Australian Government

Australian Transaction Reports and Analysis Centre

Money laundering in Australia 2011

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What is money laundering?

Criminals try to disguise the origin of their illegal profits through a process often referred to as 'money laundering' — i.e. turning 'dirty' money into 'clean' funds. Money laundering involves dealing with assets (e.g. money or property) in ways which masks ownership of those assets and makes them appear to have come from legitimate sources. This allows criminals to accumulate and use proceeds of crime for personal gain and to fund further criminal activity.

Money laundering in Australia 2011

foreword

Every year, serious and organised crime costs Australia an estimated $10–$15 billion. To use the proceeds of their crimes, criminals need to 'clean' or 'launder' this money — making it appear to have come from legitimate sources.

Money laundering threatens Australia's prosperity, undermines the integrity of our financial system and funds further criminal activity which impacts on community safety and wellbeing. For these reasons, strategic intelligence assessments recognise money laundering as a critical risk to Australia.

The crime of money laundering involves diverse and often sophisticated methodologies. It corrupts and intermingles with legitimate transactions in areas such as banking and finance, casinos and gaming, high-value assets like real estate and luxury vehicles, international trade, and international remittance and foreign exchange services.

Tackling this critical risk requires a collaborative response, globally and nationally.

Law enforcement and intelligence agencies work alongside other government authorities and industry to identify, disrupt and prevent money laundering.

This cooperation between industry and government helps deepen Australia's understanding of current and emerging illicit financial activities and strengthens our ability to combat these threats.

In addition, this work informs Australia's anti-money laundering framework to ensure that we have a robust system in place to guard against money laundering, for the benefit of industry and the wider community.

The Australian Transaction Reports and Analysis Centre (AUSTRAC) has produced this public *Money laundering in Australia* report to help counter money laundering through greater public and industry awareness.

The report brings together law enforcement, intelligence and regulatory information to present a picture of current money laundering activity, vulnerabilities and emerging threats in Australia.

AUSTRAC will continue to work with partner agencies, industry and international counterparts to enhance the national response and create an environment more hostile to money laundering and associated criminal activity.

John L Schmidt

Chief Executive Officer
AUSTRAC

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purpose

AUSTRAC has released this public report about money laundering in Australia to strengthen the national response.

The report presents a consolidated picture of current money laundering — the indicators and activities involved, the sectors and professions which are vulnerable, a range of new threats which are emerging, and the general framework of regulations and actions necessary to identify and prevent this crime.

By contributing to greater public and industry knowledge about money laundering, this report better positions government, industry and the community to work together to develop and strengthen preventative strategies against money laundering and the critical risk which it poses to Australia.

How does AUSTRAC combat money laundering?

AUSTRAC's purpose is to protect the integrity of Australia's financial system and contribute to the administration of justice through expertise in countering money laundering and terrorism financing. It does this in two ways: as the national anti-money laundering and counter-terrorism financing (AML/CTF) regulator and as Australia's financial intelligence unit (FIU).

As the regulator, AUSTRAC monitors compliance with the *Anti-Money Laundering and Counter-Terrorism Financing Act 2006* (AML/CTF Act) and takes enforcement action where necessary against breaches of the Act.

In its capacity as Australia's FIU, AUSTRAC analyses financial information and works with partner agencies and industry sectors to identify patterns of suspicious activity and contribute to law enforcement operations.

background

A critical risk to Australia

Money laundering is one of the three critical organised crime risks to the Australian community identified in the classified 2010 *Organised crime threat assessment* and articulated in the unclassified and published *Organised crime in Australia 2011*. Both of these reports were developed by the Australian Crime Commission, the Commonwealth agency established to combat serious and organised crime.

Money laundering is considered a critical risk because it enables serious and organised criminal activity, it can undermine our financial system and economy and it can corrupt individuals and businesses.

Based on the 2010 *Organised crime threat assessment*, combating money laundering is a priority under the Commonwealth Organised Crime Strategic Framework. The Framework provides a united strategic direction for all agencies with responsibility for combating organised crime and sets the objectives for the Commonwealth Organised Crime Response Plan. The plan, released in November 2010, coordinates and unites the operational efforts of Commonwealth law enforcement and regulatory agencies responsible for addressing/combating organised crime.

A global issue

The global nature of money laundering is reflected in the July 2010 *Global money laundering and terrorist financing threat assessment* which was produced by the Financial Action Taskforce (FATF) based on input from experts from across the globe.

Since 1989, FATF has led international efforts to counter the abuse of the international financial system by criminals. It is the major multilateral body for setting AML/CTF standards.

Australia is a founding member of FATF and its AML/CTF regime is based on the FATF '40+9 Recommendations' on money laundering and terrorism financing.

A complex picture

This report, *Money laundering in Australia 2011*, draws upon AUSTRAC's classified *National threat assessment on money laundering 2011*. It brings together, for the first time, the law enforcement, intelligence and regulatory aspects of the money laundering picture into a single public resource.

This report complements the Australian Crime Commission's public report, *Organised Crime in Australia 2011*, which is an unclassified version of the 2010 *Organised crime threat assessment*.

Together, these reports illustrate the complexity of, and interrelationships between, serious and organised crime and money laundering in Australia and the steps being taken to combat these threats and related harms to our society.

How was Australia's first National threat assessment on money laundering developed?

The classified *National threat assessment on money laundering 2011* (NTA) was developed under Australia's Organised Crime Strategic Framework and resulting Commonwealth Organised Crime Response Plan. The plan identifies the production of a national threat assessment as a key priority to enhance understanding of the specific threats to Australia posed by money laundering.

The NTA also responds to international interest in money laundering threat assessments. FATF's first *Global money laundering and terrorist financing threat assessment* provides a framework and tools for assessing risks and vulnerabilities at a national level. Australia's NTA is the first national threat assessment to apply elements of the FATF framework and tools. As a founding FATF member, Australia has been a leading contributor to the international effort to develop and adopt measures to combat money laundering and terrorism financing.

Many agencies contributed to the NTA. It combines AUSTRAC's own information and intelligence analysis with input from the Attorney-General's Department, Australian Crime Commission, Australian Federal Police, Australian Customs and Border Protection Service, Australian Taxation Office and the New South Wales Crime Commission. Other Commonwealth, state and territory agencies were consulted and provided information. Information from international law enforcement partners also informed the NTA.

The result is a consolidated picture of the current money laundering environment in Australia, at a more detailed level than is possible in broader assessments such as the *Organised crime threat assessment*. It draws on operational intelligence where available to assess levels of money laundering activity, vulnerabilities and emerging threats.

The 2011 NTA is intended as the first in a series of regular NTAs which will track developments and emerging issues in the money laundering environment. This NTA series will contribute to the broader Organised Crime Strategic Framework by building a more comprehensive understanding of the money laundering dimension of the organised crime intelligence picture.

Australia's anti-money laundering framework

The *Anti-Money Laundering and Counter-Terrorism Financing Act 2006* (AML/CTF) and *Financial Transaction Reports Act 1988* (FTR Act) provide the foundation for Australia's regulatory regime to detect and deter money laundering and terrorism financing. The AML/CTF Act regulates bullion, gambling, financial and remittance services. The FTR Act regulates cash dealers and solicitors which are not reporting entities for the purpose of the AML/CTF Act.

The FTR Act imposes several obligations on cash dealers. These include the requirement to verify the identities of account holders and report to AUSTRAC significant cash transactions of AUD10,000 or more, international funds transfer instructions (IFTIs) and suspicious transactions. Solicitors must report significant cash transactions of AUD10,000 or more.

The AML/CTF Act applies to 'designated services' provided by financial institutions, gambling service providers, bullion dealers and remittance dealers. 'Designated services' include specified financial services, bullion-related services, gambling services and prescribed services as specified in the AML/CTF Act. This includes services such as opening or transacting on an account, accepting an electronic funds transfer instruction and exchanging money for gaming chips or tokens. Entities providing a 'designated service' become 'reporting entities' subject to several obligations. These include identification and verification of customers, conducting ongoing customer due diligence, record-keeping obligations, reporting of suspicious matters, threshold transactions (cash or e-currency transactions of AUD10,000 or more) and IFTIs.

Reporting entities must also develop and maintain an AML/CTF risk management program as part of Australia's risk-based approach to regulation. There are also reporting obligations in relation to cross-border movements of physical currency (carrying, mailing or shipping) and bearer negotiable instruments (BNIs) such as cheques, traveller's cheques and money orders (carrying).

Industry sectors

AUSTRAC's regulated population ranges from large, sophisticated financial institutions, to small businesses in the money remittance, gambling and bullion dealing sectors.

- The 'banks and other lenders' sector includes domestic banks, foreign bank branches and subsidiaries, credit unions, micro-lenders and specialist credit providers
- Entities in the 'non-bank financial services' sector provide a range of services such as financial planning, funds management, stock broking, custody, superannuation and life insurance
- The 'gambling and bullion' sector includes casinos, TAB agencies, hotels and clubs with electronic gaming machines, corporate bookmakers, small bookmakers and bullion dealers
- 'Money service businesses' range from global money transfer businesses and their franchisees and agents, to smaller community-based entities.

money laundering in Australia

Why do criminals launder money?

Money laundering is a critical risk to Australia. It is the common denominator of almost all serious and organised criminal activity.

Criminals generate profits from illegal activities such as fraud, drug trafficking, tax evasion, people smuggling, theft, arms trafficking and corrupt practices. They rely on laundering or cleaning this 'dirty' money to legitimise or hide its illegal origins.

Money laundering involves processing illicit profits in ways which mask ownership and make the funds appear to have come from legitimate sources. This enables criminals to hide and accumulate wealth, avoid prosecution, evade taxes, increase profits through reinvestment, and fund further criminal activity, including terrorism.

Money laundering is also intrinsic to serious tax fraud/tax evasion and a threat to revenue.

Often, money laundering is a transnational crime. Funds are laundered to pay for imported illicit goods and services, distance criminal income from the underlying crime and 'park' it offshore, buy property or high-value moveable goods for investment or later return to Australia, and move illicit funds to transnational syndicates' home-bases. This international dimension creates opportunities for criminal networks and presents complex challenges for Australian law enforcement and regulatory agencies.

Some countries and regions are considered significant money laundering threats because they are source or transit points for illicit commodities and services while others are attractive for money laundering due to preferential tax regimes. Source or transit countries for illicit commodities or services, and places of residence for members of criminal networks, are likely to remain high-risk destinations for money laundering.

How does the Criminal Code define money laundering?

Money laundering is defined broadly in Division 400 of the *Criminal Code Act 1995* (Criminal Code) to include more than just concealing the proceeds or instruments of crime. The Criminal Code makes it an offence to 'deal with' the proceeds of crime or an instrument of crime. 'Deal with' is defined as a person receiving, possessing, concealing or disposing of money or other property as well as importing, exporting or engaging in a banking transaction relating to money or other property. Where an innocent third party receives money which is the proceeds of crime (such as a shopkeeper carrying on their normal business) and the person has no knowledge of that fact, receipt of the money does not constitute an offence under the Criminal Code.

How is money laundered?

Criminals use diverse methods to deal with money or other property which is the proceeds of crime. As with other criminal activity, these methods evolve to sidestep regulatory and law enforcement measures and to exploit market and technology developments, including harnessing new products or technologies such as e-commerce and m-commerce (buying and selling through mobile wireless devices).

Money laundering occurs in areas ranging from banking to gaming, luxury goods to international trade, and alternative remittance to cash intensive businesses. It can involve:

» moving money or other property across borders (for example, international funds transfers, remittances, bulk cash smuggling and cross-border movement of bullion and jewellery)

» concealing money or other property domestically (for example, purchasing high-value goods and real estate, gambling and putting money into legitimate businesses).

What is the money laundering cycle?

The money laundering cycle describes the typical three-stage process criminals may use to conceal the source of illicit funds and make funds appear legitimate:

» **Placement.** Introducing illegal funds into the formal financial system (for example, making 'structured'[1] cash transactions into bank accounts).

» **Layering.** Moving, dispersing or disguising illegal funds or assets to conceal their true origin (for example, using a maze of complex transactions involving multiple banks and accounts, or corporations and trusts).

» **Integration.** Investing these now distanced funds or assets in further criminal activity or legitimate business, or purchasing high-value assets and luxury goods. At this stage the funds or assets appear to have been legitimately acquired.

[1] Structuring involves breaking down cash transactions into small amounts to avoid triggering mandatory reporting of cash transactions of AUD10,000 or more as required under the AML/CTF Act.

What are the key features of money laundering in Australia?

Money laundering behaviour reflects the dynamic and adaptive nature of organised crime. There are four key behaviours which have been identified in Australia's current money laundering environment:

- **Intermingling (or co-mingling) legitimate and illicit financial activity.** For example through cash-intensive businesses and front companies. This process of reinvesting criminal proceeds and providing a cover for criminal enterprise is a well established money laundering methodology.
- **Engaging professional expertise.** Criminal groups and networks engage the services of professionals (such as lawyers and accountants) to enhance their capacity to operate in both legitimate and criminal markets and conceal their illicit activity, including money trails.
- **Engaging specialist money laundering syndicates.** Specialist syndicates, based in Australia and overseas, are providing specific money laundering services to domestic and international crime groups operating in Australia.
- **The 'internationalisation' of the Australian organised crime environment.** There is almost always an international component to the money laundering cycle for major crime groups operating in Australia.

What are the major money laundering channels?

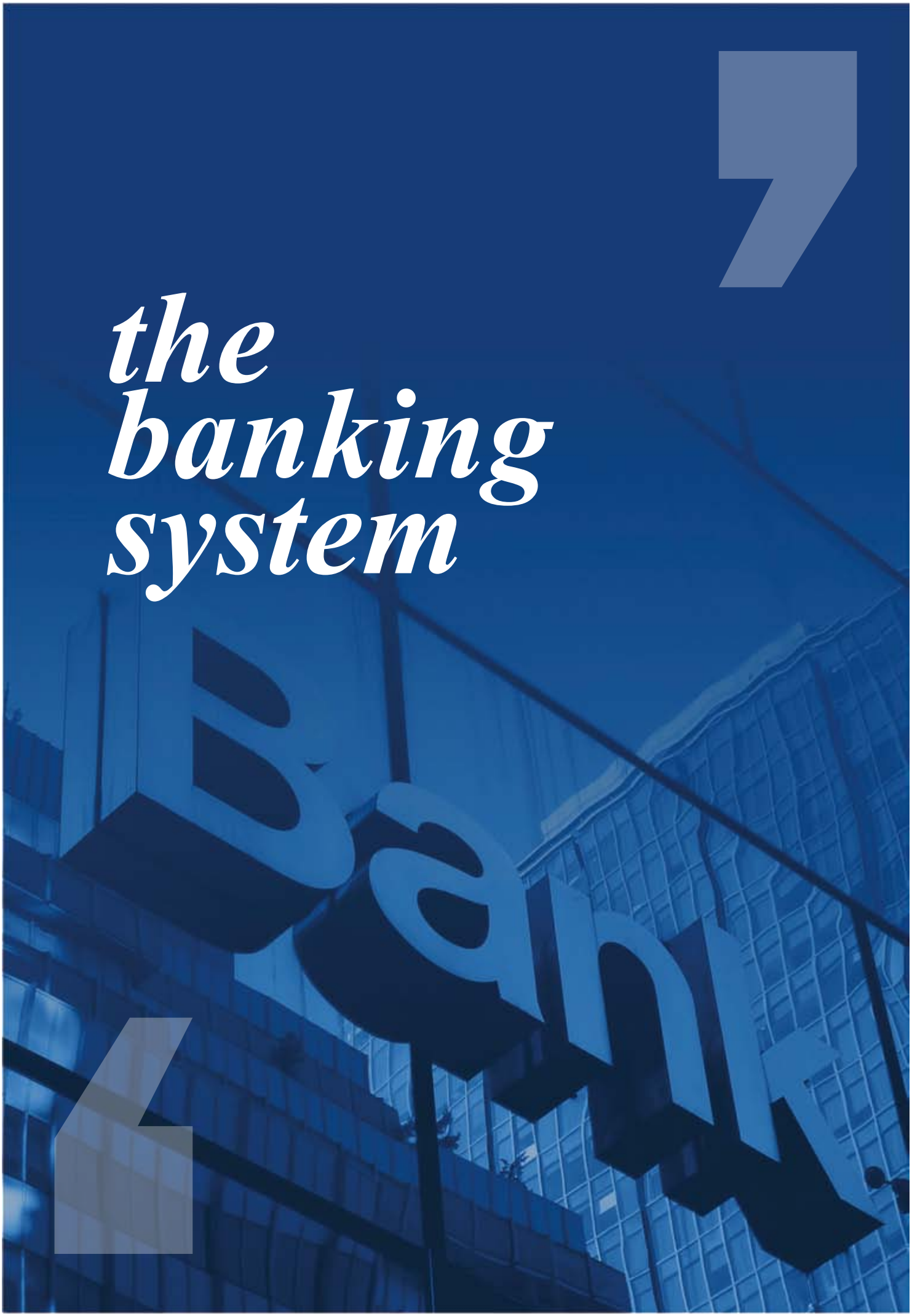
Organised crime exploits numerous sectors and avenues for money laundering. Major channels for money laundering are the banking system and money transfer and alternative remittance services. Other significant channels are the gaming sector and high-value goods. Less visible channels or enablers include professional advisers, legal entity structures, cash intensive businesses, electronic payment systems, cross-border movement of cash and bearer negotiable instruments, international trade and investment vehicles.

The purpose of this report is to outline the nature of money laundering activity occurring within, and across, these channels. By highlighting the types of money laundering methods AUSTRAC and other government agencies have identified, the report will assist industry to arm itself with preventative measures to detect and address money laundering risks. An informed industry is a resilient industry.

Australia has intentionally adopted a risk-basis for its AML/CTF framework. This recognises that industry sectors are best placed to identify and manage the money laundering risks they face. It also recognises that the level and nature of money laundering risks vary from sector to sector, as well as within each sector.

4 significant money laundering channels

the banking system



'...For criminals, the effectiveness of services such as funds transfers and loans, the security of deposits and the liquidity of banked cash outweigh the risks of detection...'

A significant amount of money laundering activity begins or makes its way through the banking system at some stage.

The banking sector is attractive to money launderers because its large number of users and vast financial flows provide opportunities to disguise and conceal illicit transactions. For criminals, the effectiveness of services such as funds transfers and loans, the security of deposits and the liquidity of banked cash outweigh the risks of detection.

What are the links between money laundering and the banking system?

- **Accounts.** Financial intelligence shows bank accounts are misused to introduce illicit money into the financial system before it is moved to other financial markets in Australia and abroad. Criminals can also target account opening procedures to build false customer profiles, which they can use to help present 'front businesses' as legitimate operations.[2]

- **International funds transfers ('wire' transfers).** Transfers through banking networks are the main way of moving funds rapidly across international borders. Criminals exploit this service to move the proceeds of crime quickly and securely to foreign jurisdictions where they can take advantage of features such as bank secrecy laws to complete the money laundering process.

- **Loans.** Criminals use loans to layer and integrate illicit funds into other assets such as real estate and motor vehicles. They can launder funds by obtaining loans which they then pay out using lump sum cash payments or smaller structured cash amounts. The loans are essentially taken out as a cover for laundering criminal proceeds under the guise of repayments. Transactions related to a loan may attract less scrutiny than significant cash activity. Criminals may also obtain loans in false names to try and distance themselves from suspicious financial activity.

- **Bearer negotiable instruments (BNIs).** BNIs, including bank drafts, promissory notes, traveller's cheques and money orders — offer a portable and compact way to smuggle high-value assets across international borders. Criminals may attempt to purchase BNIs with co-mingled funds (consisting of legitimate business earnings and the proceeds of crime) to camouflage the connection to underlying crimes.

- **Safe deposit boxes.** Criminals exploit the privacy of safe deposit boxes to store the proceeds and instruments of crime including cash, drugs and firearms. They can use false identities to lease multiple boxes across different bank branches to try to hinder law enforcement investigations.

[2] Money laundering uses front businesses to help conceal the origin and ownership of funds.

What methods are used to launder money through the banking system?

Criminals use a range of strategies to try to get around the anti-money laundering controls which have been put in place by banks operating in Australia. These strategies include:

- **Structuring.** Depositing large amounts of cash by first breaking it down into smaller amounts to avoid raising suspicion or triggering mandatory reporting of cash transactions of AUD10,000 or more under the AML/CTF Act.
- **Complex company ownership structures.** These structures, which can involve multiple entities in multiple jurisdictions, are used to screen the ultimate source of funds and the true beneficial owners of those funds.
- **Third parties or third party accounts.** These are used to blur the connections between criminals, the proceeds of their crimes and attempts to launder funds. A technique called 'smurfing' involves numerous third parties conducting transactions on behalf of criminals. Large cash amounts are broken into multiple smaller amounts and then given to third parties to deposit in accounts held in different financial institutions. These third parties may be complicit or unwittingly involved in this money laundering activity.
- **Identity crime.** Transactions made using stolen, fraudulently obtained or fictitious identities obscure the link between the funds and their true source or origin.

EXAMPLE OF HOW AUSTRALIA IS RESPONDING TO THIS THREAT

On 1 October 2011, further AML/CTF provisions came into effect requiring banking institutions to identify third parties undertaking threshold transactions of AUD10,000 or more. This obligation is in addition to reporting the details of the holder of the account in respect of which the transaction is being conducted. This new reporting requirement will provide valuable intelligence to help identify people who attempt to disguise their income by accessing or controlling another person's account, or who seek to distance themselves from an account or a transaction.

The Australian Government has made combating identity crime a key priority action in the *Commonwealth Organised Crime Response Plan*, recognising that this offence is a gateway to other serious criminal activity. To help tackle this problem, the Australian Government enacted three Commonwealth identity crime offences in March 2011. These offences prohibit a range of preparatory conduct relating to identity crime where a person intends to commit, or facilitate the commission of, a Commonwealth indictable offence. These offences are punishable by up to 5 years imprisonment.

case study

Suspects paid for Armenian cocaine shipments with international transfers

In 2005, an investigation uncovered a major drug smuggling operation after law enforcement officers identified that a number of suspects under investigation had transferred more than $100,000 out of Australia.

One of the suspects was arrested while attempting to transfer $100,000 to Armenia through a bank. The suspect had attempted to pay for the international funds transfer with cash.

Following the suspect's arrest, the group's regular funds transfers to Armenia ceased for a period of time. When the group recommenced sending funds to Armenia, they employed a different method to transfer funds in an attempt to avoid detection by authorities. The method included:

- funds being transferred overseas in the last week of each month
- international funds transfers being conducted through banks and paid for with cash. However, the cash payments for these transfers were seemingly structured into amounts of less than $10,000 to avoid the cash transaction reporting threshold
- four individuals from the group sending funds overseas at the same time. The group would travel to one suburb and transfer the funds through various branches of different banks within that suburb
- funds always being sent to the same branch of the same Armenian bank.

Over a four-year period the group transferred nearly $1.8 million to Armenia. Authorities believe the transferred funds were subsequently sent to the United States, where they were used to purchase cocaine for importation into Australia.

In 2010, two members of the group were arrested and sentenced to six years imprisonment for possession of a marketable quantity of imported cocaine.

7 money transfer businesses and alternative remittance services

'...AUSTRAC's partner agencies have identified criminals targeting this business sector to launder money relating to a range of offences...'

Money transfer businesses and alternative remittance services transfer money within and between countries, often outside the formal financial and banking system. They can offer a cheap and reliable service for getting funds to countries and locations which do not have modern formal banking services.

This is a cash intensive sector, comprising approximately 7,000 mostly small businesses involved in high-volume, low-value transactions. Most operate under the banner of a large network while about 400 are smaller independent, community-based entities which send money overseas on behalf of family, community members and businesses.

For the 12 months to 30 June 2011, international funds transfer instruction reports from remittance service providers amounted to $8.2 billion.[3] For the same period, threshold transaction reports (of cash transactions of $10,000 or more) amounted to $1.4 billion.

What are the links between money laundering and money transfer businesses and alternative remittance services?

AUSTRAC's partner agencies have identified criminals targeting this business sector to launder money relating to a range of offences including tax fraud, drug trafficking, tobacco smuggling, people smuggling, and advance fee fraud (such as 'Nigerian' scams).

What methods are used to launder money through money transfer businesses and alternative remittance services?

- **Structuring.** As in the banking sector, the technique of breaking down transactions into smaller amounts is widely used to try to avoid detection.
- **Cuckoo smurfing.** This has emerged as a key money laundering methodology over the past decade. It involves complicit remittance dealers operating as 'go-betweens', depositing illicit funds (for instance, the proceeds from drug deals) into accounts of innocent parties who are expecting transfers from legitimate transactions made overseas. In exchange, criminals receive matched payments overseas without leaving a money trail back to them.
- **Offsetting.** The common alternative remittance practice of offsetting — hawala or hundi — enables the international transfer of value without actually transferring money. This is possible because the arrangement involves a financial credit and debit (offsetting) relationship between two or more dealers operating in different countries. Criminals can exploit offsetting to conceal the amount of illicit funds transferred, obscure the identity of those involved and avoid reporting to AUSTRAC.

[3] An international funds transfer instruction is an instruction transmitted into or out of Australia for a transfer of money or property. This could involve Australian dollars or a foreign currency. All such instructions should be reported to AUSTRAC.

- **Remitters as third party.** Law enforcement agencies have begun to detect cases where Australian-based remittance businesses are used as a third party to move funds or settle transactions involving two or more foreign countries. Similar to cuckoo smurfing, this involves overseas-based remittance dealers accepting legitimate transfer instructions from innocent parties (for example, to import or export goods) but instead of conducting the transfer themselves they send instructions to Australian counterparts. This is common practice among alternative remittance businesses, as part of their routine settlement of debts, to ease cash flow constraints or take advantage of foreign exchange differences. However, some Australian remittance dealers have exploited this opportunity to launder cash from Australian organised crime by transferring it to recipients overseas. Likewise, the overseas remittance dealers supply 'clean' cash to overseas-based crime groups with links in Australia.

- **Manipulation by specialist money laundering syndicates.** Law enforcement agencies have also identified specialist money laundering syndicates exploiting remittance businesses to move illicit funds, particularly where the business has links to high risk countries. Some of these syndicates are based in Australia, while others operate from overseas and rotate teams into Australia to move illicit money on behalf of organised crime.

EXAMPLES OF HOW AUSTRALIA IS RESPONDING TO THIS THREAT

To address the sector's high-risk nature, remittance businesses must register their business with AUSTRAC. This requirement is in line with the FATF standards which recommend that countries implement licensing or registration schemes for the sector. These businesses are reporting entities for the purpose of the AML/CTF Act and must comply with all relevant obligations, including customer due diligence and submission of transaction reports to AUSTRAC.

The Australian Government recently amended the AML/CTF Act to introduce an enhanced regulatory regime for the alternative remittance sector. These new measures include requiring remittance providers to undergo a more rigorous registration process and enable the AUSTRAC CEO to refuse, suspend, cancel or impose conditions on registration.

case study

Money remitters linked to drug trafficking and money laundering syndicates

Joint Task Force Gordian was established in May 2005 to investigate the key structures and networks used by organised crime to finance criminal enterprises, launder the proceeds of crime and evade tax. The task force sought to disrupt criminal networks by targeting accountants, money remitters and the financial service providers assisting them to commit criminal offences. As a result, 16 criminal syndicates were disrupted and 73 people charged with money laundering and serious drug offences. This included charges against seven principal targets for conspiring to launder $93 million through money remittance businesses and transfer large sums of cash overseas.

Three targets of the task force were sentenced in 2009 for imprisonment of up to 10 years for money laundering and trafficking narcotics.

The task force involved the Australian Crime Commission, Australian Federal Police, AUSTRAC, Australian Taxation Office, Australian Customs and Border Protection Service, Victoria Police, New South Wales Police Force and the New South Wales Crime Commission.

the gaming sector

'...Money launderers exploit this high cash turnover and the large volume of transactions to camouflage illegitimate transactions among legitimate gambling activity...'

Gambling at Australian gaming venues — casinos, pubs, clubs, racing and sports betting facilities — is a traditional channel for the placement (moving, dispersing or disguising funds) and layering (reinvesting funds) phases of the money laundering cycle.

During 2008 and 2009, Australians and international visitors spent $19 billion on Australian gambling products.[4] Money launderers exploit this high cash turnover and the large volume of transactions to camouflage illegitimate transactions among legitimate gambling activity.

In addition to gambling, many casinos and gaming facilities offer services similar to financial institutions. This includes accounts, foreign exchange, money changing, electronic funds transfers, cheque issuing, and safety deposit boxes. These additional services are also vulnerable to abuse for money laundering purposes.

What are the links between money laundering and the gaming sector?

Money laundering cases in the gaming sector generally involve cash proceeds from drug trafficking and fraud committed by domestic and international organised crime groups.

What methods are used to launder money through the gaming sector?

» **Exchanging illicit cash for casino chips or gaming tokens.** This is a common gaming-related money laundering method observed by law enforcement agencies. The casino chips are then cashed-in as 'winnings' and the money, which is now linked to a legitimate source, is spent domestically or transferred to overseas accounts. These methods are often used in the placement and layering phases of the money laundering process.

» **Exploiting third parties - 'mules' and 'cleanskins'.** To avoid direct involvement in the money laundering process, criminals may use 'mules' (people unrelated to the initial criminal activity, who are used to unwittingly transfer funds to criminals overseas) or 'cleanskins' (complicit third parties who have no criminal record) to carry out the risky transactions on their behalf. In some instances, these people may be known to the criminal – they may be family members or associates. For example, in one case an organised crime group used third parties to gamble cash proceeds from heroin importation. They recruited mules to purchase gaming chips and cash them in. The cash-ins were structured into smaller amounts to try to avoid mandatory threshold reporting. The group later sent the funds to criminal entities in South East Asia through a complicit alternative remittance business.

[4] Productivity Commission 2010, Gambling: Productivity Commission inquiry report, Productivity Commission, Canberra, viewed 23 February 2011, <www.pc.gov.au/projects/inquiry/gambling-2009/report>.

- **Casino VIP rooms and high-stakes gambling**. Casino VIP rooms offer exclusive access to high-stakes gaming tables to Australian and overseas players. VIP members can place high-value bets in these rooms. In compliance with their AML regulatory obligations, casinos closely monitor and track VIP and high-stakes gaming activity. High-stakes gaming is vulnerable to abuse because it is common for players to gamble with large volumes of cash, the source and ultimate ownership of which may not be readily discernable.

- **Casino-based tourism and junkets.** Casino-based tourism is recognised nationally and internationally as being potentially susceptible to money laundering. Junket operators organise gambling holidays to casinos. Common risks include people carrying large amounts of cash into or out of countries, junket operators moving large sums electronically between casinos or to other jurisdictions, and layers of obscurity around the source and ownership of money on junket tours — players may elect to have junket representatives purchase and cash-in casino chips on their behalf. Junket representatives are often the main contact between the casino and the playing group, which can limit the face-to-face contact between gaming venues and players. This can restrict the venue's ability to conduct effective customer due diligence on individual junket players.

- **Electronic gaming machines.** Electronic gaming machines commonly found in casinos, pubs and clubs offer criminals an accessible way to launder smaller amounts of cash proceeds of crime. Intelligence and case studies reveal criminals can launder illicit cash through these machines by claiming gaming machine payouts from legitimate players (that is, paying cash to a player who has accumulated credits and then requesting a cheque from the gaming venue for the credits). Another method involves putting large amounts of cash or credits through gaming machines and then cancelling the credits to cash-in the payout voucher as 'winnings'.

- **Online gambling.** Overseas investigations indicate that crime syndicates use online gambling platforms to launder funds. This option may become attractive for money laundering by Australian criminals.

EXAMPLES OF HOW AUSTRALIA IS RESPONDING TO THIS THREAT

The AML/CTF Act applies to the provision of a range of designated services in the gaming sector, including accepting bets, paying out winnings, allowing a person to play on a gaming machine and exchanging money for chips. These designated services are recognised as vulnerable to abuse by criminals for money laundering purposes.

Under the AML/CTF Act, gaming facilities which provide designated services to a customer are generally obligated to:

- develop and maintain an AML/CTF program
- identify and verify customer identity where the services (e.g. accepting bets, paying winnings, exchanging money for chips) involve AUD10,000 or more
- report to AUSTRAC regarding suspicious matters, cash transactions of AUD10,000 or more and international funds transfer instructions (reports in respect of international funds transfers mainly relate to casinos).

7 high-value goods

'...Recent high profile asset confiscation cases in Australia show the breadth of criminal investment in high-value goods...'

Criminals purchase high-value goods as a way of reinvesting or concealing criminal proceeds and assets. Items may be bought for day-to-day use, to store and hide value, or to transfer value to a third party.

Buying goods such as jewellery, boats, real estate, artwork, antiques, precious metals and stones is a common money laundering method, particularly for the placement (introducing illegal funds into the formal financial system) and integration (reinvesting funds) stages of money laundering. Many of these high-value goods are attractive to money launderers because they are easy to conceal and transport across borders and convert back into legitimate funds.

Australian-based organised crime groups use this form of money laundering to hide value both in Australia and overseas. Overseas-based crime groups also use this method to conceal assets (e.g. by buying property in Australia) from authorities in their home jurisdictions. Trade in high-value goods may also be used to exchange value without the need for cash or other payment methods.

What are the links between money laundering and high-value goods?

Recent high profile asset confiscation cases in Australia show the breadth of criminal investment in high-value goods and the scale of criminal wealth that can be laundered and invested this way. For example, in 2010 the Commonwealth Government recovered criminal assets worth more than $13 million. Assets included cash, houses, boats, motor vehicles, motorcycles and other items.[5]

[5] Commonwealth Director of Public Prosecutions, Annual report 2010-11, p.157

What methods are used to launder money through high-value goods?

- **Co-mingling legitimate and illicit financial activity.** Criminals may pay for goods such as real estate using a mix of cash from crime and legitimate sources. Criminal proceeds and legitimate money (or assets) can also be channelled through company accounts which are used as a front for the purchase of other legitimate assets for personal use such as motor vehicles.

- **Adding layers and concealing ownership**. Criminals commonly conceal asset ownership to avoid confiscation. This can involve registering high-value assets such as real estate or cars in family or associate names, or purchasing assets in false names.

- **Real estate.** Money may be laundered through real estate by manipulating property values, mortgage and investment schemes, complex corporate vehicles and loan arrangements. In 2004 it was estimated that $651 million worth of laundered funds were invested in real estate annually.[6]

- **Art, antiques and jewellery.** These high-value goods are used to disguise the real amount of money laundered because a true 'market price' can be hard to establish. Criminals can misrepresent the value of these goods by under- or over-valuation to disguise the amount of criminal income laundered through their purchase.

[6] AUSTRAC, John Walker and RMIT University, 2004, *The extent of money laundering in and through Australia in 2004*, Criminology Research Council, viewed 15 June 2011, <www.criminologyresearchcouncil.gov.au/reports/200304-33.pdf>

» **Semi-precious stones and jewellery, gold and silver bullion and valuable coins.** These assets are easily transportable and enable criminals to move value within or across borders with low risk of generating suspicion or detection.

Other issues

It is difficult to distinguish commonplace legitimate consumer and commercial activity from criminal spending on luxury items and laundering criminal funds by investing in assets. There is a vast volume of legitimate transactions involving these items and few, if any, financial indicators to signal suspicious activity.

EXAMPLES OF HOW AUSTRALIA IS RESPONDING TO THIS THREAT

Confiscating the assets derived from crime is a key tool for countering organised crime. In 2002, Commonwealth legislation was strengthened with the introduction of a non-conviction based regime and more recently with the addition of unexplained wealth laws (Proceeds of Crime Act 2002). Measures available under the Proceeds of Crime Act include:

» forfeiture orders – property/instrument is forfeited to the Commonwealth

» pecuniary penalty orders – offender pays amount equal to the benefit they are calculated to have gained from crime

» literary proceeds order – offender pays amount calculated as the benefits received through commercial exploitation of their notoriety from offending.

The unexplained wealth laws, introduced in 2010, place the onus of proof on the individual whose wealth is in dispute, and require that person to attend court and show that their wealth was obtained legitimately. If a person is unable to do so, the court may order the person to pay the amount of their wealth that they cannot demonstrate was legitimately obtained to the Commonwealth.

In 2011 a new multi-agency Criminal Assets Confiscation Taskforce was established to provide a more coordinated and integrated approach to identifying and removing the profits derived from organised criminal activity. Led by the Australian Federal Police and utilising the resources from the Australian Crime Commission, the Australian Taxation Office and the Commonwealth Director of Public Prosecutions, the Taskforce has stepped up the government's fight against organised crime through a more intensive targeting of criminals' accumulated wealth.

The AFP in the 2010-11 financial year restrained $40.1 million in assets, compared with $18.9 million in the 2009-10 financial year. The funds from confiscated assets are deposited into the Confiscated Assets Account and can be used to benefit the community through crime prevention, intervention or diversion programs or other law enforcement initiatives.

7

less visible money laundering channels and sectors

'...Some professionals are unwittingly exploited by criminals, while others are criminal entities in their own right...'

Organised crime groups are increasingly using networks of businesses, companies, partnerships and trusts to support criminal activity and launder illicit funds. In this context, it is becoming more common for organised crime to engage a range of professionals to provide advice, establish and, in some cases, administer these complex structures which disguise illicit money flows.

Some professionals are unwittingly exploited by criminals, while others are criminal entities in their own right.

Australian-based and overseas-based crime groups use professionals such as lawyers, accountants, financial advisers and real estate agents, to help undertake transactions to:

- obscure ultimate ownership through complex layers and structures
- conceal proceeds of crime
- legitimise illicit funds
- avoid tax
- avoid regulatory controls
- provide a veneer of legitimacy to criminal activity
- avoid detection and confiscation
- frustrate law enforcement investigations.

Australian legal professionals have advised AUSTRAC of receiving unusual requests from prospective clients, particularly targeted at passing funds through solicitors' trust accounts. Examples of these requests include:

- a foreign company requesting legal services involving debt recovery, with the legal firm receiving substantial payments into its trust account from purported debtors (both in Australia and overseas) with little debt recovery work actually being required to be undertaken by the firm
- a foreign investor transferring large amounts into a firm's trust account, ostensibly for property and other investments, but then halting the investment and asking for the money to be paid to multiple recipients according to the direction of a third party.

EXAMPLES OF HOW AUSTRALIA IS RESPONDING TO THIS THREAT

Project Wickenby

Project Wickenby investigations into abuse of overseas low taxing jurisdictions found significant use of professional advisers to form trusts and complex corporate and financial structures for large-scale tax fraud and money laundering activity (see the following case study).[7] Professional facilitators have also been identified as helping to channel income to preferential tax regimes and exploit business structures.

[7] Project Wickenby is a cross-agency task force established in 2006 to support the Australian Government's fight against tax evasion, avoidance and crime <www.ato.gov.au/content/00220075.htm>

case study

Suspects jailed after using offshore scheme to avoid $4 million tax

Authorities investigated three suspects for their involvement in the use of an offshore scheme to defraud the Commonwealth and avoid paying almost $4 million in tax. Between 1999 and 2005, the suspects allegedly used an offshore scheme promoted by an overseas accounting firm to avoid paying the tax:

- A fictitious intermediary company was set up by the overseas accounting firm, which charged the main company, owned by the suspects, for inflated business expenses on 44 separate occasions.
- By artificially inflating their business expenses, the suspects reduced their company's taxable income and therefore the amount of income tax they were required to pay.
- After the main company paid the inflated invoices issued by the intermediary company, the funds used to pay the invoices were diverted into offshore trust funds held in each of the suspects' names.
- These undeclared company profits were subsequently channelled through the trust funds and bank accounts, and finally withdrawn by the suspects as cash from automatic teller machines in Australia.

Two of the suspects were found guilty of conspiring to dishonestly cause a loss to the Commonwealth and in 2010 sentenced to six-and-a-half years imprisonment.

legal entity structures

'...hinders investigations into actual ownership of funds and presents challenges for banks and other financial institutions in identifying the ultimate beneficiary and detecting suspicious activity...'

Criminals use multi-layered legal entity structures in the layering (moving, dispersing or disguising funds) and integration (reinvesting funds) stages of the money laundering cycle. Legal entity structures such as companies, partnerships and trusts are used to:

- support criminal enterprises
- launder illicit funds
- hide ultimate ownership behind layers of companies or trusts in multiple overseas jurisdictions
- move and obscure the ultimate destination of funds
- avoid tax
- conceal wealth
- avoid detection and confiscation
- hinder regulatory and law enforcement efforts.

Criminals often require advice from professional facilitators or 'gatekeepers' to establish and maintain these structures. The resulting maze of structures and international transactions hinders investigations into actual ownership of funds and presents challenges for banks and other financial institutions in identifying the ultimate beneficiary and detecting suspicious activity.

cash intensive businesses

'...used to launder proceeds from a range of serious and organised crime activity including drug and tobacco offences, tax evasion, tax and welfare fraud and illegal gambling...'

Cash intensive businesses are businesses which have a high volume of legitimate cash flows. Examples of such businesses can often be found in the restaurant, hotel, pub and club, taxi, building and construction, entertainment, convenience store and motor vehicle retail sectors. Cash intensive businesses are used in all stages of the money laundering cycle.

Law enforcement operations have identified cash intensive businesses being used to launder proceeds from a range of serious and organised crime activity including drug and tobacco offences, tax evasion, tax and welfare fraud and illegal gambling.

Cash intensive businesses are used to:

- provide a front to launder money and expand criminal enterprises
- reinvest criminal income in the legitimate economy (for example, the business is acquired using tainted money but operates legitimately)
- co-mingle illicit and legitimate income.

electronic payment systems and new payment methods

'...Their dynamic nature and rapid technology developments offer opportunities for criminals to exploit these systems for money laundering purposes...'

Electronic payment systems and new payment methods have become an integral part of the globalised economy. Their dynamic nature and rapid technology developments offer opportunities for criminals to exploit these systems for money laundering purposes.

Areas of concern internationally and in Australia fall into two main categories: ATM/electronic funds transfer at point of sale (EFTPOS) networks and cards; and online and new payment methods. While these systems differ in many ways, they can both provide anonymity and do not require face-to-face business relationships and transactions.

These systems are used to:

- **co-mingle illicit cash with legitimate business takings** — for example, merchant-filled ATMs, where funds for dispersal are privately stocked, could be exploited to place illicit funds into the legitimate financial system
- **move illicit funds across borders** — for example, through international use of credit and debit cards which provide instant access around the world to ATM withdrawals, and through online payment systems which provide a quick and easy way to transfer funds between individuals or businesses
- **conceal criminal proceeds and send them offshore** — for example, through stored value cards which enable real-time transfer of cash domestically or overseas, and through digital currencies or e-currencies which can be exchanged for traditional currency using either cash or electronically via credit card or bank account.

cross-border movement of cash and bearer negotiable instruments

'...requires less sophisticated planning and technical skill compared to other money laundering methodologies...'

Smuggling and couriering cash and BNIs across borders requires less sophisticated planning and technical skill compared to other money laundering methodologies.

It is not illegal to move cash (including notes and coins) or BNIs (such as cheques, traveller's cheques, money orders) into or out of Australia. But it is an offence not to declare cash movements above the threshold (AUD10,000 or more or foreign equivalent) or not to declare a BNI if required to do so by the Australian Customs and Border Protection Service or the police.

Clandestine movement of cash and other valuable items across borders is a common money laundering method around the world.

This method is used to:

- launder funds by placing them in another jurisdiction, typically with weaker AML controls
- move illicit value to purchase assets and other value that can be stored
- pay for illicit goods
- hide proceeds from authorities and complicate asset recovery.

Criminals exploit the high volume of passenger, cargo and mail movements into and out of Australia. They may enlist cash couriers who physically transport cash in person or in their luggage. Couriers may be directly involved in the underlying crime or may be third parties recruited specifically to move money offshore.

There have been fewer cases involving cash couriering compared to many other money laundering methodologies found in Australia. However, a prominent case involving airline crew members highlights the potential scale of cash couriering involving organised syndicates and trusted insiders.

case study

Airline pilots involved in cash smuggling

In February 2005, the Australian Federal Police in conjunction with NSW Police and the NSW Crime Commission disrupted an alleged criminal syndicate operating at Sydney Airport which allegedly conspired to import up to 30 kilograms of cocaine from South America. The syndicate used corrupt baggage handlers to smuggle drugs through the airport. In June 2006, a Vietnam Airlines pilot flying from Sydney to Ho Chi Minh City, was detained when he was preparing to board the plane at Sydney airport. The Australian Customs Service found that the pilot was carrying US $540,000 with him without declaration. Investigations by the ACC-led Task Force Gordian, which was established in March 2005 to combat money laundering and tax fraud, revealed that the pilot had engaged in numerous money laundering activities between July 2005 and June 2006 where a total of $6.5 million was smuggled from Australia. The pilot was charged under the Commonwealth Criminal Code for recklessly laundering more than $1 million and jailed for four and a half years.

international trade

'...For larger money laundering operations, international trade may form one part of a more diverse money laundering process...'

Trade-based money laundering is a well-established channel overseas, commonly associated with laundering of drug cartel profits and getting around foreign exchange restrictions.

Trade-based money laundering methods range from relatively simple, such as misrepresenting the quality or quantity of goods traded, to more complex methods which can involve multiple countries, shell companies, legitimate import/export businesses and use of trade financing and brokers to conceal criminal funds or assets. For larger money laundering operations, international trade may form one part of a more diverse money laundering process.

Money laundering through the trade system is used to legitimise, conceal, transfer and convert the instruments or the proceeds of crime into less conspicuous assets, commodities or services.

Such cases are limited in Australia. However, authorities have detected criminal syndicates abusing Australia's international trade system to connect illicit commodities with their market, for example using cargo trade to conceal international movement of illicit commodities, such as tobacco, drugs and weapons and to defraud the Commonwealth of trade and excise revenue.

The degree of complexity and the risk of detection from trade-based money laundering may make more established money laundering channels more attractive to criminals in Australia. However, continued growth in trade and the involvement of overseas-based crime groups in Australia suggests that trade-based money laundering could emerge as a significant money laundering channel in future. International trends also suggest that tighter regulatory measures in the financial system may displace money laundering to other systems and methodologies, such as international trade and trade financing.

investment vehicles

'...The Australian financial system offers a diverse and complex suite of investment vehicles across domestic and international markets...'

A relatively small number of money laundering cases have involved exploitation of 'investment vehicles' such as shares, insurance products and superannuation funds.

The Australian financial system offers a diverse and complex suite of investment vehicles across domestic and international markets.

The complexity of investment vehicles, markets and products makes it difficult to assess the actual level of money laundering activity involved. Beneficial owners can hide behind complex trust or corporate structures. In addition, new investment products, services and technologies may offer increasingly attractive options for money laundering in the future.

It is difficult for the investment industry and financial sector to detect and report to authorities the integration of criminal wealth in investment vehicles. This is because the criminal wealth is likely to have already been laundered through placement or layering in other parts of the economy, before it is integrated into investment markets.

case study

Illegal investment schemes laundered through New Zealand

In 2004 authorities began investigating a person suspected of illegally raising investment funds and operating an unregistered managed investment scheme.

AUSTRAC, after monitoring the financial activities of the person and his associates, found that funds were sent from Australia to two accounting firms in New Zealand. The funds were then transferred back to Australia, where they were used for gambling and to purchase luxury vehicles and real estate.

A suspect transaction report (SUSTR) detailing the main suspect's activities was also submitted to AUSTRAC.

AUSTRAC information showed that the amount of funds returning to Australia was greater than the amount originally sent to New Zealand. Authorities concluded that the group was raising money from the public in both Australia and New Zealand to fund the managed investment scheme, and that the funds were being transferred to New Zealand and then back to Australia to disguise their origins.

After further investigations, in 2008 two people were charged with operating an unregistered managed investment scheme and sentenced to two years in prison.

Australia's response

Australia responds to the threat of money laundering through:

» gathering and sharing financial intelligence to identify vulnerabilities and understand current and emerging money laundering methods

» collaborating to investigate and prevent money laundering activities

» developing and enforcing AML/CTF regulation to identify, mitigate and manage risks

» engaging with industry and the community to create an environment more hostile to money laundering.

Benefits of a strong AML/CTF regime

Australia's AML/CTF regime provides benefits to the community in numerous ways including:

» **Preventing, detecting and disrupting crime**. AUSTRAC's financial intelligence contributes to multi-agency investigations which target money laundering and tax evasion criminal networks, in addition to a range of predicate crimes such as drug trafficking, fraud, identity crime, people smuggling and national security matters.

» **Economic stability.** Money laundering and terrorism financing activities have the potential to undermine the soundness and stability of financial institutions and systems, discourage foreign investment and distort international capital flows. Australia's AML/CTF regime enhances our economic stability.

» **Benefits to business.** Businesses which comply with the AML/CTF regime reduce their risk of being exploited by organised crime for money laundering purposes. Businesses benefit when regulatory actions detect and disrupt undermining criminal activities such as embezzlement of funds, loan fraud and international scams. Maintaining a strong AML/CTF regime also enhances the reputation of Australian businesses, particularly financial institutions, in the eyes of overseas investors and international markets.

» **Benefits to the general public.** In addition to the more general benefits derived from maintaining a stable financial system and enhancing the capacity of law enforcement and national security agencies to target criminal activities, Australia's AML/CTF regime directly helps protect members of the public. Monitoring transactions enables financial institutions and law enforcement agencies to detect irregular activity which might reveal that a customer's personal and account details have been stolen or misused. This monitoring also helps identify attempts by criminal groups to defraud individuals via 'Nigerian' or 'cold calling' scams.

AUSTRAC's role

AUSTRAC has a key role in the response, both in its capacity as the national AML/CTF regulator and as Australia's FIU.

Enhancing understanding

AUSTRAC's work supports national priorities to protect national security, apprehend criminals, protect the integrity of Australia's financial markets and maximise revenue collection.

AUSTRAC shares financial transaction information and intelligence with its international counterpart FIUs. This information strengthens the global effort to combat money laundering and terrorism financing, and benefits the operational work of FIUs and law enforcement agencies tracking the international movement of the proceeds of crime. In return, AUSTRAC receives valuable financial intelligence from its international partners to assist in its own detection and analysis of illicit transactions.

Educating and regulating

As Australia's AML/CTF regulator, AUSTRAC educates, monitors and works to improve the effectiveness of reporting entities' compliance with the requirements of the AML/CTF Act and the *Financial Transaction Reports Act 1988*. Where needed, AUSTRAC takes action to enforce compliance with these Acts through more formal mechanisms. AUSTRAC also works to develop our AML/CTF regime to keep pace with changing money laundering methods and emerging threats.

Engaging with industry

AUSTRAC's work is part of a whole-of-government approach which involves collaboration with other intelligence, regulatory and law enforcement agencies and, importantly, with industry and the community. Given the reach and breadth of money laundering activities, engaging with industry is essential for a strong and sustained response. By working with industry, AUSTRAC and partner agencies develop a more complete and detailed picture of the money laundering environment in Australia, including vulnerabilities and emerging threats. Sharing this knowledge enables government and industry to identify and target criminal activities.

appendix

Indicators of potential money laundering activity

The list below features some common money laundering indicators. This list should be treated as a non-exhaustive guide.

- Customer undertaking transactions which appear inconsistent with their profile and/or transaction history
- New customer attempting large transactions
- Customer has an unusual desire for anonymity or discretion in their affairs
- Customer shows unusual interest in internal controls and processes
- Customer refuses to show identification
- Use of false identification to conduct transactions
- Use of third parties to carry cash, deposit or withdraw funds
- Large cash deposits and withdrawals
- Structuring of cash deposits and withdrawals to avoid reporting requirements
- Multiple cash deposits at various banks and branches
- Cash withdrawals conducted at various bank branches and/or ATMs on the same day
- High-value cash deposits to pay for international funds transfers
- High-value international funds transfers to/from Australia with no apparent business or other reason
- Multiple customers sending international funds transfers to the same overseas beneficiary

- Same ordering customer sending international funds transfers to multiple beneficiaries
- Significant volume of international funds transfers conducted in a short period of time
- Customer exhibits unusual business account behaviours i.e. frequent changes of address, phone numbers, etc
- Regular large cash deposits made into a remitter's accounts by the same third party, who does not appear to be directly linked to the remittance business

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