

# Threat Finance and Financial Intelligence

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The National Strategy for Counterterrorism<sup>1</sup> and the Strategy to Combat Transnational Organized Crime<sup>2</sup> identify threat finance as an enabling factor of crime and terrorism, and a challenge to both national and international security.

The integration of global financial systems, as well as technological innovation and proliferation, has reduced barriers to threat finance and money laundering while making it difficult for authorities to detect or disrupt these illicit operations.

The American Security Project has compiled this fact sheet to provide an overview of threat finance and the methods used to launder money, as well as measures aimed at countering these activities.

## Defining the concepts:

- Threat finance encompasses the means and methods used by organizations to finance illicit operations and activities that pose a threat to U.S. national security.
- Financial intelligence includes the means and methods used by the US government, international authorities, and legitimate actors in the financial industry to discover, disrupt, and deter the financing of threats to US national security and global stability.
- Money laundering is the process by which proceeds of crime are concealed and made to appear legitimately sourced.<sup>3</sup> Anti-Money Laundering (AML) and Counter Threat Finance (CTF) policies and regulations target this practice with the aim of eliminating criminal activity as a collateral effect.



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## The actors:

- For actors engaged in illicit activities, employing financing methods that enable them to act without detection by authorities is critical to the continuity of operations. These actors may include:
  - Foreign Terrorist Organizations (FTOs)<sup>4</sup>
  - Narcotics traffickers<sup>5</sup>
  - Human traffickers<sup>6</sup>
  - Transnational Organized Crime (TOC)<sup>7</sup>
  - Weapons of mass destruction (WMD) proliferators
  - Emerging actors and crimes, including cybercrime, identity-related crimes, cultural property trafficking, environmental crimes, organ trafficking, and piracy.<sup>8</sup>
- While the specific needs of actors vary, financing is required for a range of purposes<sup>9</sup>:
  - Safe haven
  - Paying bribes
  - Recruitment, indoctrination, and training activities
  - Operational expenses, including materials and overhead
  - Payment of operatives and operatives' families
  - Humanitarian or good will efforts
  - Miscellaneous expenses



## The methods:

- Money laundering is the underlying method of threat finance; however, it takes many forms in practice. The “laundry cycle” has three phases<sup>10</sup>:
  - The placement phase is the point at which the proceeds of crime enter the conventional financial system. At this stage, the money entering the financial system is still directly associated with the crime. Funds are sourced from and laundered by means of myriad activities<sup>11</sup>:
    - Counterfeiting
    - Extortion
    - Fraud
    - Kidnapping
    - Tax evasion
    - Not-for-profit (NFP) or shell organizations
    - Direct donations from (un)knowing individuals or organizations

- The layering phase disperses the funds in order to obscure sources of the proceeds and the individuals involved in the operation. Typologies vary significantly between actors, but frequently include allocating funds to different accounts, shell corporations, or assets. Funds are frequently routed through jurisdictions that have either inadequate AML practices or bank secrecy laws that do not allow for cooperation in AML investigations.<sup>12</sup>
- The integration phase is the stage at which the funds have been “washed” – their direct association with the illicit source adequately obscured – and may be withdrawn from the financial system for use by the actor once again.
  - Exit methods include the legitimate purchase of luxury assets, significant investments in financial markets, or the acquisition of commercial or industrial assets.
- As governments and industries have developed increasingly robust AML/CTF systems, illicit actors have migrated towards alternative remittance systems (ARS), including arms trafficking,<sup>13</sup> trade-<sup>14</sup> or commodities-based<sup>15</sup> schemes, stored value cards, and digital currencies.<sup>16</sup>

## Policies and Organizations

- As money laundering has become widespread through the integrated global financial system, the U.S. has enacted a series of AML regulations in an effort to stem the proliferation of such activity.<sup>17</sup> Several significant legislative actions include:
  - Bank Secrecy Act (1970)<sup>18</sup>
  - Money Laundering Control Act (1986)<sup>19</sup>
  - Anti-Drug Abuse Act (1988)<sup>20</sup>
  - Annunzio-Wylie Money Laundering Suppression Act<sup>21</sup>
  - Money Laundering Suppression Act (1994)<sup>22</sup>
  - Money Laundering and Financial Crimes Strategy Act (1998)<sup>23</sup>
  - USA PATRIOT Act (Uniting and Strengthening America by Providing Appropriate Tools to Restrict, Intercept and Obstruct Terrorism Act) of 2001<sup>24</sup>
- In addition to U.S. authorities, many international organizations are active in anti-money laundering efforts, with several prominent actors including:
  - The Financial Action Task Force (FATF), an inter-governmental body established in 1989, to “examine and develop measures to combat money laundering” and terrorist financing. Membership now includes 34 countries and two regional organizations.<sup>25</sup> FATF develops and monitors the implementation of the International Standards on Combating Money Laundering and the



Financing of Terrorism and Proliferation.<sup>26</sup>

- The Egmont Group of Financial Intelligence Units, a network of Financial Intelligence Units (FIUs) that facilitates international cooperation on combating transnational crime.<sup>27</sup> An FIU is a national agency responsible for handling disclosures of financial information related to suspected criminal activity, or as required by national legislation to counter money laundering or terrorist financing.<sup>28</sup>
- The United Nations Office on Drugs and Crime (UNODC) operates numerous programs targeting money laundering, threat finance, transnational crime, and related activities,<sup>29</sup> as well as IMOLIN, the International Money Laundering Information Network.<sup>30</sup>
- The Organisation for Economic Co-operation and Development (OECD), an inter-governmental organization focused on promoting the “economic and social well-being of people around the world.”<sup>31</sup> The OECD examines money laundering as part of its Bribery and Corruption focus.<sup>32</sup>
- Numerous international organizations are involved in countering money laundering and transnational crime,<sup>33</sup> but the domestic policies of individual nations and voluntary practices undertaken by private industry are equally instrumental in combating money laundering and threat finance.



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## Endnotes

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## Building a New American Arsenal

The American Security Project (ASP) is a nonpartisan initiative to educate the American public about the changing nature of national security in the 21st century.

Gone are the days when a nation's strength could be measured by bombers and battleships. Security in this new era requires a New American Arsenal harnessing all of America's strengths: the force of our diplomacy; the might of our military; the vigor of our economy; and the power of our ideals.

We believe that America must lead other nations in the pursuit of our common goals and shared security. We must confront international challenges with all the tools at our disposal. We must address emerging problems before they become security crises. And to do this, we must forge a new bipartisan consensus at home.

ASP brings together prominent American leaders, current and former members of Congress, retired military officers, and former government officials. Staff direct research on a broad range of issues and engages and empowers the American public by taking its findings directly to them.

We live in a time when the threats to our security are as complex and diverse as terrorism, the spread of weapons of mass destruction, climate change, failed and failing states, disease, and pandemics. The same-old solutions and partisan bickering won't do. America needs an honest dialogue about security that is as robust as it is realistic.

ASP exists to promote that dialogue, to forge consensus, and to spur constructive action so that America meets the challenges to its security while seizing the opportunities the new century offers.



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