

**JBA HANBOOK ON MEASURES TO PREVENT MONEY
LAUNDERING AND THE FINANCING OF TERRORISM**

**JAPANESE BANKERS ASSOCIATION
OCTOBER 2006**

SAMPLE

This translation is for reference purposes only and was neither reviewed nor approved by the Japanese Bankers Association and is not an official interpretation of laws and regulations. The Japanese original released by the Japanese Bankers Association supersedes this translation, should there be discrepancies or differences between the Japanese and the English versions.

The International Bankers Association has prepared this translation with the intention of having the content, as much as possible, accurately represent the Japanese original. However, differences in layout and pagination from the Japanese original will exist. The text will on occasion refer to charts and diagrams that were not available for inclusion in this translation. Prefer refer to the original Japanese document for these charts and diagrams.

INTERNATIONAL BANKERS ASSOCIATION

Ark Mori Building, 14F
1-12-32 Akasaka
Minato-ku, Tokyo, Japan 107-6014

Telephone: (03) 5545-7511
Facsimile: (03) 5545-0502
E-mail: g-info@ibajapan.org
Website: www.ibajapan.org

TABLE OF CONTENTS

MESSAGE FROM THE FINANCIAL SERVICES AGENCY	1
INTRODUCTION	2
Chapter 1 BASIC KNOWLEDGE OF MONEY LAUNDERING / TERRORISM FINANCING AND MENTAL PREPARATION FOR BANK STAFF	
1. What is Money Laundering / Terrorism Financing?	6
2. Importance of Preventing Money Laundering / Terrorism Financing	7
3. FATF “40 Guidelines” and “9 Special Guidelines on Terrorism Financing”	8
4. Current State of Money Laundering / Terrorism Financing	11
5. Mental Preparation for Bank Staff	12
6. Taking Measures to Prevent Money Laundering / Terrorism Financing	13
Chapter 2 CUSTOMER IDENTIFICATION	
1. Customer Due Diligence Law	15
2. Specific Office work Based on the Customer Due Diligence Law	20
3. Customer Identification Methods and Customer Identification Documents	22
4. Creating Customer Identification Records	25
5. Creating Transaction Records	27
6. Improving Functions for Checking Identification Particulars when Authenticity is in Doubt	28
7. JBA Response to the Customer Due Diligence Law	29
8. Foreign Exchange and Foreign Trade Law and Identification Checks	30
9. Noting Information on Customers Remitting Money Overseas	34
10. Response to Accounts where Customer Identification Has Not Been Completed	36
Chapter 3 REPORTING SUSPICIOUS TRANSACTIONS	
1. Anti-Organized Crime Law	39
2. Law on Terrorism Financing and the Special Law on Narcotics	48
3. Preparing an Internal Systems in Banks for the Prevention of Money Laundering and Terrorism Financing	51
4. Suspicious Transaction Reporting Systems	53
5. Reference Examples of Suspicious Transactions	55
IN CONCLUSION	61
(Reference Document)	
Reference Examples of Suspicious Transactions	63

CHAPTER 1

BASIC KNOWLEDGE OF MONEY LAUNDERING / TERRORISM FINANCING AND MENTAL PREPARATION FOR BANK STAFF

This chapter explains the meaning of money laundering and of terrorism financing, the importance of their prevention, international cooperation, and mental preparation for bank staff in dealing with the problems of money laundering and the financing of terrorism.

1. What is Money Laundering / Terrorism Financing?

Money Laundering

Money laundering is the concealment of the source of funds obtained through crime (criminal proceeds) to make it appear as though the funds were obtained through legal transactions. For example, if money obtained from criminal activity is transferred from account to account and then applied to the purchase of another financial product, if that financial product is then converted to cash it will likely become difficult to ascertain that the cash originated from criminal proceeds.

A specific example would be a drug or arms dealer putting money obtained from drug or arms sales into an account and then concealing the source of the earnings by moving the money around among multiple financial institutions, accounts, and financial products. Additionally, when money laundering is conducted by money being deposited from an overseas account into a Japanese account via a seemingly ordinary transaction, and some of that money is then transferred to another account overseas, Japanese banks have been used for money laundering even though the criminal earnings were not obtained within Japan.

Terrorism Financing

Meanwhile, terrorism financing is the offering to terrorists the funds necessary to carry out terrorist activities such as bombings and hijackings. Terrorism financing is conducted by making transactions appear to be normal, using methods such as accounts under fictitious names, so that it is not known that the collected money has been passed on to terrorists. Furthermore, the source of the funds can be concealed by transferring money from account to account so that after a terrorist activity has been carried out, the people who supported it financially cannot be traced.

In this way, the financing of terrorism is similar to money laundering in that both conceal the flow of money. However, it differs from money laundering, which presumes a serious crime, in that the source of funds is not limited to crime and the amount of money transferred each time is small. For example, there have been actual cases in which money is transferred in the name of contributions from ordinary citizens, many of those are collected and passed through multiple financial institutions, and the funds were ultimately used for terrorist activities. Cases have also emerged where funds remitted for school expenses were actually used as preparation funds for people who committed acts of terrorism. Because of this, there is sufficient possibility that such things are being carried out in bank transactions in our close proximity.

2. Importance of Preventing Money Laundering / Terrorism Financing

Whether it is drug-related criminal activity or acts of terrorism, carrying out large-scale crimes in an organized manner requires large amounts of money. Neglecting money laundering and terrorism financing will allow criminal organizations to obtain the funds they need to operate, and crime will become out of control. The result will be a vicious cycle in which criminal earnings fund and give rise to new criminal acts.

Furthermore, there are also cases in which criminal organizations attempt to invest criminal earnings into legitimate economic activities. Because it will become impossible to differentiate between money obtained through illegal acts and legitimate funds if money laundering is ignored, there is a risk that criminal organizations will expand that power by introducing such funds into legitimate economic activities and exercising their force.

On the other hand, if money laundering and the financing of terrorism are prevented, the funds that are the lifelines of criminal organizations will be cut off and, as a result, the repetition of criminal acts and the expansion of the organizations' power can be obstructed. In other words, it can be said that the aim of preventing money laundering and the financing of terrorism is the eradication of criminal organizations and criminal acts from a financial aspect.

In addition, there have recently been many examples in which accounts under false names or other people's names are used as accounts for wire transfer frauds, such as cases where people pretend to be family members in need of money and or accounts that are used for the repayment of illegal loans. By taking thorough measures to prevent money laundering and the financing of terrorism, the abuse of financial services can also be prevented.