

THE AML JARGON-BUSTER

Your guide to Anti-Money Laundering definitions

TERM	DEFINITION
AML	See Anti-Money Laundering
Anti-Money Laundering (AML)	The systems and controls that regulated firms are required to put in place in order to prevent, detect and report money laundering.
Anonymous Account	An anonymous account is one for which the financial institution holds no records concerning the identity of the account holder. Most jurisdictions now prohibit the use of anonymous accounts although numerous 'anonymous' accounts and facilities are still offered via the Internet.
Beneficial Owner (BO)	The person who ultimately owns an asset and on whom AML checks need to be carried out. On occasions, particularly with offshore entities, the identity of the beneficial owner may not be disclosed in the public domain. Sufficient KYC checks will not be deemed to have been carried out if the identity of the beneficial owner(s) is not established, and then verified as per the risk-based approach.
CDD	See Customer Due Diligence
CFT	See Countering the Financing of Terrorism
CTF	See Countering Terrorist Financing
Customer Due Diligence (CDD)	Customer due diligence (CDD) is the process by which a firm gathers sufficient information regarding a customer to enable it to adequately assess the potential AML risks the client poses. It is often referred to within the industry as know your customer/client (KYC), although CDD tends to relate specifically to AML, whereas the term KYC may also be used where the firm is required to gather information regarding a client prior to providing a service (such as investment advice) to the client.
Countering the Financing of Terrorism (CFT)	The systems and controls that regulated firms are required to put in place in order to prevent, detect and report the financing of terrorism.
Countering Terrorist Financing (CTF)	An alternative term for countering the financing of terrorism (CFT).
EDD	See Enhanced Due Diligence

TERM	DEFINITION
Enhanced Due Diligence (EDD)	An enhanced form of customer due diligence (CDD) that must be adopted when the firm has ascertained that the customer poses a higher risk of money laundering. It typically requires the collection of additional documentation, or further verification checks.
FATF	See Financial Action Task Force
Financial Action Task Force (FATF)	An inter-governmental organisation founded by the G7 in 1989 to develop a global set of standards to combat money laundering. FATF is based in Paris, France and the latest version of its 40 recommendations were published in February 2012. They focus on the importance of taking a risk-based approach to combatting money laundering and terrorist financing.
Financial Intelligence Unit (FIU)	The Financial Action Task Force recommends that each country should establish a financial intelligence unit (FIU) – a national central authority to receive, analyse and act upon suspicious activity reports and deal with AML matters.
FIU	See Financial Intelligence Unit
Front Company	A shell company or subsidiary that is intended to shield the owners from liability or scrutiny. Such a company may be used for organised crime or other illegal activities.
Integration	The final part of the money laundering process. The funds that were the proceeds of crime are fully integrated into the financial system and are now perceived as 'clean'. Such funds can be used without suspicion, since it is difficult (if not impossible) to link them back to the original criminal activity.
Know Your Customer/Client (KYC)	The activities that financial institutions must perform to ascertain relevant information about their clients for the purpose of doing business with them. In the context of AML, the term is often used interchangeably with customer due diligence (CDD) but KYC also applies in the context of the provision of certain services. For example, firms are typically required to gather certain information from a client prior to providing investment advice.

TERM	DEFINITION
Know Your Employee (KYE)	The due diligence activities (such as pre-employment checks) performed by a firm on its employees.
KYC	See Know Your Customer/Client
KYE	See Know Your Employee
Layering	The second stage of the money laundering process. The proceeds of crime which have been introduced into the financial system (via placement) are disguised by the use of multiple transactions, or by other techniques, which are intended to make it increasingly difficult to link the funds to the original criminal activity. This may involve, for example, the transfer of funds between different accounts and currencies, the use of trade finance, or buying/selling assets such as shares or bonds.
Money Laundering	The process by which criminals attempt to hide and/or disguise the origins of the proceeds of crime.
Numbered Account	A bank account which has a number, rather than the name of the account holder, as its title. As a result the account owner will not be identified in account documentation. However, the account is not strictly anonymous, since banking regulations typically require the bank to know the identity of the client (in line with normal customer due diligence).
Offshore Bank	A bank that is domiciled in an offshore financial centre and conducts business with non-residents of that jurisdiction. In some cases they have no physical presence in the jurisdiction and are subject to limited regulation. Such banks are often perceived as a vehicle for money laundering, although there are many legitimate offshore banks.
Onboarding	The processes and procedures that need to be performed before a client can trade or buy services from a financial institution. For example, the completion of CDD/KYC and agreement on terms of businesses.
PEP	See Politically Exposed Person
Politically Exposed Person (PEP)	An individual who holds public office or other prominent function, or who has a close association with such a person. By virtue of their position PEPs are arguably more susceptible to bribery, corruption and the misuse of state funds and therefore pose a higher risk of money laundering. As a result additional obligations (such as enhanced due diligence) typically apply when a firm has dealings with a PEP.
Placement	The initial stage of the money laundering process: the proceeds of crime are introduced into the financial system. This is typically achieved by disguising the funds as legitimate – for example, as the proceeds of business activities.

TERM	DEFINITION
RBA	See Risk-Based Approach
Risk-Based Approach (RBA)	A risk-based approach is considered by the Financial Action Task Force (FATF) to be the basis for effective implementation of AML controls. Under such an approach countries, competent authorities and reporting entities (including financial institutions) are expected to identify, assess and understand the money laundering/terrorist financing risks they are exposed to so that they can develop the appropriate measures to mitigate these risks.
SAR	See Suspicious Activity Report
SDD	See Simplified Due Diligence
Shell Bank	Generally defined as ‘a foreign bank without a physical presence in any country’. Correspondent banking relationships with such banks represent a significant money laundering risk.
Simplified Due Diligence (SDD)	A simplified form of customer due diligence (CDD) that may be adopted when the firm has ascertained that the customer poses a low risk of money laundering.
Smurfing	A technique used in the placement of funds that are being laundered, whereby the funds are divided into smaller amounts so that such amounts will fall below the threshold at which the relevant financial institution (or other body) is required to file a suspicious transaction report.
STR	See Suspicious Transaction Report
Suspicious Activity Report (SAR)	Suspicious activity report (SAR) is a generic term for the report(s) submitted by financial institutions and other bodies subject to AML regulations to the Financial Intelligence Unit (FIU) when money laundering activity is suspected. Different terminology may be used in different jurisdictions for these reports. For example, in the United States there are SARs for financial institutions, SARC (Suspicious activity report for casinos) and SAR-S (Suspicious activity report for securities brokers and dealers).
Suspicious Transaction Report (STR)	The term given, in some jurisdictions, to a suspicious activity report (SAR). Note that in the UK a suspicious transaction report (STR) relates to suspicions of market abuse rather than money laundering.
Transparency International (TI)	An international non-governmental organisation that monitors and publishes reports on corporate and public sector corruption. Its annual Corruption Perception Index is a common tool used by firms to assess the risks of doing business in foreign jurisdictions.
Ultimate Beneficial Owner (UBO)	See Beneficial Owner