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**ANTI-MONEY LAUNDERING PROCEDURES IN
DEVELOPED COUNTRIES**

**PROCEDŪRAS CĪŅAI AR NAUDAS ATMAZGĀŠANU
ATTĪSTĪTAJĀS VALSTĪS**

MASTER`S THESIS

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Anotācija

Maģistra darba mērķis ir izprast finanšu iestāžu, konkrētāk, banku un starpnieku uzņēmumu atšķirības un attieksmi saistībā ar cīņu pret naudas atmazgāšanu. Precīzāk, šī pētījuma mērķis ir padziļināti izpētīt finanšu iestāžu procedūras un kāpēc daudzas iestādes šo problēmu neuztver tik nopietni.

Lai izpētītu šos mērķus, tika veikta virkne analīžu, un izvirzīti galvenie uzdevumi:

- Izprast problēmas vēsturisko pamatu
- Izpētīt naudas atmazgāšanas un analītiskās sistēmas apkarošanas metodes
- Salīdzināt finanšu iestāžu pārstāvju izvēlētās metodes cīņai pret naudas atmazgāšanu

Pētījums parādīja, ka ne visas finanšu iestādes sniedz atskaites saistībā ar aizdomīgiem darījumiem. Kā arī šķietami attīstītajās jurisdikcijās, kur finanšu nozare ir ļoti progresīva, pastāv cilvēcisks faktors, kas ietekmē to vai viņi var vai nevar pārbaudīt klientu darījumus.

Atslēgas vārdi: naudas atmazgāšana, terorisma finansēšana, finanšu iestādes, Lihtenšteina, Šveice, Īrija, bankas

Abstract

The purpose of the Master Thesis is to learn the differences and attitudes of financial institutions, and more specifically, banks and intermediary companies to the fight against money laundering. To be more specific, the purpose of this research is to study the procedures of financial institutions in more depth and why many institutions do not take this problem more seriously. In order to investigate these goals, a series of analyzes were carried out, the main tasks, which are:

- historical description of the problem
- the study of methods of combating money laundering and analytical framework
- discussion directly with representatives of financial institutions and comparison of their methods of struggling against money laundering

The study showed that not all financial institutions send reports of suspected cases to the relevant authorities. And it would also seem that in the most developed jurisdictions, where the financial sector is developed, there is a human factor, where they may or may not check client transactions

Key words: money laundering, terrorist financing, financial institutions, Liechtenstein, Switzerland, Ireland, banks

Абстракт

Целью магистерской диссертации является изучение различий и отношения финансовых учреждений, и, в частности, банков и компаний-посредников к борьбе с отмыванием денег. Чтобы быть более конкретным, целью данного исследования является более глубокое изучение процедур финансовых учреждений и почему многие учреждения не относятся к этой проблеме более серьезно. Чтобы исследовать эти цели, была проведена серия анализов, основными задачами которых являются:

- историческое описание проблемы
- изучение методов противодействия отмыванию денег и аналитических основ
- обсуждение непосредственно с представителями финансовых институтов и сравнение их методов борьбы с отмыванием денег

Исследование показало, что не все финансовые учреждения направляют отчеты о подозреваемых случаях в соответствующие органы. И может показаться, что в наиболее развитых юрисдикциях, где развит финансовый сектор, существует человеческий фактор, когда они могут пропустить некоторые транзакции клиентов.

Ключевые слова: отмывание денег, финансирование терроризма, финансовые учреждения, Лихтенштейн, Ирландия, Швейцария, банки

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List of abbreviations

AML - Anti-Money Laundering;

AMLO - Anti-Money Laundering Officer;

CDD - Customer Due Diligence;

CFT - Countering the Financing of Terrorism;

FATF - Financial Action Task Force;

FCMC - Financial and Capital Market Commission and Control Service;

FIU - Financial Intelligence Unit;

IMF - International Monetary Fund;

KYC - Know Your Customer;

MLRO- Money Laundering Reporting Officer;

PEP - Politically exposed person;

RBA - Risk-Based Approach;

STR-Suspicious Transactions Report;

UNODC - United Nations Office on Drugs and Crime

Introduction

About dirty money today have heard everything. Not a day goes by that the media do not report on more and more new facts of corruption and the transfer abroad of huge amount of money obtained by dishonest means. The emergence of such money is always associated with fraudulent fraud and corruption of the highest echelons of power.

The existence and movement of dirty money has long become an international phenomenon. The term "dirty money" was born in the late 1970s in the United States. Today this name has become international and is used without quotes. The criminals, who got this money, are trying to give them legal, quite decent status as quickly as possible.

The growing turnover of dirty money is directly proportional to the growth of international organized crime. The masses of such cash become its driving force. In some countries, operations involving the transfer and disguise of criminal proceeds have become a threat to their economic and political stability. All this began to cause concern to the world community, influential international organizations, forcing them to take adequate measures in the fight against international crime and to engage in the search and confiscation of criminally acquired funds.

This problem has already become the object of attention of not only practitioners-criminologists. It aroused great interest from representatives of the academic science. Numerous studies have been conducted, conferences of scientists and practitioners have been held, at which useful recommendations based on fundamental international legislation binding on dozens of governments. A number of scientific and popular publications in many languages have been published. Unfortunately, in our country such literature has been published unreasonably little.

The thesis states the the following *questions*:

- Where does dirty money come from, how is it “laundered”, are there any methods to recognize them among the total mass of cash and non-cash funds?
- What is the role of banks and other financial institutions in identifying criminal proceeds?

Separate chapters are devoted to the problem of the struggle of international organizations with the legalization of criminal proceeds. Moreover the thesis researches about the creation of a regulatory framework and its application in everyday banking activities in order to identify and prevent the laundering of dirty money.

The author also works in the financial sector, where also need to adhere to and be aware of the latest changes related to anti-money laundering methods. And moreover, in which stage need

to inform the authorities about suspicious applications and to see the “red flags” which sign on money laundering.

The *hypothesis* of the work is that following the AML regulations decrease a closing of the banks and electronic money institutions and the huge fines which they pay for not following the regulations.

The *aim* of the thesis is what types of businesses and client’s profile make more money laundering and when the financial institutions need to make a enhanced due diligence procedure in order to prevent money laundering.

The tasks of the work were:

- Research and analyzing the regulations and the way how different EU jurisdictions struggle with money laundering
- Analyzing the different areas of financial sectors where made major money laundering
- Proving the examples of the largest European banks that were penalized for regulatory violations
- Providing interviews with different representatives of banks and intermediary company

In the thesis was used the interviewing method, author took interviews with representatives of several banks and to compared with financial company took interview with representative of intermediary company.

The first part of the thesis is the theoretical part, which describes what money laundering is and about the transactions that issue regulations. It also describes the types of risks that banks have, if you do not follow the regulations, external and internal risks. In addition, shelf companies also described how to recognize them and how shelf companies differ from simple companies and from shell companies.

In the second part of the thesis, three jurisdictions are described, namely Liechtenstein, Ireland and Switzerland. Analyzed the data of jurisdiction on how their banks are fighting against money laundering, which of them have the best indicators, and also studied banks that were fined for violation or because of non-follow-up the FATF recommendations.

The third part of the thesis consists of interviews with representatives of such banks as Luminor, Credit Europe Bank, Belfius Bank, Danske Bank and one intermediary company’s representative.

In the research and theoretical part were used the available to author resources as EBSCO, Cambridge and other open sources, some materials were provided by representative of company, which were internal materials.

The only *limitation* of the thesis was that not to all the information was access, which were internal information.

1. Anti Money Laundering

1.1. FATF and money laundering

Money laundering legal system started its existence with drug trading. In the beginning anti-money laundering strivings were aimed to intervene drug cartels from transferring funds received from illegal drug business, those were used to create more significant drug activity.¹

In order to solve this issue 43 countries decided to issue generally accepted bills and this legislation was the Vienna Convention of 1988 (the 'Vienna Convention').²

Afterwards, G7's FATF released a report about anti-money laundering and listed 40 recommendations, which need to follow international community in order to find out these cases related to money laundering. The countries as United States, Canada and United Kingdom started first to implement AML.³

All the time there are new changes and new recommendations are adding in order to prevent money laundering.⁴

Nowadays, anti-money laundering focuses on improving international collaboration and solving of terrorist financing problem.⁵

The World Bank and FATF frequently perform for worldwide unity directed to organized crime, money laundering and terrorist organizations.⁶

Despite of the fact that in the countries as United States, Canada and United Kingdom those have balance, there are countries as Cayman Islands which are not balanced. Notwithstanding that existed Vienna Convention, in 1990 was founded FATF by the G7's. The FATF started

¹ Proceeds of Crime (Money Laundering) and Terrorist Financing Act, SC 2000, c 17

² Peter German, *Proceeds of Crime and Money Laundering*, 4th ed (Toronto: Thomson Reuters Canada Limited 2002) at 1A-2.

³ Single Convention on Narcotic Drugs, 25 March 1961, A/RES/3444 at Art 2(1) (entered into force 25 March 1961 as amended in 1972) www.unodc.org/documents/commissions/CND/Int_Drug_Control_Conventions/Ebook/The_International_Drug_Control_Conventions_E.pdf accessed 13 August 2018

⁴ United Nations Convention Against Illicit Traffic in Narcotic Drugs and Psychotropic Substances, 20 December 1988, UN Doc E/Conf 82/16 at Arts 3(1)(a)-3(1)(b)

⁵ FATF, *The Forty Recommendations*, (1990) www.fatf-gafi.org/media/fatf/documents/recommendations/pdfs/FATF%20Recommendations%201990.pdf accessed 13 August 2018.

⁶ High-Risk and Non-Cooperative Jurisdictions www.fatf-gafi.org/topics/high-riskandnoncooperativejurisdictions/more/aboutthenon-cooperativecountriesandterritoriesncctinitiative.html accessed 13 August 2018.

to focus not only on drug business but also to influence on money laundering and illegal conduct.⁷

Moreover, the most important and valuable matter in FATF is “forty recommendations”. Forty recommendations state basic standards to use for efficient approach money laundering. They recommend the ways to customer identification, enhanced due diligence and record keeping rules in legal and financial institutions, rules for coworking with jurisdictions which do not have strong AML procedures.⁸

Since 1990 the “forty recommendations” have been changed several times and the last update was in February 2018. Afterwards, they became to be a global standards.⁹

The process of money laundering consist of three stages: placement, layering and integration. In the integration stage mostly businessmen try to transfer funds to offshore banks and buy foreign or domestic properties.¹⁰

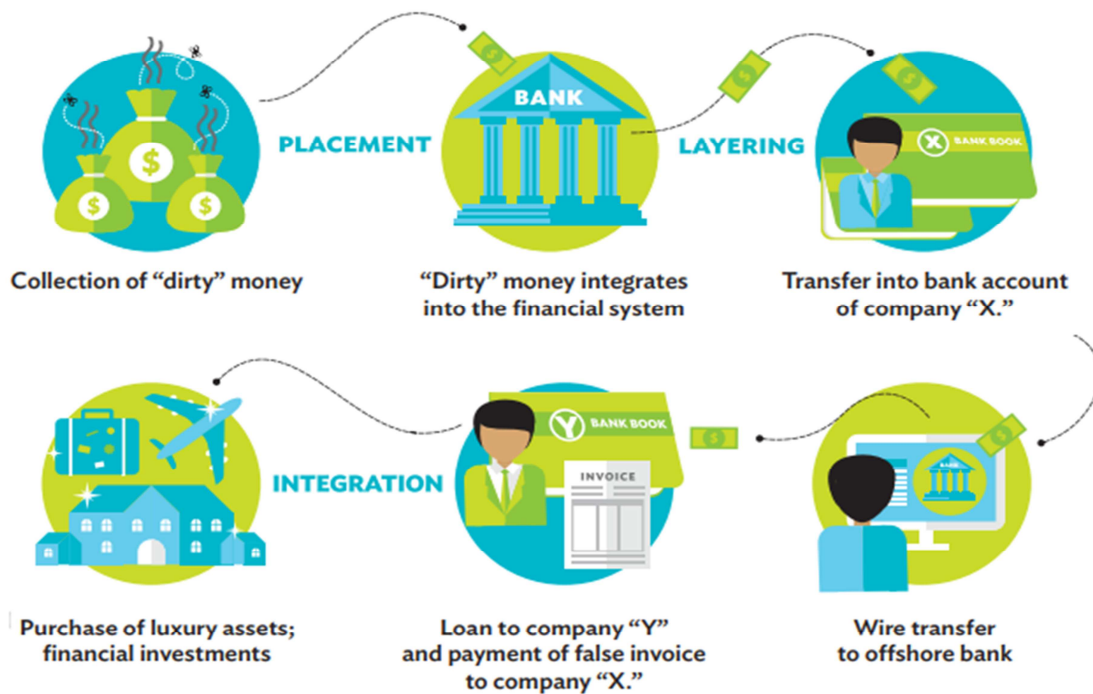
⁷ FATF, Public Statement, 23 February 2018 www.fatf-gafi.org/publications/highriskandnon-cooperativejurisdictions/documents/public-statement-february-2018.html accessed 13 August 2018; FATF names Iran and the Democratic People’s Republic of Korea as jurisdictions in need of protective measures to protect against AML risks.

⁸ Norm Keith, “Anti-Money Laundering: A comparative review of legislative development”, *Business Law International*, No 3, 2018, pp. 246-249

⁹ FATF, History of the FATF, 2018 www.fatf-gafi.org/pages/aboutus/historyofthefatf accessed 13 August 2018

¹⁰ FATF, The FATF Recommendations, Updated February 2018 www.fatf-gafi.org/media/fatf/documents/recommendations/pdfs/FATF%20Recommendations%202012.pdf accessed 13 August 2018.

Figure 1.1.1



A typical Money Laundering Scheme

Source: Handbook on Anti-Money Laundering and Combating the financing of terrorism for Nonbank Financial Institutions

The FATF Recommendations state the global standards which need to follow and realize them in order to fight against money laundering, terrorist financing and distribution of weapons.

Each country has its own policies, legislations and different economic and operational processes, that is why not all these countries may follow common instructions against these illegal actions. Accordingly the FATF Recommendations provide only common standards. The FATF Recommendations define basic measures which countries should implement for:

- Find out the risks, improve policies and coordination on national level
- Engage a money laundering and financing of terrorists

- Use a prophylactic extents for financial sectors

As said Managing Director of IMF:

“There is no doubt that money laundering and terrorist financing can threaten a country’s economic stability, which is why the IMF has become increasingly active in supporting and promoting the AML/CFT efforts of our member countries, based on the [Financial Action Task Force] standard. What started as a small endeavor some 20 years ago has become part of our core work—from analysis and policy advice, to assessing the health and integrity of financial sectors, to providing financial assistance when needed, to helping countries build institutions and increase operational effectiveness.”¹¹

The purpose of significant number of illegal activities is to generate benefits for the person or the groups that executes the acts. Money Laundering is execution of illegal resources to hide their criminal background. The process has significant importance because it allows the culprit to use these benefits with pleasure without endangering their sources.

For example, the sale of illegal weapons, organized crimes and smuggling can be used to generate large income including drug trafficking and prostitution. Abuse, insider trading, bribery, and computer fraud schemes may also generate huge income and can encourage stimulus to legalize and get the benefits from money laundering.

If illegal activity brings significant benefits, then the person or group of people, they find out the options or ways to control the main activity to not attracting the others’ attention. The criminals do all these things to destroy the sources, change the shapes and move the money to place where the attention is less attractive.

In fact the money laundering is criminal activity which is beyond the normal limits of financial data. With other aspects of the secret economic activity, the assessment was presented to assess the scale of the issue.

UNODC provided the research to find out the amount of illicit money associated with drug traffic, organized crime and the extraction of these funds. According to the report, the income from criminal activities amounted to 3.6% of worldwide GDP, as a result of which 2.7% it is about USD 1.6 trillion was plundered in 2009.

According to a major assessment by the IMF, the amount of money laundered worldwide was about 3-5% of the world’s GDP in 1998. In the same year this figure shows that money

¹¹ .IMF and the Fight Against Money Laundering and the Financing of Terrorism, IMF, 2018, <https://www.imf.org/en/About/Factsheets/Sheets/2016/08/01/16/31/Fight-Against-Money-Laundering-the-Financing-of-Terrorism>

laundering is between \$ 600 billion and \$ 1.5 trillion. The low number at that time was almost equal to the total output of the Spanish economy.¹²

Moreover, the above mentioned need to refer with attention. They are designed to estimate the amount of money laundering. Because of criminal activity of the transaction, no accurate data is available, so it is not possible to get the final estimate of the current amount each year. As a result, FATF is not publishing statistics on this issue.

In the first stages of money laundering, the person transfer his/her illegal income to financial institutions. This can be done by depositing huge amount of funds in small amounts partly to the bank account or buying several cash registers as money transfers and cheques and tem will be deposited to different accounts in other jurisdictions.

When the money enters to financial institution, should be done the next step. In this step the person involves to series of movements to separate from source. The money can be transferred through buying and selling financial instruments as obligations, forex trading, stocks or the funds can be transferred through multiple accounts in many banks around the world.

The use of money laundering accounts distributed is also frequent in countries which do not cooperate with AML inquires. In some cases, criminal can hide the funds as transactions for goods/services which could be seemed as legal case.

After a proceed two stages, there is the third stage when the criminal transfer his illegal funds into a legal, further he starts to buy the luxury goods or houses, invests to the businesses.

Money laundering can be anywhere, in any country of the world, because it is the result. Basically, the launderer is looking for the jurisdictions or regions that are less likely tend to anti money laundering regulations with weak attention. Since money laundering is intended to return money to the creator of the scheme, the person mostly prefers to transfer money through legalized, licenced financial institutions.

Money laundering can be proceed in different places and it depends on the stage of laundering process.¹³

¹² FATF, <http://www.fatf-gafi.org/faq/moneylaundering/#d.en.11223>

¹³ ibd

In the investment stage, for instance, money are generally considered close to the original activity, but not in all cases, in the jurisdiction of origin of the money.

In the next stages, the person may invest to offshore, regional and world financial institutions, which provide financial or commercial infrastructure.

The completeness of the financial institutions depend on understanding that they operate under the professional and the high legal standards.

If a crime is easily controlled by specific payment institution most possible it is because of the owner or worker of the payment institution, receives from it commissions by hiding these criminality of the funds, by doing that the payment institutions is criminal itself. Consequences of such a public offer negatively affects the opinion of other financial agents, regulators and all the clients of this institution.

1.2. Risks Based Assessment

As a many entrepreneurs, the illegal businessmen are looking for the ways to decrease the expenses and increase the profits. “By definition, crime prevention deals with criminal actions which have not been committed. So, from a criminal law point of view, persons and legal entities are not criminal yet, if at all. This raises the bar for acceptable costs and collateral damages.

In contrast to prosecution, which affects only alleged criminals, everyone is subject to crime prevention and AML measures. Current money laundering law exactly requires that, as every financial transaction could involve illicit funds”¹⁴

There are not only direct expenses on the way money laundering struggling, but also there are other expenses in the different damaging forms as community suffering:

- The losing of human freedom, especially private life.

¹⁴ The Fight Against Money Laundering - An Economic Analysis of a Cost-Benefit Paradoxon, Hans Geiger and Oliver Wuensch, pp 11-12

- The using all other sectors of not criminal activities by hiding themselves behind normal business activities, those activities would be at financial, legal, education, health and other spheres.¹⁵

Nowadays there are 38 participants of FATF, 36 countries and 2 organizations¹⁶:

Argentina	France	Japan	Russia
Australia	Germany	Republic of Korea	Singapore
Austria	Greece	Luxemburg	South Africa
Belgium	<i>Gulf Co-Operation Council</i>	Malaysia	Spain
Brazil	Hong Kong, China	Mexico	Sweden
Canada	Iceland	Netherlands	Switzerland
China	India	New Zealand	Turkey
Denmark	Ireland	Norway	United Kingdom
<i>European Commision</i>	Israel	Portugal	United States
Finland	Italy		

The criminals always searching for new solutions for laundering their money.¹⁷

¹⁵ Ibd

¹⁶ FATF, <http://www.fatf-gafi.org/about/membersandobservers/>

¹⁷ FATF, <http://www.fatf-gafi.org/faq/moneylaundering/#d.en.11223>

The development countries those does not have centralized financial system, especially under the danger of launderers as many developed countries with good arranged financial system have common rules and instructions to protect against money laundering.¹⁸

Risk-oriented way to money laundering determent will remain the balance of expenses of overburdening internal process and measurement of control and rational way to evaluate hazard which company use with money laundering.

A risk oriented approach:

1. It trends that money laundering hazard to companies differs depending on clients, countries, goods and delivery ways
2. Helps to the board members separate among their clients to find out the risks in certain business
3. Allows to control the expenses and advantages of the company, in order to establish more useful system

A risk oriented approach itself bear the risk, because no any system can disclose all money laundering. The system that allows less checks can allow money laundering to be unexposed.

A typical confusion from the companies side is to guess that a risk-oriented approach, just refers to the situations or clients those are treated they tend to those who have less points for money laundering than normal client of the company.

In these cases could be provided less control and identification procedures. However, this approach is right but that could occur visa versa. Those clients who have higher business activities should pass the high standard procedures with checking KYC and corporate documents.¹⁹

By the provided information due to KYC form, compliance department should evaluate the risk category per available documentation.

The KYC requirements of financial institutions have to:

¹⁸ ibd

¹⁹ Bazley Stuart and Foster Caroline, Money Laundering: Business Compliance, Croydon: Butterworth-Heinemann, 2004, P 130

1. Find out that the client does not have criminal activity and not doing money laundering
2. Check the customer's identity
3. Periodically check customer's identity
4. Check whether the client is mentioned in any sanction list which connected with money laundering or terrorism

All the provided KYC documents should annually checked to "High Risk" activity financial institution may do not check the client's profile on "low risk" activity. Once customer's profile evaluated as high risk, the bans should monetize and check with high attention due to all policies.²⁰

When the client is verified as high risk, then financial institutions should fill the CDD forms. Filling the CDD forms and monitoring are the general rules for following the risk based approach, which shows should be customers monitorized with enhanced measures in order to control the risks.²¹

For each jurisdiction and each financial institution the risk estimation is different. Below listed the categories of general risk types:

- 1. Product Risk.** Selling specific products or services which maintain client anonymity or transtering with high USD volumes may be the signs of money laundering. For example, travel services, cryptocurrency, forex businesses.
- 2. Customer Risk.** Not only product or services may be involved in money laundering but also some clients who purchase suspicious services or goods.

In order to evaluate the risk manager of the bank should ask following questions:

- Who is client?
- What kind of product/service purchase?
- What type of payment methods do they use?
- What is volume of transaction?
- How often are transactions going?

²⁰ Anti-Money Laundering (AML) & Combating Financing Terrorism (CFT) Policy, National Credit and Commerce Bank Limited. Head Office, 2015, pp 21-22

²¹ Guideline on Anti-Money Laundering and Counter-Financing of Terrorism (For Licensed Corporations), Securities and Futures Commision, 2018, pp21-22

3. **Geographic Risk.** Each jurisdiction has own category in high, medium or low risk evaluation due to global standards. That is why high risk territories could be domestic or international.
4. **Operational Risk** is the internal risk inside of financial institution when they can not find out or skip the signs of money laundering , when the internal procedures are not in proper way or human factor. ²²

The General requirement to follow AML procedure is extend the CDD filling and monitoring and risk based approach depends on the profile of client and the service or product and transactions which made by customer. The procedures have to apply with AMLO.

There are no common universal formula to extent of risk based approach.

Estimating the high risk clients, services, products, jurisdictions are not always stay the same. They change with the changing of economic, political changes.²³

There are other risks which can influence to the banks:

- Legal and Compliance risks
- Risk of reputation
- Liquidity risk
- Credit risk

All these risks are connected and may effect on bank.

Compliance risk mostly related as operational risk to internal procedure inside of financial institution. When the bank avoid or ignore requirement or lows they risk on money laundering or terrorist financing. When banks do not follow those regulations from the regulators or from government they risk to receive fines and penalties.

Reputational risks. The banks who allowed to proceed the transactions from the high risk merchants who made money laundering may damage their reputation, afterwards not only the reputation of bank may suffer with their reputation but also the country may be under the risk.

Credit Risk. By providing funds to creditors who use money in illegal way the bank risks do not receive money back.

Liquidity risk. On liquidity of bank may be result of that big investors informed that bank has issues on the topic of money laundering and fastly try to withdraw their funds. Moreover,

²² Bank Secrecy Act/ Anti- Money Laundering Examination Manual for Money Services Businesses, 2008, pp 20-22

²³ Guideline on Anti-Money Laundering and Counter-Financing of Terrorism (For Licensed Corporations), Securities and Futures Commission, 2018, p 24

correspondent banks may stop to cooperate with bank in order to save reputation or prevent the risks.²⁴

Anti Money Laundering compliance control procedures should maintain annually by checking clients' profiles, their business, transactions, location of business, not only in the beginning when potencial customer applies. The management of the bank need to follow the last updated regulations, requirements and its risk assessments.²⁵

The banks may estimate the risk percentage on customers' business profile. Need to take into consideration that common amount should be 100%.²⁶

In the provided example the risk percentage were evaluated 20%, 40%, 30% and 10% respectively:

1. Money Laundering risk Internal governance framework
2. Money Laundering risk factor assessment
3. Money Laundering risk mitigation assessment
4. Money Laundering training and coordination.²⁷

Some clients by their business profile or actions could be high risk of money laundering or terrorist financing. Those indicators states:

1. The public available profile which shows that customer is PEP
2. Difficult structure of company, using the trusts and nominee directors and shareholders
3. Using cash-intensive activity
4. To have a high risk business activity
5. When the source of wealth of owner cannot be verified.²⁸

²⁴ P.LChatain, J. McDowell, C. Mousset, P.A.Schott, E.Willebois, Preventing Money Laundering and Terrorist Financing, 2009, pp 28-30

²⁵ Bank Secrecy Act/ Anti-Money Laundering Examination Manual, Federal Financial Institutions Examination Council, 2014, p 24

²⁶ The Financial Stability Institute, The "Four lines of defense model" for Financial Institutions, Occasional Paper No. 11, December 2015

²⁷ Guideline on Anti-Money Laundering and Combating of Terrorism Financing, Central Bank of Trinidad & Tobago, 2018, pp 5-6

²⁸ Guideline on Anti-Money Laundering and Counter-Financing of Terrorism (For Licensed Corporations), Securities and Futures Commision, 2018, p 24

The high attention on risk management will allow to board of members improve anti-money laundering procedures which helps with better bank control. The compliance department of the bank should concentrate on high risk businesses, clients and jurisdictions, which highlighted as money laundering risk assessment.²⁹

Table 1.2.1

Risk Factors	Risk Weight	Risk Score	Weighted Risk Score
1.ML Risk Internal Governance Framework	20%		
Compliance program	3%	2	0.06
Board and Management Support	8%	2	0.16
Documentary process	3%	3	0.09
Risk Assessment conduct	3%	4	0.12
Frequency of assessment	3%	3	0.09
2.ML Risk Factor Assessment	40%		
Client risk	10%	2.3	0.23
Country risk	10%	2.19	0.22
Products, services and delivery channels	5%	2.41	0.12
Higher risk business activity	15%	2	0.3
3.ML Risk Mitigation Assessment	30%		
Vulnerabilities to ML risks	6%	1	0.06
Appropriate EDD process	5%	2	0.1

²⁹ P.LChatain, J. McDowell, C. Mousset, P.A.Schott, E.Willebois, Preventing Money Laundering and Terrorist Financing, 2009, p 37

Customer's risk migration assessment	4%	2	0.08
Customer transaction assessment	5%	3	0.15
Customer screening procedures	5%	3	0.15
Business Activities review	2%	4	0.08
Periodic ML audits	3%	2	0.06
4.ML Training and Coordination	10%		
Communication of new regulations	4%	1	0.04
Employees training	6%	2	0.12
Risk Assessment Score	100%	5	2.23

Risk Assessment Example - Deriving the ML/TF Risk Score

Source: Guideline on Anti-Money Laundering and Combating of Terrorism Financing, Central Bank of Trinidad & Tobago, 2018

The bank should prove that has effective risk assessment procedures and well-developed compliance processes. When the bank establishing compliance department needs to be sure regarding resources of staff and their qualification. If the bank accepts the client with high risk business activity management should control with high level monitoring.

The auditors both external and internal should check the bank's rules and policies with their anti-money laundering programs.³⁰

The aim of risk based approach is to develop protection ways of money laundering. In the way of banks, it depends on their staff resources, establish their internal regulations and proceed and they divided on group levels.

Banks provide different types of services which can face different money laundering risks. Those are:

- Retail banking, which offer services directly to personal and legal entities as loans, current accounts and as well saving accounts

³⁰ P.L.Chatain, J. McDowell, C. Mousset, P.A.Schott, E.Willebois, Preventing Money Laundering and Terrorist Financing, 2009, p 37

- Corporate and investment banks, which provide investment services to not only corporations but also to governmental institutions
- Investment services, mostly to this group tends private banks
- Correspondent institutions, where one bank lends or borrows from another

Banks should take into consideration these differences in the way of establishing regulations against money laundering.³¹

There are two types of implementing due diligence simplified and enhanced.

Simplified due diligence of potential client related to:

1. Credit or financial institutions
2. Listed companies, those shares are allowed to purchase and trade on Financial Instruments Derivatives
3. Shareholders of combined accounts
4. Public authorities which are domestic
5. Public bodies
6. Regulated financial entities

The Directive requires to proceed **enhanced due diligence** to “politically exposed persons” and direct family members. The Directive states different definitions and descriptions:

1. Head of county, ministers
2. Parliament members
3. Juridically high-level bodies
4. Ambassadors
5. Supervisory or management bodies at government enterprise
6. Direct family members of political person³²

The Directive’s requirement for PEP includes:

- Follow the risk based regulations in order to find out rather the client is PEP
- To accept permission of bank management before opening an account or provide services

³¹ Guidance for risk-based approach the banking sector, FATF, 2014, p 17

³² European Commission DG Internal Market and Services - Budget Final Study on the Application of the Anti-Money Laundering Directive, Deloitte, 2009, pp 86-87

- Request and research provided documents to establish the sources of funds and wealth for business
- Maintain enhanced monitoring client's business and transactions.³³

The risk based approach for domestic PEP differs from international.³⁴

The level and quality of risk based approach depends on jurisdiction and development level of financial sector. Those countries which have higher risks of money laundering should carry on enhanced due diligence. To banks allowed to choose their own way effectively prevent money laundering.

Each countries' regulators should be well qualified and have enough knowledge to control the banks, by taking into consideration local laws and regulations. Banks cannot avoid from AML control themselves, even if their compliance department well organized and follows requirements.³⁵

1.3. Shell Companies

Shell Companies are the limited liability companies and different registry types of enterprises with minimum share capital or with real business activity.³⁶

There are different reasons to have a shell companies - avoid tax responsibilities and regulations.³⁷

Most of the shell companies are registered in offshore jurisdictions, for example, Seychelles, Vanuatu, Cyprus, Marshall Islands, Saint Vincent and Grenadines etc. Mostly, those offshore companies do not have real business in those jurisdictions.³⁸

Shell companies are opened by financial agencies or intermediaries as company services providers.³⁹

Shelf companies - are already opened companies with standard Article and Memorandum of Association, which will be sold to new owner. Beneficial owners purchase ready made companies in order to not waste time and also have positive processing, tax, credit histories.

³³ FATF Global Threat Assessment 2010, p. 47-50

³⁴ ibd

³⁵ Guidance for risk-based approach the banking sector, FATF, 2014, p 8

³⁶ V. Pandey, How can money laundering be done through shell companies?, Quora, 2017, <https://www.quora.com/How-can-money-laundering-be-done-through-shell-companies>

³⁷ S. Silverman, How shell companies Facilitate Money laundering in luxury real estate, STOUT, 2017,

<https://www.stout.com/en/insights/article/how-shell-companies-facilitate-money-laundering-luxury-real-estate/>

³⁸ Advisory to Financial Institutions and Real Estate Firms and Professionals. Department of Treasury FinCEN, FIN-2017-A003, August 22, 2017

³⁹ J. Sharman, Preventing the misuse of shell companies by regulating corporate service providers, Chr.

Michelsen Institute, 2013, <https://www.cmi.no/publications/4936-preventing-the-misuse-of-shell-companies-by>

Investors buy shelf companies in order to confuse financial institutions to open bank account or to loan a credit.⁴⁰

GFI Policy Advocate Kumar says “ to ensure that law enforcement and tax authorities are able to protect the public against illegal activities perpetrated by criminals, tax evaders, and corrupt officials, it is essential that the names of beneficial owners of corporations are readily available. Anything short of that means criminals can use their shell companies to create banks accounts and have free reign to continue committing crimes”.⁴¹

As an example how regulations change and government struggle with money laundering and shell companies, there was taken Latvia.

The criminal beneficial owners to avoid a sanction use shell companies.⁴²

In 2018 Latvia started to struggle with shell companies, when it was found out that one of the biggest banks of Latvia ABLV bank proceed illegal banks and served shell companies.⁴³

The restrictions were established in Latvia to the banks, payment platforms, fintech and investment companies to stop to work with shell companies.⁴⁴

The new regulations states that financial institutions should stop serve within 2 weeks shell companies and close the accounts during 2 months. This period of time they have a chance to withdraw their funds to bank account, however they cannot use them for business purposes.

This regulation is not for local companies as due to law of Latvia, legal entities should prepare financial report and provide them to appropriate authorities.⁴⁵

The law states restriction of working with shell companies as these companies themselves are high risk and do frequently money laundering and that is why there are limitations such as :

1. If the shell company exceed 10 millions euro in annual base, or the group of companies which have the same beneficial owner, should prove and provide signed confirmation during 45 days
2. To obligated company is restricted proceed any types of transactions with shell companies.⁴⁶

⁴⁰ Lehmborg, Emily, The talk about shell companies, Business Torts Journal, 2016

⁴¹ Report Demonstrates Ease of Establishing anonymous shell companies, Global Financial Integrity, 2019, <https://www.gfintegrity.org/press-release/report-demonstrates-ease-of-establishing-anonymous-shell-companies/>

⁴² N. Coburn, Synergies between money laundering, corruption and shell companies, Thomson Reuters, 2016 https://www.refinitiv.com/content/dam/marketing/en_us/documents/expert-talks/synergies-between-money-laundering-corruption-and-shell-companies.pdf?

⁴³ G. Gelzis, Latvia to ban shell companies in money laundering clampdown, Reuters, 2018, <https://www.reuters.com/article/us-latvia-banking/latvia-to-ban-shell-companies-in-money-laundering-clampdown-idUSKBNIGX1Q0>

⁴⁴ Shell company accounts in decline in Latvian banks, eng.lsm.lv, 2018, <https://eng.lsm.lv/article/economy/banks/shell-company-accounts-in-decline-in-latvian-banks.a280947/>

⁴⁵ Saeima bans banks from serving shell companies, eng.lsm.lv, 2018, <https://eng.lsm.lv/article/economy/banks/saeima-bans-banks-from-servicing-shell-companies.a276351/>

The restriction of working with shell companies extends on auditors, tax consultancy agencies, credit institutions, notaries, companies which provide legal assistance in such cases:

1. Purchasing or selling real estate properties, commercial company's shares
2. Managing client's funds and financial investments
3. Opening bank accounts in different banks or payment platforms
4. Company formation

The Financial and Capital Market Commission will regulate and control, that is why financial institutions and other companies should carefully deal with different clients.⁴⁷

In order to reduce the number of shell companies and stop to cooperate with them Central Bank of Cyprus provided following instructions to financial institutions to find out recognize them:

1. If the company does not have real business address and connection with country of incorporation which differs with registered address. If in the structure of company established nominee shareholders or directors.
2. No business connection with company registered jurisdiction.⁴⁸

There are some offshore companies which are not always shell companies. In differ from shell companies, some offshore companies have real business, employed staff, website, where all shareholders, directors are shown and have legal operations.⁴⁹

There are “**red flags**” which show that shell companies operate illegal business activity:

- Closed registry information, which is not shown beneficial owners of company
- Company has not a website
- Many persons withdraw one company's funds
- Transactions without proper documentation from one shell company to another
- Transactions between high-risk jurisdictions

⁴⁶ Ban on Co-operation with Shell Arrangements - Myths and Reality, Deloitte, <https://www2.deloitte.com/lv/en/pages/legal/articles/ban-on-cooperation-with-shell-arrangements-deloitte-latvia.html>

⁴⁷ J. Antonova, Clampdown on shell Companies, Trinita, 2018, <https://trinita.eu/2018/06/07/clampdown-on-shell-companies/>

⁴⁸ A. Antoniou, Shell Companies in Cyprus: Good Business or bad practice? , Forbes, 2018, <https://www.forbes.com/sites/antonisantoniou/2018/11/06/shell-companies-in-cyprus-good-business-or-bad-practice/#766473af7e8d>

⁴⁹ D. Jancsics, Offshoring at Home? Domestic Use of Shell Companies for Corruption, Public Integrity, 2017, p 10

- Company provide only registered address⁵⁰

Those mentioned above signs only the superficial indicators of money laundering.

There are also another type of company is **dummy companies** use mostly for hide certain type of business activities.⁵¹

However, formation of shell company can have not only negative aim but also a legal reason.⁵²

As an example could be the family who wants save assets for ease inheritance.⁵³

When the well known brands would like to purchase real estate, would like to hide the popular name to avoid price increasing.⁵⁴

Shell companies mostly are registered in jurisdictions where are popular tax haven with closed registry information.⁵⁵

Usually shell companies are used for illegal activities, but there are some exceptions due to reports. Some of companies are open to provide all information with beneficial owners documents.⁵⁶

According to Behind the Corporate Veil report of OECD shell companies are: "companies, which are entities established not to pursue any legitimate business activity but solely to obscure the identity of their beneficial owners and controllers, constitute a substantial proportion of the corporate vehicles established in some OFCs".⁵⁷

As from this definition there is shown that "shell" companies have a negative meaning.⁵⁸

Moreover, shell companies can be used for legal reasons as cooperating or joining with other companies.⁵⁹

Shell companies are mostly owned by private companies, not public.⁶⁰

There are not only shell companies but also **shell banks**. Shell banks are the banks, which do not have real business address or another words a physical address also they are not licenced,

⁵⁰ L.Duke, Shell Companies, Corrupt Practices, and How to Uncover them., ACFE,2017, p18

⁵¹ R.Bambani, Shell Corporations and their role in international fraud, p 27

⁵² I. K. Kristo, E. Thirion, An overview of shell companies in the European Union, EPRS, p27

⁵³ E. van der Does de Willebois, Emily M. Halter, Robert A. Harrison, J. Won Park and J.C. Sharman, 'The Puppet Masters – How the corrupt use legal structures to hide stolen assets and what to do about it', International Bank for Reconstruction and Development / World Bank,2011

⁵⁴ Michael G. Findley, Daniel L. Nielson and J. C. Sharman, Global Shell Games: Experiments in Transnational Relations, Crime, and Terrorism, 2014, p.33.

⁵⁵ Organisation for Economic Co-operation and Development, Behind the Corporate Veil: Using Corporate Entities for Illicit Purposes, 2001; p.8

⁵⁶ Organisation for Economic Co-operation and Development, Behind the Corporate Veil: Using Corporate Entities for Illicit Purposes, 2001; p.8

⁵⁷ Ibd, p18

⁵⁸ E. Willebois, E. M. Halter, R. A. Harrison, J. Won Park, J. C. Sharman; The Puppet Masters..., op. cit.; p. 35.

⁵⁹ Ibd

⁶⁰ B. Allred, M. Findley, D.Nielson, J. Sharman, Anonymous shell companies: A global audit study and field experiment in 176 countries, 2017, p 597

also there is no regulators who control their work. The main office and management are located in different jurisdictions. Mostly they rent offices, they are registering through registry agent and they are not informed in their operations, they only provide registered address, correspondence address, incorporation documents and annually company renewal services.

As banks involved in controlling financial service group, regulator should control themselves. But banks have a management or main offices in different jurisdictions, these processes are quite difficult. Usually shell banks take a part in criminal business activities.

According to Committee's CDD for banks, banks should not cooperate or to be a correspondent bank to the banks with foreign shell banks. Some offshore countries say that shell banks brought only issues and bad reputations, when they provided licensing services. That is why regulators advised close or change the company's jurisdiction.⁶¹

The supervision of shell banks is quite tough and there are no recommendations or tools to better control them. Regulators should not provide a license for shell banks according to Core Principals.

Jurisdictions which still have shell banks, regulators should establish for them requirements: having locally business address and management and give them about a year to accomplish in case of avoiding requirements, they should stop prolong licence or invalidate it.

Changing the location should be authentically not just visually.⁶²

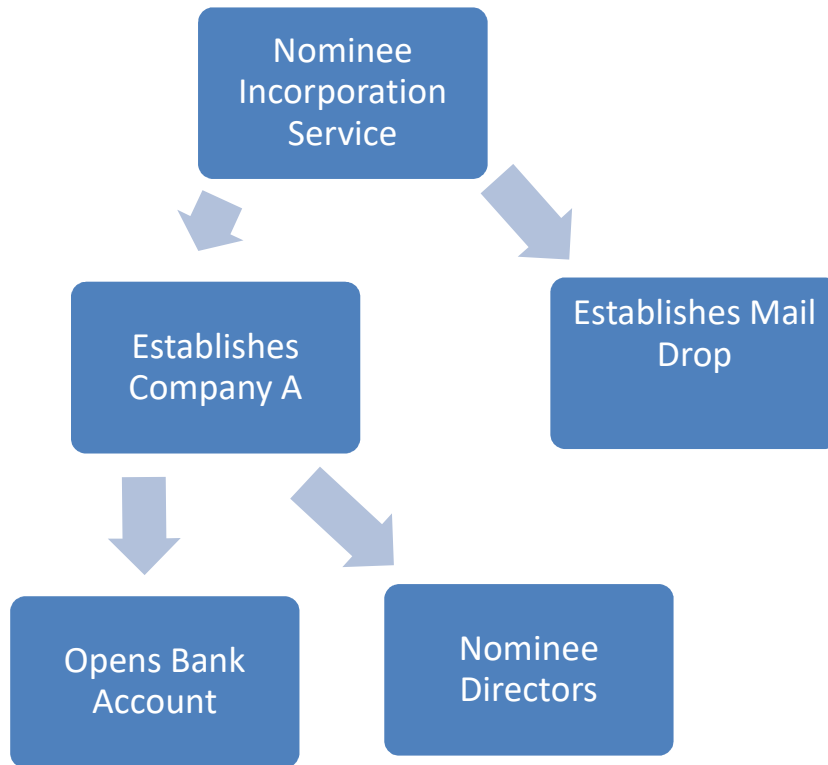
The intermediary agents are prohibited to provide services, company formation, renewal services or manage bank accounts for foreign shell banks in U.S.⁶³

⁶¹ I. Swong, Foreign Bank Supervision and Challenges to Emerging Market Supervisors, IMF Working Paper, 2004, p 12, <https://www.imf.org/external/pubs/ft/wp/2004/wp0482.pdf>

⁶² Shell banks and booking offices, Basel Committee on Banking Supervision, 2003, p 1, <https://www.bis.org/publ/bcbs95.pdf>

⁶³ . Anti- Money Laundering (AML) Source Tool for Broker-Dealers, U.S. Securities and Exchange Commission, 2018, <https://www.sec.gov/about/offices/ocie/amlsourcetool.htm#6>

Figure 1.3.1



Basic Shell Company Structure⁶⁴

Source: Shells, Trusts and similar entities in international Money Laundering, U.S. Immigration and Customs Enforcement, p 13

By making common overview regarding **shelf companies**, there are highlighted descriptions in order to recognize them:

- Shelf companies do not provide a real physical presence in registered jurisdictions
- Incorporated to be sold later
- Was purchased by customer to hold with the aim to re-sale
- Shelf company's price depends on its date of incorporation, processing and credit history

⁶⁴ Shells, Trusts and similar entities in international Money Laundering, U.S. Immigration and Customs Enforcement, p 11-12, http://www.oas.org/juridico/english/establishing_beneficial_ownership_deborah_morrissey.ppt

And also summarized overview of **shell companies**:

- Minimal share-capital for registration
- Frequently purchased by nominee shareholders and directors
- Registered remotely
- Incorporated in jurisdictions where ownership registry is hidden⁶⁵

2. Anti-Money Laundering procedures in Lichtenstein, Austria and Switzerland

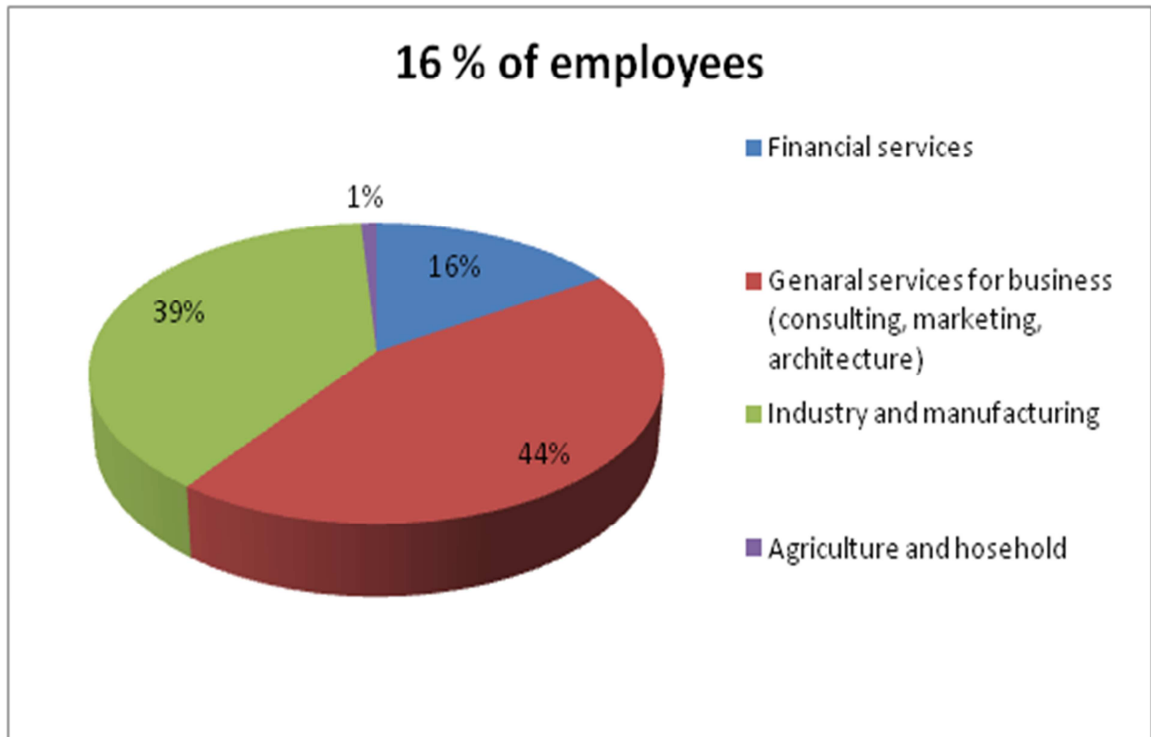
2.1. Lichtenstein

By looking at FATF status Liechtenstein does not have any insufficient in AML strategy. The last AML report was implemented in 2007 in Liechtenstein by FATF Liechtenstein is the richest country on GDP per capita. Because of low tax regime in Liechtenstein there is

⁶⁵ ibd

popular offshore financial services, not complicated registry procedure also well developed bank secrecy regarding customers.⁶⁶

Figure 2.1.1



The financial sector in Liechtenstein number- of employees⁶⁷

Source: The Liechtenstein banking center, Liechtenstein bankers association, 2016

These privileges attract many investors from abroad. In Liechtenstein there are 16 banks, 381 trustees and 44 insurance companies. Liechtenstein's three largest banks have \$ 125 billion country's wealth. Mostly banks provide money management, investment management for private sector and for non-residents. Recent years the bank securities were easier that is why banks started to cooperate with foreign banks and decrease the amount of clients no

⁶⁶ Weshalb Liechtenstein?, FMA, <https://www.fma-li.li/de/regulierung/fintech-in-liechtenstein/weshalb-liechtenstein.html>

⁶⁷ The Liechtenstein banking center, Liechtenstein bankers association, 2016, http://www.finance.li/fileadmin/Dateiliste/finance.li/Daten/The_Liechtenstein_Banking_Center_2016.pdf

avoid to pay taxes there are no negative cases with offshore services, non-profit organizations and free zones. No any country arranged sanction against Liechtenstein.⁶⁸

In Liechtenstein no natural resources, however its highly industrial country, well developed financial services and the wealth of the country is highest after Luxemburg and Qatar. There are large amount of small businesses. The maximum tax rate is 20%, that is why many other countries established nominee branches.

Liechtenstein has a custom union with neighboring country Switzerland and has the same currency - swiss franc. Liechtenstein is a member of EEA since 1995.⁶⁹

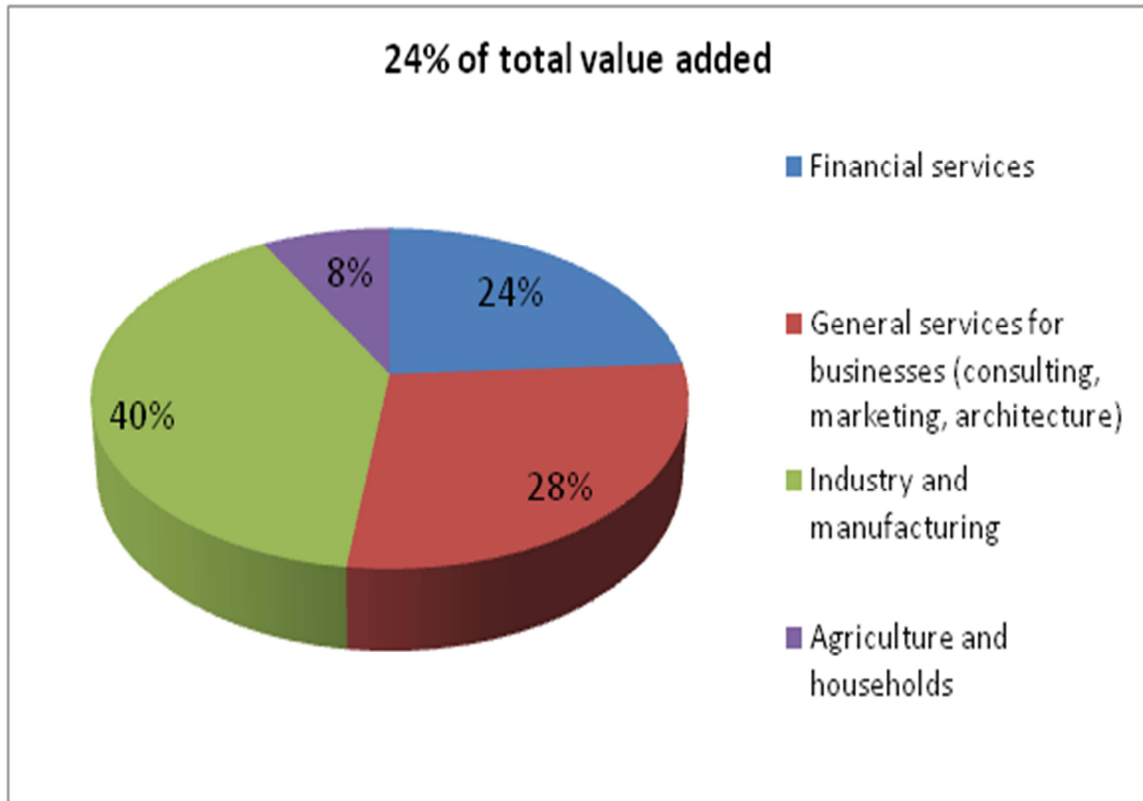
Germany and USA required to make soft secrecy of banks in 2008. Liechtenstein agreed to share tax information with US in the same year. In 2010 Liechtenstein signed 25 agreements of Tax Exchange and started to be a member of the Schengen area, which allows travel 25 countries visa- free. Even if in Liechtenstein no natural resources but there are in agriculture growing the products as potatoes, wheat and daily products. Most popular industries are: ceramics, electronics, food products, tourism and metal.⁷⁰

⁶⁸ Anti-Money Laundering and counter-terrorist financing measures, FATF, 2016, <http://www.fatf-gafi.org/media/fatf/content/images/mer-switzerland-2016.pdf>

⁶⁹ Assessment of money laundering and terrorist financing risks in the Principality of Liechtenstein, Government of the principality of Liechtenstein, <https://www.llv.li/files/sfiu/20180731-nra-zusammenfassung-en-final.pdf>

⁷⁰ Liechtenstein : Detailed Assessment Report on Anti-Money Laundering and Combating the Financing of Terrorism, International Monetary Fund, 2008, <https://www.imf.org/en/Publications/CR/Issues/2016/12/31/Liechtenstein-Detailed-Assessment-Report-on-Anti-Money-Laundering-and-Combating-the-21775>

Figure 2.1.2



Total value added

Source: The Liechtenstein banking center, Liechtenstein bankers association, 2016

The financial sector of Liechtenstein consists of 24% of GDP , which is one third of country's revenue.⁷¹

Liechtenstein exports the commodities as automobile tools, dental products, machinery, electronic equipment ect.. Also Liechtenstein import raw materials and agricultural products, metal and textiles, food.

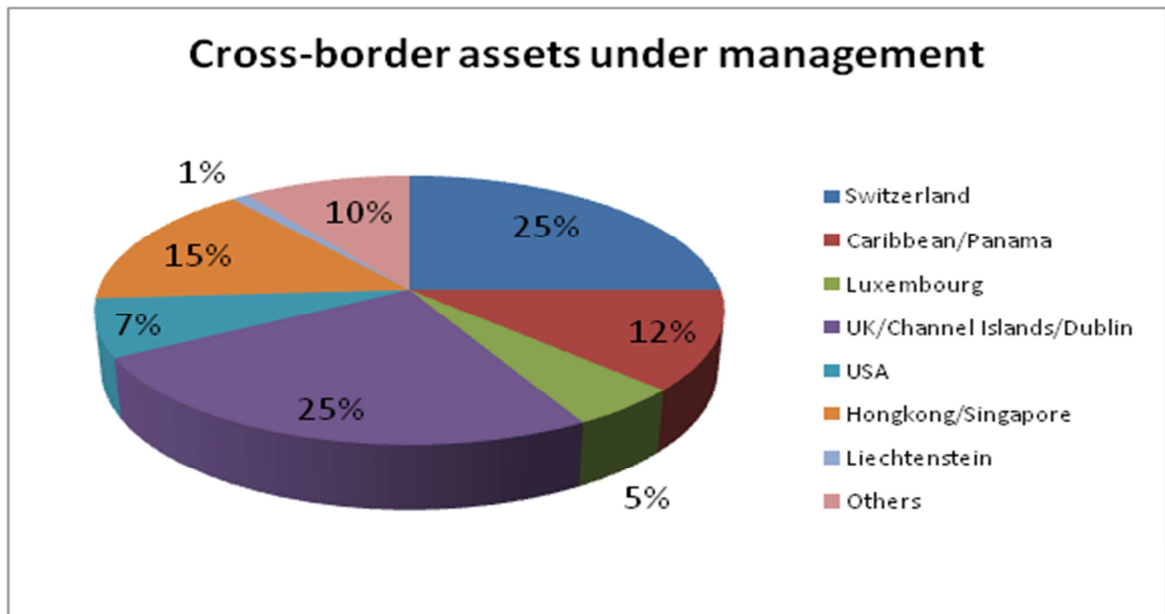
It can seem strange but the perfect place for money laundering can be one of european countries as Luxembourg and Liechtenstein. The legislation of this small country despite of many international laws and regulations in Liechtenstein, there are many possibilities to money laundering. Local banks do not require to provide information about beneficial owners, if the company has trusts and nominees, they ask only nominee documents.⁷²

⁷¹ The Liechtenstein banking center, Liechtenstein bankers association, 2016, http://www.finance.li/fileadmin/Dateiliste/finance.li/Daten/The_Liechtenstein_Banking_Center_2016.pdf

⁷² Liechtenstein, Know your country, <https://www.knowyourcountry.com/liechtenstein1111>

There is a special law which allows to keep secrecy and confidentiality of bank owners to protect clients' interests. This right is supported by special procedural provisions envisaged in the case of a court proceeding or a state investigation without initiating criminal case, applies to all employees of the entrusted proprietor, and this cannot be canceled even by the authority to provide certain documents or statements. 71

Figure 2.1.3



The Liechtenstein banking center- global market ⁷³

Source: The Liechtenstein banking center, Liechtenstein bankers association, 2016

The civil procedure code of this country also provides for the right of persons of certain categories including trusted owners to maintain professional secrecy. They are exempted from the need to testify without the consent of customers.

The Trustee also has the right to refuse to answer if the answers to them contain a trade secret. At the same time, keeping a client's secret is not only a right, but also a duty. Violation of it can cost the trustee in accordance with the Criminal Code of this country imprisonment of up to 6 months or a fine in the amount of the average daily wage multiplied by 360 days.

The same sanctions are imposed on talkative bank officials and government officials who, by virtue of their official position, are privy to other people's financial secrets. Conscious of their violators face imprisonment of up to 3 years.

⁷³ The Liechtenstein banking center, Liechtenstein bankers association, 2016, http://www.finance.li/fileadmin/Dateiliste/finance.li/Daten/The_Liechtenstein_Banking_Center_2016.pdf

A person who has transferred confidential information abroad may be held criminally liable even when it did not give a subscription or did not undertake not to disclose secret information in any other way.⁷⁴

Cooperation with foreign authorities in the investigation of money laundering in Liechtenstein is governed by the provisions of the European Treaty on cooperation in the field of criminal prosecution of illegal activities. However, such cooperation often remains only on paper.

First, the requirements for the provision by this State of the necessary information must be supplemented by indisputable evidence that the actions of the suspects are subject to criminal penalties.⁷⁵

Secondly, a foreign request may be dismissed if the authorities of Liechtenstein considers that the political or economic motives dictated by the desire to increase taxes from foreign trade and foreign exchange operations, as well as other reasons, are at the basis of suspicion of the requesting party.

By requesting confidential information in Liechtenstein, foreign investigative bodies must give written assurances that they will not use the information obtained in cases involving violations of local legislation in the field of taxation, currency control, etc.

If the arguments of the requesting state are convincing, the Liechtenstein banks can cooperate in identifying dirty money launderers. Now Liechtenstein is forced to formally bring into conformity with the directives of the European Community certain norms of its legislation.

Nevertheless, it almost did not affect the legislation relating to the preservation of banking, commercial and professional secrets. Such a favorable attitude to the launderers of dirty money did not go unnoticed by international criminals. In Liechtenstein, the leaders of foreign criminal clans took refuge.⁷⁶

However, apart from this tiny Alpine principality, the infamous reputation of “laundry” for washing criminal proceeds in Europe was also consolidated by Luxembourg, Gibraltar and Monaco. The Grand Duchy of Luxembourg is especially popular with owners of finance of dubious origin, surrounded by the territory of three countries - Germany, France and Belgium. This state competes in terms of attracting finance capital with Switzerland.

⁷⁴ D. Verlan, J. Kozak, Отмывание “Грязных денег”, 2000, p 78

⁷⁵ Liechtenstein. Risk & Compliance Report , 2018,

⁷⁶ Liechtenstein: Anti-Money Laundering and Combating the Financing of Terrorism-Technical

Note, International Monetary Fund, 2018 ,

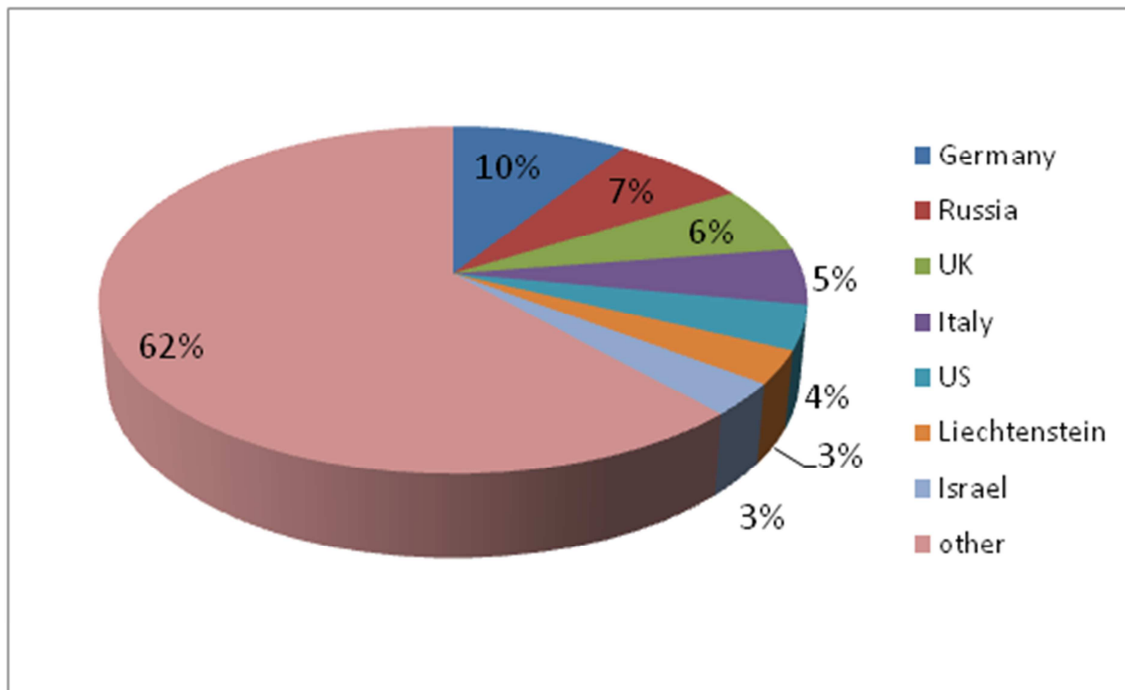
<https://books.google.lv/books?id=OY5sDwAAQBAJ&pg=PT80&lpg=PT80&dq=money+laundry+in+liechtenstein+statistics&source=bl&ots=CX2U8VtVau&sig=ACfU3U127KTzBwvthsPHCBN-C7F97Js3mg&hl=ru&sa=X&ved=2ahUKewjV57bgh9jhAhUEmYsKHblYBmU4ChDoATAEegQICBAB#v=onepage&q=money%20laundry%20in%20liechtenstein%20statistics&f=false>

Now in Luxembourg, hundreds of international banks have opened their offices, numerous insurance companies have found refuge, which in recent years have turned into effective “laundries” in washing dirty money.

In addition to low tax rates, especially for holding companies, investors are attracted by the lack of currency control and the conditions for extradition: they do not apply to financial crimes. The creation of anonymous companies is allowed here, the conditions for the establishment of all types of financial companies are extremely simplified, the terms of their establishment do not exceed 1-2 weeks.

The pan-European agreement on mutual legal assistance in the investigation of criminal offenses states: “Legal assistance can be denied if the request concerns acts that are regarded as criminal offenses of fiscal crimes.” Referring to this, the Luxembourg authorities were able to avoid cooperation in the investigation of money laundering, because such a crime can always be a tax (fiscal) offense.⁷⁷

Figure 2.1.4



Natural or Legal Persons targeted in MROS requests by Recipient Country⁷⁸

Source: Anti- Money Laundering and and counter-terrorist financing measures, FATF, 2016

⁷⁷ Liechten moves toward modernizing its money-laundering regime, ACAMS, 2008, http://www.globalriskaffairs.com/wp-content/uploads/2010/11/ACAMS_Liechtenstein.pdf

⁷⁸ Anti-Money Laundering and and counter-terrorist financing measures, FATF, 2016, <http://www.fatf-gafi.org/media/fatf/content/images/mer-switzerland-2016.pdf>

MROS requests mostly send in a third cases. Most of those requests are sending to Germany, Italy, Liechtenstein, UK,US and Hong Kong. All information regarding legal and private persons are available in united platform created by Egmont Group, where they exchange with information.⁷⁹

The anti-corruption prosecutor's office of Austria has been investigating a criminal case on suspicion of money laundering through the Austrian Meindl Bank since 2016. In the case of 30 suspects. Also, cases of money laundering by Ukrainian banks were recorded in Liechtenstein and Luxembourg.

The withdrawal scheme is simple: a bank in Austria, at the direction of the owner of the Ukrainian bank, issued loans to offshore companies controlled by Ukrainians. The guarantee of these loans was funds in correspondent accounts of a Ukrainian bank in a foreign bank, which issued a loan, in particular, to Meindl Bank. The loan did not return, and the “guarantee” funds from the correspondent account were transferred to another offshore company to repay the loan.⁸⁰

These types of banking jargon operations are called "back-to-back operations". They themselves are not illegal, but they are often used to launder funds.

“The investigation is being conducted against 30 individuals and one association,” the prosecutor’s office said. The names of the suspects in the department are not named, but it is known that among them there are citizens of Ukraine.

According to the Deposit Guarantee Fund, \$ 385 million and 75 million euros were illegally withdrawn from accounts in Meindl Bank in 2014-2015 at the direction of the owners or top management of bankrupt banks in offshore companies.

This was done, as a rule, immediately before the temporary administration was introduced into the troubled banks. Thus, the money of Ukrainian investors was stolen, most of which were left with nothing after the bankruptcy of financial institutions.

According to the Ukrainian Deposit Guarantee Fund, through Meindl Bank, \$ 38 million was withdrawn from Pivdenkombank, \$ 40 million from Terra Bank, \$ 39.5 million from VAB Bank, 62 million euros from City Commercial Bank and \$ 44 million from Kievan Rus Bank"

⁷⁹ D. Verlan, J. Kozak, Отмывание “Грязных денег” , 2000, p 79-80

⁸⁰ Anti-Money Laundering and counter-terrorist financing measures, FATF, 2016, p 147, <http://www.fatf-gafi.org/media/fatf/content/images/mer-switzerland-2016.pdf>

According to the Deposit Guarantee Fund, in 2014-2015, using the above-mentioned "scheme", \$ 846 million and 75 million euros were withdrawn from Ukrainian banks.⁸¹

Before writing off the money on the eve of the introduction of the temporary administration, the owners of 14 Ukrainian banks applied.

In addition to Austria, the investigation on suspicion of money laundering by Ukrainian banks is carried out in Liechtenstein, confirmed the Attorney General of this country.

Money was withdrawn, according to the Deposit Guarantee Fund, through Bank Frick and Co. In particular, \$ 25 million from the National Credit Bank, \$ 59 million from the Finance and Credit Bank, and \$ 115 million from the Nikolai Laguna Bank Delta. Bank Laguna conducted a total of larger transactions using correspondent accounts under the back-to-back scheme.

In addition to the money withdrawn from Liechtenstein, Delta Bank was withdrawn \$ 99 million through the Austrian Meindl Bank and nearly \$ 184 million through East-West United S.A in Luxembourg.

By law, the owners of banks with their property are responsible for causing losses to banks. Taking this into account, the Deposit Guarantee Fund is preparing a competition in which foreign law firms will be found to search for the assets of owners of failed banks around the world and represent the interests of the fund in foreign courts and international arbitrations.

The Ministry of Finance of Ukraine, with the participation of the NBU, the State Financial Monitoring Service and international experts, also developed a draft law aimed at preventing the legalization of illegal income. The ministry is also working to bring together Ukrainian legislation and EU standards regarding the prevention of the use of the financial system for money laundering and the financing of terrorism.⁸²

2.2. Ireland

The Central Bank of Ireland controls about 11 000 financial institutions for compliance of money laundering and terrorist financial institutions for compliance of money laundering and terrorist financing. Also the Central Bank of Ireland responsible for EU Financial Sanctions Regime managing in country.

⁸¹ Austria is investigating the laundering of money of Ukrainian banks, delo.UA, 2018, <https://delo.ua/economyandpoliticsinukraine/v-avstrii-i-lihtenshtejne-rassledujut-otmyvanie-350356/>

⁸² Ibid

Table 2.2.1

Type of Institution	Inspection	Risk assessment
Retail banks	1	0
Credit Unions	5	12
Markets	11	8
Moneylenders	1	0
Investment Asset Managers	1	0
Multi-Agency Intermediary	2	0
Branches of foreign banks	6	0
Insurance	6	0
Total	33	20

Inspections and risk assessments by the Central Bank of Ireland

Source: ANNUAL REPORT ON MONEY LAUNDERING AND TERRORIST FINANCING, Department of Justice and Equality, 2014

In the table 2.2.1 is shown how many inspections and risk evaluations were checked by Central Bank of Ireland in 2014.⁸³

In 2017 the authority were informed approximately 24 000 money laundering cases, two times more were reported in 2016. And this authority is Revenue Commissioners and the Garda FIU.

Most of the reported cases were involved in terrorist financing and minor in drug dealing.⁸⁴

In the table 2.2.2 shown the risk assessment categories and the types of financial institutions for money laundering and terrorist financing.⁸⁵

⁸³ ANNUAL REPORT ON MONEY LAUNDERING AND TERRORIST FINANCING, Department of Justice and Equality, 2014, p.16

⁸⁴ C. Gallagher, For more information see our Cookie Policy. Massive increase in reports of money laundering, Irish Times, 2018, <https://www.irishtimes.com/news/crime-and-law/massive-increase-in-reports-of-money-laundering-1.3603635>

Table 2.2.2

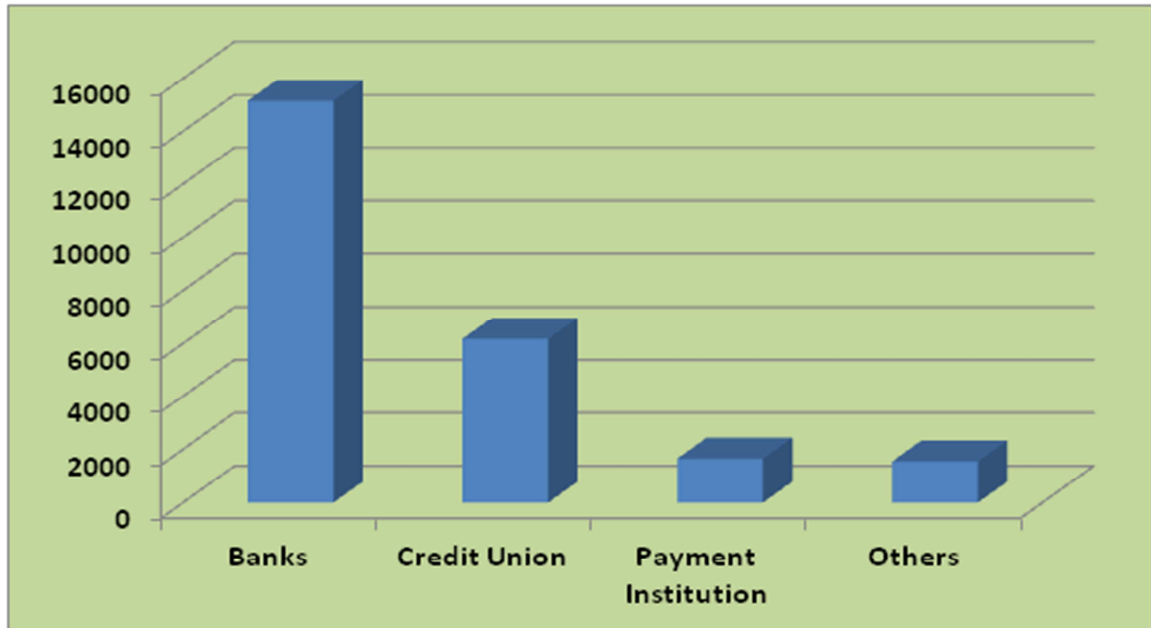
High	Medium (higher)	Medium (Lower)	Low
E- money institution	Fund Administrators	Credit Unions	Retail Intermediaries
Payment institution	Investment companies	Investment companies	Trust or Company Service providers
Retail banking	Non-Retail bank (engaged in high risk activities)	Life insurance Firms	
		Money Lenders	
		Non-retail banks (Money market services, bonds)	

Money laundering risk rating of financial sector

Source: ANNUAL REPORT ON MONEY LAUNDERING AND TERRORIST FINANCING, Department of Justice and Equality, 2017

⁸⁵ ANNUAL REPORT ON MONEY LAUNDERING AND TERRORIST FINANCING, Department of Justice and Equality, 2017, p.23, <http://www.antimoneylaundering.gov.ie/en/AMLCU/Annual%20Report%202017%20FINAL.pdf/Files/Annual%20Report%202017%20FINAL.pdf>[http://www.antimoneylaundering.gov.ie/en/AMLCU/Annual%20Report%202017%20FINAL.pdf](http://www.antimoneylaundering.gov.ie/en/AMLCU/Annual%20Report%202017%20FINAL.pdf/Files/Annual%20Report%202017%20FINAL.pdf)

Figure 2.2.1



Reporting on suspicious cases in 2017⁸⁶

Source: ANNUAL REPORT ON MONEY LAUNDERING AND TERRORIST FINANCING, Department of Justice and Equality, 2017

In 2017 in Ireland was reported about 15 the figure 65155, 6179 and 1646 cases to Revenue Commissioner by banks, credit and payment institutions respectively. Most of these reports were offences regarding taxes and amount was 5533035 euro.

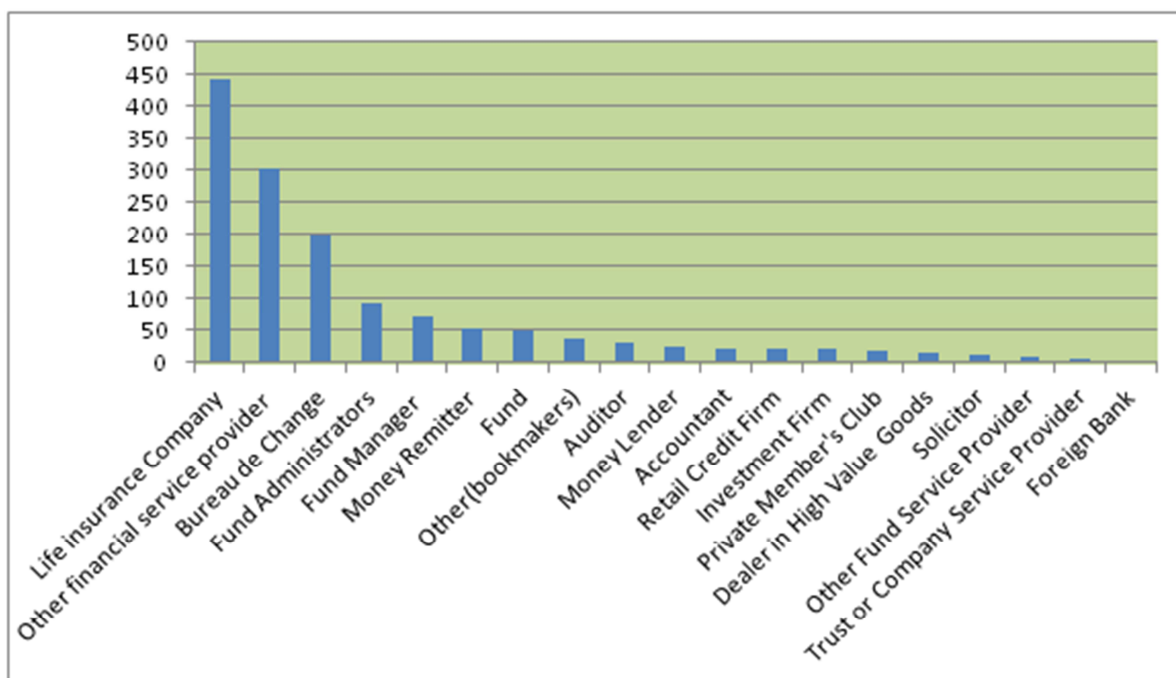
In the same year were reported not only by biggest and main financial institutions but also by different smaller financial service providers. In figure 2.2.2. it is shown that the highest amount of reports were provided by Life Insurance Company about 442 reports , at the same time their intermediaries reported only 2.⁸⁷

Author explains it that intermediaries mostly not equipped with special platforms, where they can check customers, aslo the amount of customers differ, they apply to insurance companies directly most cases.

⁸⁶ Ibid, p 11

⁸⁷ Ibid, p 11

Figure 2.2.2



Reporting of suspicious cases by financial services

Sources: ANNUAL REPORT ON MONEY LAUNDERING AND TERRORIST FINANCING, Department of Justice and Equality, 2017

The authorities provided information which is shown on table 2.2.3 below about different cases from which the most of them were “unknown” cases. And this makes more difficult to analyse and understand the types of sectors. To compare with 2012 “unknown” cases decreased in 2015, which states that the AML procedures became more qualified. In 2016 decreased as well the amount of criminal cases among law enforcement.⁸⁸

⁸⁸ Anti-money laundering and counter-terrorist financing measures Ireland, FATF, 2017 ,p.49, <http://www.fatf-gafi.org/media/fatf/documents/reports/mer4/MER-Ireland-2017.pdf>

Table 2.2.3

	2012	2013	2014	2015	2016*	Total
Not known	631	696	593	607	378	2905
Revenue offence	60	64	56	72	28	280
Brothel keeping / prostitution	50	4	5	2	2	18
Non-criminal	40	24	22	1		87
Drugs related	9	12	13	26	19	79
Money laundering	5	5	10	20	7	47
Fraud related	10	9	10	12	5	46
Fuel smuggling	10	11	8	5	4	38
Serious crime	6	4	7	7	12	36
Organised crime		3	4	9	8	24
Terrorism financing	1	1		3	9	14
Theft	2	4	1	6		13
People trafficking		3	4	2		9
Crime ordinary links	4	2	1		1	8
Cigarette smuggling	1	2	3	1	1	8
Counterfeiting		1	1	2		4
Proceeds of crime action	4					4
Murder / suspicious death		3				3
Extortion	1					1
Grand Total	789	848	738	775	474	3624

Number of STRs by topic of dissemination to regional AGS divisions

Source: Anti-money laundering and counter-terrorist financing measures Ireland, FATF, 2017

In May 2017 the Central Bank of Ireland reported that it fined a local lending institution Bank of Ireland for 3.15 million euros for failing to comply with the mechanisms for monitoring money laundering and terrorist financing.

Bank of Ireland, the largest bank in Ireland in terms of assets, was sanctioned due to irregularities related to 2010. According to the country's Central Bank, in particular, it is about the failure to submit to the Tax Administration Commission and the police data on six questionable transactions.

“The significant scale of violations discovered during the investigation and the amount of funds contained in them indicate significant flaws in the work of Bank of Ireland in implementing anti-money laundering laws,” said the head of the Central Bank control department, Dervil Rowland.

Penalties on Bank of Ireland were imposed in a situation where, in recent months, the second and third largest banks in Ireland - Ulster Bank, owned by the Royal Bank of Scotland, and Allied Irish Banks were fined for similar violations. The fines amounted to 3.3 million and 2.27 million euros, respectively.⁸⁹

The Irish Cabinet of Ministers approved a bill to initialize the Fifth EU Directive, aimed at combating illegal financial transactions. According to the AML directive of July 9 last year, legal norms are established for regulating cryptocurrency by financial observers in Europe to protect against money laundering and terrorism.⁹⁰

The bill will be extended to cryptocurrency platforms and digital wallets providers. The new rules should minimize the confidentiality of savings and bank accounts, as well as contribute to the improvement of information interchange between the controlling government bodies. Approved changes must be adopted by EU member states at the legislative level by the end of January 2020.

Also, an amendment to the 2019 bill tightens the norms of existing laws regarding the sponsorship of terrorist organizations using cryptocurrencies and reducing the use of prepaid cards.

⁸⁹ Bank of Ireland will pay more than three million euros for violating anti-money laundering rules, OCCRP, 2017, <https://www.occrp.org/ru/daily/6519-bank-of-ireland-fined-3-52-million-for-breaching-money-laundering-rules>

⁹⁰ Irish government approves anti-money laundering bill, Blockchain Street Journal, 2019, <https://www.blockchainstreet.info/2019/01/05/pravitelstvo-irlandii-odobrilo-zakonoproekt-o-borbe-s-otmyvaniem-deneg/>

After the approval of the bill, the responsibilities of financial institutions will include a thorough check of new customers. Also, they will not be allowed to open private depository cells. Thanks to the adoption of the bill, police will be able to use the records of banks in conducting investigations of money-laundering cases.⁹¹

The table 2.2.4 states that the most reports on suspicious cases were reported from those financial institutions where most number of clients apply to use the services, those are retail banking sector and life insurance. Also from this table can be analysed that CDD and record keeping processes proceed due to regulations and enhanced checking of high risk and PEP clients. In the CDD reports on suspicious cases could be the result of checking not only the direct client's background and profile but also, the third parties or their clients and partners which whom they work and cooperate.

Corporate governance mostly related to internal and external regulations. From the corporate governance were issues on internal policies by credit institutions and the minor reports by fund managing companies and market operators.⁹²

Table 2.2.4

Sector	Corporate Governance	CDD	Record Keeping	Total
Banking – Non-Retail	29	30	1	60
Banking – Retail	61	72	1	134
Bureau de Change	36	22	1	59
Credit Unions	70	69	2	141
Fund Service Providers	16	37	0	53
Funds	15	45	0	60
Investment Firms – Asset Managers	6	8	0	14
Investment Firms-Other Investment	34	25	2	61

⁹¹ ibd

⁹² Anti-money laundering and counter-terrorist financing measures Ireland, FATF, 2017, p. 88, <http://www.fatf-gafi.org/media/fatf/documents/reports/mer4/MER-Ireland-2017.pdf>

Firms				
Life Insurance	17	60	1	78
Market Operator	10	7	0	17
Money Lenders	23	12	2	37
Payment Institutions – Money Remitters	36	24	3	63
Payment Institutions-Agent	12	14	4	30
Payment Institutions - Others	12	8	2	22
Retail Credit Firms	9	1	0	10
Retail Intermediaries	26	27	1	54
TCSPS (affiliated with FIs)	19	13	4	36
Total	431	474	24	929

Supervisory Findings by Financial Sector 2013-2016

Source: Anti-money laundering and counter-terrorist financing measures Ireland, FATF, 2017

The Irish authorities have opened a local bank AIB at 2.3 million euros for violating the law on combating money laundering and terrorist financing. In turn, the bank did not deny the facts of violations established by the regulator. As noted in Ireland, AIB has reported six major cases of violation of anti-money laundering rules.

AIB Bank provided financial services to more than half a million customers who did not receive adequate trust, provided their real data, and for half a year, 4200 possible suspicious transactions were conducted through the bank. Recently, the Central Bank of Ireland does not leave unpunished cases of violation of the rules on anti-money laundering. In Ireland, it is noted that the fight against money laundering is one of the priorities for the organization.⁹³

⁹³ Bank AIB fined for violating anti-money laundering rules, Offshore view, 2017, <https://offshoreview.eu/2017/04/27/bank-aib-oshtrafovan-za-narushenie-pravil-borbyi-s-otmyvaniem-deneg/>

The Irish Ministry of Finance has released new rules that are directly related to the text of the Fourth EU Directive on Money Laundering. Irish companies and other legal entities established in Ireland must take all possible measures to obtain information about their beneficiaries and create their internal registries. This requirement came into force in 2016. Irish companies and other legal entities established in this country must create their internal registries of beneficial owners.

The UBO in this case is the person who is the ultimate owner or controlling person of the company, through direct or indirect ownership of a sufficient number of shares, voting rights or participatory interests. A share of more than 25% is sufficient for recognition of a person as a beneficiary. However, there may be situations in which the beneficiary is not present or difficult to determine. In this case, company officials should make every possible effort to determine the beneficiaries. If, after this, the beneficiaries could not be determined, the data on top officials - top managers, directors, and chief executive officer should be included in the register of beneficiaries.⁹⁴

2.3. Switzerland

Switzerland is one of the most famous financial centers for illegal financial activity. Switzerland made better the KYC procedures but still it needs in improvements. In 2017 Swiss government decided to make a wider the AML procedures.

Switzerland is one of the most developed countries with less index of unemployment and employees with qualified education and skills. Swiss economy is strong because of their financial sector and high tech manufacturing. Also this country attract investors with low taxes and stability in economy and politics.⁹⁵

In the level of financial secrecy this jurisdiction is evaluated in first place in 2018 and took 76th score. It still stay one of the closed jurisdiction on financial information, however, for few countries there are exceptions.⁹⁶

The banks of Switzerland have about 6.5 trillion CHF and 48% from them are invested from abroad.⁹⁷

⁹⁴ A. Erlanger, Ireland introduces a mandatory register of beneficiaries for all companies, International Wealth, 2016, <https://internationalwealth.info/offshore-jurisdictions/ireland-introduces-the-compulsory-registrar-of-the-beneficiaries-for-all-companies/>

⁹⁵ Switzerland, Know your country, 2017, <https://www.knowyourcountry.com/switzerland1111>

⁹⁶ Narrative Report on Switzerland, Financial Secrecy Index 2018, 2018, p 1, <http://www.financialsecrecyindex.com/PDF/Switzerland.pdf>

According Deloitte, Switzerland had 2.04 trillion USD in assets under bank's management in 2014, at the same time US had 1.43 trillion USD.⁹⁸

Financial sector of Switzerland provide the services as insurance, hedge funds, offshore companies, investment banking and trust services. This is very convenient country for international investors, who would like to use offshore or other financial services, as for French- Speaking customers, the most convenient place is Geneva. For German-speaking customers- Zurich and for Italian-speaking - Lugano.⁹⁹

⁹⁷ .Key Figures, Swiss Banking, 2018, <https://www.swissbanking.org/en/financial-centre/key-figures>

⁹⁸ The Deloitte Wealth Management Centre Ranking 2015. Capturing value in a shifting environment, A Deloitte Switzerland Report, 2015, p 2, <https://www2.deloitte.com/content/dam/Deloitte/ch/Documents/financial-services/ch-en-financial-services-the-deloitte-wealth-management-centre-ranking-2015.pdf>

⁹⁹ The Swiss Private Equity & Corporate Finance Association, SECA, 2018, <https://www.seca.ch/>

Table 2.3.1.

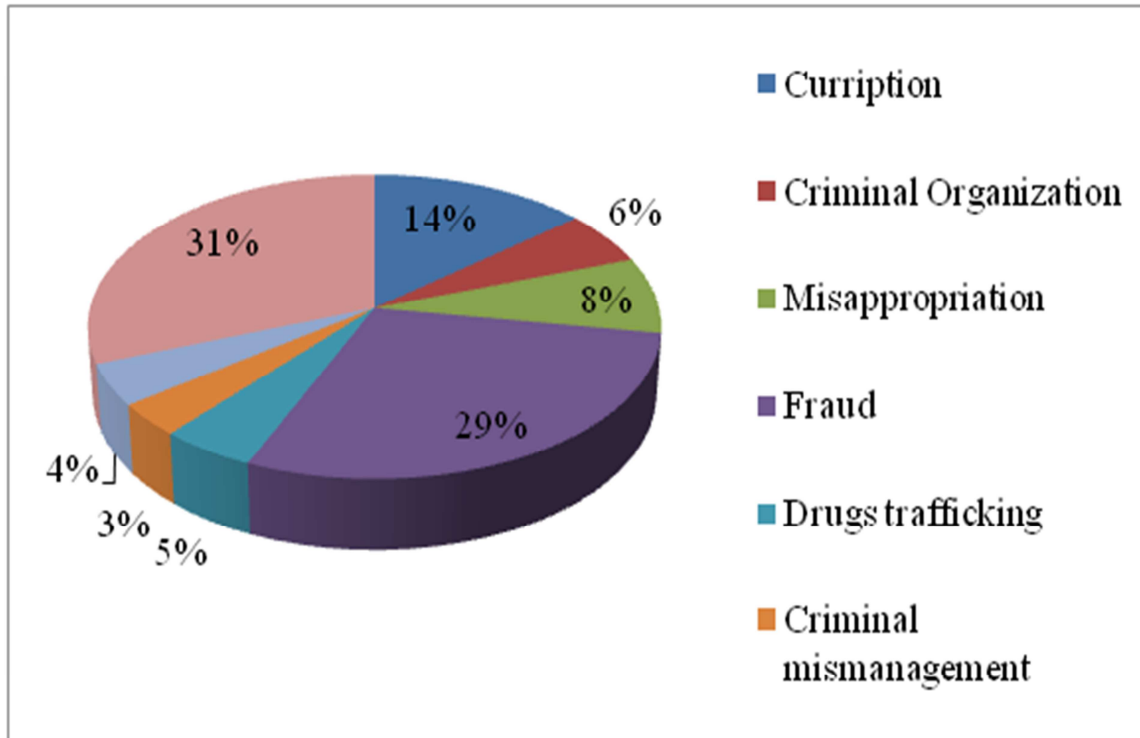
Branch of financial intermediary	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	Total
Banks	359	492	573	603	822	1080	1050	1123	1495	2159	9756
Money transfer companies	164	231	185	168	184	379	363	74	107	58	1913
Trustees	45	23	37	36	58	62	65	69	49	48	492
Wealth managers	6	8	19	30	40	27	49	74	40	45	338
Insurance	18	13	15	9	9	11	9	19	11	12	126
Lawyers	1	7	10	11	13	31	12	9	10	6	110
Credit Card companies		2	2	10	9	10	22	14	9	13	91
Casinos	8	3	1	5	8	6	6	8	9	3	57
Leasing	8	4	1	11	1	5	1	4	3	7	45
Securities traders	1	5	1		1	1	3	10	3	6	31
Commodity brokers		2	5	2	4		1	1	10	3	28
Currency Trading	1			5	6	7		5			24
Other fin. intermediaries	1	2		1	4	2	4	1	3	5	23
OARs	3	1		4		1			2		11
Bureaus de change	2	1	1	1		3				1	9
Authorities	2		1						2		5
Investment fund distributors		1								1	2
Total	619	795	851	896	1159	1625	1585	1411	1753	2367	13061

Suspicious Transaction Reports Received by MROS, 2006-2015¹⁰⁰

Source: Anti-Money Laundering and Counter-Terrorist financing measures Switzerland, 2016

¹⁰⁰ Anti-Money Laundering and Counter-Terrorist financing measures Switzerland, FATF, 2016, p 49, <https://www.news.admin.ch/newsd/message/attachments/46552.pdf>

Figure 2.3.1



STR's supposed offences applied to MROS 2006-2015¹⁰¹

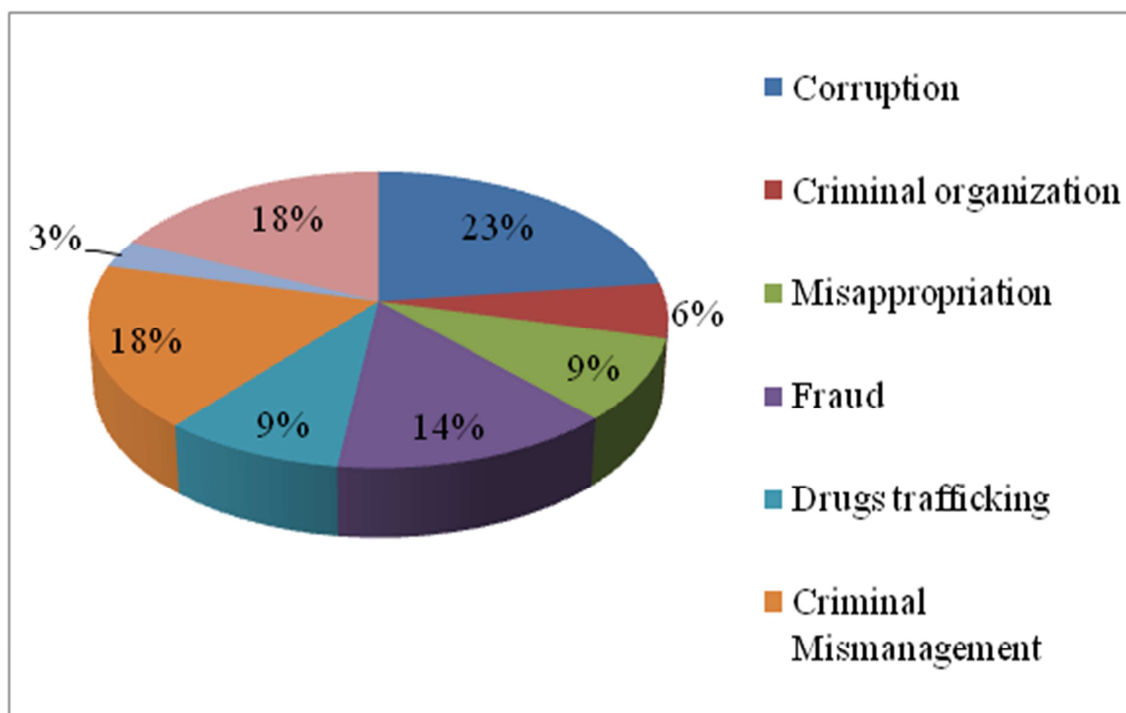
Source: Anti-Money Laundering and Counter-Terrorist financing measures Switzerland, FATF, 2016

From the table 2.3.1 it is shown that changes in money laundering regulations and fines from central bank to financial institutions moved them to report more suspicious cases. In 2006 banks in Switzerland reported only 359 in 9 years the number of reports increased to 27 times. The minor reports from 2006 till 2015 were applied from financial institutions as currency trading, security and commodity brokers, authorities.

From the figure 2.3.1 is shown what types of suspicious cases were reported from financial institutions. The most offences were on corruption and fraud and the minor reports were on criminal mismanagement, drugs trafficking and computer fraud.

¹⁰¹ Anti-Money Laundering and Counter-Terrorist financing measures Switzerland, FATF, 2016, p 60, <https://www.newsd.admin.ch/newsd/message/attachments/46552.pdf>

Figure 2.3.2.



Predicate Offences for ML at the Federal Level (2010-2015)¹⁰²

Source: Anti-Money Laundering and Counter-Terrorist financing measures Switzerland, FATF, 2016

Currently, operations with foreign clients are carefully studied by employees of banks and financial intermediaries. With the entry into force of new rules, the degree of caution will increase even more and will require the collection of more data on foreign customers.

This data is collected in order to determine and record whether clients are fulfilling their tax duties in their country and, if not, whether the amount of unpaid taxes exceeds the amount of 300,000 Swiss francs per year set as a threshold for criminal liability.¹⁰³

A new type of criminal liability will limit the ability and willingness of banks and financial intermediaries to take on such risks. As for clients, from January 1, 2016, there is a risk for them that about any transactions affecting a significant amount of funds regarding which banks and financial intermediaries have not received satisfactory evidence of client compliance with tax duties in his country, will be reported to MROS.¹⁰⁴

¹⁰² Anti-Money Laundering and Counter-Terrorist financing measures Switzerland, FATF, 2016, p.60, <https://www.news.admin.ch/news/message/attachments/46552.pdf>

¹⁰³ К. Троуанов, Новое швейцарское законодательство относительно отмывания денег. Последствия для российских клиентов швейцарских банков, Altenburger р 4-5, 2014, https://www.altenburger.ch/uploads/tx_altenburgerteam/Novoe_shveicarskoe_FATF_zakonodatelstvo_Posledstvija_dlja_rossiiskikh_klien....pdf

¹⁰⁴ ibd

Table 2.3.2.

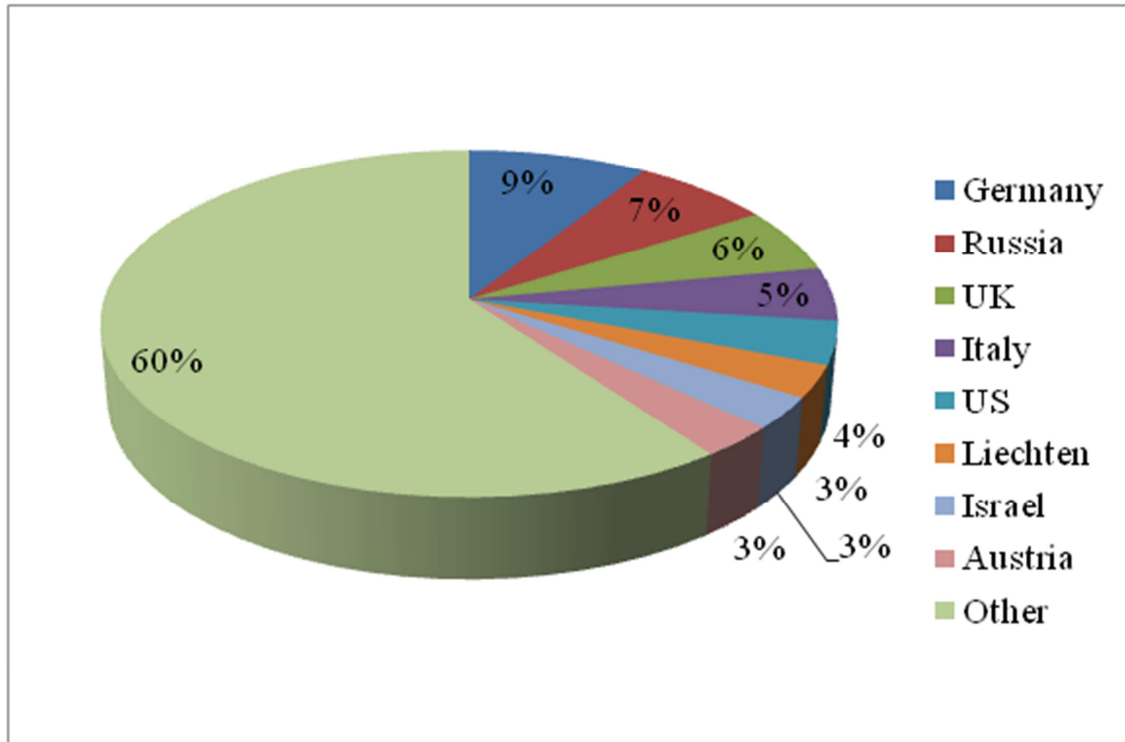
	STRs	Amount (CHF)	Amount frozen (CHF)
2005	20	45 650 766.70	38 414 046.70
2006	8	16 931 361.63	16 929 737.55
2007	6	232 815.04	232 815.04
2008	9	1 058 008.40	1 037 905.40
2009	7	9 458.84	972.19
2010	4	23 098 233.85	23 098 233.85
2011	10	151 592.84	7 582.95
2012	15	7.486 722.50	23 958.00
2013	33	449 771.68	425 134.68
2014	9	1 038 170.97	1 032 786.30

STR's and Frozen amounts due to article 9,10¹⁰⁵

Source: Anti-Money Laundering and Counter-Terrorist financing measures Switzerland, FATF, 2016

¹⁰⁵ Anti-Money Laundering and Counter-Terrorist financing measures Switzerland, FATF, 2016, p 85, <https://www.news.admin.ch/newsd/message/attachments/46552.pdf>

Figure 2.3.3.



Natural or Legal Persons targeted in MROS requests by Recipient Country¹⁰⁶

Source: ANNUAL REPORT BY THE MONEY LAUNDERING REPORTING OFFICE SWITZERLAND MROS, 2016

Once the money laundering offence is found out MROS sends information to those counties where owners are originally came from. From the figure 2.3.3 shown that the most requests on additional information were sent to Germany, Russia and UK. The minor inquirers were sent to Liechtenstein, Israel and Hong Kong.

Moreover, from the same figure can be also analysed that the most investors at Swiss banks are German and Russian investors.

¹⁰⁶ ANNUAL REPORT BY THE MONEY LAUNDERING REPORTING OFFICE SWITZERLAND MROS, 2016, p 18, <https://www.fedpol.admin.ch/dam/data/fedpol/kriminalitaet/geldwaescherei/jabe/jb-mros-2015-e.pdf>

Table 2.3.3.

Year	Requests	Natural and Legal persons concerned	Average reply time (days)
2004	441	1701	2.3
2005	461	1569	2.7
2006	467	1693	5
2007	368	1510	6
2008	434	1930	4.6
2009	519	1930	6
2010	577	1937	4
2011	564	2174	5
2012	598	2400	6
2013	660	3092	7
2014	711	2968	8
2015	804	3621	8

Number, Subject and Handling of Requests Received by MROS¹⁰⁷

Source: Anti-Money Laundering and Counter-Terrorist financing measures Switzerland, FATF, 2016

¹⁰⁷ Anti-Money Laundering and Counter-Terrorist financing measures Switzerland, FATF, 2016, p 150, <https://www.newsd.admin.ch/newsd/message/attachments/46552.pdf>

In order to prevent tax crimes, the Swiss Parliament recently adopted a new law to apply the FATF recommendations, thus amending several existing laws, mainly provisions of the Swiss Obligations Act, the Swiss Penal Code and the Swiss Federal Law on Anti-Money Laundering.

New rules impose on Swiss banks and Swiss financial intermediaries additional responsibilities for conducting inspections and reporting. These provisions, in case of non-compliance, are fraught with serious consequences for these organizations and their clients. In particular, the following new requirements have been introduced:

- a greater degree of transparency of beneficial ownership and control over legal entities (a precise definition of the ultimate beneficial owner);
- qualified tax offenses committed which causes the crime of money laundering;
- the spread of the concept of "politically significant person" (politically exposed person – PEP) to regional and local officials and officials of supranational organizations;
- obligatory attraction of financial intermediaries and compliance with the provisions of the law on combating money laundering when paying for the purchase of movable or immovable property in cash in the amount of more than 100,000 Swiss francs;
- an increase in the volume of mandatory reporting to the Swiss Money Laundering Supervision Service (MROS) in the event of suspicious financial transactions;
- improved and stricter financial sanctions, aimed at countering the financing of terrorism.

From 2016, if a bank or financial intermediary finds out or has reason to suspect that assets acquired as a result of a qualified tax evasion or tax fraud constituting acts prior to money laundering, or assets associated with these acts, are involved in the operation such a bank or financial intermediary should report this to MROS. The customer will not be informed about such a message.¹⁰⁸

Violation of this duty will be the basis for criminal liability for money laundering of the bank itself and its employees. They will face a fine of up to 500,000 Swiss francs.

The Swiss authorities have accused Rothschild Bank of violating anti-money laundering laws as part of a theft investigation at Malaysian government investment fund 1MDB. This was reported by the Swiss Financial Market Supervision Authority (FINMA) on the results of the audit of financial companies during the proceedings around 1MDB.

¹⁰⁸ К. Троуанов, Новое швейцарское законодательство относительно отмывания денег. Последствия для российских клиентов швейцарских банков, Altenburger р. 2, 2014, https://www.altenburger.ch/uploads/tx_altenburgerteam/Novoe_shveicarskoe_FATF_zakonodatelstvo_Posledstviya_dlja_rossiiskikh_klien....pdf

Rothschild Bank and its subsidiary Rothschild Trust (Schweiz) were found to have seriously violated Swiss anti-money laundering laws. Violations relate to business relationships and transactions within the framework of an alleged corruption scandal in Malaysia's state-owned investment fund 1MDB. It was found that the bank and its subdivision could not adequately clarify the origin of funds from one of the clients, in respect of which there were signals about possible participation in money laundering. The bank also failed to properly document a number of high-risk transactions.¹⁰⁹

Switzerland received high marks for incriminating money laundering and terrorist financing, providing mutual legal assistance, the transparency of legal entities and other structures, and the functioning of the financial branch.

At the same time, some shortcomings were criticized by the FATF, in particular, regarding preventive measures that the activities of not all financial intermediaries fall under the law on money laundering. This comment applies to attorneys, taxpayers, tax specialists and such activities as the creation of a company and trusts.¹¹⁰

The fact is that today Swiss lawyers are bound by the obligation to respect professional secrecy, which means, according to the general rule, they cannot disclose information about their clients. In addition, the FATF believes that the number of reports received by MROS does not correspond to the scale of the Swiss financial center.

For reference: in 2015 this body received 2367 signals, which is 35% more compared to 2014, for a total of 4.8 billion CHF. In other words, daily MROS receives 9 suspicious transaction reports. Over the past 10 years, the number of such signals has increased 4 times.

As far as preventive measures are concerned, in Switzerland only transactions exceeding 25,000 CHF fall under control. In the FATF recommendations, the threshold is set at 15,000 euros.¹¹¹

In February 2019 the Swiss government approved a disclosure agreement with Pakistan to combat money laundering and corruption.

The agreement provides for disclosed banking information at the request of the Pakistani government. Thus, Islamabad hopes to fight money laundering and mass transfer of them abroad.

¹⁰⁹ Швейцария: Rothschild Bank замешан в махинациях с отмыванием денег в малайзийском 1MDB, 2018, <https://www.vestifinance.ru/articles/104279>

¹¹⁰ T. Girko, La Suisse a reçu une bonne note dans la lutte contre le blanchiment d'argent, Nashagazeta.ch, 2016, <http://nashagazeta.ch/fr/news/economie/shveycariya-poluchila-horoshuyu-ocenku-za-borbu-s-otmyvaniem-deneg>

¹¹¹ ibd

It is noteworthy that a similar agreement was previously signed with the UK. The return of “looted riches” to Pakistan has become one of the election slogans of the ruling Movement for Justice party.¹¹²

¹¹² Швейцария поможет Пакистану бороться с отмыванием денег, Regnum, 2019, <https://regnum.ru/news/2577666.html>

3. Research on Money Laundering in a banking sector

In this chapter the author will provide an analysis and information which were taken from the interviews. The first interview was conducted with the lawyer and CEO of intermediary company which provides such services as bank account opening and company formation. The rest of interviews were conducted with a managers of EU banks. Also by each banks were provided their procedures and was summarized all from talking with representatives and from the AML policies which were presented.

3.1 Intermediary company

The lawyer of company explained the company's obligations. In accordance with their responsibilities with the Act a AML Reporting Officer is the company's CEO. Their obligations contain but are not limited to:

1. Ensuring all relevant staff are trained regularly in anti-money laundering
2. Ensuring that they understand their training
3. Adopting a risk based approach to customer due diligence and enhanced due diligence including ongoing monitoring of any business relationships.
4. Creating policies and procedures that relate to customer due diligence , ongoing monitoring, internal reporting and record keeping

The lawyer of company mostly follow up with newest Money Laundering Directive regulations and inform internally.

The KYC requirement is the cornerstone of their relationships with their clients. The requirement to carry out due diligence and enhanced due diligence has given it an increased importance. As a result of the necessity to carry out customer due diligence and/or enhanced due diligence in addition to the identification of private clients, they are required in respect of corporate clients to identify all beneficial owners. The definition of a beneficial owner is any individual who ultimately owns or controls more than 25% of the shares or voting rights in the company or body. The term controls is important, while not a shareholder any person who exercises influence on the dealings of a corporate client or in the management of the corporate client exercises control.

The Act also requires that the company adopts a risk based approach to all clients. As such it is our responsibility to assess the risks posed by any clients on amongst others the following basis:

- geographic area of operation
- product
- customer
- delivery channel

Clients will be grouped as to their risk level i.e. normal and high risk. The determination of the risk level will be the responsibility of the MLRO/NO. If a client is a high risk, then enhanced due diligence will be practiced and any ongoing business activity should be monitored by senior management.

All high risk client accounts will only be opened on the approval of the MLRO. **The high risk accounts will then be marked as such and any staff dealing with an account marked 'high risk' must seek approval from compliance to carry out business of any description with that account.**

All normal risk accounts will be marked as such. Staff dealing with accounts that are marked 'normal risk' do not need approval to carry out business with that client.

SANCTIONS AND POLITICALLY EXPOSED PERSONS (PEPs)

Although often referred to in the same sentence, PEPs and Sanctions are separate entities although a Sanctioned entity may also be a PEP.

a) Sanctioned entities may never be signed on as a client. Upon checking the EU and UN Sanctions list (https://eeas.europa.eu/topics/common-foreign-security-policy-cfsp/8442/consolidated-list-of-sanctions_en)

(<http://www.centralbank.ie/regulation/processes/Intfs/Pages/default1.aspx>) a report must be made to the MLRO/NO immediately a Sanctioned entity is potentially identified. The MLRO/NO will then take the necessary steps to deal with the matter including reporting to the relevant authority.

b) PEPs are defined as individuals who have been entrusted with a prominent public function outside of the State at any time in the previous 12 months. In addition, the definition of PEPs is extended to any immediate family member and/or close associate of a person referred to in the previous sentence.

c) All accounts relating to PEP's must be: -

- Approved by senior management – MLRO
- be subject to enhanced due diligence

d) All transactions with PEP's are considered high risk and the account on the CRM system will be marked high risk upon opening. Staff must therefore get any future business with such clients approved by compliance.

The company automatically screens for sanctions and PEPs using a PEPs and Sanctions Screening product however if there is any doubt regarding confirmation of a PEP or Sanctioned entity further guidance should be sought from the MLRO. The company's policy to include domestic PEPs in our risk based approach.

PROVISION OF INFORMATION ABOUT THE COMPANY'S SERVICES TO A POTENTIAL CLIENT

It is not necessary to carry out customer due diligence and enhanced due diligence procedures with a client where the company is merely providing information to a prospective client about their services or is a first interview/discussion prior to a relationship being established.

NEW CLIENTS. PROCEDURE

Prior to engagement of services, the client will be required to submit certain information. The client will be informed that the information is necessary to enable them to satisfy themselves as to his or her identity in accordance with obligations under anti-money laundering legislation. The company needs this information to properly create a legal person on behalf of the client.

The nature of such information will be in the form of photographic in date evidence of identity and in date proof of address. The information will contain but will not necessarily be confined to:

- Full name
- Date of birth
- Address and if resident less than three years a previous address
- Such information should be sufficient to allow identification of the client to the accepted standard.
- In the event of the failure of the information supplied to meet the requirement the client may be asked to provide additional information

Additionally, they require the names of all directors and the names of beneficial owners holding over 25%.

It is important that the company is satisfied that a person acting on behalf of a client has authority to do so. Evidence of such authority is required in the Letter of Engagement and corporate documentation. In practising KYC, staff will satisfy themselves as to the rationale behind the business. A risk based approach across the business is mandatory. In addition to the rationale behind the business, the following questions can be used as a guideline to assist in creating complete transparency.

Identification - Have they met personally with the beneficial owner (s) of the business in the last 12 months? If so, please state how.

- Background of this customer. Are we aware of anything detrimental with regards to the reputation of either the individual or their related businesses in the last 12 months?
- Is the customer's country of residence still the same?
- PEP - Are we aware of any associations with Politically Exposed Persons (PEPs), a family member of one or associated with one. If 'yes', give details.
- Are there any changes in where the customer do most of his business? If so, which region / country?
- Are there any notable changes to the customer's business activity? Annual turnover, transactions?
- What kind of services does the customer require?
- Are there any unusual or suspicious requests from the customer?

From time to time on a Risk Based approach, relevant evidential documentation will be requested from new clients or from existing clients where a change in circumstances occur. Where such changes occur an explanation from the client should also be sought and recorded.

EXISTING CLIENTS

Existing clients will be subject for review during company renewal period and/or when there are major changes, at least once annually. During this review the customer service manager will ensure any changes in circumstances (including business activity) and key personnel are updated accordingly. This will involve ensuring all documentation (including identification and verification for UBO's and directors) is in date, that an up to date PEP's and Sanctions screening has been carried out. Any changes or updates will be marked accordingly on the client file

TRAINING

One of Company key controls in mitigating the threat of being used for money laundering is having staff who are aware of and alert to the threat. All staff and agents, whether on a full-time, part-time or contract basis, are made aware of Company anti-money laundering policy, manual and the obligations arising from them for both themselves and Company.

Company provides training on anti-money laundering issues and the requirements of its policy and manual, to those relevant staff.

This training comprising two key elements: -

a. Induction Training - The MLRO/NO is responsible for identifying relevant new Company staff who are required to undertake induction training. The training is provided by AML Advisors and is face to face training. The content of the training includes awareness training, covering Money Laundering and Terrorist Financing. Understanding of the subject matter is assessed throughout the training through case studies. Until a new member of staff has been signed off as competent, no direct customer contact is allowed.

b. Refresher Training - all relevant staff must undertake face to face refresher training on an annual basis. The training is provided by AML Advisors and assessment of staff understanding is carried out throughout the training.

Company obtains acknowledgements from staff that they have received the necessary training by requesting staff to sign their attendance at training sessions. Overall 2 monitoring of attendance is recorded manually.

RECORD KEEPING

Company will create and maintain sufficient documentation to give a clear and full record of all contacts and communications with every client. It is the responsibility of all staff members to ensure completeness of records for the area in which they are employed. Customer due diligence (CDD) , the first three annexes, retained 5 years from end of the business relationship and information on the existence of a business relationship retained for 6 years from the end of the business relationship. Where an investigation is being conducted, all records must be kept for five years or until the investigation has ended; whichever is the longer.

SUSPICIOUS ACTIVITY

Suspicious Activity that it should be reported in the first instance to the MLRO.

There is no definitive list of what constitutes suspicious activity, however, if the principles of KYC are rigorously applied, then in the course of conducting business with the client, sufficient information should be available to make a judgement about what constitutes suspicious activity in each case. If there is any doubt on what constitutes suspicious activity or if the employee is unsure how to proceed, advice should be sought from the MLRO.

If a staff member has reasonable grounds to believe that a customer is involved in money laundering or terrorist financing, no transactions may be carried out on behalf of that customer without the authorisation of the MLRO.

REPORTING SUSPICIOUS ACTIVITY

When suspicious activity is suspected, the following procedures will be followed: -

- a. The person suspecting should immediately make a written report or e-mail to the MLRO/NO
- b. If urgent telephone first, then follow up with a written report
- c. No discussion with other members of staff should take place
- d. A record of the date and time of report should be recorded
- e. Acknowledgement of the receipt of the report should be obtained from the MLRO/NO. This will be done via a receipt email from the MLRO/NO.
- f. A copy of the Suspicious Transaction Report (STR) may be made
- g. Do not keep a copy in the client file
- h. New suspicion of the same client means a new report must be made
- i. Under no circumstances may the suspicious activity be discussed with anyone other than MLRO or deputy

TIPPING OFF

It is an offence to make a disclosure which is likely to prejudice any investigation which might be conducted following the making of a Suspicious Activity Report:

- Maximum Five years imprisonment

If in doubt report your suspicions to the MLRO/NO, they have then compiled with their obligation. He will use his own judgement whether to report further to Garda Síochána and the Revenue Commissioners. All contact with Law Enforcement Agencies will be handled by the MLRO/NO or his deputy. The MLRO/NO will be responsible for providing information and updates to the legislation as and when they occur.

3.2. Bank. Luminor

At Luminor, the foundation of their business is being a capable individual from society. They utilize their abilities, skills, information and connections to have a constructive outcome to the general public and their clients, outer partners, experts and different counterparties. Solid budgetary risk management are a standout amongst the most incredible assets in battling money related wrongdoing. Dealing with the danger of money related wrongdoing is essential to accomplishing Luminor's responsibility to serving as a positive supporter in the public eye. Luminor is focused on consenting to all pertinent AML/CTF and Sanctions laws and guidelines in the wards wherein it works. Along these lines they have set up worldwide

arrangements so as to accomplish strong and reliable gauges of consistency in such wards. Luminor's worldwide approaches support the more extensive client procedure, qualities and vision, and give a uniform arrangement of hazard the board standards and obligatory gauges all through the Luminor Group.

Luminor's AML/CTF and Sanctions policies came from on the different laws, guidelines and administrative direction from FATF, UN and EU.

Norway, Denmark, Finland, Sweden, the US, the UK, and, as relevant, other neighborhood locales in which Luminor has branches. Luminor's AML/CTF structure incorporates yet isn't constrained to Group Global AML/CTF Policy and Standards that characterize the base guidelines which all Luminor branches and auxiliaries must agree to, including:

- Risk based methodology to avert AML .
- Certain accountabilities and obligations all through the gathering for averting of ML and TF
- Providing Know Your Customer principles and Customer Due Diligence procedures to be pursued when new clients are on-boarded, and Ongoing Due Diligence performed. Leading upgraded due ingenuity on clients surveyed as higher hazard, for example, Politically Exposed Persons, their relatives and close partners.
- Establishing procedures and frameworks intended to control and screen client exchanges to distinguish disallowed or suspicious movement.
- The examination and resulting revealing of suspicious action to the proper administrative bodies.
- Mandated standard free testing and normal AML preparing for all staff.

The restriction of specific items, administrations and client types, for example,

- Anonymous records or numbered records or clients trying to keep up a record in a clearly invented name.
- Shell banks, for example keeps money with no physical nearness or staff.

Any important extra neighborhood requirements.

Luminor's Sanctions structure incorporates however isn't restricted to Group Global Sanctions Policy and principles that characterize the base models which all Luminor branches and auxiliaries must conform to, including:

- Application of approvals projects of UNs, EU, US, or potentially national specialists. Luminor's very own arrangements may go past the base prerequisites put forward in the appropriate approvals guidelines.

- Customers and outsiders for example customers, companies, partner banks, associations and intermediaries gives and so forth just as installment action, are screened against worldwide and national endorses and records.
- Denying company's transactions that may damage pertinent authorizations laws or Luminor's interior Sanctions system.
- Restricting business movement including, straightforwardly or in a roundabout way, nations or people subject to increasingly particular or focused on authorizations programs.
- Investigating all client/customer cautions or exchanges that are ceased in Luminor's screening frameworks
- Blocking or dismissing exchanges and solidifying of assets where Luminor is required to do as such under material assents laws or guidelines or Luminor's Sanctions Framework. Exchanges may likewise be returned by Luminor where they fall outside of Luminor's risk.
- Reporting ruptures of assents laws to the important skilled specialists. This may incorporate any endeavor by a client to sidestep sanctions laws.

To drive worldwide adherence to these systems and guarantee implantation has occurred, Luminor has put resources into a brought together Financial Crime Change Program whose goals address every single major region of financial crime, KYC, Sanctions Monitoring, and Transaction Monitoring. These projects bolster Luminor's approaches, techniques, innovation changes, upgrades, and improvements to build up a gathering wide and maintainable standard for the counteractive action of money related wrongdoing.

3.3. Bank. Credit Europe Bank

Credit Europe Bank NV including its branches, contact workplaces and backups, hereinafter all things considered "Credit Europe Bank" is resolved to take part in global endeavors and completely consent to every single appropriate law and guidelines with the avoidance ML and TF. Sound AML and ATF norms establish a key segment a credit Europe Bank's endeavors to ML and TF through any of the items or administrations offered (counting yet not to installment administrations and exchange fund administrations).

The worldwide AML Policy of CEB gives clear regulation to every one of its substances and their staff on averting the association of Credit Europe Bank in any crime and to take part in global endeavors to money laundering and terrorist financing.

The AML Program incorporates the next least standards:

- The recognizable proof of ML and TF risks pertinent to CEB's exercises.
- Client due diligence process, which incorporates client recognizable proof and check and appraisal of ML and TF chance presented by a client
- UBO recognizable proof and check; owner and approved signatory ID and confirmation, to the extent they are appropriate to CEB
- Screening of clients, UBOs and executives for available social medias.
- Screening of products, transport associated with exchanges against the bank's blacklist
- Applying a risk based approach while evaluating the ML and TF risks presented by a client or transaction. The all the more expanding risks factors are recognized, the more broad due persistence is attempted
- Undertaking upgraded due diligence by the consistency capacity of CEB for high high risk clients with high risk business activity
- The executives endorsement for acknowledgment and continuation of the association with high risk clients and, where appropriate, for preparing high risk transactions
- Ceasing from directing any business with Shell Banks
- Do not providing services or opening unknown accounts
- Planning, realization and keeping up internal controls, including a post-exchange observing system to identify and alarm on transactions implying ML or TF. Any transactions evaluated as unordinary or suspicious are accounted for to the FIU or some other skilled expert in accordance with nearby lawful prerequisites
- Observing the client and their transactions amid the whole life cycle
- Evaluating the clients intermittently or at whatever point there are occasions requiring in this way, for example, key changes in the ID subtleties or business or transnational profile
- Keeping all client or transaction related records for at least 5 years in the wake of consummation the business relationship or playing out the transaction
- Giving acceptance and customary AML training, tweaked to explicit business interests and needs, to staff of significant profiles and the executives and keeping legitimate preparing records
- Keeping up a sound AML Program to guarantee continuous AML consistence through a mix of consistency checking, inside audit, outside audit and administrative survey.

In any country where the necessities of relevant AML laws or guidelines build up a higher standard than portrayed in this archive, the particular CEB substance must fulfill those guidelines.

Adherence to sanctions guidelines is authorized inside CEB through a mix of screening for example name checking of clients, UBOs and directors and separating of exchanges as exhibited to CEB before the genuine handling of such transactions.

So as to announce about new and refreshed sanctions laws and the commitment to conform to those, the acceptance and ordinary approvals consistence preparing to staff of pertinent profiles and the executives is given and appropriate preparing records subsequently are kept.

As a base, CEB agrees to UN, EU and US sanctions routines. Moreover, CEB consents to all the neighborhood sanctions arrangements of the purviews wherein it works.

3.4. Bank. Belfiuss Bank

The reason for this arrangement is to set up the general structure for the fight against ML and TF for BELFIUS BANK SA. BELFIUS BANK SA is focused on exclusive requirements of AML and CTF consistence and requires the board, workers and backups to follow to these norms in forestalling the utilization of its items and administrations for ML or fear based oppression financing purposes.

Consequently, BELFIUS BANK SA has built up an AML-program that depends on :

- universal standards : suggestions and papers from the FATF, from the Wolfsberg Group
- and on the European and Belgian laws and guidelines identified with AML and CTF.

Client Identification and Verification

Belfius Bank has set up standards in regards to KYC. These benchmarks require due tirelessness on each imminent client before going into a business relationship by means of recognizable proof and check of his character and, all things considered, his agents and helpful proprietors based on reports, information or data got from a solid and free source consistent with the local and European AML/CTF enactment and guidelines. Belfius Bank does not enable its substances to open unknown accounts.

Client Acceptance Policy

Target chance criteria are recognized to permit a risk based order of clients into various classes of hazard (manual– high-medium-low). The criteria considered for the assessment what's more, characterization of our clients on a hazard touchy premise are entomb alia :

- the nation of origin or nation of living arrangement or enlistment

- the business activity
- the listing on sanction list

Explicit measures are taken to guarantee an upgraded due tirelessness as to :

- PEP
- clients who have not been physically present for distinguishing proof purposes
- Abroad correspondent banking connections outside EEA or FATF nations.

Belfius bank does not work with shell banks.

Ongoing Customer Due Diligence . Occasional and risk based researches are provided to guarantee that client related information or data are stayed up with the latest.

Monitoring of Transactions. AML-Compliance guarantees that continuous exchange observing is led to distinguish exchanges which are abnormal or suspicious contrasted with the client profile. This exchange checking is directed on two dimensions :

1) every business line (first line of control) screens every one of its clients and their monetary conduct what's more, applies an upgraded due industriousness on those clients who are named high risk,

2) the principal line of control is enhanced by a risk based robotized second line of control, counting an expanded observing of exchanges of clients viewed as high risk.

Inside the setting of counteracting the financing of fear based oppression, Belfius Bank has set up a rundown coordinating framework so as to contrast the names of its clients and authority records from the EU, the US Office of Foreign Assets Control, the UNs, and so on.

The exchanges are likewise sifted through an on-line coordinating framework.

Record keeping. Records of information got with the end goal of distinguishing proof must be kept for at any rate five years after the business relationship has finished. Records of all exchange information must be kept for in any event five years following the completing of the exchanges or the finish of the business relationship.

Suspicious Transactions Reporting. MLRO is named to be sure that irregular transactions distinguished are accounted for to the Belgian FIU. The detailing of suspicious transactions must consent to the Belgian laws and guidelines.

Procedures. The AML and CTF rules, including least KYC standards, have been converted into operational methods that are at record-breaking accessible on the Intranet.

Training . Belfius Bank has built up a cognizant preparing program, including follow-up training all the time, so as to make and keep up a wonderful AML and CTF mindfulness. The substance of this preparation program must be worked out as per the sort of business the trainees are working for and the sort of capacities they hold.

3.5.Bank. Danske Bank.

The reason for this policy is to set the abnormal state standards and principles of the executives of budgetary wrongdoing risks, including money laundering, terrorist financing and sanctions, for Danske Bank gathering and establishes a piece of the Board of Directors' Instructions to the Executive Board. The goal of this arrangement is to guarantee administrative consistency and to set up an inside structure that limits the risk of approvals breaks and maltreatment of the Group's items and administrations for illegal tax avoidance and TF. This is in arrangement with the Group procedure and The Essence of Danske Bank, which sets the Group's vision to be perceived as the most confided in monetary accomplice.

Scope and application. The Policy applies to all representatives and people in a practically identical position, all capacities, all units in Danske Bank A/S, and every single directed auxiliary, when embraced by their Senior Management.

In the event that a Group policy clashes with neighborhood necessities, Senior Management of the backup can affirm a Group arrangement with deviations. Any material deviations from the Group arrangement must be accounted for to the Board of Directors of Danske Bank A/S just as the executive of the Information Management Policy.

The point of the Group isn't just to follow important legitimate prerequisites, yet in addition to relieve and diminish the potential risk to the Group of our clients utilizing their items, administrations and conveyance channels to wash the returns of unlawful action, support fear based oppressor movement or perform exchanges in break of money related approvals.

Target group. Current policy regards to all staff and members of Group.

Requirements. The Group must follow the significant laws and guidelines in the Market Areas where it works and may, in view of its hazard resistance, receive all the more demanding benchmarks. The Group must agree to the necessities set out in the:

- National arrangements transposing Directive (EU) 2015/849 of the European Parliament and of the Council of 20 May 2015 on the counteractive action of the utilization of the monetary framework for the motivations behind illegal tax avoidance or psychological oppressor financing
- Applicable authorizations routines
- Any other law or guideline material to the Group's activities.

The Group is embraced various activities to reinforce its capacity to guarantee its consistence with the necessities plot in this Policy. The Group will, in this way, constantly evaluate its

current arrangements, strategies, controls and IT framework and roll out vital improvements to be best as per the risk based methodology.

Administration

Through this Policy, the Board of Directors have trained the Executive Board to guarantee that there is a powerful methodology inside the Group to ML, TF and ruptures of monetary authorizations. It is the duty of the Executive Board to guarantee that the Group agrees to the measures put forward in this Policy. The Executive Board is, moreover, in charge of actualizing this Policy and may assign its duties. The Executive Board will delegate a "hostile to cash washing capable individual" at the board level with the obligation to guarantee that the Group agrees to the legitimate prerequisites. The Business Units, as the principal line of guard, are responsible for the risk identified with monetary wrongdoing. Specialty Units just as Senior Management can assign undertakings identified with the alleviation of money related wrongdoing dangers to Group Operations or other first line divisions. In any case, designating won't change the risk possession and responsibility for Business Units however will just infer another mindful unit for directing the appointed procedure.

Group consistency, as the second line of protection, is in charge of the checking, appraisal, direction and announcing of ML, TF and money related approvals dangers. Inner Audit – as the third line of barrier – is in charge of completing autonomous testing of the Group's strategies, techniques and controls. Re-appropriating to outer providers may just be executed after close interview with Group Compliance and as per the Outsourcing Policy.

Risk resilience

The Group does not endure any break of the prerequisites put forward in this Policy that could endanger the soundness and honesty of the Group or harm the open trust and trust in the budgetary framework in general. Any material or foundational ruptures must be accounted for to the Audit Committee. The Group does not acknowledge any business association with an assigned individual, gathering and element subject to budgetary authorizations.

So as to conform to money related assets guidelines, the Group must probably check the personality of its clients. Along these lines the Group requires a vigorous control condition with low blunder rates for due steadiness in the wake of applying interior controls.

Group wide hazard appraisal on money related wrongdoing. The Group works in a few Market Areas with a full scope of banking items being offered to various client portions. Appropriately, the Executive Board must set up a general gathering wide risk evaluation on money related wrongdoing depicting the inalienable budgetary wrongdoing dangers of the Group, the control condition to alleviate such dangers, and the remaining monetary wrongdoing risk.

Group wide risk evaluation on money related wrongdoing speaks to a foundation for the Group in gathering the necessities of the risk based methodology. Client due industriousness The Group's objective of building up its information of its clients in order to improve the estimation of guidance it can offer is firmly identified with the due steadiness commitments of the Group. In parallel to the check of a client's character, the Group applies a risk based methodology towards the accumulation, enlistment, and observing data in connection to the nature and goals of the client relationship.

The information gathering, which is led to meet the previously mentioned necessities, frames the pattern for exchange observing and establishes an establishment in the Group's IT-driven AML, CTF and budgetary approvals chance scoring model ("Risk Scoring"). The Group will apply a hazard based methodology towards due determination through the Risk Scoring with reference to a client's geographic ties, picked items and/or administrations, conveyance channels and client explicit components.

The Group will settle on fitting client acknowledgment guidelines so as to set clear direction regarding which characteristic people and legitimate elements the Group will see as the key client base with references to AML, CTF and monetary assents risk. These directions ought to likewise give direction with regards to the system for ending a client relationship because of budgetary wrongdoing concerns.

Given the volume of clients in many Market Areas, the Group requires a powerful and compelling IT answer for cook for a successful introductory enrollment and continuous observing of the client base. It is fundamental that every single common individual and lawful substances are enrolled on the Group's IT frameworks. Having adequate recognizable proof data, the Group will - inside the motivation behind the necessities - total every important item and administrations on every client number.

The Group attempts critical exertion to decide the proprietorship and control structure of legitimate elements. In this manner, the Group must recognize and confirm the character of any characteristic people who eventually claims or controls the client.

Transfers screening

The Group leads constant exchange screening on all exchanges in connection to significant arrangements of assigned people, gatherings and elements subject to money related approvals..

Client screening The client screening arrangement guarantees that all client enrolled in the Group's IT frameworks, including regular people, legitimate elements and their helpful

proprietors, are screened against the significant assets arrangements of assigned people, gatherings and substances.

People, gatherings or potentially elements assigned by the UN and EU will be featured and might be liable to resource solidifying with consequent answering to suitable specialists. The Group will, end or breaking point the administrations offered to common people and lawful elements assigned by OFAC as Specially Designated Nationals.

The board data. The ExBo must decide key execution markers ("KPIs") and create the board data prerequisites and procedures to pick up understanding into, and fulfillment with, the viability of the AML, CTF and assets consistence system.

Maintenance and record keeping. To forestall, distinguishing and researching surprising and suspicious exchanges, the Group must keep electronic records everything being equal and due steadiness apportions conveyed as per this Policy. Records must be kept in a way making data and reports accessible to all workers having suitable access to the client being referred to (inside the Group's current IT arrangement).

Documentation must be continued amid the lifetime of the client's association with the Group and at any rate five years after end of the client relationship or after the date of a periodic exchange.

Preparing and mindfulness. The Group necessitates that all representatives have a sufficient mindfulness dimension of the dangers of monetary wrongdoing. The Group must guarantee that all representatives have an appropriate level of mindfulness, for example at the point when staff experience something unordinary identifying with a client's conduct in their every day work, they should consider regardless of whether the abnormal conduct might be identified with ML, TF or potentially endorse avoidance.

In connection to the preparation of workers, the Group applies a RBA with the goal that the expansive scope of representatives can have their preparation through yearly e-learning courses focused towards the activity position of the worker. By recognizing the intricacy of this zone, the Group underpins outer accreditation and vis-à-vis preparing for representatives working in key positions around there of the Group.

Acceleration. The Group has an Escalation Policy expressing the prerequisites for suitable and auspicious internal reporting of possibly hazardous cases crosswise over Danske Bank Group. The prerequisites in the Escalation Policy should dependably be considered in connection to infringement of the Danske Bank Group's commitment to forestall and moderate monetary wrongdoing with adherence to other related approaches and overseeing records.

Detailing. The Executive Board must decide key execution markers and create the board data prerequisites and procedures to pick up knowledge into, and fulfillment with, the adequacy of the AML, CTF and authorizations consistence system.

Survey. This Policy must be investigated by Group Compliance in any event every year. Any progressions to the Policy must be embraced by the Executive Board, the Audit Committee and affirmed by the Board of Directors. The key partners and topic specialists who have given contribution to and embraced Policy: Financial Crime Compliance.

Conclusion

Money Laundering was the main topic of 20th century as it helped to hide drug activity and origin of source of wealth. Later it came to financial sector and to the banks.

Even nowadays the money laundering continues to damage the economy and social order of less developed jurisdictions. Also it is an activity used in well developed jurisdictions to hide the client's source of funds.

In the thesis there are some samples of that even nowadays huge amount of money transfers from less developed countries through the biggest banks in EU , which are the suspicious transactions.

The thesis' research purpose to analyze the relations between authorities and banks against ML and TF. There were three main aims developed:

- The history of the origin of issues
- Analysing three well developed EU jurisdictions, how they are fighting with ML
- Comparison of procedures between the banks and intermediary company

There were established some certain questions, which needed to be researched.

In the first part of the thesis were researched the main definitions and the history of the money laundering and terrorist financing. Moreover, there is researched the risk based approach of the banks, the types of the risks which face the banks and financial institutions when they deal with money laundering , the risks are product risk, customer risk, geographic risk, operational risk, reputational risk, compliance risk, credit risk, liquidity risk. The procedures of preventing the banks risks and the enhanced due diligence procedure to the high risk merchants . Also, was researched the shell company , how they differ from the shelf companies and that not always the shelf companies have a negative purpose of use.

In the second part of the thesis were researched the three jurisdictions as Liechtenstein, Ireland and Switzerland. Author wanted to research is there a money laundering in the highly developed financial centers , also the Ireland as the author work monthly with Irish companies and banks and there was a aim to understand the procedures.

In the last part of the thesis were discussion with the representatives of financial institutions and was comparison from the provided AML procedure policies. And also comparison with AML policy of the banks and one financial intermediary company.

The research found ML is the result of criminal action and, as long as illicit endeavors proceed to damage laws, it cannot be completely annihilated.

The study showed that if the FATF recommendations are not followed, then banks will face heavy fines and this is not the biggest issue and most importantly many correspondent banks may refuse to cooperate, as many banks risk losing their licenses, as well as their valuable customers.

Also, when researching regimental companies, the study showed that not all shelf companies were used for the purpose of money laundering, as well as for positive purposes, such as the purchase of real estate or antiques by brand companies, so that sellers do not raise prices due to unidentified brands.

Banks have developed recommendations or so to say red flags, under which it is possible to discern clients who plan to use money for non-legal purposes.

As well as the interviews that have been conducted, as well as the documents provided by the bank representatives, many European banks, as well as companies that open companies and bank accounts, have almost identical rules against money laundering. They differ slightly when accepting a client, each bank is focused in different client profiles. Also, despite the fact that PEP is highly risky and there is a procedure by which you can take PEP, but in fact not all banks are willing to spend their time, as well as resources, to check high-ranking clients.

Currently, banks are gradually reducing the number of accepting companies that are registered in offshore. There are also conditions for the adoption of offshore companies by Switzerland, but only the business should be low-risk, as well as have open information about the beneficial owners, as well as have a real office with employees locally.

Recommendations

1. A more accurate description of the FATF standards in order to further reduce the number of illegal transactions
2. To be more attentive to those companies that are registered in offshore or in less developed countries, as well as on those companies that try not to disclose the ultimate owners
3. It is also necessary to transfer in time new regulations for the risk departments of banks and more often carry out training for employees of companies that check potential customers. Frequent trainings of company employees help reduce the number of clients who are engaged in money laundering.
4. The study and following of “red flags” that help to see, as well as prevent money laundering
5. Establish a separate department to some banks that will deal with high-risk clients, since not all companies, like forex or cryptocurrency are money laundering companies. Indeed, many banks do not even want to consider applications for such customers today. Also, not all PEP clients are engaged in money laundering.

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Documentary Page

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