

# Financial Crime

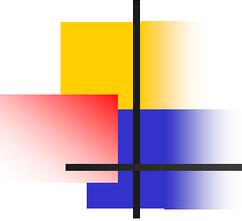
## Impact on National Security

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**"Finance is the lifeblood of the economy – it is a circulatory system that cannot be compromised"**

**Ajay Badyal - Federal Reserve Bank of New York**

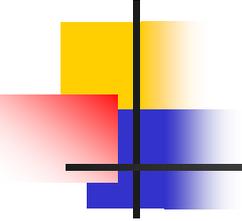
Presentation to the Indian Council for Research on International Economic Relations (ICRIER) – November 25, 2011



# Disclosure

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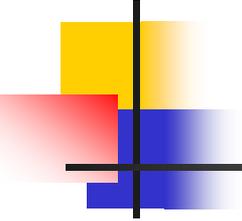
*Views expressed in this presentation are my own and do not necessarily represent those of the Federal Reserve Bank of New York or the Federal Reserve System*



# Agenda

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- The Landscape
- Opportunities & Modus Operandi for Financial Crime
- Threats to the Infrastructure
- National Response
- A Classic Case – Viktor Bout

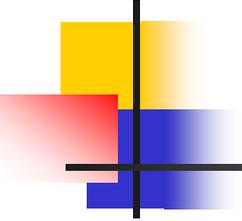


# The Landscape

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- Globalization has strengthened the nexus between organized crime, the drug trade and terrorist networks
- And between criminals, legitimate businesses, politicians and professionals (PEPs)
- The internet & mobile communications have accelerated the speed for generating and deploying illicit funds
- Financial crime exhibits increasing levels of sophistication and cross-border cooperation
- National Responses are insufficient – Global Action needed

**The criminal often incorporates in an offshore haven, banks in the developed world, trades globally and lives in a "friendly" country**

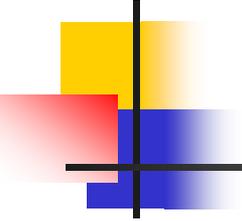


# The Opportunities

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## **Vulnerabilities**

- Arbitraging differences between countries and within countries for personal enrichment, expanding power and avoiding detection
- Influence Peddling – Weakening government, political and judicial systems, and commerce through licit as well as illicit means
- Insulating criminals and members of their organizations from detection or prosecution
- Recycling illicit funds into legitimate businesses



# Modus Operandi

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- Build alliances with corrupt government officials and businessmen
- Destabilize political institutions and the judiciary
- Undermine competition – gain monopolistic control
- Boost cash flow through narco-trafficking and smuggling
- Perpetrate widespread cyber and financial crime

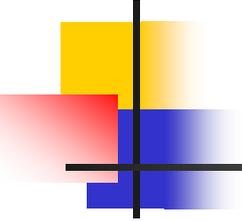
**Gain unprecedented power over elected officials, the governmental apparatus, business and banking**

# The "Players"

Credo – "Sell to anyone who can pay" – Viktor Bout

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- Decentralized global criminal networks rely on the same professionals as legitimate businesses
  - Lawyers – shell companies, setting up trusts/banking relationships
  - Transportation companies – over/under invoicing smuggling/masking shipments
  - Real Estate Brokers – cash deals
  - Auto/Boat/Aircraft Dealerships
  - Bullion & Precious Stone Merchants
  - Accountants – tax evasion, friendly jurisdictions
  - Bankers – laundering money
  
- Sanitized economic gain is the primary goal

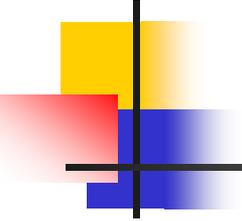


# Threats to US National Security

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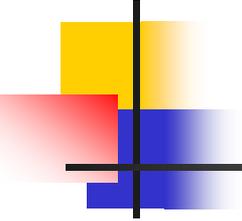
- Cybercrime – banking, securities, e-currency and card systems
- Widespread intellectual property theft & counterfeiting
- Narcotics, arms and human trafficking
- Embezzlement of Public Funds/ Misuse of State Assets
- Oligarchs and Criminals interested in US Opportunities
- Bribery, Fraud and Corrupt Overseas Alliances

# Government's Response Legislation



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- Laws (Bank Secrecy Act -1970, Money Laundering Control Act -1986 USA Patriot Act -2001 & OFAC regulations) were strengthened to:
  - Make it harder for money launderers to operate; and
  - Easier for law enforcement and regulatory agencies to police money laundering/terrorist financing operations
- The 1970 & 1986 legislations were significantly broadened in 2001 by:
  - Expanding Treasury Department's authority to regulate financial institutions
  - Reducing restrictions on law enforcement's ability to search records
  - Expanding the definition of terrorism to cover domestic activities

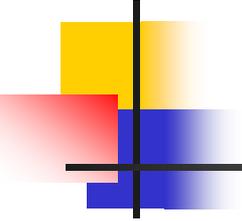


# Government's Response Implementation

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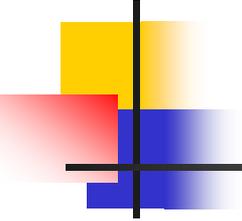
- Legislation required huge investments by financial institutions to implement robust anti-money laundering & counter-terrorist financing programs:
  - A system of internal controls to ensure ongoing compliance with law
  - Sound customer identification and due diligence
  - Designation of a competent individual to be accountable for the compliance program
  - Tailored training for key employees
  - Independent testing of the program by qualified personnel
- All potentially suspicious activity is reported to the Financial Crimes Enforcement Network's (FinCEN – our FIU) database

# Government's Response Enforcement



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- FinCEN data is analyzed by law-enforcement personnel including Financial Supervisors, the FBI, DEA, ATF etc.
- These analyses result in the detection and prosecution of illicit activity by US and state attorneys in our 50 states
- Prosecutions regularly result in fines, incarceration and asset forfeiture
- All successful prosecutions result from close collaboration between national and international investigating agencies

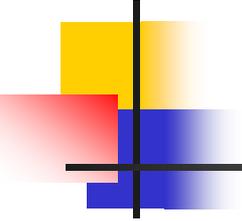


# Government's Response

## International & Regional Cooperation

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- Local legislation & enforcement had limited impact on what has always been a global problem
- The international dialogue in the financial community was broadened to socialize best practices – agreed upon standards
  - Governments – Financial Action Task Force
  - Central Banks - Bank for International Settlements
  - Financial Intelligence Units – Egmont Group
  - Financial Institutions - Wolfsberg Group
- Similar efforts are undertaken by other investigating and enforcement agencies – FBI, Police etc



# Impact

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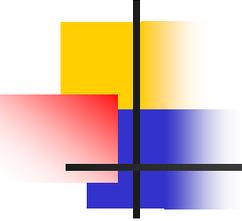
- Prolonged inattention to weaknesses in the financial infrastructure results in:
  - Loss of confidence in a nation's capital markets
  - Tax evasion
  - Heightened concerns about capital inflows & capital flight
  - Sanctions against countries, organizations and individuals

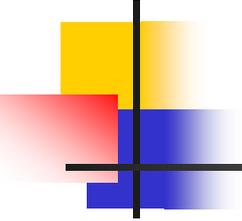
Leading to:

- Marginalization – impairment in the nation's ability to participate in the global community

# A Classic Case

## Viktor Bout

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- Viktor Bout is like Osama bin Laden: a major target of U.S. intelligence officials who time and again eluded capture
  - His story covers everything we have discussed today – money laundering, terrorism, weapons smuggling, transportation systems, politicians, bribery, corruption
  - This notorious arms dealer has stoked violence around the world and thwarted international sanctions
  - He also succeeded in getting millions of dollars in U.S. government money to assist the war in Iraq
  - Global cooperation however has finally put him in jail



# "Merchant of Death"

## Farah & Braun

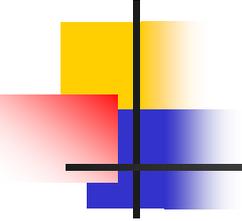
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**From Publishers Weekly (Aug 2007)**

- While there is no shortage of books on international terrorism, drug cartels and genocide, the international weapons trade has received less attention. Journalists Farah and Braun center their absorbing exposé of this source of global misery on its most successful practitioner, the Russian dealer **Victor Bout**.
- Throughout the Cold War, they show, the Kremlin supplied arms to oppressive regimes and insurgent groups, keeping close tabs on customers.
- After the U.S.S.R. collapsed, the floodgates opened in the 1990s.
- With weapons factories starved for customers, Soviet-era air transports lying idle and rusting, and dictators, warlords and insurgents throughout the world clamoring for arms, entrepreneurs and organized criminals saw fortunes to be made.

**Who is the next Viktor Bout**

**In his own words " A much maligned but honest businessman "**



# Weblinks to the News items

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- Viktor Bout : Merchant of death : <http://www.guardian.co.uk/world/2011/nov/02/viktor-bout-merchant-of-death>
- Viktor Bout : [http://www.nytimes.com/2011/11/12/opinion/arms-and-the-corrupt-man.html?\\_r=1&scp=16&sq=viktor%20bout&st=cse](http://www.nytimes.com/2011/11/12/opinion/arms-and-the-corrupt-man.html?_r=1&scp=16&sq=viktor%20bout&st=cse)
- Al-Yamamah : The Arms Deal  
<http://www.guardian.co.uk/world/2007/jun/07/bae1?INTCMP=SRCH>
- Al-Yamamah : The cast of characters (beneficiaries)  
<http://www.guardian.co.uk/world/2007/jun/07/bae7?INTCMP=SRCH>
- Siemens : Bribery – Annual Bribery Budgets  
<http://www.pbs.org/frontlineworld/stories/bribe/2009/02/at-siemens-bribery-was-just-a-line-item.html>