Anti-Money Laundering and Auditors Role

AML Team

23 November 2011
Session Objectives

The objective of this session is to:

• Define Anti Money Laundering (AML) and Counter Terrorist Financing (CTF)
• Briefly outline the money laundering process
• Provide a basic outline of the local regulatory regimes governing AML/CTF
• Identify AML/CTF Red Flags
• Case Study
Introduction to AML/CTF

Stephen Albrecht
Defining Money Laundering

Money Laundering ("ML"): Is the process of concealing or disguising the existence, illegal source, movement, destination or illegal application of illicitly derived property or funds to make them appear legitimate.

Conversion from “black to white”
Defining Terrorist Financing

Terrorist financing

• Involves the solicitation, collection or provision of funds with the intention that they may be used to support a terrorist act or organisation

• Terrorist financing – is money laundering upside down – involves taking funds that were obtained through legal means and changing the funds to illegal use

Conversion from “white to black”
How is Money Laundered?

1. Placement
2. Layering
3. Integration
Common Factors of Money Laundering

- True ownership / source concealed
- Money’s form is changed (cash to asset)
- Process trail obscured
- Constant control over process required
The IMF estimates that the volume of global money laundering approximates 1.5-2% of world GDP.
Major International Influences
• Financial Action Task Force
• United Nations

Other Influences
• Vienna Convention – regarding narcotics
• Strasbourg Convention – regarding confiscation of the proceeds of crime
• Palermo Convention – regarding transnational organised crime, including trafficking in persons and human smuggling
• Merida Convention – regarding corruption
Federal Requirements

– **Federal Law No. 4 of 2002** concerning Criminalisation of Money Laundering

– **Federal Law No. 1 of 2004** concerning Combatting Terrorism Offences
Regulations Issued by the UAE CB/Ministry of the Economy


- Ministry of Economy & Commerce Circular to Audit Firms dated 16 July 2002
AML Regime in UAE

Intelligence Phase
- AMLSCU
- STRs received
- STRs analysed/disseminated

Investigation Phase
- Law Enforcement
- Investigations

Judicial Phase
- Public Prosecution & Courts
- Legal Proceedings
- Convictions
- Confiscations
DFSA Framework – Registration Requirements

<table>
<thead>
<tr>
<th>NATURE OF SERVICES</th>
<th>TYPE OF REGISTRATION</th>
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<tbody>
<tr>
<td>• Provision of accounting services - in or from the DIFC</td>
<td>• ASP registration</td>
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<tr>
<td>• Provision of accounting services - from outside the DIFC</td>
<td>• No registration required</td>
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<tr>
<td>• Auditing services to the Domestic AFs, AMIs and Domestic Funds – from outside the DIFC</td>
<td>• Auditor registration</td>
</tr>
<tr>
<td>• Auditing services to the Domestic AFs, AMIs and Domestic Funds – in or from the DIFC</td>
<td>• Auditor and ASP registration</td>
</tr>
<tr>
<td>• Auditing services to unregulated firms – irrespective of location of the service provider</td>
<td>• No registration required</td>
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<tr>
<td>• Auditing services to AFs which are branches</td>
<td>• No registration required</td>
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DFSA Framework – Auditors

Framework for regulation of auditors – Key elements

• Applicable to the auditors of Domestic AFs, AMIs and Domestic Funds
• Two tier structure of regulation – audit firms and audit principals
• Control by Persons holding Recognised Professional Qualification from a Recognised Professional Body
• Compliance with IFAC standards on auditing, quality control and ethics
• Professional Indemnity Insurance requirements
• AML requirements
Framework for regulation of auditors - Key elements

- Control by Persons holding Recognised Professional Qualification from a Recognised Professional Body
- Audit principal requirements – professional qualification, experience in financial services audit etc.
- Audit principals to control the conduct of audit work and sign off the audit and other reports.
- Continuous Professional Education (CPE) requirements
- On going risk based supervisory approach
- Supervisory powers of the DFSA – power to suspend, refer to the professional body etc.
- Other requirements such as notification requirements, record keeping etc.
Money Laundering Techniques

Mahmoud Abu-Sharkh
The Red Flags of money laundering and terrorist financing

• Cash transactions
• Non face-to-face business relationships
• Use of fronts and intermediaries
• Use of (largely) unregulated gatekeepers (i.e. lawyers, accountants, real estate agents, dealers in high value goods, company service providers)
• Fictitious companies and financial institutions
• Customers & business partners from high risk jurisdictions
• Charities, Politically Exposed Persons (PEPs)
AML/CTF Vulnerabilities in the UAE

- High number of migrant workers and tourists
- Cash-based economy
- Traditional trading hub
- Neighbouring conflicts
- Neighbouring drug trade
- Need for high levels of foreign direct investment
- Media hype
AML/CTF Techniques in the UAE

- Financial institutions
- Trade related transactions
- Real estate
- High value goods (cars, gold, jewellery, art, etc.)
- Free zone activities
- Alternative remittance transactions (Hawala)
- Politically exposed persons
“Dubai, India, Pakistan…’Hawala Triangle’, the system responsible for significant money laundering activities” (Money Laundering Alert)

“Dubai’s free wheeling financial environment is a mix of modern wealth and ancient commerce. ….important crossroad for financing terrorism” (NY Times)

“Dubai is going to emerge as one of the battlegrounds in terrorist financing” (NY Times)

“UAE is at high risk for Money laundering” (US State Department)

“Dubai’s history of shady transactions and the difficulty of tracking a matrix and illegal free trade…” (USA Today)
Thank You