

Time to act together

With the number of tainted financial transactions rising in the UAE, three apex regulatory authorities are uniting together to fight the menace. A **MONEYworks** report.

The UAE is adding some teeth to its fight against money laundering. The country is not only increasing its vigil against the menace, but also is forming mechanisms to create working synergies and cooperation among its various regulatory institutions.

Over the years, the UAE has taken various measures to check money-laundering activities. These activities still pose significant challenges, though. By the end of this year, the UAE central bank expects a 10 per cent increase in suspicious transactions reports (STRs). According to UAE central bank sources, these STRs could go up to 18,000 in 2009, compared to 13,101 in 2008. The number of cases filed under STRs had already touched 6198 by May 2009.

Forty-six cases have been reported to the Dubai Financial Services Authority (DFSA) thus far. Twenty-eight cases had been reported by the end of 2008 and 18 cases have been reported this year.

According to published reports, the UAE froze 17 bank accounts totalling US\$1.3 million in 2007 because of suspected links to terrorism financing. The total UAE figure of STRs includes reports of suspicious activities from all types of institutions and organisations including banks, insurance companies, law and accounting firms and exchange houses.

The total number of STRs filed in the UAE in the period between 2002 and May 2009 was 80,592. This number is, however, modest compared to some of the UAE's international peers. For example, the US had one million dubious transactions reported in 2008 alone.

An estimated US\$1 trillion is transacted every year by criminals and terrorists worldwide. And despite implementing an effective money laundering system, STRs are rising in the UAE and across the world.

But authorities from the three key

regulatory institutions in the UAE – the UAE central bank, the Securities and Commodities Exchange (SCA) and the DFSA – find a positive sign in the rise of STRs filed. They describe this trend as evidence of an increasing number of organisations complying and thus reporting to the regulators about suspected fraudulent transactions.

“Increase in the number of STRs per say is not a bad sign. It indicates awareness among institutions and the need to have vigilance on transactions,” says Saeed Abdullah Al Hamiz, senior executive director of the UAE central bank's supervision and examination department. “It also puts responsibility on organisations to follow transactions safely and in a certain way.”

Paul Koster, CEO of the DFSA, agrees. “Increased reporting is a positive sign, as it shows more and more of such cases are being picked up by organisations,” he says.

Al Hamiz recently addressed a media briefing in the UAE on anti-money-laundering and counter-terrorism financing. Koster also spoke at the briefing, as well as Dr. Ryan Lemand, economic advisor for the SCA's chief executive offices, and Bryan Stirewalt, director of supervision at the DFSA.

Incidentally, this briefing was the first time that regulatory institutions in the UAE united across the country to address the challenges posed by money laundering. The UAE central bank was the first regulator in the region to address money laundering. The central bank has also hired management consultancy Oliver Wyman to review anti-money-laundering measures and other functions.

It is encouraging from a country's perspective that an increasing number of fraudulent financial transactions are being reported, as it shows growing awareness



among financial institutions and greater efficiency on the part of regulators. But the overall number of STRs referred to the UAE public prosecutors is interesting. Since 2002, only 285 cases have been referred to UAE public prosecutors, while only 20 of those cases were tried in the court.

“This is mainly due to the complexity of these transactions and delays in the process of investigations involving different parties across the border – financial institutions, investigators, legal authorities and prosecutors,” explains Al Hamiz.

Lemand further points to the challenges posed to the regulators by criminals and notes that the technologies used for financial crimes are not only creative, but also change every day. These factors, along with the huge number of transactions (involving multiple countries), make the anti-money-laundering drive and its investigation a complex affair.

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“It is difficult to prove and prosecute all reported cases, due to the international nature of money laundering.” Paul Koster



reported cases, due to the international nature of money laundering. Besides, the increasing trade finance and the rise in the numbers of expatriates in this region are adding to the complexity of the problem,” adds Koster.

Regulations and agreements

In February 2009, the DFSA entered into an MoU with the Anti Money Laundering Suspicious Cases Unit (AMLSCU) of the UAE central bank regarding cooperation and exchange of regulatory information.

The AMLSCU is a special unit of the UAE central bank established for investigating fraud and suspicious transactions in the country. It has access to all relevant authorities in the UAE, as well as to those abroad, under the aegis of the National Anti Money Laundering Committee set up in 2002.

The first MoU between the two regulators put into place a mechanism

to cooperate in regulatory matters and supervision of financial institutions operating in both jurisdictions and exchange of supervisory information in line with the Bank for International Settlements’ home-host information sharing, which would contribute to the realisation of a sound financial system in the UAE and at the Dubai International Financial Centre (DIFC).

In a second MoU, the two parties agreed to facilitate cooperation on Anti Money Laundering and Combating the Financing of Terrorism (AML/CFT) through coordination to ensure that financial institutions operating in the DIFC comply with the UAE AML/CFT laws and DFSA AML/CFT requirements.

Last June, the UAE central bank signed anti-money-laundering agreements with 19 countries. The MoU by the central bank’s AMLSCU once again reconfirmed the country’s commitment to share financial information with global partners on different types of financial crimes like money laundering, terrorist financing and so on, says Al Hamiz.

The central bank’s AMLSCU has also been a member of the Egmont group, an informal international gathering of the Financial Intelligence Units, since 2002. The UAE was the first country in the GCC to become a member of this group, which collects information on suspicious or unusual financial activity from the financial industry or other entities or professions that are required to report transactions suspicious of money laundering or terrorism financing.

The UAE took its first step towards anti-money-laundering in 2002 with the announcement of Regulation 24. The Federal Law No. 4 of 2002 (The Criminalisation of Money Laundering Law) and Law No. 1 of 2004 (The Combating Terrorism Offences Law) deal in detail with the regulations and actions related to anti-money-laundering and counter terrorist financing. According to Al Hamiz, the Federal Law No. 1 of 2004 was based on a recommendation from the International Monetary Authority in 2003 when it initiated an assessment of the AML initiative in the UAE.

It should be noted that the UAE abides by the United Nations Security Council’s sanctions and the AML/CFT recommendations of the Financial Action Task Force (FATF). The National Anti Money Laundering Committee of the UAE also emphasises different cautionary points mentioned by the FATF, as well as current trends in this area.

To ensure better information flow to the apex authorities, the regulatory agencies are now taking measures to impart training at all levels. They are also seeking increased cooperation from financial institutions to report all suspicious transactions in the country.

As per existing rules in the UAE, while all the investigative powers for suspicious transactions are vested with the central bank and the police, the UAE public prosecutors are entrusted with the trial procedures in court.

The move to step up the country’s efforts in fighting money laundering through enhanced cooperation and coordination among supervisory authorities and police is another step in the right direction.

“The country has already created good regulations to counter the increasing threat from money laundering. The MoUs with the SCA and the DFSA will help in extending the base for coordination and training among the institutions,” says Al Hamiz.

Koster and Stirewalt agree. Training will be vital going forward, they say, while cooperation among the three regulators will be crucial for the UAE to come out on top of suspicious transactions in the future.



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