News

China Top Destination for 'Russian Laundromat' Funds, Raising AML Concerns

March 31, 2017 By Valentina Pasquali Email

Chinese financial institutions feature prominently among more than a hundred banks recently revealed to have knowingly or unknowingly processed billions of dollars-worth of illicit payments originating from Russia, according to data obtained by *ACAMS moneylaundering.com*.

Last month, a consortium of investigative journalists and a Russian newspaper mapped out, on the basis of newly obtained transactional records, how a group of oligarchs, politicians and criminals used at least 740 shell companies and 112 bank accounts in 96 countries to move almost $21 billion derived from embezzlement and other crimes out of Russia and into the licit global economy.

Chinese banks and the local affiliates of foreign lenders in mainland China and Hong Kong comprise roughly 10 percent of the more than 700 banks worldwide through which the funds eventually transited—by far the largest share of any country, according to data the *Organized Crime and Corruption Reporting Project* and *Novaya Gazeta* provided to *ACAMS moneylaundering.com*.

The banks, which include regional names and global giants, also processed around 10 percent of the money estimated to have been washed through the so-called "Russian Laundromat," or nearly $2 billion, the highest volume after Moldova and Latvia, where the funds first transited after leaving Russia.

From 2011 to 2014, the individuals behind the Russian Laundromat bribed Moldovan judges to certify and order companies that "exist only on paper" in Russia to repay phony debts to 21 "core" shell companies in the United Kingdom, Cyprus and New Zealand that they secretly controlled.

At least $21 billion was thus wired in 26,746 tranches from 19 Russian banks to accounts held at Moldindconbank in Moldova and Trasta Komercbanka in Latvia, which was shuttered by national authorities in 2016 for anti-money laundering program failures—two years after the OCCRP and Novaya Gazeta first disclosed the scheme.

From there the funds were dispersed across nearly 100 countries, passing through large and small financial institutions alike before being expended on luxury goods, electronics, entertainment and other products and services.

Companies in Hong Kong and China holding corporate accounts were the second and third largest beneficiaries of Laundromat funds after Estonian firms, raking in $927 million and $916 million respectively, according to the *OCCRP*.

The state-owned Bank of China processed almost $720 million of the funds through its branches in mainland China, Hong Kong and Macau, making it the fourth most-used lender by the individuals and entities behind the Russian Laundromat scheme.

Another $390 million transited through China Construction Bank, Industrial and Commercial Bank of China, Bank of Communications, Agricultural Bank of China and Hang Seng Bank Limited, while 66 other lenders in Mainland China and Hong Kong handled more than $200 million, according to the data.

The perpetrators of the scheme also used branches of HSBC, Citibank, Standard Chartered and India's Bank of Baroda to purchase legitimate goods and services worth $630 million combined.

By comparison, less than $1 billion transited through a dozen financial institutions in Cyprus, 16 banks in the United Kingdom and 46 in Switzerland, respectively, while less than $65 million combined moved through 34 financial institutions headquartered in the United States, according to the data.

The growing international clout of China's financial institutions—Chinese banks took the top four spots in S&P Global Market Intelligence's most recent ranking of the world's largest banks by assets—have made them increasingly vulnerable to money-laundering operations and evasion of capital-flight controls by the wealthy, a

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Beijing-based foreign economist said.

The central government's ability to assess the extent of financial crimes and act against them are plagued by the willingness of some banks to report positive results at a time when the proportion of their bad loans is mounting, according to the economist, who asked not to be named.

"There really isn't a culture that you have to follow the spirit of the law as well as the letter of the law. As long as you follow the letter of the law, you are fine."

China is also the world's largest economy by purchasing power, according to the World Bank, and is forecasted by the London-based Center for Economics and Business Research to overtake the top overall ranking from the United States by 2029.

These factors, combined with nationalistic perceptions that Chinese financial institutions are being forced to comply with U.S. and European regulations, may serve to undermine the efficacy of China's AML rules.

That some of these institutions had, at least until recently, faulty AML controls has been known for some time, thanks to regulatory enforcement actions and prosecutions in the United States, Italy and Spain.

In 2015, China Construction Bank and Bank of China were ordered to shore up the AML programs of their New York branches by the U.S. Federal Reserve and the Office of the Comptroller of the Currency, respectively.

Agricultural Bank of China was fined $215 million in November by the New York State Department of Financial Services for knowingly processing transactions in violation of an array of U.S. sanctions, and ordered to hire an independent monitor to supervise a mandatory overhaul of its compliance policies and procedures.

Bank of China recently paid $1.5 billion to settle charges that its branch in Milan laundered and repatriated more than $2 billion on behalf of Chinese criminals, while six executives at Industrial and Commercial Bank of China's branch in Madrid were arrested last year for allegedly helping an organized crime syndicate wire funds back to China.

The prominent role Chinese banks played in the Russian Laundromat may give new momentum to congressional plans to target those among them that still do business with North Korea in violation of U.S. and U.N. sanctions, according to Jeremy Paner, a former official with the U.S. Office of Foreign Assets Control.

"There's an obvious link here because North Koreans are also using Chinese banks," Paner, now a Washington, D.C.-based attorney at Holland & Hart, said. "I suspect these revelations may help Rep. Ed Royce's latest North Korea bill to rise to the top of the pile."

On Wednesday, the proposed legislation, which would authorize the U.S. Treasury Department to blacklist any foreign bank that maintains correspondent accounts for North Korean financial institutions, cleared its first legislative hurdle when it won the approval of the House Foreign Affairs Committee.

China's government and some of its financial institutions in recent months have announced steps to strengthen their regulations and controls against money laundering and other financial crimes.

Following the latest disclosure by the *OCCRP* and *Novaya Gazeta*, several banks, including Bank of China, Hang Seng Bank, HSBC and Standard Chartered, reiterated their commitment to monitor and report suspicious activity and work closely with national and global authorities to unmask illegal transactions.

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