

## Clean Trading

The latest media release from the Central Bank of Trinidad and Tobago revealed that headline inflation slowed to 8.4% year on year to February 2007 and employment is at record levels amidst the backdrop of strong economic growth.

The general outlook for the economy continues to be buoyant; However, as cricket at the Oval in Trinidad seems to bring the rains, so too the economic prosperity appears to have allured dark clouds of detractors. Along with the advancement in the economy achieved over the past few years came sharp increases in reports of kidnappings, drug trafficking and other serious crimes. Although latest figures show that violent crime is on the decline, it still factors in the minds of consumers, investors, entrepreneurs, law enforcement officials and regulators alike.

Of related and increasing concern is what happens to the proceeds of such crimes. Two very interesting questions that explore this issue are – ‘How are the perpetrators able to use these funds and not be detected as having attained the money through illegal activity?’ and ‘What efforts are being made to ensure that those who commit such crimes are not easily allowed to benefit from the proceeds?’

Wellll..., first of all, large sums of money must be kept somewhere and usually it's with a financial institution. The source of the money would need to be disguised so as not to reveal it being from criminal activity. To be able to freely use the funds derived from illegally activity, the perpetrator has to find ways of presenting the funds as from a legitimate source. This process is called money laundering – converting dirty money to clean money.



[english.pravda.ru/main/18/89/358/12819\\_money.html](http://english.pravda.ru/main/18/89/358/12819_money.html)

Money laundering is itself a crime and carries very stringent penalties. A summary conviction of money laundering has a penalty of imprisonment for up to ten years and a fine of up to ten million dollars. If convicted on indictment, the penalty is a fine of up to twenty-five million dollars and imprisonment for up to fifteen years. Frightening isn't it?...but is it severe enough to deter the criminals? Humph....!!!! Considering that money

laundering is the involvement in any transaction or series of transactions that seek to conceal or disguise the nature or source of proceeds derived from illegal activities, including drug trafficking, terrorism, kidnapping, robbery, tax frauds, forgery, organized crime, bribery etc., you decide!

Money laundering can involve a number of simple or even very complex transactions, whichever activities are used, the process involves three stages:

**Placement** – Physically disposing of cash derived from illegal activity. This can be accomplished by converting cash to money instruments such as drafts, money orders, wire transfers, travelers cheques or placing the funds into a legitimate financial institution.

**Layering** – A number of financial transactions in order to separate proceeds of criminal activity from their source. Designed to disguise the origin of funds and provide anonymity. This includes the use of bearer shares, wire transfers and letters of credit transactions.

**Integration** – Placing the laundered money back into the economy as apparent legitimate funds. This makes the funds available to the launderers as seemingly clean finances with the origin of the money having been concealed.

It is more likely that Stock Markets may be affected during the Layering and Integration stages than the Placement stage. This is because traditionally, Stockbrokerage firms in Trinidad and Tobago do not deal out of suitcases, so, receiving an incredible amount of cash is highly unlikely (*although not impossible*). Rather, wire transfers and cheques drawn on other financial institutions make up the majority of money transfers at Brokerage houses.

Why is this information important? Simply, as a legitimate investor, money laundering activities represent increased risk. The holders of the illegal funds often take huge discounts in washing these funds which can result in wide volatility in stock prices and possibly even cripple markets. Layering through the purchase of large quantities of shares can drive prices up while the sell off of these shares may cause prices to crash and the launderer receives 'clean' money from the payments pertaining to the sale of the shares. The clean money can then be integrated into the economy. This however leaves the legitimate investor with deflated values for his shares.

Additionally, wide volatility in share prices can greatly affect investor confidence in the shares and ultimately the stock market. This reduced confidence results in pressure on the demand for shares and continued deflated share prices. Investors would eventually seek investment opportunities elsewhere thereby increasing the supply of shares in order to pull money out of the stock market. Legitimate investors therefore stand to lose both in the short term and longer term.

Stockbrokerage firms have a legal, agency and business obligation to prohibit and actively prevent money laundering and any activity that facilitates money laundering. The successful achievement of this task is dependent on the implementation and strict adherence to anti-money laundering policy and guidelines as well as trained staff who can prevent and detect efforts at laundering funds.

Stockbrokers should at all times pay attention to the fundamentals of good business practice i.e. know your clients. Money laundering attempts can be detected when Stockbrokers have a sound knowledge of their clients business and stockbroking transactions.

Another vital mechanism in identifying activities designed to wash funds is the retention and review of company records regarding large money transactions. These records provide an audit trail which can be combined with knowledge about the clients' business to recognize trends and determine whether there are transactions outside normal stockbroking activities.

The ideal however, and undoubtedly should be a main priority in the anti-money laundering fight, is the non-acceptance of business from undesirables that are likely to use the stock market to place, layer and/or integrate ill-gotten proceeds. There are various lists readily available and constantly updated to allow business officials to identify such persons.

WISE has incorporated these and other initiatives in order to prevent or else detect any attempts to use the firm to launder money.

The issue of money laundering is of increasing concern as these funds are usually used to finance other criminal activities or at the least, complicate law enforcement investigations. Certainly the good reputation of our Stock market and the safety of investors' portfolio value rely in part on the ability to keep illegally acquired resources out.