

For Bank Staff Use

HANDBOOK OF MEASURES TO PREVENT MONEY LAUNDERING (SAMPLE)

Know Your Customer and Reporting
Suspicious Transactions –

March 2003

Japanese Bankers Association

Notes:

The Japanese Bankers Association granted permission to the International Bankers Association to prepare this translation but did not review nor approve it. This translation is for reference purposes only and is not an official interpretation of laws and regulations. The Japanese Bankers Association original supercedes this translation should there be any discrepancies or differences between the Japanese and English versions.

Some charts, diagrams, illustrations and other layout features in the Japanese original are omitted for simplicity reasons. All content is included.

This document is a sample of the translation prepared by the International Bankers Association. The complete translation is 60 pages and is priced at ¥30,000. Please contact the IBA Secretariat to order.

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Japanese Page 1

MESSAGE FROM THE FINANCIAL SERVICES AGENCY

I would first like to express my sincere gratitude to all bank staff for your continued cooperation with our measures against money laundering.

With the worsening drug and gun crime situation in recent years, fighting money laundering has become an urgent issue on the international scene. In Japan as well, in response to this international trend, the Anti-Organized Crime Law came into force in February 2000, broadening the scope of the suspicious transaction reporting system in relation to money laundering. Furthermore, in July 2002, as a result of the simultaneous terrorist incidents in the United States in September 2001, transactions suspected of being connected with financing terrorism were added to those subject to the reporting system. As a result, reports of suspicious transactions filed by financial institutions, commencing with banks, have significantly increased to about 18,000 in 2002. These reports, which are organized and analyzed by this office, provide information useful to investigations to investigative authorities, etc., and have therefore been useful in criminal investigations. In April 2002, the Customer Due Diligence Law was enacted, and came into force on January 6, 2003. It is believed that the accuracy of information reported about suspicious transactions will increase as a result of this law.

Reporting suspicious transactions and knowing your customer form the foundation of the measures to prevent money laundering, and must be observed as legally binding duties. This point has been incorporated into the Financial Inspections Manual as one of the check items of the legal compliance of financial institutions. Combating money laundering is not only useful in preventing crime, but for financial institutions it also contributes to risk management as well as increases the confidence that the community places in financial institutions by closing the door on the use of financial services for criminal purposes.

The system of reporting suspicious transactions and knowing your customer relies heavily on the experience and knowledge of those of you who play a leading role in the industry. I would therefore ask bank staff to use this handbook, compiled by the Japanese Bankers Association, as a further step towards understanding and cooperating in the fight against money laundering.

March 2003

Tetsuaki Mizuno,
Director
Japan Financial Intelligence Office
Financial Services Agency

Japanese Page 2

INTRODUCTION

Thus far, international cooperation in combating money laundering has been obtained through the Financial Action Task Force on Money Laundering (FATF) (*1) formed at the Economic Summit and centered on its participant nations. As a result of major incidents in recent years, organizations such as FATF have been investigating strategies to strengthen anti-money laundering measures.

In keeping with these trends, Japan also undertook a series of reviews of its legal system concerning money laundering from 2001 to 2002. Japan's anti-money laundering measures had their inception in know-your-customer policies in accordance with the Instructions, etc. (*2) of the Director-General of the Banking Bureau in the Ministry of Finance of those days (subsequently changed to the JBA Guidelines (*2) as from 2000) and in the punishments for drug-related money laundering crimes and reporting of suspicious transactions in accordance with the Narcotics Special Rules Law (*4). Since then, the scope of predicate offenses (targeting sentences and reporting) has been broadened in accordance with the Anti-Organized Crime Law (*5). The current review has resulted in not only the enforcement of the Law of Punishments for Financing Terrorism, etc. (*6), which subjects financing terrorism to punishment, but also in the enforcement of the Customer Due Diligence Law (*7), which strengthens the legal duty to conduct ID checks on customers. In addition, not only has the Anti-Organized Crime Law, which established the duty to report suspicious transactions, been amended with the addition of financing terrorism as a predicate offense, but the Foreign Exchange and Foreign Trade Law (*Gaitame-Ho*) has also been partially amended to strengthen the checking of funds movements, etc. between countries.

In a sense, this series of trends undeniably impose a burden on the customers of financial institutions and on the financial institutions themselves. However, of greater importance is the fact that, in order to combat a variety of crimes, it is important to prevent the exploitation of financial transactions for laundering money; financial institutions, etc. now play an extremely significant role in this respect. In order to prevent the myriad forms of money laundering, which are expected to become more ingenious as time goes by, it is imperative that each and every one of us be adequately armed with knowledge in order to perform our work.

Japanese Page 3

This handbook has been written on the assumption that its readers are mainly those who are learning about money laundering for the first time, but there is also content for readers that already have studied a fair amount but that want to update their knowledge on recent circumstances. The JBA has prepared this handbook as a tool for bank staff to expand their understanding of the money laundering issue and engage in proper business practice.

Japanese Pages 2 and 3

Notes

- *1 The Financial Action Task Force on Money Laundering (FATF) is an inter-governmental institution that was established as a result of the Arche Summit Economic Declaration of 1989. Its aim is to develop and promote global countermeasures to money laundering. As at present in February 2003, it is composed of 29 countries and territories including Japan and of two international institutions.
- *2 ***Preventing Money Laundering involved in Illicit Traffic in Drugs such as Narcotics*** (MOFB No. 1700 dated June 28, 1990), ***Points of Concern in Connection with Preventing Money Laundering involved in Illicit Traffic in Drugs such as Narcotics*** (Office Communication of the Director of the Banks Division on the same date), etc.
- *3 2000 JBA Administration No. 56 ***Guidelines on Handling ID Checks to Prevent Money Laundering*** dated December 18, 2000
- *4 Law Concerning Special Cases, etc. of the Narcotic Drugs and Psychotropic Substances Control Law for Preventing Acts that Assist Unlawful Acts Involving Drugs Regulated Under International Agreements (Law No. 94 of 1991)
- *5 Law Concerning Punishment of Organized Crime and Controls, etc. on Criminal Proceeds (Law No. 136 of 1999)
- *6 Law Concerning Punishment of Provision of Funds, etc. for Criminal Acts Aimed at Threatening Public, etc. (Law No. 67 of 2002)
- *7 Law on Due Diligence with Customers, etc. by Financial Institutions, etc. (Law No. 32 of 2002)

Japanese Page 4

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-- Know Your Customer and Reporting Suspicious Transactions --

TABLE OF CONTENTS

	Japanese Page No.
MESSAGE FROM THE FINANCIAL SERVICES AGENCY	1
INTRODUCTION	2
CHAPTER 1 BASIC KNOWLEDGE OF MONEY LAUNDERING AND MENTAL PREPARATION FOR BANK STAFF	5
1. What is Money Laundering?	6
2. Importance of Preventing Money Laundering	7
3. Current State of Money Laundering	8
4. Mental Preparation for Bank Staff	9
CHAPTER 2 KNOW YOUR CUSTOMER	11
1. Customer Due Diligence Law	12
2. Specific Office Work Based on Due Diligence Law	17
3. Know-Your-Customer Methods and Customer Identification Documents	18
4. Creating Customer Identification Records	21
5. Creating Transaction Records	22
6. Raising Level of Function for Checking Identification Particulars when Authenticity in Doubt	23
7. JBA Response to Customer Due Diligence Law	25
8. <i>Gaitame-ho</i> Amendments and Customer ID Checking	25
CHAPTER 3 REPORTING SUSPICIOUS TRANSACTIONS	27
1. Anti-Organized Crime Law	28
2. Law of Punishments for Financing Terrorism, etc. (Law Concerning Punishment of Provision of Funds, etc. for Criminal Acts Aimed at Threatening Public, etc.)	39
3. Preparing an Internal System in the Bank for Preventing Money Laundering	40
4. System of Reporting Suspicious Transactions	44
5. Reference Examples of Suspicious Transactions	47
IN CONCLUSION	54
Reference Examples of Suspicious Transactions	55