



Prime Bank Limited
Head Office

**Money Laundering & Terrorist Financing
Risk Management Guideline for
Prime Bank Limited**

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PREFACE

Banking is the inevitable part of an economy and plays a major contributing role towards socio-economic development of a country. The sector is considered as the life blood of the economy as well. As one of the most important sectors of the financial system, it forms the core of the money market and plays very dynamic role in mobilizing resources for productive investments in a country, which in turn contributes to economic development of the country. An efficient and stable banking system is the prerequisite for overall development of the country. To maintain stability and integrity of international financial system, Financial Action Task force (FATF), an inter-governmental body established by G-7 in 1989, has set 40 recommendations for preventing money laundering and terrorist financing.

To keep pace with international initiatives and to enforce the promulgated Money Laundering Prevention Act-2012 (Amendment in 2015) and Anti-Terrorism Act-2009 (Amendment in 2012 & 2013), BFIU of Bangladesh Bank has send us "Money Laundering & Terrorist Financing Risk Management Guidelines" vide their BFIU Circular Letter No. 05/2015 dated 10.09.2015 with an instruction to implement the guidelines in all sectors of Bank. According to the Bangladesh Bank's (Central Bank) guidelines we have prepared this guideline.

This Guideline has been formulated in accordance with the provisions of the Money Laundering Prevention Act-2012 (with amendment in 2015), Anti-Terrorism Act-2009 (with amendment in 2012 & 2013) and the Money Laundering & Terrorist Financing Risk Management Guideline issued by BFIU of Bangladesh Bank and is intended to ensure that all directors and employees of Prime Bank Limited such as to understand and comply with the requirements and obligations imposed on them.

All Directors, Senior Management and Employees of Prime Bank Limited have to comply with the instruction of this guideline as per laws of the land and it will applicable to all products or services offered by Prime Bank Limited.



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AN OVERVIEW OF MONEY LAUNDERING AND TERRORIST FINANCING

1.1 INTRODUCTION

Money Laundering is happened by launderers worldwide to conceal the proceeds earned from criminal activities. It happens in almost every country in the world, and a single scheme typically involves transferring money through several countries in order to obscure its origins. And the rise of global financial markets makes money laundering easier than ever, making it possible to anonymously deposit proceeds of crime in one country and then have it transferred to any other country for use.

Money laundering has a major impact on a country's economy as a whole, impeding the social, economic, political, and cultural development of a society. Both money laundering and terrorist financing can weaken individual financial institution, and they are also threats to a country's overall financial sector reputation. Combating money laundering and terrorist financing is, therefore, a key element in promoting a strong, sound and stable financial sector.

The process of money laundering and terrorist financing (ML/TF) is very dynamic and ever evolving. The money launderers and terrorist financiers are inventing more and more complicated and sophisticated procedures and using new technology for money laundering and terrorist financing. To address these emerging challenges, the global community has taken various initiatives against ML & TF. In accordance with international initiatives, Bangladesh has also acted on many fronts.

1.2 DEFINING MONEY LAUNDERING

Money laundering can be defined in a number of ways. But the fundamental concept of money laundering is the process by which proceeds from a criminal activity is disguised to conceal their illicit origins. Most countries adopted to the following definition which was delineated in the United Nations Convention against Illicit Traffic in Narcotic Drugs and Psychotropic Substances (1988) (the Vienna Convention) and the United Nations Convention Against Transnational Organized Crime (2000) (the Palermo Convention):

- The conversion or transfer of property, knowing that such property is derived from any offense, e.g. drug trafficking, or offenses or from an act of participation in such offense or offenses, for the purpose of concealing or disguising the illicit origin of the property or of assisting any person who is involved in the commission of such an offense or offenses to evade the legal consequences of his actions;
- The concealing or disguising the true nature, source, location, disposition, movement, rights with respect to, or ownership of property, knowing that such property is derived from an offense or offenses or from an act of participation in such an offense or offenses, and;
- The acquisition, possession or use of property, knowing at the time of receipt that such property was derived from an offense or offenses or from an act of participation in such offense or offenses.



The Financial Action Task Force (FATF), the international standard setter for anti-money laundering (AML) and combating financing of terrorism (CFT) efforts, recommends that money laundering should be criminalized in line with the Vienna Convention and Palermo Convention. Like other countries of the world, Bangladesh has criminalized money laundering in line with those conventions. Moreover, Bangladesh also considers some domestic concerns like 'smuggling of money or property from Bangladesh' in criminalizing money laundering.

Section 2 (v) of Money Laundering Prevention Act (MLPA), 2012 of Bangladesh defines money laundering as follows:

'Money laundering' means –

- i. knowingly moving, converting, or transferring proceeds of crime or property involved in an offence for the following purposes:-
 - (1) concealing or disguising the illicit nature, source, location, ownership or control of the proceeds of crime; or
 - (2) assisting any person involved in the commission of the predicate offence to evade the legal consequences of such offence;
- ii. smuggling money or property earned through legal or illegal means to a foreign country;
- iii. knowingly transferring or remitting the proceeds of crime to a foreign country or remitting or bringing them into Bangladesh from a foreign country with the intention of hiding or disguising its illegal source; or
- iv. concluding or attempting to conclude financial transactions in such a manner so as to reporting requirement under this Act may be avoided;
- v. converting or moving or transferring property with the intention to instigate or assist for committing a predicate offence;
- vi. acquiring, possessing or using any property, knowing that such property is the proceeds of a predicate offence;
- vii. performing such activities so as to the illegal source of the proceeds of crime may be concealed or disguised;
- viii. participating in, associating with, conspiring, attempting, abetting, instigating or counseling to commit any offences mentioned above.

Money laundering is a criminal offence under section 4(1) of MLPA, 2012 and penalties for money laundering are-

1. Any person who commits or abets or conspires to commit the offence of money laundering, shall be punished with imprisonment for a term of at least 4(four) years but not exceeding 12(twelve) years and, in addition to that, a fine equivalent to the twice of the value of the property involved in the offence or taka 10 (ten) lacks, whichever is greater.
2. In addition to any fine or punishment, the court may pass an order to forfeit the property of the convicted person in favour of the State which directly or indirectly involved in or related with money laundering or any predicate offence.
3. Any entity which commits an offence under this section shall be punished with a fine of not less than twice of the value of the property or taka 20(twenty) lacks, whichever is greater and in addition to this the registration of the said entity shall be liable to be cancelled.

1.3 STAGES OF MONEY LAUNDERING

There is no single method of laundering money. In most of the criminal cases, the initial proceeds usually take the form of cash. For example, bribery, extortion, robbery and street level trade of drugs are almost always made with cash. This cash needs to enter into the financial system by some means so that it can be converted into a form which can be more easily transformed, concealed or transported.

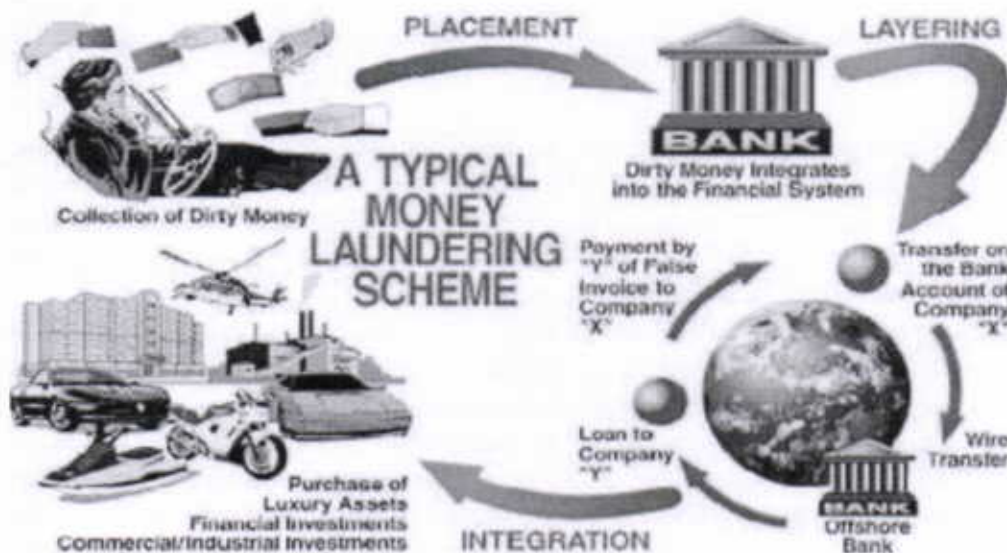
Despite the variety of methods employed, the laundering is not a single act but a process accomplished in 3(three) basic stages, placement, layering and integration.

Placement- the physical disposal of the initial proceeds derived from illegal activity. This is the movement of cash from its source. On occasion the source can be easily disguised or misrepresented. This is followed by placing it into circulation through financial institutions, casinos, shops, exchange houses, security brokers, and other businesses, both local and abroad.

Layering- separating illicit proceeds from their source by creating complex layers of financial transactions designed to disguise the audit trail and provide anonymity. The purpose of this stage is to make it more difficult to detect and uncover a laundering activity. It is meant to make the trailing of illegal proceeds difficult for the law enforcement agencies.

Integration- the provision of apparent legitimacy to wealth derived criminally. If the layering process has succeeded, integration schemes place the laundered proceeds back into the economy in such a way that they re-enter into the financial system appearing as normal business funds.

These three steps are illustrated in the following page:



The three basic steps may occur as separate and distinct phases. They may also occur simultaneously or more commonly, may overlap. How the basic steps are used depends on the available laundering mechanisms and the requirements of the criminal organizations.

The table below provides some typical examples of the stages of money laundering.

Placement Stage	Layering Stage	Integration Stage
Cash paid into bank (sometimes with employees complicity or mixed with proceeds of legitimate business).	Sale or switch to other forms of investment.	Redemption of contract or switch to other forms of investment.
Cash exported.	Money transferred to assets of legitimate financial institutions.	False loan repayments or forged invoices used as cover for laundered money.
Cash used to buy high value goods, property or business assets.	Telegraphic transfers (often using fictitious names or funds disguised as proceeds of legitimate business).	Complex web of transfers (both domestic and international) makes tracing original source of funds virtually impossible.
Cash purchase of single premium life insurance or other investment.	Cash deposited in outstation branches and even overseas banking system.	
	Resale of goods/assets.	

Money laundering takes several different forms, although most methods can be categorized into one of a few types. These include "bank methods, smurfing [also known as structuring], currency exchanges, and double-invoicing".

- Structuring: Often known as *smurfing*, this is a method of placement whereby cash is broken into smaller deposits of money, used to defeat suspicion of money laundering and to avoid anti-money laundering reporting requirements. A sub-component of this is to use smaller amounts of cash to purchase bearer instruments, such as money orders, and then ultimately deposit those, again in small amounts.
- Bulk cash smuggling: This involves physically smuggling cash to another jurisdiction and depositing it in a financial institution, such as an offshore bank, with greater bank secrecy or less rigorous money laundering enforcement.
- Cash-intensive businesses: In this method, a business typically expected to receive a large proportion of its revenue as cash uses its accounts to deposit criminally derived cash. Such enterprises often operate openly and in doing so generate cash revenue from incidental legitimate business in addition to the illicit cash - in such cases the business will usually claim all cash received as legitimate earnings. Service businesses are best suited to this method, as such businesses have little or no variable costs and/or a large ratio between revenue and variable costs, which makes it difficult to detect discrepancies between revenues and costs. Examples are parking buildings, strip clubs, tanning beds, car washes and casinos.
- Trade-based laundering: This involves under- or overvaluing invoices to disguise the movement of money.
- Shell companies and trusts: Trusts and shell companies disguise the true owner of money. Trusts and corporate vehicles, depending on the jurisdiction, need not disclose their true, beneficial, owner. Sometimes referred to by the slang term *rathole* though that term usually refers to a person acting as the fictitious owner rather a business entity.

- **Round-tripping:** Here, money is deposited in a controlled foreign corporation offshore, preferably in a tax haven where minimal records are kept, and then shipped back as a foreign direct investment, exempt from taxation. A variant on this is to transfer money to a law firm or similar organization as funds on account of fees, then to cancel the retainer and, when the money is remitted, represent the sums received from the lawyers as a legacy under a will or proceeds of litigation.
- **Bank capture:** In this case, money launderers or criminals buy a controlling interest in a bank, preferably in a jurisdiction with weak money laundering controls, and then move money through the bank without scrutiny.
- **Casinos:** In this method, an individual walks into a casino with and buys chips with illicit cash. The individual will then play for a relatively short time. When the person cashes in the chips, they will expect to take payment in a check, or at least get a receipt so they can claim the proceeds as gambling winnings.
- **Other gambling:** Money is spent on gambling, preferably on higher odds. One way to minimize risk with this method is to bet on every possible outcome of some event where there are many possible outcomes and no outcome(s) have short odds - the bettor will lose only the vigorish and will have (a) "winning" bet(s) that can be shown as the source of money should this be requested. The "losing" bets will remain hidden.
- **Real estate:** Someone purchases real estate with illegal proceeds and then sells the property. To outsiders, the proceeds from the sale look like legitimate income. Alternatively, the price of the property is manipulated: the seller agrees to a contract that under-represents the value of the property, and receives criminal proceeds to make up the difference.
- **Black salaries:** A company may have unregistered employees without a written contract and pay them cash salaries. Dirty money might be used to pay them.
- **Tax amnesties:** For example, those that legalize unreported assets in tax havens and cash
- **Fictitious loans**
- A goal of money laundering is to be able to use the dirty money for private consumption. If unable to use it openly, the traditional way to keep the dirty money near is hiding it as cash at home or other places. A more modern method is a credit card connected to a tax haven bank.

1.4 WHY MONEY LAUNDERING IS DONE

- First, money represents the lifeblood of the organization/person that engages in criminal conduct for financial gain because it covers operating expenses and pays for an extravagant lifestyle. To spend money in these ways, criminals must make the money they derived illegally appear legitimate.
- Second, a trail of money from an offense to criminals can become incriminating evidence. Criminals must obscure or hide the source of their wealth or alternatively disguise ownership or control to ensure that illicit proceeds are not used to prosecute them.
- Third, the proceeds from crime often becomes the target of investigation and seizure. To shield ill-gotten gains from suspicion and protect them from seizure, criminals must conceal their existence or, alternatively, make them look legitimate.

