To Our Readers

In a world growing increasingly paranoid about terrorists, there is still not enough attention being given to cutting off funding for groups that specialize - for reasons best known to themselves - in destabilizing peace and prosperity. There is no doubt that a very large number of organizations exist, and that they support an ever growing number of overt and covert agents who do their best at the risk of their lives to find sources of terrorist funding and money laundering avenues, but perhaps that also is not enough. Estimates of official agencies put the amount of drug money floating around South and South East Asia at $2 trillion, which is enough to make eyes blink.

From the simple days when Al Capone established laundries to take in cash and convert his takings from criminal enterprises(thus giving the world the phrase money-laundering), to the twenty-first century has been a long and very lucrative haul for the criminals. A lawyer convicted in Canada in the nineties confessed to having laundered $800 million in one year, through a network of twenty-three front companies. These days, money launderers leave very few trails. In fact, money laundering services are outsourced - in the best BPO tradition - to specialists, who charge anything from forty percent to seventy-three percent, depending upon the volume, the source, and the 'integrity' of the customer.

Money laundering, as most Chartered Accountants know, follows three stages - placement (of the hot money in the retail economy), layering (separating the money from its source through a series of financial transactions),and integration (of the hot money with the legitimate economy, for example, through the purchase of securitized assets, automobiles, real estate and others). A paper trail would normally link these stages - although, not in any obvious manner. But now the 'experts' are moving on to avoiding the paper trail altogether through a number of quite innovative technologies. They are getting a lot of help from the ever increasing range of financial products and services. The derivatives and securities markets are particularly vulnerable to money laundering operations because audit trails are so easily blurred. A broker in the US can launder a sum of money through a perfectly legal transaction, with no need to make a false entry. All he has to do is assign trading losses to the account in which illegal funds will be deposited. In many countries abroad, extensive use of 'pass-through' accounts results in wide open doors for money laundering operations. Non-government organizations, in their naïve dedication to charitable ideals, have acted as unwitting instruments of laundering, in terms of both donors and recipients.

The question is, what can be done about this? Certainly, as we have said, there are the official agencies, but they are limited by manpower and reach. Chartered Accountants have far greater reach as a community. But more and more organizations are being excluded, or proposed to be excluded from the purview of formal audits, and each and every one of these is a potential money laundering instruments in the hands of the ungodly. In the UK professional accountants have been brought under the purview of a fairly stringent Guidance on Money laundering which highlights the penalties that are likely to befall a person who suspects money laundering, but fails to report it - no matter in which country this happens. We do not have similarly stringent laws, not do we appear to take this issue that seriously, with the result that India continues to be a haven for money launderers, using techniques from hawala to real estate purchases.

We hope that the government sits up and takes notice. More is required from the Chartered Accountants community also to eradicate this evil.

November, 2003

Editor
The Institute of Chartered Accountants of India