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Anti-Money Laundering

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The Anti-Money Laundering and Countering Financing of Terrorism Act 2009 (the AML/CFT Act) and its regulations place obligations on New Zealand's financial institutions to detect and deter money laundering and terrorism financing. It facilitates co-operation amongst reporting entities, supervisors, and other government agencies, in particular, law enforcement and regulatory agencies. A major business problem of large, organized criminal enterprises – such as drug smuggling operations – is that they end up with huge amounts of cash that they need to conceal so as to avoid attracting investigations by legal authorities. The recipients of such large amounts of cash also do not want to have to acknowledge it as income, thereby incurring massive income tax liabilities. To deal with the problem of having millions of dollars in cash obtained from illegal activities, criminal enterprises create ways of "laundering" the money to obscure the illegal nature of how it is obtained. In short, money laundering aims to disguise money made illegally by working it into a legitimate financial system, such as a bank or business. One of the foremost commonly used and simpler methods of "washing" money is by funneling it through a restaurant or other business where there are tons of money transactions. In fact, the origin of the term "money laundering" comes from infamous gangster Al Capone's practice of employing a chain of laundromats he owned to launder huge amounts of money . A criminal or criminal organization owns a legitimate restaurant business. Money obtained from illegal activities is gradually deposited into a bank through the restaurant. The restaurant reports daily cash sales much higher than what it actually takes in. Say, for example, that the restaurant takes in $2,000 in cash in one day. An additional $2,000 – which is money coming from illegal activities – are going to be added thereto amount, and therefore the restaurant will falsely report that it took in $4,000 in cash sales for the day. The money has now been deposited in the restaurant's legitimate bank account and appears as an ordinary deposit of restaurant business proceeds. To deal with tax issues – that is, to avoid having the restaurant incur too large a tax bill as a result of recording more revenue than it generates – and to further disguise the criminal source of the extra deposited funds, the restaurant may invest the money in another legitimate business, such as real estate. Things are further obscured from the authorities by using shell companies or holding companies that control several business enterprises that the laundered money could also be funneled through. The "layering" often involves passing the money through multiple transactions, accounts, and companies – it may pass through a casino to be disguised as gambling winnings, go through one or more foreign currency exchanges, be invested within the financial markets, and ultimately be transferred to accounts in offshore tax havens where banking transactions are subject to much less scrutiny and regulation. The multiple pass-throughs from one account, or one enterprise, to a different make it increasingly difficult for the cash to be traced and tied back to its original illegal source. In the final phase of cash laundering – integration – the cash is placed into legitimate business or personal investments. It may be used to purchase high-end luxury goods, such as jewelry or automobiles. It may even be used to create yet another business entity through which future amounts of illegal cash will be laundered.