*In the name of God.*

## Article No.: Thirteen

***General title of the article:***

# Offline Banking Network in the International Banking System.

***Specific topic of this article:***

## Anti-Money Laundering (AML)

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***(The reference language for this article is Persian, and it is only translated into the English language.)***

This article is only for providing some basic knowledge, definitions, and understanding at the public level, and there won't be any technical terms.



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## What is money laundering?

Money laundering, in simple terms, refers to the conversion of profits derived from illegal, illicit, and unlawful revenues—such as those generated through various forms of smuggling—into legitimate financial resources and lawful assets. For instance, certain individuals operating within a large enterprise or organizational body, which the general public perceives to be an independent and lawful institution, engage in illicit and illegitimate income-generating activities. For example, through the importation of contraband goods, they present the resulting profits to society in such a manner as to suggest that these proceeds have been obtained through legal, lawful, and legitimate means, thereby introducing them into the economic cycle of banks and, ultimately, into the broader national economy.

A prominent example of money laundering is carried out by American statesmen, who, through the sale of arms to countries and terrorist factions based in the Middle East, channel the resulting profits toward the development and prosperity of their own nation.

A summary of all the foregoing discussion rests upon a single foundation, which may be briefly elucidated as follows. First, let us introduce a critically important institution known as the Anti-Money Laundering center. This institution, which is seldom discussed, constitutes one of the most pivotal bodies for monetary oversight throughout the world. It is therefore advisable that we first comprehend the meaning and significance of this important institution.

## Classification of Money Laundering Stages

Money laundering is a multi-stage process in which illicit funds—derived from illegal and illegitimate activities—are ostensibly presented as lawful and legitimate money. This process comprises three principal stages:

### 1. Placement:

At this stage, illicit funds are introduced into the country's financial system, for example, through deposits in banks or the purchase of assets.

### 2. Layering (Layer-by-Layer Transfers):

At this stage, the funds are transferred in a complex manner through multiple channels or tracks (conduits) across various bank accounts, so that their traceability is impaired and they become, in effect, untraceable.

**3. Integration (Consolidation):**

At this stage, the resultant funds are utilized in ostensibly legitimate economic activities, such as various forms of investment or the acquisition of real estate.

**Objective of Combating Money Laundering**

The primary objective of AML is to prevent money laundering and its associated activities. This is accomplished through laws and regulations designed to monitor financial transactions, identify suspicious activities, and prevent the exploitation of legitimate financial systems for illegal purposes.

**AML in the Domain of Digital Currencies**

Digital currencies are increasingly being utilized as a novel method for money laundering. For this reason, AML regulations are being progressively extended to encompass the domain of digital currencies, and institutions operating within the digital currency sector are likewise obligated to comply with these regulations.

In summary, AML constitutes a comprehensive set of laws and regulations aimed at combating money laundering, with the objective of preventing the conversion of funds derived from illegal activities into legitimate capital.

**Historical Background of Money Laundering**

The term "money laundering" first gained widespread currency in the 1930s, coinciding with the prohibition of alcohol sales in the United States of America. Numerous American criminals—foremost among them Alphonse Gabriel Capone, commonly known as Al Capone—undertook the purchase of a large number of coin-operated laundromats in order to conceal their criminal enterprises.

In the basements of these laundromats, they engaged in the clandestine production and sale of alcoholic beverages, converting the resulting proceeds into lawful and legitimate assets and channeling them into the mainstream economy. It is for this reason that many institutions adopted this example as an illustration of illicit funds that were ostensibly introduced into the economic cycle as legitimate money—so to speak, "laundered" money.

**What Are the Primary Reasons for Engaging in Money Laundering?**

Money laundering is, in essence, carried out to ensure that the source of income remains unidentified. When the source of revenue generation is illegal or, so to speak, illicit, criminals will evade its disclosure and substitute it with a fictitious occupation or source of income. For instance, a law enforcement officer may, under the guise of the law, engage in accepting bribes, while no one becomes aware of his actual means of generating income, and all assume him to be a law-abiding and conscientious officer. In effect, the uniform he wears can readily serve to "cleanse" or "launder" his source of income, so to speak.

Among the most prevalent methods of money laundering, the following may be enumerated:

a) Drug trafficking.

b) Embezzlement.

c) Bribery.

d) Arms smuggling.

e) Illegal transfer of funds through digital currencies.

f) Other illicit means.

**What Are the Stages of Money Laundering?**

Anti-Money Laundering (AML) encompasses the laws, regulations, and procedures designed to prevent the exchange of funds derived from illegal activities by criminals.

As previously discussed, money laundering comprises three stages: Placement, Layering, and Integration, each of which is elaborated upon below.

**Placement:** Placement refers to the act of injecting illicit funds into a financial system, such as a bank account or a business enterprise. Examples of placement methods include: combining illicit funds with legitimate income (for instance, through cash-intensive businesses), repaying debts with illicit money, gambling, investing in real estate and property, and engaging in smuggling and currency exchange.

**Layering:** Layering obscures and distorts the source of funds through various measures, such as fraudulent accounting practices. Layering frequently involves international financial transfers, particularly to countries that maintain laws safeguarding the privacy of financial and bank account holders and never disclose their identities. The money is typically divided into multiple portions and circulated through various accounts until, in practice, tracing it back to its original source becomes virtually impossible.

**Integration:** Integration takes place when the laundered money is withdrawn from the accounts and deposited into a clean bank account. Thereafter, the money can be utilized for any purpose whatsoever.

**What Is Anti-Money Laundering?**

Anti-money laundering laws encompass a defined range of money laundering activities and criminal conduct; however, their ramifications are far-reaching. For instance, AML regulations require financial institutions, including banks, to thoroughly verify the identity of their clients and closely monitor their conduct to ensure that they are not facilitating money laundering activities. Should banks fail to comply with these laws and regulations, they will be subject to severe penalties and other enforcement measures imposed by the relevant authorities.

In other words, anti-money laundering legislation constitutes a comprehensive set of multiple practices and policies that operate in concert to prevent and prosecute crimes related to money laundering in the United States. Anti-money laundering efforts also entail cooperation among several domestic and international governmental organizations, as this category of crime is frequently perpetrated across various countries by criminals of varying scales. For example, in the case of human trafficking, criminals from two countries invariably collaborate to transport individuals across borders. Some of the measures undertaken by the United States to combat money laundering are as follows:

**Bank Secrecy Act (BSA)**

The BSA, also known as the Currency and Foreign Transactions Reporting Act, was established in 1970 and constituted the first legislation that sought to prevent and prosecute money laundering through banks and other financial institutions.

**Annunzio-Wylie Anti-Money Laundering Act**

This measure was primarily imposed upon banks from 1992 onward. Pursuant to this act, banks are obligated to monitor all suspicious activities of their clients. For instance, a municipal employee who receives a monthly salary of twenty to thirty million tomans cannot suddenly have billions of tomans transferred into his account. It is at this juncture that the bank must immediately freeze the account of the suspected individual and report the matter to the relevant authorities.

**Terrorist Financing Convention (TFC)**

This legislation was enacted following the terrorist attacks in New York on September 11, 2001, and its objective is the tracking and combating of terrorist financing (TFC) and terrorist activities conducted through money laundering.

**Financial Crimes Enforcement Network (FinCEN)**

This legislation was enacted for the purpose of stringent oversight and enforcement of the BSA regulations and the Patriot Act.

**Which Organizations Combat Money Laundering?**

Several governmental, domestic, and international organizations throughout the world are engaged in combating money laundering.

**United States Organizations (U.S. Organizations)**

Law enforcement and regulatory agencies include FinCEN, the U.S. Securities and Exchange Commission (SEC), the Federal Bureau of Investigation (FBI), the Central Intelligence Agency (CIA), and the United States Postal Service (USPS).

**International Organizations**

These organizations include the Financial Action Task Force (FATF), the United Nations Office on Drugs and Crime (UNODC), the Financial Integrity Unit of the World Bank, and the International Monetary Fund (IMF).

**Money Laundering with Digital Currencies**

As previously discussed, most banks verify the identity of their clients in accordance with their regulatory requirements. Consequently, pursuant to anti-money laundering legislation, the transfer of large sums is not feasible for ordinary individuals and those who maintain modest bank accounts. Given that the transfer of Bitcoin and other digital currencies is conducted solely through wallets, many criminals, taking advantage of the absence of identity verification in wallets, proceed to convert their illicit funds into digital currencies and purchase Bitcoin.

However, the overall impact of Bitcoin and other digital currencies on money laundering is exceedingly negligible in comparison to cash transactions; in the year 2019, the total volume of money laundering conducted through Bitcoin and other cryptocurrencies amounted to merely 2.8 billion dollars. This is while in 2018, only one billion dollars of illicit funds were transferred using Bitcoin. This demonstrates that merely half a percent (0.5%) of the Bitcoin in existence worldwide has been utilized solely for the purpose of money laundering. Nevertheless, many governments regard the blockchain and digital currency space as perilous and consider it a boon for money launderers.

## General Responsibilities of Anti-Money Laundering Centers

One of the responsibilities of the Financial Intelligence Center is "regulation" and the formulation of laws, regulations, by-laws, and directives necessary for the implementation of laws pertaining to the prevention and combating of money laundering and terrorist financing, as well as the revision of regulations governing the banking system, capital markets, the insurance industry, non-financial professions, and other sectors. Effective steps have been taken in this regard.

In the year 2024, with 3,720 person-hours of expert work, draft amendments to two significant regulations were formulated and approved: the "Executive By-law of Article 14 Addendum to the Anti-Money Laundering Law" and the "By-law on Targeted Financial Action Against Terrorism and Terrorist Financing" pursuant to Article 17 of the Law on Combating Terrorist Financing. These amendments were developed with the objective of strengthening the progressive laws of the Islamic Republic of Iran in the domain of anti-money laundering, adopting an approach of maximum coverage of international recommendations and standards.

Preparation of 24 New Directives on the Prevention and Combating of Money Laundering and Terrorist Financing Crimes

Enhancing the level of effectiveness and compliance with regulations among entities subject to the Anti-Money Laundering Law is one of the objectives of the Financial Intelligence Center. To this end, draft versions of 24 new directives on the prevention and combating of money laundering and terrorist financing crimes in banks, financial and credit institutions, currency exchange offices, capital markets, and the insurance industry were prepared for approval by the Supreme Council for the Prevention and Combating of Money Laundering and Terrorist Financing Crimes.

In this connection, the directive on the establishment and organization of anti-money laundering units in the insurance industry and capital markets, as well as the executive procedures for auditors in implementing anti-money laundering regulations, were amended.

The formulation and standardization of templates for general and specific information items pertaining to money laundering reports from banks, financial and credit institutions, and the State Organization for Registration of Deeds and Properties, as well as the design of evaluation worksheets for the implementation of anti-money laundering regulations in the capital market, constituted additional measures undertaken to enhance the effectiveness of the prevention and combating of money laundering and terrorist financing crimes.

**Combating the Misuse of Identification Documents and Bank Accounts**

The misuse of identification documents and bank accounts for money laundering and fraud has been one of the challenges of recent years. To address this issue, the mechanism for determining valid identification documents for Iranian natural and legal persons, pursuant to Note 3 of Article 56 of the Executive By-law of the Anti-Money Laundering Law, was finalized and communicated to the entities subject to the law. Furthermore, the draft directive on the scope and manner of providing basic non-attendance services to clients in the capital market was prepared and approved by the specialized commission of the Supreme Council for the Prevention and Combating of Money Laundering and Terrorist Financing Crimes.

**Strengthening Oversight and Anti-Money Laundering Measures in Customs and the Insurance Industry**

To strengthen oversight and anti-money laundering measures in customs and the insurance industry, anti-money laundering criteria and client identification forms at three levels—simplified, standard, and enhanced—have been prepared.

Collaboration in the formulation of the directive on legal action against violations or crimes by entities subject to customs supervision, and the denial of customs services to natural persons and private sector entities exposed to money laundering, pursuant to Article 158 of the Executive By-law of Article 14 of the Anti-Money Laundering Law, was among the other measures undertaken by the Financial Intelligence Center to strengthen oversight and anti-money laundering efforts in customs in the year 2024.

### Systematic Combating of Money Laundering Arising from Tax Evasion

Tax crimes are considered one of the significant predicate offenses for money laundering. Therefore, to enhance the level of systematic combating of money laundering arising from tax evasion and related offenses, the final version of the draft regulations for establishing an intelligent and standardized database of persons who have committed tax crimes was submitted to the Supreme Council for the Prevention and Combating of Money Laundering and Terrorist Financing Crimes for approval.

Furthermore, in the domain of crypto-assets (cryptocurrencies), pursuant to the resolution of the Supreme Council of Cyberspace, the formulation of specialized criteria for risk assessment and management of risks arising from money laundering and terrorist financing through crypto-assets has been initiated by the Financial Intelligence Center.

To facilitate the management of cases related to terrorist activities and terrorist financing, and to clarify and streamline the categorization of information pertaining to these crimes, following due follow-up, the charge of "terrorist activity" has been added to the criminal charges in the judicial case management system.

The National Anti-Money Laundering Organization is also one of the bodies overseeing the printing and creation of money. Unfortunately, the creation of money differs significantly from the activities occurring within the banking network. Uncontrolled money creation leads to inflation and industrial recession.

The Anti-Money Laundering Organization in every country should serve as the legislator, executor, and overseer of the sources and origins of funds and current transactions—in matters pertaining to money creation, fiat money, real money, and digital currencies alike—exercising definitive and precise oversight with full voting authority and influence over the executive process and the printing or creation of money.

In principle, the Anti-Money Laundering Organization should function as a subsidiary of the financial system governing the country, and the only entity with the authority to issue directives regarding money laundering is the financial system of each country's sovereignty. However, in some countries, this organization is highly fragmented and operates under the supervision of multiple governmental or state organizations, lacking the capacity to receive centralized directives. This is considered a significant deficiency, and in security systems, this phenomenon is colloquially referred to as an "onion-layer network," which possesses its own exclusive advantages and disadvantages. In general, the anti-money laundering network of every country must be staffed by highly specialized, knowledgeable, and competent individuals.

The oversight of the Anti-Money Laundering Organization in every country is critically important in offline transactions. Regarding monetization or the creation of monetary backing for printing or fiat money backing, anti-money laundering oversight and the connection of this organization or body to the global network is mandatory. A substantial portion of economic activity conducted through the banking system must be under the supervision of the Anti-Money Laundering Organization and its inspectors.

End of Article Number Thirteen.