

Asia needs to implement AML rules



SINGAPORE, Aug. 4 (UPI) -- An estimate \$1.3 trillion of illegal funds from drug trafficking, tax evasion and other serious crimes - or 2 to 5 percent of global gross domestic product - is being laundered annually around the world. Of this probably about \$200 billion is being laundered in Asia-Pacific, experts say, which brings the strong need for anti-money laundering legislation in perspective.

Many Asian countries now have such legislation in place, but the key is now implementation.

"The state of the anti-money laundering legislation has gone ...from a very poor state to now a very promising state. About half of (our) jurisdictions in the region have got some sort of money laundering legislation and more are now in the process of doing it and putting it in place. There is (still) problems in passing legislation, but ultimately it's about implementation," says Rick McDonnell, Head of Secretariat at the Asia/Pacific Group of Money Laundering, part of the Financial Action Task Force (FATF), an intergovernmental organization.

"Both Hong Kong and Singapore are attractive, sophisticated and financial centers, and as such very attractive to money launders. This is the case for London and New York," McDonnell told United Press International. "Even though Singapore and Hong Kong have effective laws and regulations in place, there is no room for complacency anywhere. Not that I'm I suggesting there is complacency, on the contrary, but simply because of the size of the financial systems, there needs to be a constantly improved monitoring of the effectiveness of the regulations."

The main challenge for these centers is to keep up with the increasing sophistication of money laundering, he said.

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Money laundering refers to the act of converting the profits from criminal activities (such as drug trafficking, smuggling, embezzlement, corruption and possibly tax evasion or organized crime) into funds or property holdings that appear to be legitimate. The ultimate goal is to disguise the source of the profits in order to avoid detection and the risk of prosecution.

This is often done by infusing "dirty" money into the financial system and collecting "clean" money and/or assets on the other side of the transaction.

In Asia, sources of dirty money can come from the opium production, located in Burma, Laos and Afghanistan. There is also an increase in synthetic drugs being produced and consumed in this part of the world, experts say.

In June, the Financial Action Task Force (FATF) - an intergovernmental task force established by the Group of Seven in 1989 - issued its revised Forty Recommendations to combat money laundering, setting world standards for financial regulators to reflect new dangers by criminal and terror groups. The key provisions include the obligation to verify the identity of customers and to report suspicious transactions to the police or other enforcement groups.

Money laundering activities are increasingly difficult to detect due to the growing complexity of financial instruments. The problem is compounded by the high volume of transactions, well-equipped and well-funded perpetrators, and the use of sophisticated technologies that eliminate traditional face-to-face interaction with customers.

Rohan Bedi, head of AML services at PricewaterhouseCoopers, believes Singapore has a "very effective anti-money laundering framework."

"Whether you look at it from the regulatory point or the enforcement perspectives. But there are risks and small aspects that still need to be tackled in terms of regulation," he says.

Singapore and Hong Kong have been categorized as high risk countries for money laundering, along the United States and the United Kingdom, because all are large financial centers and attractive for the final



Rohan Bedi: Singapore has a very effective AML framework

stage of money laundering: integration (using the money for legitimate purposes).

"Even in the first stage of money laundering, placement, they are also at risk (in Singapore and Hong Kong), because they are surrounded by all those countries where there are dirty money dealings, and this dirty money actually moves cross border," notes *Bedi*.

Hong Kong has recently come out with a new anti-money laundering legislation, tightening further anti-money laundering control and bringing in anti-money laundering software.

"I think Hong Kong has been very responsive to any request or requirement, as well as following it up," says Kevin Zervos, Senior assistant director of public prosecutions at the Department of Justice in Hong Kong.

"There has been a fairly extensive money laundering program already in action, with a lot of legislation already in place. We have had a number of cases with success rates, both by way of prosecution and confiscation of assets. But they have to constantly review and expand the regulations," Zervos adds.

Many financial experts believe the key issue for those two financial centers is to now adopt anti-money laundering softwares.

Dominic Nixon, Asia head of AML at PricewaterhouseCoopers, notes "It is very important for those large financial centers not to just have anti-money laundering legislation, but also to implement and enforce them."

"Many countries have the appropriate regulation in place, but that's missing the point. The real issue is to put things into action," Nixon adds.

"Hong Kong, Singaporean and Australian banks are pretty good at sniffing out suspicious transactions. But it's done on a manual basis, and is not as cost effective as it should be. The smart way is to do it is with an anti-money laundering software," Nixon suggests.

Bedi says financial institutions will need to adopt two kind of anti-money laundering software: know-your-customer checking software, to make sure they're not terrorist or politically exposed, as well as transaction trend monitoring software.

"They also need to pay emphasis on the personal liabilities of senior management, at the board level. And there must also be regulatory actions in terms of fine," he adds.

Regulators have become increasingly intolerant of lapses in anti-money laundering controls in financial institutions and in a spate of recent cases, fines of up to \$20 million in the U.S. have been levied on erring

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institutions, resulting in serious damage to their reputations.

Yet, this culture of fining has only been strong at fining in the United States and is just spilling over in Europe. Asian regulators have been shy at fining, but need to flex their muscle, financial experts say.

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