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GEC Model United Nations

Disarmament & International Security
(DISEC)
Money Laundering & Terrorism

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Letters from the Chairs

Dear Delegates, Faculty, and Affiliates,

It is my honor to invite all of you to join us in the Disarmament and International Security Committee (DISEC). I am Minji Kang, and I will be serving as your chair in the DISEC committee for the 5th annual GECMUN conference. DISEC is the first committee of the general assembly of the United Nations which deals with global challenges that affect the international community and seeks out resolutions to the challenges in the international security regime. At DISEC, our chairs hope to help the next generation of Asian leaders reach their full potential through a flexible yet systematic program specifically designed to encourage collaboration, build public speaking skills, and facilitate the cross-pollination of ideas. Once again, thank you for your interest in DISEC committee, and I will be looking forward to meeting you all soon.

Please refer to the email address, kangminji02043@branksome.asia, if you have any questions.

Sincerely,
Minji Kang

Dear Delegates and Honored Guests,

I am Yonjae Choi, a senior student from Branksome Hall Asia. It is my greatest pleasure to chair the Disarmament and International Security committee this year at GEC Model United Nations. My first MUN journey started in 9th grade. However, I took a break for a few years and this is my 2nd year of attending MUN conference. What brought me back after long years is the excitement that delegates exchange and how much I learned from it. Not only did I learn how to develop my arguments, but I was also able to develop public speaking skills through speaking in front of a crowd and interacting with them.

Many of you will be new to the conference and may be nervous for starting your very first MUN conference. One piece of advice I'd like to give you is to not to be afraid of speaking up. Do not allow fear of failure to hold you back from expressing your opinions. As a chair, I will do my best to create a welcoming environment for all of you new delegates.

If you have any questions or concerns, please feel free to contact me.
choiyonjae01657@branksome.asia

Sincerely,
Yonjae Choi

Greetings Delegates and Special Guests,

This is your chair Hanseul Lee, a grade 10 student from Branksome Hall Asia. It is my greatest honor to serve you as a chair of DISEC in GECMUN V. When I started my MUN career as a delegate back in Grade 8, I was a shy delegate who didn't dare to speak in front of others. Based on my experiences, I know how it feels like to enter the MUN conference for the first time in your life. Even if this is not your first MUN experience for some of you, you might be a part of DISEC committee for the first time in your MUN career. I want to give you a round of applause for stepping out of your 'comfort zone.' To give you all the advice, research about your country as much as possible. Once you have more things to talk about, you would be able to actively participate in the conference. I will do my best as a chair to make this experience delightful and comfortable to all of you.

If you have any inquiries, please feel free to contact me via email (leehanseul01689@branksome.asia). I look forward to meeting all of you!

Hanseul Lee

Introduction

Money laundering refers to financial transactions in which criminals, such as terrorist groups, attempt to disguise the proceeds and sources of their illegal activities. The estimated amount of money laundered globally annually is 2 - 5% of global Gross Domestic Product, or \$800 billion - \$2 trillion in US dollars. However, this number is a rough estimate as money laundering is carried outside the normal range of economic and financial activity, making it difficult to account for statistically. Money laundering provides the main sources of funding streams for terrorist groups. The process of money laundering is to ensure that the money is not taken away by the authorities that are tracking the source of the money.

The use of money laundering to fund terrorist groups is a topic that has become vital in today's world. With capital and revenue from various sources, these groups are multiplying and spreading throughout their base areas, giving them the opportunity to terrorize local populations, and threatening international peace and security with their calls for violence. With the rise of the Islamic State (ISIS), among other terrorist groups, it is essential that this topic is discussed to cut off the flow of monetary capital to these groups.

Definition of Key Terms

CAPITAL:

Wealth in the form of money or other assets owned by a person or organization available for a particular purpose.

CRYPTOCURRENCIES:

A type of digital currency that uses encryption techniques.

DATABASE:

Set of data that is held in a computer system. Government-owned databases often contain personal information which if abused, can lead to serious crimes.

FRONT COMPANY:

A subsidiary or shell company used to shield another company (organization) from liability or scrutiny.

GDP:

Gross Domestic Product. Refers to the monetary value of all the finished goods and services produced within a country's borders in a specific time period.

MONEY LAUNDERING:

A term used to describe the process by which criminals disguise the original ownership and control of the proceeds of criminal activity by making such proceeds appear to have been derived from a legitimate source.

REAL ESTATE:

Wealth in the form of money or other assets owned by a person or organization available for a particular purpose

TERRORIST:

People or a person who uses unlawful violence and intimidation, especially against civilians, in the pursuit of political aims.

TERRORIST FINANCING:

Provision of assets (including legal assets) used to perform terrorist acts.

STOCK:

Quantifies and signifies the ownership certificate of companies.



General Overview

Money laundering, the secretive process used to hide the origins and destinations of finances, are commonly used by terrorist organizations in order to conduct their criminal activities. This is to ensure that the money does not get tracked by the authorities. The estimated amount of money laundered globally in one year is 2 - 5% of global GDP, or \$800 billion - \$2 trillion in US dollars. Money laundering is conducted in many different forms and these techniques improve and diversify over time, making it more difficult to track.

There are three major stages to money laundering: placement, layering and integration.

1. Placement

This stage represents the initial entry of the “dirty money” into the financial systems. At this stage, the money is placed into the legitimate financial systems such as businesses, shops, and casinos (both local and abroad). One classic example of the placement stage is the purchase of assets. This process changes the form of proceeds from conspicuous cash into an equally valuable, but less conspicuous form.

2. Layering

This stage is similar to the placement stage and is meant to make the detection of the laundering process more difficult for law enforcement agencies. One example linked to the previous one at the placement stage is the re-selling of assets. The assets that are bought with illicit funds can be resold locally or broadly, which makes it even more difficult to trace where the money has come from.

3. Integration

The final stage is the movement of laundered money into the economy mainly through the banking systems disguised as normal business earnings. Some examples include front companies and foreign banks.

Front companies operate in countries with corporate secrecy laws, in which criminals lend themselves their own laundered proceeds in an apparently legitimate transaction. The willing assistance of the foreign banks is frequently used by criminals to protect themselves against law enforcement scrutiny. Money laundering is made possible not only through criminals but also by banking laws and regulations of foreign countries.

One of the main issues with money laundering is that the terrorist groups use these techniques in order to gain funding to conduct criminal activities. According to the United Nations, terrorism is defined as “any action that is intended to cause serious bodily harm to civilians or non-combatants, when the purpose of such act by its nature or context is to intimidate a population, or to compel a government or an international organization to do or to abstain from doing any act.”¹

Money laundered to terrorist groups can come from a variety of sources, often using complicated methods to ensure that the money reaches its intended destination. The three common sources of funding for terrorist groups include state sponsors, criminal revenue generated support and legal sources.

¹United Nations. Human Rights, Terrorism and Counter-terrorism. New York: Ferguson, 2005. Web. 10 Sep. 2018. <https://www.ohchr.org/Documents/Publications/Factsheet32EN.pdf>

- State-sponsored terrorism occurs when the State funds or aids a terrorist organization in another country, often to the detriment to their own country. Countries such as Iran and Saudi Arabia have been accused of such actions, but deny any such involvement with terrorist groups.
- Criminal revenue is generated in support of terrorism when organized crime groups sponsor terrorist groups. In this case, the revenue generated from crime groups' illegal activities are laundered into accounts of terrorists. Some ways which the revenues can be generated includes selling of drugs, prostitution, kidnapping.
- Terrorist organizations may also derive money from legitimate sources such as donations from religious groups or charity organizations. Many times, these organizations disguise themselves as a charity group, which means people can be unintentionally donating their money to these terrorist groups.

In an increasingly globalized and technological world, it is becoming easier for terrorists to obtain the fundings needed to pursue their activities. Online transactions allow the money to come in from all over the world and stay anonymous, hence making it more difficult to track.

Major Parties Involved

UNITED STATES: Since the 9/11 attacks, the United States has been legislating a number of laws against terrorist financing. The government has also developed the Terrorist Finance Tracking Programme (TFTP) to access the transaction database. Despite these efforts, the United States is exposed to terrorist financing due to trillions of dollars that are transacted through United States banks every day.

AUSTRALIA: In Australia, money laundering is a serious economic issue. In 2009, the cost of organized crime was approximately 1.5% of the total GDP. International terrorist groups from South East Asia and South America are connected to drug trafficking in Australia, especially for the amphetamine-type drugs.

GERMANY: Germany is one of the largest financial centers in Europe. The country is vulnerable to terrorist financing for two reasons: First, Germany has a narcotics consumption problem and is a major hub of illicit drug flow. Second, the government permits using shell companies and foundations, which can open a window for terrorists to conceal the origin of their funds.

INDIA: Because India has been a target for terrorist groups several times, the government is making efforts to eradicating 'black money', which refers to funds earned through illegal financial activities. India recently banned the illicit trading of shell companies by regulating the stock exchange. India also has strong ties with the United States in terms of financial intelligence and the mutual sharing of information

RUSSIA: Corruption in the Russian government is providing a crucial source for money laundering in Russia. Once the narcotic traffickers transit or arrive in Russia, criminals spend their funds on cryptocurrencies, real estate and lucrative goods to advance their money laundering activities, abusing Russia's financial systems. It is critical for Russia to combat money laundering because it has lost \$523 million in the first half of 2017 due to terrorist financing.

SWITZERLAND: Approximately 25% of global private clients invest their money in Switzerland. As a result, terrorists usually launder their money using their accounts at Swiss private banks. The

government is currently reporting the bank accounts opened by foreigners through the Automatic Exchange of Information (AEOI) system. Even so, narcotics-related money laundering, which is based in Eastern Europe, continues to dominate Swiss banks.

SPAIN: Large-scale illegitimate drug markets that involve various terrorist groups (especially Islamist groups that are related to Al-Qaeda) are prevalent in Spain. It is because Spain is located in the middle of the drug smuggling route from North and South America to Europe. Furthermore, the purchase of real estate provides a principal vehicle for terrorists to launder money. The government is continuing the war on terrorism by implementing up-to-date FATF recommendations.

SOUTH AFRICA: South Africa is the largest illicit drug market in sub-Saharan Africa. Cocaine and heroin are transhipped illegally to South Africa before reaching the final destination. Local terrorist groups are mostly associated with legitimate businesses, which makes it harder to identify the source of the money. In response to the situation, the government has been revising its anti-money laundering (AML) foundations.

CHINA: Criminals usually use bulk-cash smuggling, trade-based money laundering (TBML) and shell companies to proceed with their activities in China. Even though China is not a major financial center in Asia, there are many Special Economic Zones (SEZ) at different levels (local, provincial and national). For China, the most pressing problem with money laundering is implementing laws to regulate money laundering while maintaining its transparency.

FRANCE: In France, casinos are not a primary source in terms of money laundering. Nonetheless, its colossal economy, complex financial system and monetary relationships with Francophone countries make France a convenient hub for money laundering. It is imperative for France to search for a way to combat money laundering because it has negative effects on the economy.

AFGHANISTAN: Afghani terrorists illegally trade narcotics and extract copper, iron ore, lapis lazuli and other minerals to veil the origin of their money. Afghanistan's security is vulnerable to terrorist financing due to corruption and its lead role in world opium production. Unfortunately, the law enactment regarding the regulation of terrorist financing is facing the hardships of incomplete implementation.

BRAZIL: Drug trafficking, corruption in the government and fake goods become the basis of illegal funds in Brazil. Terrorists launder their money through various methods, including foreign tax havens, use of shell companies, phantom accounts and much more. Laundered money is mainly used in drug transactions. It is important for Brazil to solve this issue, as it is one of the largest drug consumers in the world.

Timeline & Key Events

July 1989	“Financial Action Task Force” (FATF in short) was established as a by-product of the G7 summit. FATF is an international government organization (IGO) that has developed a set of methods in order to combat terrorist financing and money laundering.
April 1990	FATF released a report that includes 40 recommendations in the form of possible actions to combat money laundering.
December 1999	The General Assembly adopted ‘International Convention for the Suppression of the Financing of Terrorism’ as part of the Resolution 54/109. This convention calls for the member states to establish diverse methods to prevent the terrorists from getting access to funds.
September 2001	On September 11th, 2001, approximately 3000 people in the United States died from a suicide attack by ‘Al-Qaeda’ - an Islamic extremist group. This attack not only damaged the key buildings in the United States but also triggered the United State’s government’s efforts to combat terrorism.
October 2004	Previously establishing the eight recommendations to combat terrorist financing on October 2001, the FATF enacted the ‘Ninth Special Recommendation.’ This new recommendation emphasizes three things: an ability to identify physical cross-border transportation of financial funds, the power of local authority to inhibit money laundering and the availability of appropriate sanctions for publishment.
September 2006	The General Assembly adopted the Global Counter-Terrorism Strategy with the consensus of all member states. This strategy ensured that every member state would cooperate with the common systematic approach, as well as taking individual action to combat terrorism-related issues.

Solutions

Past Attempts

In 1989, the G7 summit established the Financial Action Task Force (FATF) to prevent money laundering. Its mandate was “to assess the results of cooperation already undertaken, to prevent the utilization of the financial institutions for the purpose of money laundering, and to consider preventive efforts in the field, including the adaptation of the legal and regulatory systems to enhance the multilateral judicial assistance.”

The FATF began its work in Paris in 1990 and since then has produced the most comprehensive set of anti-money laundering standards, which came to be known as the FATF Forty Recommendations. As more countries accepted the FATF Recommendations, they became the global minimum standard for an effective anti-money laundering system. In 2001, the FATF introduced an additional set of Eight Special Recommendations, addressing the unique problem of terrorist financing. In 2004, the FATF added the Ninth Special Recommendation, on cash couriers. This is why we now refer to the full set of FATF anti-money laundering and terrorist financing recommendations as the FATF 40 + 9 Recommendations.

The 9/11 attacks brought an international sense of urgency to eradicate terrorist financial networks. After the incident, the United Nations Security Council (UNSC) adopted a wide range of resolutions calling for immediate action to suppress terrorist financial sources. By October 2001, the FATF issued a list of recommendations that became the underlying basis of government actions to limit potential threats of money laundry. These included passing legislation that explicitly criminalized terrorist financing, requiring financial institutions to report suspicious transactions, which created a higher degree of international cooperation among terrorist financiers.

As an attempt to completely abolish the threat of terrorist financing, the United States organized a specialized agency known as the Office of Terrorism and Financial Intelligence. Along with the subsequent legislation, the Patriot Act created a stringent legal measure to prevent terrorist financing. Banks are now required to check their clients involved in transactions against a list of suspected terrorists and to report any suspicious activities. While these actions have been reasonably effective within the United States, there are persisting threats of terrorist financing in other countries even to this date.

Possible Solutions

Since much of the sector is challenging to regulate, it has become more notorious for nations to solve the issue of money laundering and terrorism. To address the issue of money laundering, there are several possible solutions.

1. Anti-Money Laundering system

To start with, the implementation of an Anti-Money Laundering system strengthens the safety of global payments. In addition, allowing financial institutions to set their parameters regarding Money Laundering and Terrorism Financing Regulations, but it will also drastically decrease the potential vulnerability to threat to the banks.

2. Transparency and Regulation

To tackle this issue, transparency regarding who owns and controls corporations and a crack-down on the abuse of trusts is needed. The recent G7 summit placed the problem of secretive shell companies at the highest of its political agenda. After the summit, France and the United Kingdom have declared their intention to push for revisions to the law that would require the general public access to data regarding company ownership, with other member states conjointly signaling their support for this common-sense measure.

In an ideal world, where governments and enforcement agencies have decent political power and resources to pursue illicit funds, providing these agencies with information regarding who owns and controls corporations and trusts would possibly serve to solve the issue.

However, only too usually, this can be not the case. In some countries, most importantly those vulnerable to corruption and with restricted resources to pursue advanced investigations, the keenness of officers to pursue felonious assets are often hampered– and that they are bought off for a small share of these funds. This is why creating public information regarding who owns and controls corporations, and preventing the abuse of trusts, is vital. Creating open database can aid journalists and civil society groups in exposing cases of abuse, together within countries beyond the EU, a critical thought in a more and more globalized world in which criminal activity happens across borders. It might additionally facilitate increasing the accuracy of the data. The option should be full transparency. Companies themselves acknowledge this as a standard sense approach and are calling for public

access. The head of the British Institute of administrators and the European Banking Federation – the umbrella cluster for European banking associations – have each called for public registers of company possession. Markets operate best once there's useful information.

Taking these measures is well founded in the principles of national security and maintenance of international peace. These practices have a corrosive impact on societies, whereas the encompassing secrecy provides no public benefit. The advantages of requiring the public revelation of data regarding company possession and grappling the abuse of trusts vastly outweigh the prices - prices that may be minimal for the overwhelming majority of law-abiding corporations and trusts.

As the EU updates its Anti-Money Laundering Directive over the approaching weeks and months, it should plan to create beneficial ownership information public and preventing the utilization of trusts for money laundering. By these means it would be beneficial for development, resources-business, and for enforcement efforts to investigate and prosecute crime.

Conclusion

All things considered, since terrorist networks are transcending national boundaries, improving international cooperation should be deemed as the number one priority." One of the problems of coordination," the former U.S. special envoy Lee S. Wolosky claims, "is reaching common ground on what is a terrorist organization." The UN General Assembly has endeavored for more than a decade to define terrorism, which could contribute to undermining further threats to national security. Beyond that, Loretta Napoleoni, an expert on terrorist financing, contends that an international organization dedicated to information-sharing and an international court to oversee the terrorism blacklist of organizations and individuals would help address the issue. Each country may have been exposed to terrorism and money laundering in different ways. However, it is important for delegates to set a universal definition of terrorism and to form a global network to solve the issue before improving individual shortcomings. Remember that terrorists do not aim only one country. Ultimately, nations should not only consider one's national security but also international cooperation to address the issue.

Questions to Consider

- What would be a possible definition of terrorism that may help underpin the comprehensive banning practice?
- What could be an alternative attempt to solve the issue besides anti-money laundering system and government regulations?
- If terrorism is not eradicated in the world, what would be its negative impact in the future?
- Considering that each country has different shortcomings in terms of banning terrorism, what would be an ideal way to run and utilize the global network?
- In what ways can the world extend its current anti-money laundering practices to fight against terrorism?

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