

Forum: Economic and Financial Committee (ECOFIN)

Issue: Strengthening International Mechanisms Against Money Laundering

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Introduction

Every day, billions of dollars earned through criminal conduct — drug trafficking, corruption and fraud — are quietly accepted into the global financial system and remixed as legitimate wealth. Money laundering is a complex, worldwide plague that subverts economies, destabilizes governments and provides funding for lethal criminal syndicates. Behaviors such as the laundering of dirty money on behalf of third parties have garnered so much attention from governments and law enforcement that the international community is estimated to lose between two and five percent of global GDP to this crime every year, according to estimates by the United Nations Office on Drugs and Crime (UNODC), itself a shocking figure that dwarfs many other crimes.

Fighting money laundering is, by definition, a multilateral problem. No one country can successfully fight a phenomenon that exploits the seams between disparate legal systems, financial regulations and enforcement capacities. It is precisely in these seams that the rules-based international order starts to crumble. Financial criminals abuse regulatory gaps between states or cooperation breakdowns that jeopardize the integrity of the global financial governance architecture. Thus, reinforcing international mechanisms against money laundering is no longer simply a means to combat crime — it is rather an improving of the cooperative structures upon which the international order stands that mirrors this year's overall theme for RCIMUN of promoting cooperation and repairing fractures in the rules-based international order.

Definition of Key Terms

Money Laundering: Money laundering is the process of concealing the true ownership and control of the proceeds of crime in such a way that they appear to be the legitimate proceeds of lawful activities. (FATF – Money Laundering)

Financial Intelligence Unit (FIU): A Financial Intelligence Unit (FIU) is an agency in a country that collects and analyzes reports of suspicious transactions and disseminates related financial data to regulatory agencies, law enforcement and other appropriate organizations in the attempt to curb money laundering and terrorist financing. ("Financial Intelligence Units," Egmont Group)

Beneficial Ownership: The term Beneficial Ownership refers to a natural person who directly or indirectly through any agreement, pact, understanding or relation whether in writing or not, holds ownership of a legal entity such as a company or exercises control over it. ("Beneficial Ownership," FATF)

Shell Company: A shell company is an inactive company incorporated which has no material assets or business activity. It is often used by individuals to disguise ownership of the property being laundered or in money laundering transactions. ("Shell Companies," Global Financial Integrity)

Predicate Offense: A predicate offense is any criminal act that creates proceeds of crime which may subsequently be the subject of money laundering such as drug trafficking, corruption, fraud or human trafficking. ("Predicate Offenses," UNODC)

Mutual Legal Assistance (MLA): Mutual Legal Assistance (MLA) is a procedure for requests from or to another State for assistance in obtaining and exchanging evidence for use in criminal proceedings. ("Mutual Legal Assistance," UNODC)

Terrorist Financing: Terrorist Financing (TF) means providing or collecting funds for use in terrorist acts, whether the funds are licit or illicit. ("Terrorist Financing," FATF)

De-risking: De-risking refers to when financial institutions decide to end or severely restrict the business relationships they have with certain types of customers or activities — such as closing down accounts of correspondent banks in particular countries — in order to avoid dealing with risks related to money laundering that they are not adequately equipped to manage. ("De-risking," World Bank)

Correspondent Banking: Correspondent banking is a type of relationship between two banks in which one bank, the correspondent bank, acts on behalf of the other bank, the benefitting bank, located in a foreign country to make cross-border transactions possible. ("Correspondent Banking," BIS)

General Overview

The fight against laundering illicit proceeds at the international level began with the Vienna Convention on Drug- Trafficking of 1988 which incorporated money laundering into the body of criminal law under international auspices for the first time. The Financial Action Task Force, the FATF, was created by the G7 the following year in 1989 and is an intergovernmental organisation that has become the pre-eminent international standards organisation in the field of anti-money laundering. It bases its anti-money laundering rules and guidance on a set of international standards which are titled the 'Forty Recommendations' and which set out standards for anti-money laundering legislation,

financial institutions and for international cooperation. These were broadened as a consequence of UN Security Council Resolution 1373 that was adopted after the events of the 11 September terror attacks on the US, the purposes of which included requiring member countries to criminalise the act of funding terrorism and it has consequently had a broader effect on the global rules of the anti-money laundering regime the effect of which has in turn seen an extension of the terms of reference of the FATF.

Despite the many attempts to repair it, the system has continued to exhibit cracks. Witness the Panama Papers leak in 2016, followed by the Pandora Papers leak of 2021, the former showing that the problem of anonymous shell companies had not been eradicated and the latter showing that it was very much still present. Then there is the matter of cryptocurrencies. That the Financial Action Task Force (FATF), the Egmont Group of Financial Intelligence Units and the UN conventions on international financial crime were established many years ago is certainly a major achievement, but the sad fact is that many developing countries have not been able to comply with these conventions and major financial powers and countries have often not implemented the required measures.

Major Parties Involved and Their Views

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United States of America

The United States (US) is a primary driver for many FATF recommendations and is home to one of the most comprehensive regulatory systems in the world, with the jurisdiction of the Financial Crimes Enforcement Network (FinCEN) extending to all domestic and international financial transactions carried out from the US. Despite this, the US also has its own set of financial weaknesses, for example, the long-standing and well-known fact that a large number of so-called “shell companies” have been able to be rapidly incorporated in various US states, such as Delaware and Wyoming. This aspect has been only partially addressed through the Corporate Transparency Act of 2021.

European Union

In terms of one of the most aggressive regional approaches to tackling money laundering, it appears that the European Union is using a number of Anti-Money Laundering Directives to get financial institutions into line. In the wake of a string of banking scandals highlighting financial malpractice at some EU institutions, particularly some based in the Baltic states, it seems that weaknesses in the EU’s multilevel governance system are creating pressure on the EU to improve financial oversight at home. In order to provide a higher level of financial compliance in line with international best practice, it seems that the EU will end up establishing an Anti-Money Laundering Authority (AMLA) that will oversee the workings of the EU’s anti-money laundering.

People's Republic of China

China is an FATF member and has committed to implementing the FATF recommendations fully. Anti-Money Laundering (AML) laws have been enacted at the domestic level dealing with a variety of designated criminal activities. China however upholds the principle of State sovereignty and prefers to develop its counter money laundering activities on a bilateral basis, as opposed to a multilateral basis. China's major financial centres as well as some of its territories like Macau and Hong Kong have been criticized by the international community for their involvement in money laundering.

Switzerland

Banking secrecy has long been associated with Switzerland. Over the years, Switzerland has implemented a certain number of reforms, such as by endorsing the FATF, or by adhering to international exchange-of-information agreements, or by abolishing certain regulations that were favourable to money laundering. Today, Switzerland takes an active part in the setting-up of international norms, but because of the huge amounts of money channelled through the financial system of this country, it remains a prime target for money-laundering. Ongoing assessments are aiming to reach improvements.

African Union

So many countries on the African continent are ravaged by the menacing of illicit financial flows that costs them huge sums in the form of lost income of various kinds from on going cases of corruption and loot of our natural resource wealth. Although ESAAMLG and GIABA have been strengthening the capacity of our member states to their best abilities, our member states are still having their work in Progress in fulfilling the demands of FATF. The AU is urging the developed countries to assist Africa by way of provision of technical assistance to its member states, as well as the demand for justice and fairness for Africa at the global bodies. These demands include amongst others calling on the developed countries to take stringent measure against their own financial centres which help in the illicit diversion of illicitly financial flows in Africa.

Russian Federation

Despite adopting domestic laws in line with FATF recommendations, Russia has been embroiled in a string of scandals accusing it of systematic state-sponsored money laundering. Investigations after investigations uncovered links between President Vladimir Putin and his inner circle of wealthy oligarchs and their involvement in several money laundering activities in European real estate and offshore financial institutions. In 2023, the FATF suspended Russia from its membership due to suspected links to terror financing that goes against the FATF's mission. But the Russia saga shows how political tensions can get in the way of enforcing global anti-money laundering rules.

Timeline of Events

19 December 1988	Vienna Convention criminalizes money laundering internationally.
16 July 1989	FATF established by G7 Summit.
28 September 2001	UN Resolution 1373 mandates terrorist financing criminalization.
3 April 2016	Panama Papers exposes global offshore secrecy.
3 October 2021	Pandora Papers reveals widespread illicit offshore dealings.
28 February 2023	FATF suspends Russia's membership.

UN Involvement

The United Nations (UN) has made a significant contribution to the development of the international anti-money laundering (AML) regime since the Vienna Convention of 1988. The UN Office on Drugs and Crime (UNODC) acts as the UN's lead agency for international cooperation on money laundering issues. In this context, the UNODC is responsible for providing support and assistance to UN Member States in the implementation of the Palermo Convention and UNCAC. The UN Security Council has also addressed money laundering in the context of counter-terrorism through sanctions against listed terrorist organisations.

The UN's role in counteracting the laundering of criminal proceeds from drugs has, however, been severely criticized as being merely declaratory and operational in nature, leaving the overwhelming burden of work to the FATF in establishing international regulations to combat ML. Developing countries in the UN system express the view that the international ML regime is heavily loaded in the direction of interests of the more powerful economic groups in the North, and that it does not sufficiently deal with the use of the big financial centers of the North for the laundering of drug proceeds gained in the South.

Relevant UN Documents

- **United Nations Convention Against Illicit Traffic in Narcotic Drugs and Psychotropic Substances, 19 December 1988 (A/RES/S-17/2)**
- **Measures to Combat Money Laundering, 23 December 1994 (A/RES/49/159)**
- **Strengthening International Cooperation in Combating the Effects of Illicit Financial Flows, 27 July 2015 (A/RES/69/314)**
- **Special Committee on Financial Crimes and Illicit Financial Flows Report to the General Assembly, 8 December 2019 (A/RES/74/206)**

Treaties and Events

Most if not all recent international criminal justice endeavours start with reference to the Vienna Convention of 1988 which has been ratified by 189 states worldwide, the Palermo Convention of 2000 which was also ratified by almost all states worldwide and more specifically UNCAC of 2003 which was also close to being universally ratified. The catch is not that the international instrument which in this case are the various treaties was not ratified by almost every state that matters, but the often mentioned “ratification is not implementation” mantra that plays out to the most tragic of results as no one has even an approximate overview of the national legislation required to for instance effectively combat transnational crime while all those that have been for years now being requested to do so have made a mockery of it on the ground.

All of the above aside, the FATF was established in 1989 and regularly reports on its assessment of compliance with the Forty Recommendations which in themselves provide a metric to measure global progress (or otherwise). The revelation of the Panama Papers in April 2016 focussed minds in governments round the world, with a repeat dose of the Pandora Papers in 2021 making it impossible to maintain that a global risk was somehow ‘contained’. Now it remains to be seen how the global financial regulatory system performs in the face of harsh economic sanctions being levied on Russia by key members of the Global Financial Action Task Force, following its invasion of Ukraine in February 2022.

Evaluation of Previous Attempts to Resolve the Issue

The FATF system has been the most extensive effort to deal with money laundering on a global basis and the amount of detail built into the recommendations together with the publication of names of countries non-compliant with some of the recommendations means that the system cannot be considered a failure. However, like all previous initiatives to combat money laundering the FATF system has also been the subject of criticism — indeed it has been charged with being unworkable and that it was framed along lines that were in the interests of northern country elites. The naming of countries as being non-compliant with recommendations, which constitutes a major enforcement

device of the FATF system, has in particular been described as highly politicised in that the economies of major countries have always been treated in such a way as to protect their interests despite a clear suspicion that there were serious shortcomings in their anti-money laundering procedures.

Most United Nations activities undertaken through the Vienna Convention, the Palermo Convention and UNCAC have proven inadequate, as they rely on state cooperation and entrust the role of law enforcement to national authorities without being endowed with any means of coercion. UNCAC, which was presented as an unprecedented international effort with respect to asset recovery, has so far yielded sparse results and the repatriation of assets, the very purpose of the Convention, is proceeding at a glacial pace, being as always a highly politicised affair. The appearance of cryptocurrencies and the surge of Decentralized Finance or “De-Fi” in the markets have once again demonstrated that the ancient laws and international rules that underpin the anti-organized crime agenda are incompatible with the digital age in which crime operates. It seems that the international anti-crime regime has proven time and again to be hopelessly inadequate in respect of the ingenuity with which organized crime innovates and develops new methods, techniques and instruments.

Possible Solutions

The following are some of the measures that would need to be implemented to address the current shortcomings of the anti-money laundering system: Reform the current FATF voting structure so that developing countries have a greater say in FATF decisions in order to reduce the current politics-driven assessment criteria. Introduce public beneficial ownership registers to prevent organised crime from abusively using bearer shares and conceal their illicit activities through the use of anonymous shell companies. Introduce specific rules for cryptocurrency and other distributed ledger technology-based virtual currencies and decentralised financial systems. Strengthen mutual legal assistance agreements to accelerate criminal investigations that require cross-border information sharing. Improve private sector-public agency cooperation with the protection of whistleblowers to prevent money launderers from exploiting the professional enablers window that currently exists in the AML system, and which is regularly used by sophisticated money launderers in their laundering operations.

Notes from the Chair

Consider tackling money laundering not so much as a regulatory issue, but as a systemic one for global justice – and think about how you might approach the underlying inequalities of the current system, rather than simply saying that “enforcement needs to be beefed up.” Good luck, and have fun!

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