani Alison-Madueke.

In 2013, the governor of Nigeria's Central Bank said billions of dollars were missing from the nation's oil revenue. Among the troubling matters was the Atlantic deal, which looked as if it "was structured in such a way that it would just rip off the country," Sanusi Lamido Sanusi, the bank governor at the time, said in a recent interview.

The deal allowed Atlantic to sell oil in exchange for paying some production costs. But subsequent investigations indicated that while Atlantic was selling oil, it was not paying its full share, according to a document read to The Times, as well as Nigerian news reports.

Photo

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Shell companies tied to Mr. Aluko have purchased three other multimillion-dollar homes in the area. Credit Illustration by Michael Hoeweler.

It did not help that Nigerians saw Mr. Aluko in news reports partying with celebrities overseas, driving racecars and buying luxury real estate. "People in the sector started wondering," said Aaron Sayne, who recently co-wrote a report on the industry for the [Natural Resource Governance Institute](#), a nonprofit in New York. "Has the government given this company a sweetheart deal, and if so, for whose ultimate benefit?"

In California, the problem was water.

First, water from the Sarbonne Road property began running into the street, according to a neighbor who provided photos to The Times, Chantal Burnison. The water seeped under her driveway. It ruined her koi pond. And when it reached her house, she installed retaining walls to hold back the hillside. Ms. Burnison recalled commiserating with Mrs. Levinson, the neighborhood watchdog, about how, with all the L.L.C.s involved, it would be hard to figure out whom to sue.

Then the Sarbonne Road house became a flooding victim itself, when part of a hillside above collapsed, creating a cascade of "water, muddy soil and debris," according to a lawsuit filed by Mr. Aluko's shell company.

That flood came from the new house up the hill, at [864 Stradella Road](#), on the market for \$49.9 million, which has become infamous in the neighborhood as a water waster because of another leak into the street. Beginning last fall, Mrs. Levinson said, she began trying to contact the owners, but signs at the site listed only untraceable L.L.C.s. After the construction manager told her he could not remember the owner's name, she said, she photographed the leak and wrote to her city councilman. "You couldn't find out who was responsible," she said.

[Continue reading the main story](#)

ABOUT L.L.C.s

As The Times wrote in the first part of this series, while shell companies like limited liability companies and trusts can be used for secrecy, they are frequently used for other purposes, including avoiding exposure to lawsuits or double taxation. They are also used in multiparty real estate transactions. This was the case several years ago with family members of a reporter on this project, Louise Story. And they are used in inheritance matters and investment strategies.

The leak has ebbed somewhat, she said, but in October a reporter observed water still flowing.

Mark J. Rosenbaum, a lawyer for the shell company that owns 864 Stradella, said that the flooding onto the Sarbonne property was due to rain, and that the legal dispute had been resolved. Any water flowing into the street, he said, would be minimal and within normal limits.

Neighbors, sensitized perhaps by news reports that Bel Air harbors four of California's top five residential water users, were unmollified.

"A little? Excuse me, it's a river down the street," said Helen Erickson, who owns the house across the street. "It goes down at all hours, midnight, morning, afternoon."

Photo

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Water draining from the Stradella Road property. Credit Maureen Levinson

Recently, construction vehicles have been heading back to 755 Sarbonne. Mr. Aluko's shell company had sued the developer, Mr. Miami, alleging building defects. But with the case settled, a new round of construction has begun. (Mr. Miami declined to comment.)

Mr. Aluko's broader legal entanglements continue.

Law enforcement officials in Nigeria, Britain and the United States are examining whether the former oil minister improperly acquired funds. Among the issues being studied are the Atlantic deal and whether Mr. Aluko helped enrich the former minister, according to three people with direct knowledge of the matter.

How many of the California properties are actually Mr. Aluko's is a mystery, since shell companies are not required to identify their actual owners. Mr. Aluko is listed in their incorporation papers, and the purchase agreement for 755 Sarbonne says the home was for Mr. Aluko or his "assignee." Mr. Aluko and his lawyer did not reply to requests for comment; a lawyer for Ms. Alison-Madueke said she was receiving medical treatment and was unable to answer questions.

Mr. Sayne, the oil industry researcher, said it would be difficult to connect any properties to Ms. Alison-Madueke.

Any "ties between the former minister and U.S. property," he said, "are almost sure to lead partly offshore, to the opaque world of tax havens and shell companies."

Shifting Ownership

The ambiguities surrounding Mr. Hadid and the ownership of 901 Strada Vecchia came to a head over the summer, as the neighbors pressed their case for legal action. At a hearing about the violations in June, several speakers pronounced themselves totally confused.

Documents trace a shifting trail of ownership over time.

When Mr. Hadid purchased the property in early 2011, he put it in his own name and took out a loan through an L.L.C., with himself as "sole member/manager." Early violation notices were addressed directly to Mr. Hadid.

But by the next year, the city was addressing notices to another shell company, Syntra Wva L.L.C. Mr. Hadid had sold the property at a below-market price to that L.L.C., which in turn resold it to another shell company, 901 Strada L.L.C.

Photo

□

A document with the signature of Mohamed Hadid identified him as "sole managing member."

As recently as spring 2014, Mr. Hadid signed a bank loan as "sole managing member" of 901 Strada L.L.C. And then there was the inspection this past spring, when Mr. Hadid "introduced himself as owner of the property," according to Mr. Galstian, the buildings department official.

As the legal process ground on, Mr. Hadid was, increasingly, steps removed from 901 Strada L.L.C.

At the hearing, a lawyer for the L.L.C. made a point of saying, "Our client is not Mr. Hadid, who has been mentioned by name. Our client is an entity. It's an L.L.C. Its managing member is here. He's from Washington D.C." That was a Virginia lawyer, James Zelloe, who is listed as 901 Strada L.L.C.'s manager in its incorporation documents. The L.L.C.'s phone number in city lobbying records is a recently disconnected cellphone for Mr. Zelloe.

When the city filed a criminal case in July, alleging a range of misdemeanor construction violations, Mr. Zelloe was listed as a co-defendant, along with the L.L.C.

Suddenly, the explanations began changing again.

Mr. Zelloe's lawyer told The Times that his client was a mere functionary. "He has incorporated this property, as hundreds of attorneys do, but he doesn't have any control or oversight of the property," the lawyer, Mr. Spertus, said.

Calls to the L.L.C. seeking comment were not returned.

As for Mr. Hadid, he would not say if the L.L.C. was in fact his.

The opacity of Mr. Hadid's financing is one aspect of the project that the neighbors, the Horaceks, have emphasized in urging the city attorney to add Mr. Hadid to the criminal case. (Though the Horaceks' home and several of their neighbors' are owned by trusts, the trusts are in their own names.)

Until a few years ago, Mrs. Horacek worked as a bank compliance officer, investigating clients for possible money laundering. Several aspects of Mr. Hadid's background, she said in a letter to the city attorney, would raise flags in a compliance review.

A case in point, she wrote, is his own residence, Le Belvédère. According to public records, his shell company sold the property for \$50 million in June 2010 to an individual who quickly

transferred it to an L.L.C. that in turn gave it to another shell company. But Mr. Hadid still lives there.

The letter also cited the transfers involving 901 Strada Vecchia.

"Changing the property title multiple times among his L.L.C.s from 2011 to 2015 may also be deemed as 'layering,' which is the process used to obscure the audit trail and sever a direct link to the beneficial owner," Mrs. Horacek wrote.

Photo

□

Lola Karimova-Tillyaeva, a daughter of the president of Uzbekistan, has ties to four luxury homes. Credit Illustration by Michael Hoeweler.

Mrs. Horacek also pointed the city attorney to Mr. Hadid's sale of Le Palais to the daughter of the president of Uzbekistan. "Spec houses," she wrote, "are a perfect vehicle for money-laundering and tax fraud, especially if the property is purchased in cash or by an entity used to obscure the beneficial owner, or even more so by foreign buyers from 'High Risk Countries.' I am not saying that Mr. Hadid is engaged in money laundering or tax evasion but there are certainly many red flags."

Ms. Karimova-Tillyaeva of Uzbekistan, who is tied to three other multimillion-dollar homes in the area, has not been charged with any wrongdoing. Her lawyer said she and her husband had "always conducted themselves lawfully" and had not "benefited from her family connections."

Mr. Hadid said he knew nothing about the sources of his client's money, but added, "All of my transactions involve United States-licensed banks, title companies and real estate companies."

For the Horaceks, the entire business has become a bit overwhelming. In November, they decamped to the desert for the winter.

Last Wednesday, at a hearing on the misdemeanor case, the judge noted that there was a new defendant — Mohamed Hadid.

Still, the central question remains: What will become of the unfinished behemoth up on the hill?

For all the criticism, Mr. Hadid said, "We are diligently working to finish this project under the supervision and approval of all necessary government agencies."

The Horaceks, though, believe that the only way to bring the house into compliance is to tear it down.

Whether the city might eventually order that — and given the ambiguities of ownership, precisely whom it might order to do it — remains unclear.

But even with all of the case's tentacles and mysteries, Mr. Horacek has hope.

"I think there is a chance we've opened up a piercing of the corporate veil," he said.

Masha Goncharova contributed reporting from New York.

Trending

1. □

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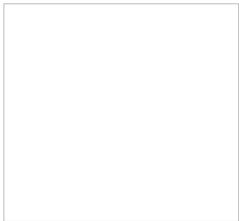
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Money laundering

"Dirty money" redirects here. For other uses, see [Dirty Money \(disambiguation\)](#).



Placing "dirty" money in a service company, where it is layered with legitimate income and then integrated into the flow of money, is a common form of money laundering.

Money laundering is the process of transforming the proceeds of [crime](#) into ostensibly legitimate money or other assets.^[1] However, in a number of legal and regulatory systems, the term money laundering has become [conflated](#) with other forms of [financial crime](#), and sometimes used more generally to include misuse of the financial system (involving things such as securities, [digital currencies](#), credit cards, and traditional currency), including [terrorism financing](#) and evasion of [international sanctions](#). Most anti-money laundering laws openly conflate money laundering (which is concerned with *source* of funds) with terrorism financing (which is concerned with *destination* of funds) when regulating the financial system.^[2]

According to the [United States Treasury Department](#):

Money laundering is the process of making illegally-gained proceeds (i.e. "dirty money") appear legal (i.e. "clean"). Typically, it involves three steps: placement, layering and integration. First, the illegitimate funds are furtively introduced into the legitimate financial system. Then, the money is moved around to create confusion, sometimes by wiring or transferring through numerous accounts. Finally, it is integrated into the financial system through additional transactions until the "dirty money" appears "clean."^[3]

Money obtained from certain crimes, such as extortion, insider trading, drug trafficking and illegal gambling is "dirty". It needs to be cleaned to appear to have been derived from legal activities so that banks and other financial institutions will deal with it without suspicion. Money can be laundered by many methods, which vary in complexity and sophistication.

Different countries may or may not treat payments in breach of [international sanctions](#) as money laundering. Some jurisdictions differentiate these for definition purposes, and others do not. Some jurisdictions define money laundering as obfuscating sources of money, either intentionally or by merely using financial systems or services that do not identify or track sources or destinations.

Other jurisdictions define money laundering to include money from activity that *would have been* a crime in that jurisdiction, even if it were legal where the actual conduct occurred. This broad brush of applying the term "money laundering" to merely incidental, extraterritorial, or simply privacy-seeking behaviors has led some to label it "financial [thoughtcrime](#)".^[4]

Many regulatory and governmental authorities issue estimates each year for the amount of money laundered, either worldwide or within their national economy. In 1996, the [International Monetary Fund](#) estimated that two to five percent of the worldwide global economy involved laundered money. The [Financial Action Task Force on Money Laundering](#) (FATF), an

intergovernmental body set up to combat money laundering, stated, "Overall, it is absolutely impossible to produce a reliable estimate of the amount of money laundered and therefore the FATF does not publish any figures in this regard."^[5] Academic commentators have likewise been unable to estimate the volume of money with any degree of assurance.^[6] Various estimates of the scale of global money laundering are sometimes repeated often enough to make some people regard them as factual—but no researcher has overcome the inherent difficulty of measuring an actively concealed practice.

Regardless of the difficulty in measurement, the amount of money laundered each year is in the [billions](#) (US dollars) and poses a significant policy concern for governments.^[6] As a result, governments and international bodies have undertaken efforts to deter, prevent, and apprehend money launderers. Financial institutions have likewise undertaken efforts to prevent and detect transactions involving dirty money, both as a result of government requirements and to avoid the reputational risk involved. Issues relating to money laundering have existed as long as there have been [large scale criminal enterprises](#). Modern anti-money laundering laws have developed along with the modern [War on Drugs](#).^[7] In more recent times anti-money laundering legislation is seen as adjunct to the financial crime of [terrorist financing](#) in that both crimes usually involve the transmission of funds through the financial system (although money laundering relates to where the money has come *from*, and terrorist financing relating to where the money is going *to*).

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Method

Money laundering is commonly defined as happening in three steps: the first step involves introducing cash into the financial system by some means ("placement"); the second involves carrying out complex financial transactions to camouflage the illegal source ("layering"); and the final step entails acquiring wealth generated from the transactions of the illicit funds ("integration"). Some of these steps may be omitted, depending on the circumstances. For example, non-cash proceeds that are already in the financial system would have no need for placement.^[6]

Money laundering can take several forms, although most methods can be categorized into one of a few types. These include "bank methods, smurfing [also known as structuring], currency exchanges, and double-invoicing".^[8]

- **Structuring:** Often known as *smurfing*, this is a method of placement whereby cash is broken into smaller deposits of money, used to defeat suspicion of money laundering and to avoid anti-money laundering reporting requirements. A sub-component of this is to use smaller amounts of cash to purchase bearer instruments, such as money orders, and then ultimately deposit those, again in small amounts.^[9]

- Bulk cash smuggling: This involves physically smuggling cash to another jurisdiction and depositing it in a financial institution, such as an [offshore bank](#), with greater [bank secrecy](#) or less rigorous money laundering enforcement.^[10]
- Cash-intensive businesses: In this method, a business typically expected to receive a large proportion of its revenue as cash uses its accounts to deposit criminally derived cash. Such enterprises often operate openly and in doing so generate cash revenue from incidental legitimate business in addition to the illicit cash - in such cases the business will usually claim all cash received as legitimate earnings. Service businesses are best suited to this method, as such businesses have little or no variable costs and/or a large ratio between revenue and variable costs, which makes it difficult to detect discrepancies between revenues and costs. Examples are parking buildings, strip clubs, tanning beds, car washes and casinos.
- Trade-based laundering: This involves under or overvaluing [invoices](#) to disguise the movement of money.^[11]
- Shell companies and trusts: Trusts and shell companies disguise the true owner of money. Trusts and corporate vehicles, depending on the jurisdiction, need not disclose their true, beneficial, owner. Sometimes referred to by the slang term *rathole* though that term usually refers to a person acting as the fictitious owner rather a business entity.^[12]
- [Round-tripping](#): Here, money is deposited in a [controlled foreign corporation](#) offshore, preferably in a [tax haven](#) where minimal records are kept, and then shipped back as a [foreign direct investment](#), exempt from taxation. A variant on this is to transfer money to a law firm or similar organization as funds on account of fees, then to cancel the retainer and, when the money is remitted, represent the sums received from the lawyers as a legacy under a will or proceeds of litigation.
- Bank capture: In this case, money launderers or criminals buy a controlling interest in a bank, preferably in a jurisdiction with weak money laundering controls, and then move money through the bank without scrutiny.
- Casinos: In this method, an individual walks into a casino and buys chips with illicit cash. The individual will then play for a relatively short time. When the person cashes in the chips, they will expect to take payment in a check, or at least get a receipt so they can claim the proceeds as gambling winnings.^[10]
- Other gambling: Money is spent on gambling, preferably on higher odds. One way to minimize risk with this method is to bet on every possible outcome of some event where there are many possible outcomes and no outcome(s) have short odds - the bettor will lose only the [vigorous](#) and will have (a) "winning" bet(s) that can be shown as the source of money should this be requested. The "losing" bets will remain hidden.
- Real estate: Someone purchases real estate with illegal proceeds and then sells the property. To outsiders, the proceeds from the sale look like legitimate income. Alternatively, the price of the property is manipulated: the seller agrees to a contract that underrepresents the value of the property, and receives criminal proceeds to make up the difference.^[12]
- Black salaries: A company may have unregistered employees without a written contract and pay them cash salaries. Dirty money might be used to pay them.^[13]
- [Tax amnesties](#): For example, those that legalize unreported assets in tax havens and cash.^[14]
- Fictitious loans
- A goal of money laundering is to be able to use the dirty money for private consumption. If unable to use it openly, the traditional way to keep the dirty money near is hiding it as cash at home or other places. A more modern method is a credit card connected to a tax haven bank.

Enforcement

Anti-money laundering (AML) is a term mainly used in the financial and legal industries to describe the legal controls that require [financial institutions](#) and other regulated entities to prevent, detect, and report money laundering activities. Anti-money laundering guidelines came into prominence globally as a result of the formation of the [Financial Action Task Force](#) (FATF) and the promulgation of an international framework of anti-money laundering standards.^[15] These standards began to have more relevance in 2000 and 2001, after FATF began a process to publicly identify countries that were deficient in their anti-money laundering laws and international cooperation, a process colloquially known as "[name and shame](#)".^{[16][17]}

An effective AML program requires a jurisdiction to have criminalized money laundering, given the relevant regulators and police the powers and tools to investigate; be able to share information with other countries as appropriate; and require financial institutions to identify their customers, establish risk-based controls, keep records, and report suspicious activities.^[18]

Criminalizing money laundering

The elements of the crime of money laundering are set forth in the [United Nations Convention Against Illicit Traffic in Narcotic Drugs and Psychotropic Substances](#) and [Convention against Transnational Organized Crime](#). It is defined as knowingly engaging in a financial transaction with the proceeds of a crime for the purpose of concealing or disguising the illicit origin of the property from governments.

The role of financial institutions

While banks operating in the same country generally have to follow the same AML laws and regulations, financial institutions all structure their AML efforts slightly differently.^[19] Today, most financial institutions globally, and many non-financial institutions, are required to identify and report transactions of a suspicious nature to the financial intelligence unit in the respective country. For example, a bank must verify a customer's identity and, if necessary, monitor transactions for suspicious activity. This is often termed as "know your customer". This means knowing the identity of the customer and understanding the kinds of transactions in which the customer is likely to engage. By knowing one's customers, financial institutions can often identify unusual or suspicious behaviour, termed anomalies, which may be an indication of money laundering.^[20]

Bank employees, such as tellers and customer account representatives, are trained in anti-money laundering and are instructed to report activities that they deem suspicious. Additionally, [anti-money laundering software](#) filters customer data, classifies it according to level of suspicion, and inspects it for anomalies. Such anomalies include any sudden and substantial increase in funds, a large withdrawal, or moving money to a bank secrecy jurisdiction. Smaller transactions that meet certain criteria may also be flagged as suspicious. For example, structuring can lead to flagged transactions. The software also flags names on government "blacklists" and transactions that involve countries hostile to the host nation. Once the software has mined data and flagged suspect transactions, it alerts bank management, who must then determine whether to file a report with the government.

Value of enforcement costs and associated privacy concerns

The financial services industry has become more vocal about the rising costs of anti-money laundering regulation and the limited benefits that they claim it brings.^[21] One commentator wrote that "[w]ithout facts, [anti-money laundering] legislation has been driven on rhetoric, driving by ill-guided activism responding to the need to be "seen to be doing something" rather than by an objective understanding of its effects on predicate crime. The social panic approach is justified by the language used—we talk of the battle against terrorism or the war on drugs".^[22] *The Economist* magazine has become increasingly vocal in its criticism of such regulation, particularly with reference to countering terrorist financing, referring to it as a "costly failure", although it concedes that other efforts (like reducing identity and credit card fraud) may still be effective at combating money laundering.^[23]

There is no precise measurement of the costs of regulation balanced against the harms associated with money laundering,^[24] and given the evaluation problems involved in assessing such an issue, it is unlikely that the effectiveness of terror finance and money laundering laws could be determined with any degree of accuracy.^[25] *The Economist* estimated the annual costs of anti-money laundering efforts in Europe and North America at US\$5 billion in 2003, an increase from US\$700 million in 2000.^[26] Government-linked economists have noted the significant negative effects of money laundering on economic development, including undermining domestic capital formation, depressing growth, and diverting capital away from development.^[27] Because of the intrinsic uncertainties of the amount of money laundered, changes in the amount of money laundered, and the cost of anti-money laundering systems, it is almost impossible to tell which anti-money laundering systems work and which are more or less cost effective.

Besides economic costs to implement anti-money-laundering laws, improper attention to data-protection practices may entail disproportionate costs to individual privacy rights. In June 2011, the data-protection advisory committee to the European Union issued a report on data protection issues related to the prevention of money laundering and terrorist financing, which

identified numerous transgressions against the established legal framework on privacy and data protection.^[28] The report made recommendations on how to address money laundering and terrorist financing in ways that safeguard personal privacy rights and data protection laws.^[29] In the United States, groups such as the [American Civil Liberties Union](#) have expressed concern that money laundering rules require banks to report on their own customers, essentially conscripting private businesses "into agents of the surveillance state".^[30]

Many countries are obligated by various international instruments and standards, such as the 1988 [United Nations Convention Against Illicit Traffic in Narcotic Drugs and Psychotropic Substances](#), the 2000 [Convention against Transnational Organized Crime](#), the 2003 [United Nations Convention against Corruption](#), and the recommendations of the 1989 [Financial Action Task Force on Money Laundering](#) to enact and enforce money laundering laws in an effort to stop narcotics trafficking, international organised crime, and corruption. Mexico, which has faced a significant increase in violent crime, established anti-money laundering controls in 2013 to curb the underlying crime issue.^[31]

Global Organizations working against money laundering

Formed in 1989 by the [G7](#) countries, the FATF is an intergovernmental body whose purpose is to develop and promote an international response to combat money laundering. The FATF Secretariat is housed at the headquarters of the [OECD](#) in Paris. In October 2001, FATF expanded its mission to include combating the financing of terrorism. FATF is a policy-making body that brings together legal, financial, and law enforcement experts to achieve national legislation and regulatory AML and CFT reforms. As of 2014 its membership consists of 36 countries and territories and two regional organizations. FATF works in collaboration with a number of international bodies and organizations^[who?]. These entities have observer status with FATF, which does not entitle them to vote, but permits them full participation in plenary sessions and working groups.^[32]

FATF has developed 40 recommendations on money laundering and 9 special recommendations regarding terrorist financing. FATF assesses each member country against these recommendations in published reports. Countries seen as not being sufficiently compliant with such recommendations are subjected to financial sanctions^[citation needed].^[33]

FATF's three primary functions with regard to money laundering are:

1. Monitoring members' progress in implementing anti-money laundering measures.
2. Reviewing and reporting on laundering trends, techniques, and countermeasures.
3. Promoting the adoption and implementation of FATF anti-money laundering standards globally.

The FATF currently comprises 34 member jurisdictions and 2 regional organisations, representing most major financial centres in all parts of the globe:

- Argentina
- Australia
- Austria
- Belgium
- Brazil
- Canada
- China
- Denmark
- [European Commission](#)
- Finland
- France
- Germany
- Greece
- [Gulf Cooperation Council](#)
- Hong Kong
- Iceland
- [India](#)
- Ireland
- Italy
- Japan
- Luxembourg
- Mexico
- Netherlands
- New Zealand
- Norway
- Portugal
- Russia
- Singapore
- South Africa
- South Korea
- Spain
- Sweden

- Switzerland
- Turkey
- United Kingdom
- United States

The [United Nations Office on Drugs and Crime](#) maintains the *International Money Laundering Information Network*, a website that provides information and software for anti-money laundering data collection and analysis.^[34] The [World Bank](#) has a website that provides policy advice and best practices to governments and the private sector on anti-money laundering issues.^[35]

Laws and enforcement by region

Many jurisdictions adopt a list of specific predicate crimes for money laundering prosecutions, while others criminalize the proceeds of any serious crimes.

Afghanistan

This section **needs additional citations for verification**. Please help [improve this article](#) by [adding citations to reliable sources](#). Unsourced material may be challenged and removed. *(November 2011)*

The Financial Transactions and Reports Analysis Center of Afghanistan (FinTRACA) was established as a Financial Intelligence Unit (FIU) under the Anti Money Laundering and Proceeds of Crime Law passed by decree late in 2004. The main purpose of this law is to protect the integrity of the Afghan financial system and to gain compliance with international treaties and conventions. The Financial Intelligence Unit is a semi-independent body that is administratively housed within the Central Bank of Afghanistan (Da Afghanistan Bank). The main objective of FinTRACA is to deny the use of the Afghan financial system to those who obtained funds as the result of illegal activity, and to those who would use it to support terrorist activities.^[36]

To meet its objectives, the FinTRACA collects and analyzes information from a variety of sources. These sources include entities with legal obligations to submit reports to the FinTRACA when a suspicious activity is detected, as well as reports of cash transactions above a threshold amount specified by regulation. Also, FinTRACA has access to all related Afghan government information and databases. When the analysis of this information supports the supposition of illegal use of the financial system, the FinTRACA works closely with law enforcement to investigate and prosecute the illegal activity. FinTRACA also cooperates internationally in support of its own analyses and investigations and to support the analyses and investigations of foreign counterparts, to the extent allowed by law. Other functions include training of those entities with legal obligations to report information, development of laws and regulations to support national-level AML objectives, and international and regional cooperation in the development of AML typologies and countermeasures.

Australia

[AUSTRAC](#) (Australian Transaction Reports and Analysis Centre) is Australia's anti-money laundering and counter-terrorism financing regulator and specialist financial intelligence unit.

The Anti-Money Laundering and Counter-Terrorism Financing Act 2006 (Cth) (AML/CTF Act) is the principal legislative instrument, although there are also offence provisions contained in Division 400 of the Criminal Code Act 1995 (Cth). Upon its introduction, it was intended that the AML/CTF Act would be further amended by a second tranche of reforms extending to designated non-financial businesses and professions (DNFBPs) including, inter alia, lawyers, accountants, jewellers and real estate agents; however, those further reforms have yet to be progressed.

AUSTRAC works collaboratively with Australian industries and businesses in their compliance with anti-money laundering and counter-terrorism financing legislation.

Financial institutions in Australia are required to track significant cash transactions (at least A\$10,000.00 or equivalent in physical cash value) that can be used to finance terrorist activities in and outside Australia's borders and report them to AUSTRAC.

Bangladesh

First anti-money laundering legislation of Bangladesh is the Money Laundering Prevention Act, 2002. It was replaced by the Money Laundering Prevention Ordinance 2008. Subsequently, the ordinance was repealed by the Money Laundering Prevention Act, 2009. In 2012, government again replace it with the Money Laundering Prevention Act, 2012^[37]

In terms of section 2, "Money Laundering means – (i) knowingly moving, converting, or transferring proceeds of crime or property involved in an offence for the following purposes:- (1) concealing or disguising the illicit nature, source, location, ownership or control of the proceeds of crime; or (2) assisting any person involved in the commission of the predicate offence to evade the legal consequences of such offence; (ii) smuggling money or property earned through legal or illegal means to a foreign country; (iii) knowingly transferring or remitting the proceeds of crime to a foreign country or remitting or bringing them into Bangladesh from a foreign country with the intention of hiding or disguising its illegal source; or (iv) concluding or attempting to conclude financial transactions in such a manner so as to reporting requirement under this Act may be avoided;(v) converting or moving or transferring property with the intention to instigate or assist for committing a predicate offence; (vi) acquiring, possessing or using any property, knowing that such property is the proceeds of a predicate offence; (vii) performing such activities so as to the illegal source of the proceeds of crime may be concealed or disguised; (viii) participating in, associating with, conspiring, attempting, abetting, instigate or counsel to commit any offences mentioned above.^{[38][39]}

To prevent these illegal uses of money, the Bangladesh government has introduced the Money Laundering Prevention Act. The Act was last amended in the year 2009 and all the financial institutes are following this act. Till today there are 26 circulars issued by Bangladesh Bank under this act. To prevent money laundering, a banker must do the following:

- While opening a new account, the account opening form should be duly filled up by all the information of the customer.
- The [KYC](#) must be properly filled.
- The Transaction Profile (TP) is mandatory for a client to understand his/her transactions. If needed, the TP must be updated at the client's consent.
- All other necessary papers should be properly collected along with the National ID card.
- If any suspicious transaction is noticed, the Branch Anti Money Laundering Compliance Officer (BAMLCO) must be notified and accordingly the Suspicious Transaction Report (STR) must be filled out.
- The cash department should be aware of the transactions. It must be noted if suddenly a big amount of money is deposited in any account. Proper documents are required if any client does this type of transaction.
- Structuring, over/ under invoicing is another way to do money laundering. The foreign exchange department should look into this matter cautiously.

- If any account has a transaction over 1 million taka in a single day, it must be reported in a cash transaction report (CTR).
- All bank officials must go through all the 26 circulars and use them.

Canada

In 1991, the Proceeds of Crime (Money Laundering) Act was brought into force in Canada to give legal effect to the former FATF Forty Recommendations by establishing record keeping and client identification requirements in the financial sector to facilitate the investigation and prosecution of money laundering offences under the Criminal Code of Canada and the Controlled Drugs and Substances Act.^[40]

In 2000, the Proceeds of Crime (Money Laundering) Act was amended to expand the scope of its application and to establish a financial intelligence unit with national control over money laundering, namely FINTRAC.^[40]

In December 2001, the scope of the Proceeds of Crime (Money Laundering) Act was again expanded by amendments enacted under the Anti-Terrorism Act with the objective of deterring terrorist activity by cutting off sources and channels of funding used by terrorists in response to 9/11. The Proceeds of Crime (Money Laundering) Act was renamed the Proceeds of Crime (Money Laundering) and Terrorist Financing Act.^[40]

In December 2006, the Proceeds of Crime (Money Laundering) and Terrorist Financing Act was further amended, in part, in response to pressure from the FATF for Canada to tighten its money laundering and financing of terrorism legislation. The amendments expanded the client identification, record-keeping and reporting requirements for certain organizations and included new obligations to report attempted suspicious transactions and outgoing and incoming international electronic fund transfers, undertake risk assessments and implement written compliance procedures in respect of those risks.^[40]

The amendments also enabled greater money laundering and terrorist financing intelligence-sharing among enforcement agencies.^[40]

In Canada, casinos, money service businesses, notaries, accountants, banks, securities brokers, life insurance agencies, real estate salespeople and dealers in precious metals and stones are subject to the reporting and record keeping obligations under the Proceeds of Crime (Money Laundering) and Terrorist Financing Act.

European Union

The fourth and latest iteration of the EU's anti-money laundering directive (AMLD IV) was published on June 5, after clearing its last legislative stop at the European Parliament. The new directive brings the EU's anti-money laundering laws more in line with the US's, which is welcome news for financial institutions that are operating in both jurisdictions.^[41]

Lack of harmonization in AML requirements between the US and EU has complicated the compliance efforts of global institutions that are looking to standardize the Know Your Customer (KYC) component of their AML programs across key jurisdictions. AMLD IV promises to better align the AML regimes by adopting a more risk-based approach compared to its predecessor, AMLD III.^[41]

Certain components of the directive, however, go beyond current requirements in both the EU and US, imposing new implementation challenges on banks. For instance, more public officials are brought within the scope of the directive, and EU member states are required to establish new registries of "beneficial owners" (i.e., those who ultimately own or control each company) which will impact banks. AMLD IV becomes effective June 25, 2015.^[42]

India

Main article: [Prevention of Money Laundering Act, 2002](#)

See also: [Enforcement Directorate](#)

In 2002, the [Parliament of India](#) passed an [act](#) called the [Prevention of Money Laundering Act, 2002](#). The main objectives of this act are to prevent money-laundering as well as to provide for confiscation of property either derived from or involved in, money-laundering.^[43]

Section 12 (1) describes the obligations that banks, other financial institutions, and intermediaries have to

- (a) Maintain records that detail the nature and value of transactions, whether such transactions comprise a single transaction or a series of connected transactions, and where these transactions take place within a month.
- (b) Furnish information on transactions referred to in clause (a) to the Director within the time prescribed, including records of the identity of all its clients.

Section 12 (2) prescribes that the records referred to in sub-section (1) as mentioned above, must be maintained for ten years after the transactions finished. It is handled by the Indian Income Tax Department.

The provisions of the Act are frequently reviewed and various amendments have been passed from time to time.^{[44][45]}

The recent activity in money laundering in India is through political parties, corporate companies and the shares market. It is investigated by the [Enforcement Directorate](#) and Indian Income Tax Department.^[46] According to [Government of India](#), out of the total tax arrears of ₹2480 billion (US\$37 billion) about ₹1300 billion (US\$19 billion) pertains to money laundering and securities scam cases.^[47]

Bank accountants must record all transactions over Rs. 1 million. Bank accountants must maintain this records for 10 years. Banks also must make cash transaction reports (CTRs) and suspicious transaction reports over RS. 1 million within 7 days of doubt. They must submit the report to the Enforcement Directorate and income tax department.^[citation needed]

United Kingdom

Money laundering and terrorist funding legislation in the UK is governed by four Acts of primary legislation:-

- [Terrorism Act 2000](#)^[48]
- [Anti-terrorism, Crime and Security Act 2001](#)^[49]
- [Proceeds of Crime Act 2002](#)^[50]
- [Serious Organised Crime and Police Act 2005](#)^[51]
- [Money Laundering Regulations 2007](#)

Money Laundering Regulations are designed to protect the UK financial system, as well as preventing and detecting crime. If a business is covered by these regulations then controls are put in place to prevent it being used for money laundering.

The [Proceeds of Crime Act 2002](#) contains the primary UK anti-money laundering legislation,^[52] including provisions requiring businesses within the "regulated sector" (banking,

investment, money transmission, certain professions, etc.) to report to the authorities suspicions of money laundering by customers or others.^[53]

Money laundering is broadly defined in the UK.^[54] In effect any handling or involvement with any proceeds of any crime (or monies or assets representing the proceeds of crime) can be a money laundering offence. An offender's possession of the proceeds of his own crime falls within the UK definition of money laundering.^[55] The definition also covers activities within the traditional definition of money laundering, as a process that conceals or disguises the proceeds of crime to make them appear legitimate.^[56]

Unlike certain other jurisdictions (notably the US and much of Europe), UK money laundering offences are not limited to the proceeds of serious crimes, nor are there any monetary limits. Financial transactions need no money laundering design or purpose for UK laws to consider them a money laundering offence. A money laundering offence under UK legislation need not even involve money, since the money laundering legislation covers assets of any description. In consequence, any person who commits an acquisitive crime (i.e., one that produces some benefit in the form of money or an asset of any description) in the UK inevitably also commits a money laundering offence under UK legislation.

This applies also to a person who, by criminal conduct, evades a liability (such as a taxation liability)—which lawyers call "obtaining a pecuniary advantage"—as he is deemed thereby to obtain a sum of money equal in value to the liability evaded.^[54]

The principal money laundering offences carry a maximum penalty of 14 years imprisonment.^[57]

Secondary regulation is provided by the Money Laundering Regulations 2003,^[58] which was replaced by the Money Laundering Regulations 2007.^[59] They are directly based on the EU directives 91/308/EEC, 2001/97/EC and 2005/60/EC.

One consequence of the Act is that solicitors, accountants, tax advisers, and insolvency practitioners who suspect (as a consequence of information received in the course of their work) that their clients (or others) have engaged in tax evasion or other criminal conduct that produced a benefit, now must report their suspicions to the authorities (since these entail suspicions of money laundering). In most circumstances it would be an offence, "tipping-off", for the reporter to inform the subject of his report that a report has been made.^[60] These provisions do not however require disclosure to the authorities of information received by certain professionals in privileged circumstances or where the information is subject to [legal professional privilege](#). Others that are subject to these regulations include financial institutions, credit institutions, estate agents (which includes chartered surveyors), trust and company service providers, high value dealers (who accept cash equivalent to €15,000 or more for goods sold), and casinos.

Professional guidance (which is submitted to and approved by the UK Treasury) is provided by industry groups including the Joint Money Laundering Steering Group,^[61] the Law Society,^[62] and the Consultative Committee of Accountancy Bodies (CCAB). However, there is no obligation on banking institutions to routinely report monetary deposits or transfers above a specified value. Instead reports must be made of all suspicious deposits or transfers, irrespective of their value.

The reporting obligations include reporting suspicious gains from conduct in other countries that would be criminal if it took place in the UK.^[63] Exceptions were later added for certain activities legal where they took place, such as [bullfighting](#) in Spain.^[64]

More than 200,000 reports of suspected money laundering are submitted annually to authorities in the UK (there were 240,582 reports in the year ended 30 September 2010. This was an increase from the 228,834 reports submitted in the previous year).^[65] Most of these reports are submitted by banks and similar financial institutions (there were 186,897 reports from the banking sector in the year ended 30 September 2010).^[65]

Although 5,108 different organisations submitted [suspicious activity reports](#) to the authorities in the year ended 30 September 2010 just four organisations submitted approximately half of all reports, and the top 20 reporting organisations accounted for three-quarters of all reports.^[65]

The offence of failing to report a suspicion of money laundering by another person carries a maximum penalty of 5 years imprisonment.^[57]

Bureaux de change

All UK [Bureaux de change](#) are registered with [Her Majesty's Revenue and Customs](#), which issues a trading licence for each location. Bureaux de change and [money transmitters](#), such as [Western Union](#) outlets, in the UK fall within the "regulated sector" and are required to comply with the Money Laundering Regulations 2007.^[59] Checks can be carried out by HMRC on all [Money Service Businesses](#).

United States

The approach in the United States to stopping money laundering is usually broken into two areas: preventive (regulatory) measures and criminal measures.

Preventive

In an attempt to prevent dirty money from entering the U.S. financial system in the first place, the United States Congress passed a series of laws, starting in 1970, collectively known as the [Bank Secrecy Act](#) (BSA). These laws, contained in sections 5311 through 5332 of Title 31 of the United States Code, require [financial institutions](#), which under the current definition include a broad array of entities, including banks, credit card companies, life insurers, [money service businesses](#) and broker-dealers in securities, to report certain transactions to the [United States Department of the Treasury](#). Cash transactions in excess of a certain amount must be reported on a [currency transaction report](#) (CTR), identifying the individual making the transaction as well as the source of the cash. The law originally required all transactions of US\$5,000 or more to be reported, but due to excessively high levels of reporting the threshold was raised to US\$10,000. The U.S. is one of the few countries in the world to require reporting of all cash transactions over a certain limit, although certain businesses can be exempt from the requirement.^[66] Additionally, financial institutions must report transaction on a [Suspicious Activity Report](#) (SAR) that they deem "suspicious", defined as a knowing or suspecting that the funds come from illegal activity or disguise funds from illegal activity, that it is structured to evade BSA requirements or appears to serve no known business or apparent lawful purpose; or that the institution is being used to facilitate criminal activity. Attempts by customers to circumvent the BSA, generally by structuring cash deposits to amounts lower than US\$10,000 by breaking them up and depositing them on different days or at different locations also violates the law.^[67]

The financial database created by these reports is administered by the U.S.'s Financial Intelligence Unit (FIU), called the [Financial Crimes Enforcement Network](#) (FinCEN), located in Vienna, Virginia. The reports are made available to U.S. criminal investigators, as well as other FIU's around the globe, and FinCEN conducts computer assisted analyses of these reports to determine trends and refer investigations.^[68]

The BSA requires financial institutions to engage in customer due diligence, which is sometimes known in the parlance as [know your customer](#). This includes obtaining satisfactory identification to give assurance that the account is in the customer's true name, and having an understanding of the expected nature and source of the money that flows through the customer's accounts. Other classes of customers, such as those with private banking accounts and those of foreign government officials, are subjected to enhanced due diligence because the law deems that those types of accounts are a higher risk for money laundering. All accounts are subject to ongoing monitoring, in which internal bank software scrutinizes transactions and flags for manual inspection those that fall outside certain parameters. If a manual inspection reveals that the transaction is suspicious, the institution should file a [Suspicious Activity Report](#).^[69]

The regulators of the industries involved are responsible to ensure that the financial institutions comply with the BSA. For example, the [Federal Reserve](#) and the [Office of the Comptroller of the Currency](#) regularly inspect banks, and may impose civil fines or refer matters for criminal prosecution for non-compliance. A number of banks have been fined and prosecuted for failure to comply with the BSA. Most famously, [Riggs Bank](#), in Washington D.C., was prosecuted and functionally driven out of business as a result of its failure to apply proper money laundering controls, particularly as it related to foreign political figures.^[70]

In addition to the BSA, the U.S. imposes controls on the movement of currency across its borders, requiring individuals to report the transportation of cash in excess of US\$10,000 on a form called Report of International Transportation of Currency or Monetary Instruments (known as a CMIR).^[71] Likewise, businesses, such as automobile dealerships, that receive cash in excess of US\$10,000 must file a Form 8300 with the Internal Revenue Service, identifying the source of the cash.^[72]

On 1 September 2010, the [Financial Crimes Enforcement Network](#) issued an advisory on "[informal value transfer systems](#)" referencing [United States v. Banki](#).^[73]

Criminal sanctions

Money laundering has been criminalized in the United States since the [Money Laundering Control Act](#) of 1986. The law, contained at section 1956 of Title 18 of the United States Code,

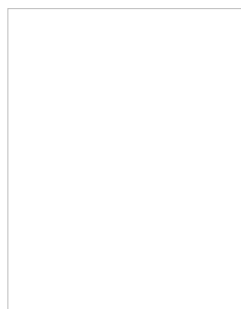
prohibits individuals from engaging in a financial transaction with proceeds that were generated from certain specific crimes, known as "specified unlawful activities" (SUAs). The law requires that an individual specifically intend in making the transaction to conceal the source, ownership or control of the funds. There is no minimum threshold of money, and no requirement that the transaction succeeded in actually disguising the money. A "financial transaction" has been broadly defined, and need not involve a financial institution, or even a business. Merely passing money from one person to another, with the intent to disguise the source, ownership, location or control of the money, has been deemed a financial transaction under the law. The possession of money without either a financial transaction or an intent to conceal is not a crime in the United States.^[74] Besides money laundering, the law contained in section 1957 of Title 18 of the United States Code, prohibits spending more than US\$10,000 derived from an SUA, regardless of whether the individual wishes to disguise it. It carries a lesser penalty than money laundering, and unlike the money laundering statute, requires that the money pass through a financial institution.^[74] According to the records compiled by the United States Sentencing Commission, in 2009, the United States Department of Justice typically convicted a little over 81,000 people; of this, approximately 800 are convicted of money laundering as the primary or most serious charge.^[75] The [Anti-Drug Abuse Act](#) of 1988 expanded the definition of financial institution to include businesses such as car dealers and real estate closing personnel and required them to file reports on large currency transaction. It required verification of identity of those who purchase monetary instruments over \$3,000. The [Annunzio-Wylie Anti-Money Laundering Act](#) of 1992 strengthened sanctions for BSA violations, required so called "Suspicious Activity Reports" and eliminated previously used "Criminal Referral Forms", required verification and recordkeeping for wire transfers and established the [Bank Secrecy Act Advisory Group](#) (BSAAG). The [Money Laundering Suppression Act](#) from 1994 required banking agencies to review and enhance training, develop anti-money laundering examination procedures, review and enhance procedures for referring cases to law enforcement agencies, streamlined the [Currency transaction report](#) exemption process, required each [Money services business](#) (MSB) to be registered by an owner or controlling person, required every MSB to maintain a list of businesses authorized to act as agents in connection with the financial services offered by the MSB, made operating an unregistered MSB a federal crime, and recommended that states adopt uniform laws applicable to MSBs. The [Money Laundering and Financial Crimes Strategy Act](#) of 1998 required banking agencies to develop anti-money laundering training for examiners, required the Department of the Treasury and other agencies to develop a "National Money Laundering Strategy", created the "High Intensity Money Laundering and Related Financial Crime Area" (HIFCA) Task Forces to concentrate law enforcement efforts at the federal, state and local levels in zones where money laundering is prevalent. HIFCA zones may be defined geographically or can be created to address money laundering in an industry sector, a financial institution, or group of financial institutions.^[76] The [Intelligence Reform & Terrorism Prevention Act](#) of 2004 amended the Bank Secrecy Act to require the Secretary of the Treasury to prescribe regulations requiring certain financial institutions to report cross-border electronic transmittals of funds, if the Secretary determines that reporting is "reasonably necessary" in "anti-money laundering /combating financing of terrorists (Anti-Money Laundering/Combating the Financing of Terrorism AML/CFT).

Electronic money

In theory, [electronic money](#) should provide as easy a method of transferring value without revealing identity as untracked banknotes, especially wire transfers involving anonymity-protecting numbered bank accounts. In practice, however, the record-keeping capabilities of Internet service providers and other network resource maintainers tend to frustrate that intuition. While some [cryptocurrencies](#) under recent development have aimed to provide for more possibility of transaction anonymity for various reasons, the degree to which they succeed—and, in consequence, the degree to which they offer benefits for money laundering efforts—is controversial.

In 2013, Jean-Loup Richet, a research fellow at [ESSEC](#) ISIS, surveyed a new techniques that cybercriminals were using in a report written for the [United Nations Office on Drugs and Crime](#).^[77] A common approach was to use a [digital currency exchanger](#) service which converted dollars into a digital currency called [Liberty Reserve](#) and could be sent and received anonymously. The receiver could convert the Liberty Reserve currency back into cash for a small fee. In May 2013, the US authorities shut down Liberty Reserve charging its founder and various others with money laundering.^[78] Another increasingly common way of laundering money is to use online gaming. In a growing number of online games such as [Second Life](#) or [World of Warcraft](#), it is possible to convert money into virtual goods, services or virtual cash that can later be converted back into money.^[79]

Notable cases



1998 investigation, [United States Senate](#), Contribution Laundering/Third-Party Transfers. Includes investigation of [Gandhi Memorial International Foundation](#).

- [Bank of Credit and Commerce International](#): Unknown amount, estimated in billions, of criminal proceeds, including drug trafficking money, laundered during the mid-1980s.^[80]
- [Bank of New York](#): US\$7 billion of Russian [capital flight](#) laundered through accounts controlled by bank executives, late 1990s.^[81]
- [Ferdinand Marcos](#): Unknown amount, estimated at US\$10 billion of government assets laundered through banks and financial institutions in the United States, Liechtenstein, Austria, Panama, Netherlands Antilles, Cayman Islands, Vanuatu, Hong Kong, Singapore, Monaco, the Bahamas, the Vatican and Switzerland.^[82]
- In December 2012, [HSBC](#): paid a record \$1.9 Billion fines for money-laundering hundreds of millions of dollars for drug traffickers, terrorists and sanctioned governments such as Iran.^[83] The money-laundering occurred throughout the 2000s.
- In May 2013, [Liberty Reserve](#) was seized by United States federal authorities for laundering \$6 billion.
- [Institute for the Works of Religion](#): Italian authorities investigated suspected money laundering transactions amounting to US\$218 million made by the IOR to several Italian banks.^[84]
- Nauru: US\$70 billion of Russian capital flight laundered through unregulated Nauru offshore shell banks, late 1990s.^[85]
- [Sani Abacha](#): US\$2–5 billion of government assets laundered through banks in the UK, Luxembourg, Jersey (Channel Islands), and Switzerland, by the president of Nigeria.^[86]
- [Standard Chartered](#): paid \$330 million in fines for money-laundering hundreds of billions of dollars for Iran. The money-laundering took place in the 2000s and occurred for "nearly a decade to hide 60,000 transactions worth \$250 billion".^[87]
- [Standard Bank](#): Standard Bank South Africa London Branch - The Financial Conduct Authority (FCA) has fined Standard Bank PLC (Standard Bank) £7,640,400 for failings relating to its anti-money laundering (AML) policies and procedures over corporate and private bank customers connected to politically exposed persons (PEPs).
- In June 2014, [BNP Paribas](#) pleaded guilty to falsifying [business records](#) and [conspiracy](#), having violated [U.S. sanctions](#) against Cuba, Iran, and Sudan. It agreed to pay an \$8.9 billion fine, the largest ever for violating U.S. sanctions.^{[88][89]}

Reverse money laundering

Reverse money laundering is a process that disguises a legitimate source of funds that are to be used for illegal purposes.^[90] For example, in an affidavit filed 24 March 2014 in United States District Court, Northern California, San Francisco Division, FBI special agent Emmanuel V. Pascau alleged that several people associated with the Chee Kung Tong organization, and California State Senator Leland Yee, engaged in reverse money laundering activities.

See also

- [Bank Secrecy Act](#)
- [Confiscation](#)
- [Currency transaction report](#)
- [Customer Identification Program](#)
- [Embezzlement](#)
- [FBI](#)
- [Financial Crimes Enforcement Network](#)
- [Hawala](#)
- [Money trail](#)
- [Michael H. O'Keefe](#)
- [Office of Foreign Assets Control](#)
- [Offshore banking](#)
- [Organized crime](#)
- [Penny stock scam](#)
- [Politically exposed person](#)
- [Round-tripping \(finance\)](#)
- [Shell \(corporation\)](#)
- [Terrorist financing](#)
- [USA PATRIOT Act](#)
- [White-collar crime](#)

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External links

- [Money laundering](#) at DMOZ
- [Duhaime's Financial Crime and Anti-Money Laundering Law](#)
- [Financial Crime and Anti-Money Laundering Law in Italy](#)
- [UNODC – United Nations Office on Drugs and Crime – on money-laundering and countering the financing of terrorism](#)
- [Financial Market Integrity Unit, The World Bank](#)
- [US Department of State International Narcotics Control Strategy Report \(INCSR\), annual report issued in March every year. Essential reading for all compliance officers for evaluating country money laundering risk](#)

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