SPEAKING OUT

(First of two parts)

ALONG with alleviating poverty, increasing monetary transparency, and improving the public's financial literacy, one of the Bangko Sentral ng Pilipinas's advocacies is its contribution to the global fight against money laundering.

Before anything else, let us first determine what money laundering really is.

According to the Financial Action Task Force (FATF), an international body bent on combating money laundering and terrorist financing, the goal of a large number of criminal acts is to generate profit for the individual or group that carries out the act.

The FATF defined money laundering as the processing of these criminal proceeds to disguise their illegal origin.

This laundering process is of critical importance, if successful, enables the criminal to enjoy these profits without jeopardizing their source.

Examples of criminal activities that can generate large profits and create the incentive to legitimize ill-gotten proceeds through money laundering are: illegal arms sales; smuggling; the activities of organized crime, including for example drug trafficking and prostitution rings; embezzlement; insider trading; bribery; and computer fraud schemes.

The FATF explained that when a criminal activity makes substantial profits, the individual or group involved usually finds ways to control the funds without attracting attention to their illegal activities.

Criminals do this by disguising the sources, changing the form, or moving the funds to a place where they are less likely to attract attention.

In short, criminals turn “dirty” money into “clean” money.

So how exactly do these criminal elements launder dirty money?

The FATF lists three stages involved:

In the initial (or placement) stage of money laundering, the launderer “introduces” his illegal profits into the financial system.

The launderer does this by either breaking up large amounts of cash into less noticeable smaller sums that are then deposited directly into a bank account, or by purchasing a series of monetary instruments (e.g., checks and money orders) that are then collected and deposited into accounts at another location.

After the funds have entered the financial system, the second (or layering) stage takes place.

The FATF explained that in this phase, the launderer conducts a series of conversions or movements of the funds to distance them from their source.

The launderer may channel the funds through the purchase and sales of investment instruments, or simply wire the funds through a series of accounts at various banks across the globe.

In some instances, the launderer might disguise the transfers as payments for goods or services, thus giving the money a legitimate appearance.

Having successfully processed his criminal profits through the first two phases, the launderer then moves them to the third (or integration) stage, wherein the funds re-enter the legitimate economy.

The launderer may choose to invest the funds in real estate, luxury assets or business ventures.

The international policy-making body warned that if money laundering is left unchecked, organized crimes or terrorist groups can infiltrate and sabotage financial institutions, acquire control of large sectors of the economy through investments, and even use the dirty money to bribe public officials.

(To be concluded next week)

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