



Advisory



Organization



Economy

A quick look at money laundering and its regulations

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The Bank Secrecy Act (BSA) requires that banking institutions, implement and maintain an effective anti-money laundering (AML) program that is reasonably designed to prevent the institution from being used to facilitate money laundering and the financing of terrorist organizations. Section 352 of the USA PATRIOT Act requires financial institutions to establish AML programs; banks are in compliance with this requirement if they implement and maintain an adequate program for compliance with the BSA.

What is money – laundering or fraud?

Money laundering is the process by which criminals or people disguise the original ownership and control of the proceeds of criminal conduct by making such proceeds appear to have derived from a legitimate source. Is an operation that consists of making the funds or assets obtained through illegal activities appear as the result of legal activities and circulate without problem in the financial system; while, fraud is intentional or planned action to obtain a benefit illegally.

The BSA is responsible to safeguard the U.S. financial system and the financial institutions that make up that system from the abuses of financial crime, including money laundering, terrorist financing, and other illicit financial transactions. Money laundering and terrorist financing are financial crimes with potentially devastating social and financial effects. From the profits of the narcotics trafficker to the assets looted from government coffers by dishonest foreign officials, criminal proceeds have the power to corrupt and ultimately destabilize communities or entire economies.

Since the passing of the USA PATRIOT Act, regulators now not only expect banks to have comprehensive policies regarding these key laws and regulations, but they also require banks to independently test the policies, procedures, and processes to comply with these laws and regulations. Banking organizations must develop, implement, and maintain effective AML programs that address the strategies of money launderers and terrorists who attempt to gain access to the U.S. financial system.

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How does money laundering work?

The money laundering involved three stages:

- Placement - put the false money into a financial system that seems legal or real. Include structuring currency deposits in amounts to evade reporting requirements.
- Layering - is the phase where money is hidden with specific transactions that seem real. Involves moving funds around the financial system.
- Integration - final stage; the money is withdrawn from the legitimate account and used for any purposes.

Causes or facts for money laundering

Several causes can promote the occurrence of money laundering, as follows:

- Lack of transparency – not having a culture of accountability and transparency could have the potential to promote criminal practices like the laundering of money.
- Lack of good governance – good governance include accountability, avoidance of corruption and strong regulation. If employees or politicians promote values contrary to good governance, more people around them will likely launder money.
- Lack of strong monitoring systems – individuals are more likely to launder money if the opportunities of evading punishment are high. Failing to implement compliance measures can promote financial crime, since it incentivizes the wrongdoing. Institutions regulated by the BSA must have risk assessments, due diligence and monitoring systems in place within their organizations.

Examiners must review the bank's BSA/AML compliance program in order to determine whether their BSA/AML compliance program is adequate and provides the controls necessary to mitigate risks. Failing to comply with AML and counter terrorism financing laws and regulations can result in severe fines and penalties for the organization.

How Kevane Grant Thornton can help

To address this regulatory requirement businesses in the banking industry seeks advisory services from Kevane Grant Thornton to assist with the independent assessment in their compliance, effectiveness, and soundness with respect to applicable laws and regulations promulgated by the federal government and federal and state agency partners relating to its AML compliance program.

We are committed to keep you updated of all developments that may affect the way you do business in Puerto Rico. Please contact us for assistance in relation to this or any other matter, we will be glad to assist you.



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