CCPCJ Chair Report

Topic 3: Raising Awareness on Global Money Laundering in the Americas.

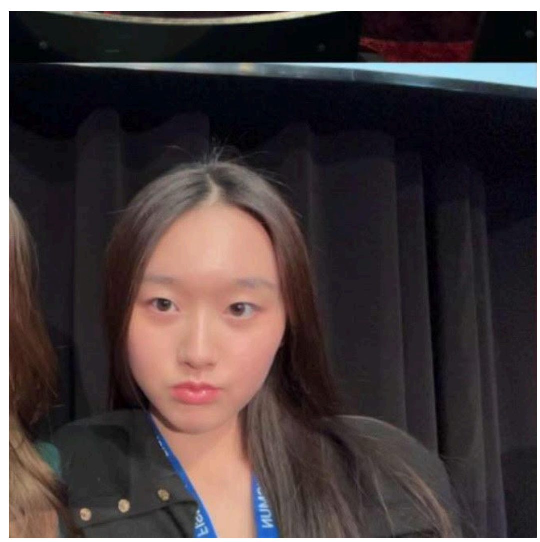
Chair: Connor Henrich
Deputy Chair: Claire Oh

Personal Statements

Chair – Connor Henrich

Honorable Delegates, my name is Connor Henrich and I'm 14 years old attending the International School of Stuttgart. This will be my 5th conference and I'm very excited to be the head chair for CCPCJ at this year's MUNISS. I hope to make this an enjoyable experience for all, and I look forward to meeting all of you. Hopefully this report will be of good use. If you have any questions or concerns please don't hesitate to reach out connorj.henrich@gmail.com or henric27@issev.de

Deputy Chair - Claire Oh



Honorable Delegates, my name is Claire Oh, and I am a 16-year-old student attending Frankfurt International School. This is my 5th conference, and it is an honor to serve as your chair for CCPCJ at MUNISS 2024! I am eager to meet all of you and excited to engage in insightful debates together. If you have any preliminary questions or concerns, please feel free to reach out to chaewon_oh@fis.edu

Introduction

Every year an estimated 800 billion USD is laundered across the Americas. This amount of money can be achieved by illegal activities such as corruption, tax evasion, drug trafficking, human trafficking, and shell companies. Money laundering in the Americas is a multifaceted topic rooted in the region's economic diversity, transnational criminal activities, and varying rules and regulations. This creates opportunities for illicit individuals to exploit regulatory frameworks and financial oversight. Crimes generate substantial illicit funds that are then made to appear legal then integrating them into the formal financial system discreetly. This dynamic poses challenges for law enforcement and regulatory authorities maintaining effective control over financial transactions and preventing the infiltration of criminal proceeds.

There are three main stages of money laundering which starts with placement, the movement of funds directly associated with the crime. Next is layering, where the trail is disguised to prevent tracking and finally integration, where the money is made available from criminal activities to seemingly legitimate sources. (*Overview*, n.d.)

The banking and financial systems in the Americas, though well-established, also contribute to the complexity of money laundering. Weaknesses in regulatory enforcement, inadequate customer due diligence, and varying levels of monitoring across jurisdictions provide opportunities for money launderers to mask the illicit origins of their funds. Furthermore, the use of technology, such as cryptocurrencies and online banking, introduces additional challenges for authorities in tracking and preventing illicit financial activities. The evolving nature of these technologies requires constant adaptation of regulatory measures to address emerging threats effectively.

International collaboration is vital in tackling money laundering in the Americas. Countries often work together through organizations like the Financial Action Task Force (FATF) and regional groups to strengthen collective efforts in preventing money laundering and terrorist financing. However, challenges persist due to inconsistencies in regulatory approaches, corruption, and political instability in certain jurisdictions. Addressing these issues requires a concentrated effort to improve regulatory frameworks, develop enforcement capabilities, and foster transparency, ultimately creating a more resilient defense against the laundering of money across the Americas.

Glossary

Money laundering can be defined as the illegal act of disguising the source of funds acquired through illicit activities and organized crime networks, such as drug trafficking, corruption, embezzlement, or gambling, through a process that transforms them into seemingly legitimate sources. This activity is considered a criminal offense in numerous jurisdictions, each with its own definitions.

Corruption is a dishonest or fraudulent action committed by those in power, typically involving the abuse of public office for personal gain. It can take several forms such as bribery, embezzlement, nepotism, fraud, and other unethical practices. Corruption undermines the principles of transparency, accountability, and fairness in both public and private sectors. It often leads to a distortion of policies, inefficient use of resources, and a negative impact on economic and social development.

Shell corporations are a business entity that exists only on paper, with no physical presence, employees, or operations. It lacks transparency and is often used in money laundering to disguise the origin of illicit funds, making it challenging for authorities to trace the money trail back to criminal activities.

Financial sector comprises firms and institutions providing financial services to commercial and retail customers, including banks, investment companies, insurance firms, and real estate entities. It plays a vital role in the economy by generating revenue from loans, mortgages, and investments, indicating the economic health of a country.

Drug trafficking is the illegal trade involving the cultivation, manufacturing, distribution, and sale of prohibited substances such as heroin, cocaine, cannabis, and synthetic drugs, conducted by criminal networks globally.

The Financial Action Task Force (FATF) is an international body that develops and promotes policies to combat money laundering, terrorist financing, and the financing of proliferation of weapons of mass destruction. They are recognized as the global standard for anti-money laundering and counter-terrorist financing efforts.

AML Frameworks are structures made up of laws, regulations, and procedures that aim to prevent money laundering by detecting and reporting suspicious financial activities.

Issue Explanation

The issue of money laundering greatly impacts the financial sector and hinders the economic growth of countries as it promotes crime and corruption in the financial sector. These financial transactions that disguise the profits of illicit activities, pose a threat to authorized financial systems. The International Monetary Fund estimates that money laundering accounts for 2-5% of GDP globally. The consequences of money laundering include undermining the legitimate private sector, financial market integrity, loss of revenue, and economic instability.

Money laundering creates humanitarian, economic, and social disasters by undermining eligible financial institutions. It can have a large impact on financial markets by explosions in the systems causing loss of government revenue, increased money demand, disruptions to capital flows and fluctuations in exchange rates. It allows criminals to expand operations, transfer economic power to illicit entities, and potentially cause opposition to legitimate governments. The social costs involve drug traffickers and criminals thriving, shifting economic power away from lawful entities to criminal organizations. Illicit financial flows from a country can attract foreign criminal activities due to insufficient AML frameworks. Countries that support illegal money laundering show less opportunity in the financial sector, higher inequality, higher poverty, and illegal immigration due to the dramatic enrichment of specific individuals. Indirect costs imposed across the economy result in loss of foreign investment and increase volatility in international capital flows. (Stone, 2024)

Failure to address money laundering could have broader implications for the world. The global nature of money laundering necessitates international cooperation and robust anti-money laundering efforts to prevent criminals from laundering proceeds and conducting illicit activities worldwide. Without effective measures, money laundering could continue to fuel transnational crime networks and threaten the stability of economies and governments globally. (*Negative Effects of Money Laundering on the Economy*, n.d.)

By implementing strict regulations, enhancing financial intelligence capabilities, and holding financial enablers accountable, countries can combat money laundering effectively. Addressing loopholes in sectors like real estate, imposing due diligence requirements on professionals facilitating financial transactions, and treating corruption as a core national security issue are crucial steps towards mitigating the impact of money laundering on societies and economies. (Laumann, 2019)

Real estate is known for having considerably high transactions perfect for concealing money laundering. By using a third party to purchase real estate, usually a family member with a clean record criminals can detach themselves from any purchase documents blurring the origin of illicit funds. By collaborating with real estate agents and appraisers criminals can change property valuation, undervaluation allows loans to be acquired and overvaluation increases the amount that can be laundered through the property. By depositing cash across multiple banks they can lower the reporting threshold of transactions and use legitimate forms of payment to buy real estate. A way criminals disguise laundered money as legitimate is to purchase properties, invest dirty money for renovations and sell them at higher prices. [Sanction Scanner, n.d.]

History of the Topic

The problem of money laundering has been around for thousands of years when ancient Chinese merchants hid their wealth from rulers dating back to 2,000 BC. The much larger and more convoluted modern crisis started in the late 1900s. During the prohibition era in the United States a notable figure named Al Capone, an organized crime leader who laundered profits from illegal alcohol sales and prostitution from his chain of laundromats, hence the name money laundering. Prior to the 1980s money laundering was a much less serious crime than tax evasion. Moving into the 21st century, money laundering became much more serious as criminals were able to retain their assets and convert it to “clean” money without any criminal traces.

The war on drugs the U.S. Reagan administration implemented strong laws to combat the sales of illicit narcotics. Money laundering became a federal crime, but it was soon realized that domestic policies would not suffice as the problem spread internationally.

Founded on June 16, 1879, the Wachovia national bank became a large financial service in the United States. Bought by Wells Fargo & Company, a North American distributive system for finances. After investigation in 2010 it was found to facilitate Mexican drug cartel money laundering an estimated 390 billion USD between 2004 and 2007. [Sanction Scanner, n.d.] Wachovia paid a 160 million USD fine to escape prosecution and resolved to increase AML procedures. (*The Five Biggest Money Laundering Scandals*, n.d.-b)

Following the 9/11 terrorist attack on Twin Towers in New York City regulations regarding money laundering dramatically increased regarding banks. The Patriot Act gave the U.S. government power to fight terrorism by expanding their AML programs and due diligence on foreign bank accounts. Improving communication between law enforcement and financial institutions to hinder international money laundering.

From 1999 to 2017 banks filed reports concerning 2 trillion USD worth of suspicious activity from FinCEN. These reports have shown how the United States attracts money launderers internationally due to regulatory problems. Attributing to this is the inability of the U.S. to effectively punish those who enable money laundering unlike finance giants such as Deutsche Bank and HSBC who have paid billions to settle federal charges related to laundering scams.

Involved Parties

Organized crime members: A structural crime organization that commit serious federal crimes such as weapon smuggling, drug trade and money laundering to gain financial or material benefits. In the Americas prominent organized crime organizations include the Latin Kings, a gang formed in Chicago in the 1960s, the Marielitos, Cuban-American crime group and the

Financial Institutions can inadvertently become involved in money laundering schemes due to lack of diligence or oversight. In some cases, insiders within financial institutions may knowingly facilitate money laundering schemes by compromising systems or processes, allowing illicit funds to flow through the banking system undetected.

Government agencies play a crucial role in combating money laundering through enforcement actions, prosecutions, and regulatory oversight. Recent trends in the United States highlight aggressive prosecutions by the Department of Justice targeting core crimes like wire fraud, securities fraud, tax fraud, and sanctions evasion using money laundering statutes.

Haiti is the worst scoring country in the Americas with a Basel AML index of 8.25 out of 10 (this index represents the independent country ranking and risk assessment for money laundering) as the country's previous president Jovenel Moïse, who was assassinated in July 2021 had connections to money laundering. (Mistler-Ferguson & Mistler-Ferguson, 2023)

Ecuador, Brazil, and Mexico with scores of 5.06, 4.98 and 5.21 out of 10 respectively share qualities such as corruption in public government and bribery that exacerbate money laundering. Mexico has a high rate of drug trafficking, financial and bank fraud. Mexico employs systems to address money laundering and an increased effort to pursue launderers and confiscating assets. Stemming from drug cartels and transporting funds in and out of the United States, Mexico has been identified with a high-risk jurisdiction for money laundering.

USA Though being highly illegal, money laundering is consistently a large issue, approximately 300 billion USD is laundered through the United States every year. Efforts are being made to prevent this and combat organized crime. The United States struggles with shell corporations which facilitate illicit activities.

Any Previous Attempts

The Bank Secrecy Act (BSA – 1970) also known as the Currency and Foreign Transactions Reporting Act of the United States of America. This was the first notable legislation made to prevent criminals from hiding the origins of criminal funds through financial institutions. This act urged banks and other financial institutions to cooperate with the government against suspected money laundering. Still in use presently the BSA identifies and tracks the movement of money in and out of the U.S. this required banks to submit a currency transaction report (CTR) for all cash transactions of more than 10,000 USD.

The Money Laundering Control Act (1986) of the United States of America made money laundering a federal crime and aimed to eradicate the illegal drug trade. Assets in cases of BSA violations became vulnerable to civil forfeiture meaning that they could be seized whether a crime was charged or not. Furthermore, this law enforced reporting requirements for transactions exceeding 10,000 USD.

In 1988 the United Nations passed the Vienna Convention Against Illicit Traffic in Narcotic Drugs and Psychotropic Substances which dealt with drug trafficking but acknowledged the contributions that these sales made to money laundering in terms of hiding and processing profits.

Created as a response to a large international bank as a nest for money laundering, the Annunzio-Wylie Anti-Money Laundering Act (1992) as part of the BSA of the United States of America put pressure on banks. This act increased penalties on financial organizations found guilty of money laundering and urged oversight agencies to revoke the charters of organizations involved in money laundering. Additionally, it included verification and recording of wire transfers as well as withdrawing Criminal Referral Forms and introduced Suspicious Activity Reports (SARs) encouraging banks to report suspicious or out of the ordinary activity.

The Money Laundering Suppression Act (1994) of the United States of America focused on banks improving Anti-Money Laundering (AML) training and developing examination procedures to report suspicious activities to law enforcement. Additionally, requiring Money Services Businesses (MSB) to be registered makes an unregistered MSB a federal crime.

Financial Crimes Enforcement Network (FinCEN) (1990) operating in the United States, part of the Treasury Department bureau works to prevent money laundering FinCEN acts as an information collection and analysis office. Implemented in 2018 the Customer Due Diligence Requirements for Financial Institutions (CDD Rule) which financial institutions must identify and verify customers, identify, and verify owners (an individual that owns 25% or more of a financial entity). Determine the purpose of customer relationships and conducting monitoring of suspicious transactions.

On the 17th of July 2013 Mexico established its Anti-Money Laundering Law (MAMLL) classifying Designated Non-Financial Businesses and Professions (DNFBP) as vulnerable, identifying and reporting them to the authorities. Activities such as giving loans or credit without guarantee, provision of services and real estate by leasing properties. [Mas, n.d.)

Media Contribution

Money laundering in the Americas has a varying view on the effects of AML frameworks from the public, surveys indicate that the general opinion from the media is that AML's main objective is to recover taxes rather than combating organized crime and corruption. Media can contribute to the raising of awareness about illicit activities and exposing the facilitators of financial crime. With the rise of social media money laundering can use these platforms to launder money Criminals create fake money-making schemes or identities on social media to attract people into their scams. They then use these individuals as "money mules" to move illicit funds through their account. To avoid detection of these "money mules" criminals typically choose younger people with clean criminal records. The laundered money is transferred from the mule's account to a third-party bank account via transfers, then converted into material wealth. The complexity of this process often makes these funds difficult to track. (*The Change of Money Laundering in the Digital Age*, n.d.)

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