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Comment: Money laundering has no easy solution

[Roy Cullen \(/authors?author=Roy Cullen\)](#) / Times Colonist

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Money laundering is an enormous burden to countries around the world. It jeopardizes poverty alleviation and political stability.

The recent push by Organization for Economic Co-operation and Development countries and the G8 for greater transparency in financial transactions is a welcome development, but efforts will need to be accelerated and enhanced if success is to be achieved.

Legislators around the world need to mount a co-ordinated international effort to fight money-laundering by bringing greater transparency to financial transactions. We need to place the onus on depositors to make a binding declaration of beneficial ownership, with sanctions for those who fail to comply.

This would reduce transaction costs for financial institutions by calling on depositors to develop the affidavits and beneficial-ownership documentation, and shift the responsibility to depositors — the “user pay” concept.

False declarations would result in frozen, and potentially confiscated, funds. This would also motivate financial institutions to carry out thorough due diligence on new depositors. These rules would be made clear to depositors, who would understand the risks associated with false declarations of beneficial ownership.

This step would act as a deterrent to hiding the identity of the real owners, that is, those who derive the real economic benefits from these assets.

Corrupt officials and tax evaders do not deposit illicit funds in their own names. They use nominees (lawyers, accountants, family or friends) and shell companies to distance themselves from transactions. They launder their funds and facilitate complex money-laundering schemes to hide the source of the funds.

While capacity and expertise to better follow these trails are increasing around the world, countries have been slow to implement the necessary measures, such as the Financial Action Task Force recommendations 33 and 34. These recommendations call for countries to take measures to prevent both the unlawful use of legal persons and the unlawful use of legal arrangements by money launderers. An effective tool that would enhance compliance with these measures would be binding beneficial-ownership declarations by depositors and parties to financial transactions.

Some international financial institutions and financial intermediaries have committed to the standards enunciated by the FATF. However, these commitments have not been made globally. There remain locations for corrupt officials to launder their money. In addition, many of the countries that have adopted the FATF recommendations are not fully compliant with the standards.

The other reality is that despite the best efforts of bank officials, following the trail and unravelling the complex web of nominees and shell companies can be a daunting task. Layer this with the other given that, despite Know Your Customer efforts and due diligence procedures, financial institutions are inherently in a conflict-of-interest situation when corrupt leaders and tax evaders seek to make personal deposits in their banks.

Does a financial institution really want to turn away million and multimillion-dollar deposits? Financial institutions should immediately become cautious when large depositors emerge and where the origin of the money is unclear.

Launderers of corrupt money will seek out the countries with the weakest regimes against anti-money laundering. A co-ordinated international effort to bring greater transparency to financial transactions — in particular, the rules and protocols around beneficial ownership — would help fight this problem.

While initiatives in the United Kingdom calling for disclosure of beneficial ownership information in central public registries is a positive development, will money launderers simply move their operations to less hostile jurisdictions once these new rules are in place and working?

How will beneficial owners be reliably identified? Hopefully, due-diligence procedures will shift the burden of proof to depositors.

We need to find better solutions to help in the fight against corruption. Despite recent progress in reducing global poverty, corruption is robbing citizens around the world of the chance to prosper.

Couldn't former Indonesia president Suharto's \$20 billion in stolen corrupt money, or Nigeria's Sani Abachi's \$5 billion, to name but two, have been put to use in their respective countries to uplift their citizens?

The harder we make it for money to be hidden, the more difficult it will be for acts of corruption to take place and for the proceeds to be concealed.

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