

Graduate Certificate in Know Your Customer and Anti-Money Laundering Compliance

Anti Money Laundering Investigations

Abnormal Transaction

Concept: A financial activity that deviates from the normal pattern of a customer's behavior.

Related terms: Red flag, Suspicious activity

Explanation: When a transaction's size, frequency, or destination is inconsistent with a client's known profile, it may indicate money-laundering. For example, a retail store that suddenly processes a single \$500,000 cash deposit is abnormal.

Practical application: AML investigators flag such transactions in monitoring systems and conduct source-of-funds analysis.

Challenges: Distinguishing legitimate outliers from illicit activity, especially for high-net-worth clients with variable cash flows.

Adverse Media

Concept: Negative news or public reports concerning a person or entity.

Related terms: Enhanced due diligence, PEP screening

Explanation: Articles linking a client to corruption, fraud, or terrorism raise AML concerns. An investigative report about a businessman's involvement in a bribery scheme is adverse media.

Practical application: Compliance teams use media monitoring tools to capture such information during onboarding or periodic reviews.

Challenges: Verifying the credibility of sources, language barriers, and the volume of data.

Aggregate Transaction Monitoring

Concept: The process of evaluating the total value of multiple transactions over a set period.

Related terms: Threshold, Cumulative monitoring

Explanation: A series of small deposits that together exceed a reporting threshold may be indicative of structuring. For instance, five \$9,900 cash deposits within a week total \$49,500.

Practical application: Systems aggregate transactions by customer, account, or product to identify patterns.

Challenges: Managing false positives caused by legitimate high-frequency activity.

AML Risk Assessment

Concept: Systematic evaluation of the likelihood and impact of money-laundering risks.

Related terms: Risk matrix, Risk appetite

Explanation: Institutions assess risks across customers, products, geographies, and delivery channels. A high-risk jurisdiction combined with a cash-intensive product raises the AML risk score.

Practical application: Results guide resource allocation, controls design, and monitoring intensity.

Challenges: Keeping assessments current amid regulatory changes and evolving criminal tactics.

Anti-Money Laundering (AML)

Concept: A set of laws, regulations, and procedures aimed at preventing the generation of illicit funds.

Related terms: KYC, CTF

Explanation: AML frameworks require identification, monitoring, reporting, and record-keeping to deter money laundering.

Practical application: Financial institutions implement policies, training, and technology to meet AML obligations.

Challenges: Balancing compliance cost with operational efficiency, and adapting to new typologies.

Beneficial Owner

Concept: The natural person who ultimately owns or controls a legal entity.

Related terms: UBO, Ownership chain

Explanation: Identifying the beneficial owner reveals who truly profits from a corporation, trust, or partnership. A shell company may list a nominee director, but the real owner is the hidden individual.

Practical application: AML investigators request ownership documents, shareholder registers, and trust deeds.

Challenges: Complex ownership structures, privacy laws, and resistance from clients.

Branch Office Transaction

Concept: Transactions conducted through a subsidiary or branch of a financial institution.

Related terms: Cross-border, Correspondent banking

Explanation: Money may be moved between branches to obscure its origin, especially in jurisdictions with lax oversight. A transfer from a branch in Country A to a branch in Country B can be a layering step.

Practical application: Centralized monitoring consolidates branch activity for holistic analysis.

Challenges: Data integration across disparate systems and regulatory regimes.

Cash-Intensive Business

Concept: An enterprise that routinely handles large volumes of cash.

Related terms: Structuring, Smurfing

Explanation: Casinos, car dealerships, and convenience stores are typical cash-intensive businesses, making them attractive for laundering. A car dealer receiving \$100,000 in cash for a single vehicle may be a red flag.

Practical application: Enhanced monitoring and transaction limits are applied to such sectors.

Challenges: Differentiating legitimate high-cash sales from illicit deposits.

Chain of Custody

Concept: Documentation of the handling and location of evidence from collection to presentation.

Related terms: Forensic integrity, Evidence trail

Explanation: In AML investigations, preserving electronic logs, transaction records, and interview notes ensures admissibility. A missing audit trail could jeopardize a case.

Practical application: Investigators maintain logs of who accessed data and when.

Challenges: Managing large data volumes while maintaining confidentiality.

Clean Money

Concept: Legitimate funds that have not been derived from criminal activity.

Related terms: Dirty money, Legitimate source

Explanation: Distinguishing clean from dirty money is central to AML; however, criminals often blend illicit proceeds with lawful earnings. An entrepreneur's profits from a legitimate business may be used to mask

illegal gains.

Practical application: Source-of-funds verification helps confirm legitimacy.

Challenges: The “mixing” technique complicates detection.

Compliance Officer

Concept: The individual responsible for overseeing an institution’s AML program.

Related terms: MLRO, Risk manager

Explanation: The compliance officer ensures policies are implemented, staff are trained, and reports are filed. In many jurisdictions, the officer must be a designated “Money Laundering Reporting Officer” (MLRO).

Practical application: Conducts internal reviews, liaises with regulators, and responds to SARs.

Challenges: Keeping abreast of evolving regulations and managing cross-functional responsibilities.

Correspondent Banking

Concept: Banking services provided by one financial institution to another, typically across borders.

Related terms: Cross-border, Wire transfer

Explanation: Correspondent banks facilitate international payments, but they also present AML risks if the respondent bank lacks robust controls. A correspondent relationship with a high-risk jurisdiction can expose the bank to laundering.

Practical application: Due-diligence questionnaires assess the respondent’s AML framework.

Challenges: Monitoring large volumes of low-value transactions and mitigating “de-risking” pressures.

Counterfeit Currency Detection

Concept: Techniques used to identify forged banknotes.

Related terms: Physical controls, AML screening

Explanation: Criminals may introduce counterfeit cash into the financial system to disguise illicit proceeds. Automated teller machines with counterfeit detection sensors reduce this risk.

Practical application: Staff training on visual inspection and use of detection devices.

Challenges: Rapid evolution of counterfeit technology and false-positive alerts.

Court Order Subpoena

Concept: A legal directive requiring the production of documents or testimony.

Related terms: Discovery, Legal hold

Explanation: In AML investigations, regulators may issue subpoenas for transaction logs, communications, or client files. Failure to comply can result in penalties.

Practical application: Legal teams coordinate with compliance to gather responsive data.

Challenges: Balancing confidentiality obligations with regulatory demands.

Customer Due Diligence (CDD)

Concept: The process of collecting and verifying information about a client at onboarding.

Related terms: KYC, EDD

Explanation: CDD establishes the identity, purpose, and risk profile of a customer. A standard CDD may involve passport verification, address proof, and business activity description.

Practical application: Automated identity verification tools streamline CDD.

Challenges: Inconsistent documentation standards across jurisdictions.

Dark Web Monitoring

Concept: Surveillance of illicit online marketplaces and forums.

Related terms: Cyber-risk, Threat intelligence

Explanation: Money-laundering networks often advertise services on the dark web. Monitoring can reveal emerging typologies, such as cryptocurrency mixers advertised for “cash cleaning.”

Practical application: Intelligence teams use specialized tools to scrape and analyze dark-web listings.

Challenges: Anonymity, rapid turnover of sites, and legal constraints on data collection.

Data Mining

Concept: Extracting patterns from large datasets using statistical methods.

Related terms: Machine learning, Predictive analytics

Explanation: AML systems apply data-mining algorithms to detect anomalies, such as sudden spikes in transaction volume for a dormant account.

Practical application: Clustering and regression analyses help prioritize alerts.

Challenges: Ensuring data quality and avoiding bias in model training.

De-Risking

Concept: The practice of terminating relationships with high-risk clients or jurisdictions.

Related terms: Risk appetite, Exit strategy

Explanation: Banks may close accounts in countries flagged for terrorism financing to reduce exposure.

While de-risking limits AML risk, it can also restrict access to legitimate customers.

Practical application: Periodic risk reviews trigger de-risking decisions.

Challenges: Reputational impact and potential regulatory scrutiny for discriminatory practices.

Designated Non-Financial Business and Professional (DNFBP)

Concept: Entities that are not banks but are subject to AML obligations.

Related terms: Real-estate agents, Casinos

Explanation: Lawyers, accountants, and dealers in precious metals must implement AML controls. A law firm assisting a client in setting up offshore trusts must conduct CDD.

Practical application: Sector-specific guidance outlines required procedures.

Challenges: Varied compliance maturity across DNFBP sectors.

Digital Identity Verification

Concept: Using electronic methods to confirm a person’s identity.

Related terms: KYC, Biometric authentication

Explanation: Solutions like facial recognition, document scanning, and liveness checks enable remote onboarding. A fintech app may require a selfie matched to a passport scan.

Practical application: Reduces onboarding time while maintaining regulatory standards.

Challenges: Data privacy concerns and false-negative rates for certain demographics.

Disguised Transaction

Concept: A movement of funds designed to conceal its true nature or origin.

Related terms: Layering, Smurfing

Explanation: Using a series of transfers through multiple accounts to obscure the source. For example,

moving \$200,000 through three shell companies before reaching a legitimate business.

Practical application: Transaction mapping tools visualize flow paths.

Challenges: Complex ownership structures and limited transparency in some jurisdictions.

Documentary Credit (Letter of Credit)

Concept: A banking instrument guaranteeing payment to a seller upon fulfillment of conditions.

Related terms: Trade finance, LC fraud

Explanation: Criminals may manipulate letters of credit to extract funds from unsuspecting banks. A fabricated shipping document can trigger payment under a fraudulent LC.

Practical application: Trade compliance units verify documents against independent sources.

Challenges: High-value transactions and reliance on third-party documentation.

Enhanced Due Diligence (EDD)

Concept: A deeper investigation applied to high-risk customers or transactions.

Related terms: CDD, Risk assessment

Explanation: EDD may require source-of-wealth analysis, ongoing monitoring, and senior-management approval. A politically exposed person (PEP) from a sanctioned country triggers EDD.

Practical application: Detailed questionnaires and external database checks are employed.

Challenges: Resource intensity and potential client friction.

Escrow Account

Concept: A third-party account that holds funds until contractual conditions are met.

Related terms: Trust account, Transaction security

Explanation: Escrow can be abused to layer money, especially when the escrow agent lacks robust AML controls. A real-estate transaction where the buyer deposits cash into an escrow account before the sale finalizes may be suspicious.

Practical application: AML checks are performed on both the escrow provider and the underlying transaction.

Challenges: Multiple parties and jurisdictional differences in escrow regulation.

Financial Action Task Force (FATF)

Concept: An intergovernmental body that sets global AML and counter-terrorism financing standards.

Related terms: Recommendations, Mutual evaluations

Explanation: FATF issues 40 Recommendations that form the basis of most national AML regimes. A country's non-compliance with FATF standards can lead to "grey-list" designation.

Practical application: Institutions align policies with FATF guidance to avoid regulatory penalties.

Challenges: Keeping pace with frequent amendments and interpreting ambiguous language.

Financial Intelligence Unit (FIU)

Concept: A government agency that receives, analyzes, and disseminates suspicious transaction reports.

Related terms: SAR, AML regulator

Explanation: FIUs serve as national hubs for AML data. In the United States, the Financial Crimes Enforcement Network (FinCEN) fulfills this role.

Practical application: Institutions submit SARs to the FIU within statutory timeframes.

Challenges: High volume of reports and limited feedback to reporting entities.

Funds Transfer System (FTS)

Concept: Infrastructure enabling the movement of money between banks.

Related terms: SWIFT, ACH

Explanation: Systems like SWIFT or domestic ACH networks process large numbers of transactions, providing data for AML monitoring. A sudden surge in outbound SWIFT messages from a corporate account may indicate illicit activity.

Practical application: Real-time monitoring of FTS messages for pattern detection.

Challenges: Data standardization and cross-border data sharing constraints.

Geographic Risk

Concept: The level of AML risk associated with a particular location.

Related terms: Country risk, Jurisdictional screening

Explanation: Countries subject to sanctions, high corruption scores, or known terrorist safe havens are deemed high-risk. A client based in a high-risk jurisdiction will attract heightened scrutiny.

Practical application: Risk matrices assign scores based on third-party country ratings.

Challenges: Rapid political changes and differing international risk lists.

Greenwashing

Concept: Misrepresenting a product or investment as environmentally friendly.

Related terms: ESG fraud, Reputation risk

Explanation: Money launderers may use “green” projects to legitimize proceeds, claiming alignment with sustainability goals. A bogus renewable-energy project can be a front for illicit funds.

Practical application: ESG due-diligence checks verify the authenticity of environmental claims.

Challenges: Verifying technical claims and dealing with emerging green-finance instruments.

High-Risk Customer

Concept: An individual or entity that presents an elevated AML risk profile.

Related terms: PEP, Sanctioned party

Explanation: Indicators include political exposure, involvement in high-value cash businesses, or connections to high-risk jurisdictions. A billionaire philanthropist from a sanctioned country is a high-risk customer.

Practical application: Such customers undergo EDD and continuous monitoring.

Challenges: Balancing commercial opportunities with regulatory obligations.

Human Trafficking Financing

Concept: The movement of funds that support the exploitation of persons.

Related terms: CTF, Victim-funding

Explanation: Proceeds from trafficking may be laundered through legitimate businesses like hospitality or transport. A chain of hotels receiving cash payments could be a conduit for trafficker earnings.

Practical application: Transaction monitoring rules flag high-cash hospitality accounts.

Challenges: Victim identification and coordination with law-enforcement agencies.

Identity Theft

Concept: The unauthorized use of another person's personal information for fraudulent purposes.

Related terms: Synthetic identity, KYC fraud

Explanation: Launderers may create synthetic identities by blending real and fabricated data to open accounts. A fraudster uses a stolen passport number combined with a fabricated address to open a bank account.

Practical application: Real-time verification and document authentication tools mitigate risk.

Challenges: Rapid creation of synthetic profiles and limited data points for verification.

In-Kind Transaction

Concept: Transfer of assets other than cash, such as securities or commodities.

Related terms: Asset-based laundering, Non-cash flow

Explanation: Launderers may move high-value items like gold bars to avoid cash detection thresholds. A shipment of precious stones purchased with illicit proceeds exemplifies an in-kind transaction.

Practical application: Valuation and provenance checks are required for non-cash assets.

Challenges: Valuation complexity and limited traceability of physical goods.

International Sanctions

Concept: Restrictions imposed by governments or international bodies on trade and financial activity.

Related terms: OFAC, UN embargo

Explanation: Sanctions target individuals, entities, or entire countries. A bank must block transactions involving a listed terrorist organization.

Practical application: Automated screening against sanctions lists prevents prohibited dealings.

Challenges: Frequent updates, overlapping lists, and divergent national implementations.

Internal Controls

Concept: Policies and procedures designed to ensure compliance with AML regulations.

Related terms: Governance, SOPs

Explanation: Controls include segregation of duties, transaction limits, and audit trails. An internal control may require dual approval for transfers over \$250,000.

Practical application: Periodic testing and self-assessment validate control effectiveness.

Challenges: Maintaining control relevance as business models evolve.

International Wire Transfer

Concept: An electronic transfer of funds between banks in different countries.

Related terms: SWIFT, Cross-border payment

Explanation: Wire transfers are a common vehicle for moving illicit proceeds quickly. A series of rapid wires to offshore accounts can signal layering.

Practical application: Monitoring systems flag high-risk destination codes and unusual frequency.

Challenges: Balancing speed of service with thorough AML review.

Joint Account

Concept: An account held by two or more individuals with equal ownership rights.

Related terms: Co-ownership, Shared liability

Explanation: Joint accounts can be used to obscure the true source of funds, especially when one owner is a

PEP. A family member's name added to a high-risk client's account may dilute scrutiny.

Practical application: Each owner undergoes separate CDD and risk assessment.

Challenges: Managing consent, privacy, and the authority to act on the account.

KYC (Know Your Customer)

Concept: The process of verifying a client's identity and understanding their financial activities.

Related terms: CDD, Customer onboarding

Explanation: KYC is the foundation of AML compliance, requiring documents such as passports, utility bills, and corporate registries.

Practical application: Digital KYC platforms automate data capture and verification.

Challenges: Inconsistent documentation standards and cross-border verification difficulties.

Layering

Concept: The second stage of money laundering where illicit funds are moved to obscure their origin.

Related terms: Structuring, Integration

Explanation: Techniques include rapid transfers, use of shell companies, and conversion into different asset classes. A series of transfers through multiple offshore accounts constitutes layering.

Practical application: Transaction mapping visualizes complex money flows.

Challenges: High-volume data and limited transparency in certain jurisdictions.

Legitimate Business Front

Concept: A legal entity used to disguise illicit activity.

Related terms: Shell company, Cover-up

Explanation: Criminals establish a real-world business, such as a restaurant, to co-mix dirty money with legitimate earnings. The cash generated by the restaurant masks the proceeds from drug trafficking.

Practical application: Financial statements and cash flow analysis help detect inconsistencies.

Challenges: Small-business confidentiality and limited public data.

Legal Entity Identifier (LEI)

Concept: A unique 20-character code assigned to legal entities engaged in financial transactions.

Related terms: Entity registration, GLEIF

Explanation: LEIs improve transparency by linking transactions to specific entities. A bank can quickly identify the corporate owner of a trade-finance transaction using its LEI.

Practical application: Systems require LEI entry at onboarding and during transaction processing.

Challenges: Incomplete coverage for private companies and cost of acquisition.

Money-Laundering Reporting Officer (MLRO)

Concept: The senior individual responsible for receiving and filing SARs.

Related terms: Compliance officer, SAR filing

Explanation: The MLRO assesses the merit of internal alerts, decides on reporting, and communicates with regulators. In many jurisdictions, the MLRO must be a designated individual.

Practical application: The MLRO reviews daily alert dashboards and escalates high-risk cases.

Challenges: High workload and need for deep subject-matter expertise.

Money-Laundering Typology

Concept: A recurring method or pattern used to conceal illicit proceeds.

Related terms: Pattern, Modus operandi

Explanation: Examples include “smurfing” (multiple small cash deposits) and “trade-based laundering” (over- or under- invoicing). Understanding typologies aids in designing detection rules.

Practical application: Rule-based engines encode typology indicators.

Challenges: Criminals continuously evolve methods to evade detection.

Non-Resident Alien (NRA)

Concept: An individual who does not reside in the jurisdiction where a financial institution operates.

Related terms: Foreign account, Tax residency

Explanation: NRAs may be subject to additional AML checks due to cross-border risk. A foreign investor opening a brokerage account in the U.S. must provide source-of-wealth documentation.

Practical application: Enhanced screening for NRAs includes sanctions and PEP checks.

Challenges: Language barriers and differing documentation standards.

Obligation to Report Suspicious Activity

Concept: The legal duty to file a SAR when a transaction appears unusual or potentially illicit.

Related terms: SAR, AML filing

Explanation: Failure to report can result in fines, imprisonment, or loss of license. An unusually large cash withdrawal from an otherwise low-volume account triggers reporting.

Practical application: Institutions maintain internal SAR templates and escalation procedures.

Challenges: Determining materiality and avoiding “over-reporting” that burdens regulators.

Off-Shore Account

Concept: A bank account held in a jurisdiction different from the account holder’s residence.

Related terms: Tax haven, Secrecy jurisdiction

Explanation: Offshore accounts are often used for privacy, but they also facilitate laundering. A client maintaining an offshore trust with minimal transparency raises AML concerns.

Practical application: Additional due-diligence steps verify ownership and purpose.

Challenges: Limited public registries and confidentiality laws.

On-Going Monitoring

Concept: Continuous review of customer transactions and behavior after onboarding.

Related terms: Transaction monitoring, Risk review

Explanation: Monitoring detects deviations from the expected profile, such as a sudden increase in wire transfers.

Practical application: Automated scoring engines generate alerts for review.

Challenges: Alert fatigue and resource constraints.

Operational Risk

Concept: The risk of loss resulting from inadequate or failed internal processes, people, or systems.

Related terms: Compliance risk, Business continuity

Explanation: AML failures, such as missed SAR filings, constitute operational risk. A system outage that

prevents transaction monitoring can expose the institution to money-laundering exposure.

Practical application: Risk registers track AML-related operational incidents.

Challenges: Integrating AML considerations into broader operational risk frameworks.

PEP (Politically Exposed Person)

Concept: An individual who holds or has held a prominent public function, and their immediate family or close associates.

Related terms: Senior political figure, High-risk client

Explanation: PEPs are vulnerable to corruption and thus pose higher AML risk. A former minister who now runs a consultancy must undergo EDD.

Practical application: PEP screening is embedded in onboarding workflows.

Challenges: Identifying indirect relationships and managing privacy concerns.

Physical Currency Controls

Concept: Procedures governing the handling of cash within an institution.

Related terms: Cash limits, Counterfeit detection

Explanation: Controls include cash transaction reporting, teller training, and secure storage. A teller must report any cash deposit exceeding \$10,000.

Practical application: Cash-handling policies define thresholds and escalation paths.

Challenges: Balancing customer service with regulatory compliance.

Political Risk

Concept: The likelihood that political events will affect the AML risk profile of a client or jurisdiction.

Related terms: Geopolitical instability, Sanctions risk

Explanation: Regime change, civil unrest, or policy shifts can increase laundering opportunities. A client operating in a country undergoing a coup may face heightened scrutiny.

Practical application: Risk models incorporate political risk indicators.

Challenges: Rapidly changing political landscapes and limited reliable data.

Polymorphic Money Laundering

Concept: The use of multiple, changing techniques to evade detection.

Related terms: Adaptive typology, Evolving methods

Explanation: Criminals may switch between trade-based schemes, cryptocurrency mixers, and real-estate purchases within the same laundering cycle.

Practical application: Machine-learning models that adapt to new patterns help identify polymorphic behavior.

Challenges: Need for continuous model retraining and data labeling.

Pre-Approval Transaction

Concept: A transaction that must be authorized by senior management before execution.

Related terms: High-value approval, Control limit

Explanation: Large or high-risk transfers, such as a \$5 million outbound wire to a new beneficiary, often require pre-approval.

Practical application: Workflow systems route requests to designated approvers.

Challenges: Delays in business processes and ensuring consistent risk assessment.

Privacy Shield

Concept: Legal frameworks governing the transfer of personal data across borders.

Related terms: Data protection, GDPR

Explanation: AML investigations often need personal data from foreign jurisdictions; privacy shields affect how that data can be shared.

Practical application: Data-sharing agreements incorporate privacy shield clauses.

Challenges: Divergent privacy regimes and potential conflicts with AML obligations.

Proceeds of Crime

Concept: Money or assets derived from illegal activity.

Related terms: Dirty money, Illicit gains

Explanation: The core objective of AML is to prevent the use of proceeds of crime in the legitimate financial system. A drug trafficker's cash earnings are proceeds of crime.

Practical application: Source-of-wealth documentation aims to verify legitimacy.

Challenges: Complex layering can make tracing origins difficult.

Publicly-Listed Company

Concept: A corporation whose shares are traded on a stock exchange.

Related terms: Listed entity, Market-regulated

Explanation: Public companies are subject to stricter disclosure requirements, yet they can still be used for laundering, especially via insider-trading schemes.

Practical application: AML checks include shareholder registers and insider-trading alerts.

Challenges: High volume of transactions and rapid market movements.

Quarantine Period

Concept: A time interval during which newly opened accounts are subject to heightened monitoring.

Related terms: Cooling-off, Initial review

Explanation: A new account may be placed in a quarantine period of 30 days, during which all transactions are reviewed manually.

Practical application: Alerts are automatically escalated for accounts in quarantine.

Challenges: Balancing risk mitigation with customer experience.

Real-Estate Money Laundering

Concept: The use of property purchases, sales, or rentals to conceal illicit funds.

Related terms: Property laundering, Asset-based scheme

Explanation: Buying high-value property with cash or through layered corporate structures can integrate dirty money. A shell company purchasing a luxury condo is a classic example.

Practical application: Property AML checks involve title searches, source-of-wealth verification, and monitoring of price anomalies.

Challenges: Limited transparency in ownership registries and cross-border property deals.

Regulatory Reporting

Concept: Mandatory submissions to supervisory authorities, such as SARs, CTRs, and annual AML reports.

Related terms: Compliance filing, Statutory obligation

Explanation: Failure to report on time can lead to enforcement actions. A missed Currency Transaction Report (CTR) for a cash deposit exceeding \$10,000 may trigger penalties.

Practical application: Automated workflows generate and transmit reports.

Challenges: Keeping up with differing filing deadlines across jurisdictions.

Risk Appetite

Concept: The amount of risk an organization is willing to accept in pursuit of its objectives.

Related terms: Risk tolerance, Risk framework

Explanation: A bank may set a low AML risk appetite, meaning it will avoid high-risk customers even if profitable.

Practical application: Risk appetite informs policy thresholds, such as transaction limits.

Challenges: Aligning appetite with business strategy and regulatory expectations.

Sanctions Evasion

Concept: Deliberate actions taken to circumvent economic or trade restrictions.

Related terms: Sanctioned entity, OFAC compliance

Explanation: Using intermediaries, shell companies, or alternative payment methods to move funds around sanctions. A Russian oligarch routing money through a third-party offshore trust to avoid U.S. sanctions exemplifies evasion.

Practical application: Enhanced screening for indirect matches and “look-through” analysis.

Challenges: Complex ownership webs and limited data on ultimate beneficiaries.

Sector-Specific AML Controls

Concept: Tailored AML measures designed for particular industries.

Related terms: Retail banking controls, Gaming AML

Explanation: Casinos must implement real-time monitoring of chip purchases; law firms may focus on trust formation documentation.

Practical application: Industry guidelines prescribe controls, such as transaction limits for gambling tables.

Challenges: Ensuring sector-wide consistency while accommodating unique business models.

Security Token Offering (STO)

Concept: A fundraising method that issues tokenized securities on a blockchain.

Related terms: ICO, Digital asset compliance

Explanation: STOs can be used to launder money by converting cash into tokenized assets that are later sold. A fraudster may invest illicit cash into an STO and later redeem tokens for fiat.

Practical application: AML checks include blockchain analytics and investor verification.

Challenges: Rapidly evolving regulatory guidance and anonymity features of blockchain.

Shell Company

Concept: A legal entity with no active business operations or significant assets.

Related terms: Front company, Empty corporation

Explanation: Shells are frequently employed to hide ownership and move funds. A company registered in a

tax haven with only a registered address is a shell.

Practical application: Ownership verification and beneficial-owner identification are critical.

Challenges: Lack of public records and nominee directors.

Smurfing (Structuring)

Concept: The practice of breaking up large transactions into smaller amounts to avoid reporting thresholds.

Related terms: Structuring, Tiered deposits

Explanation: Depositing \$9,500 cash daily instead of a single \$50,000 deposit to evade CTR filing is smurfing.

Practical application: Monitoring systems detect repeated near-threshold transactions.

Challenges: Distinguishing legitimate frequent deposits from deliberate structuring.

Source-of-Wealth (SOW)

Concept: The origin of a person's accumulated assets, distinct from the source-of-funds of a specific transaction.

Related terms: SOW analysis, Wealth verification

Explanation: SOW assessment looks at how a client amassed their overall wealth, such as inheritance, business earnings, or illicit activity. A sudden increase in net worth without a clear business explanation may trigger SOW review.

Practical application: Questionnaires, tax returns, and third-party wealth reports are used.

Challenges: Privacy concerns and limited documentation for high-net-worth individuals.

Suspicious Activity Report (SAR)

Concept: A filing made by a financial institution to an FIU when a transaction appears suspicious.

Related terms: Regulatory filing, AML alert

Explanation: SARs contain details of the transaction, parties involved, and rationale for suspicion. A series of offshore transfers with no apparent business purpose would be reported.

Practical application: SARs are reviewed by the MLRO before submission.

Challenges: High volume of SARs and limited feedback from authorities.

Transaction Monitoring System (TMS)

Concept: Software that analyses customer transactions in real time or batch mode to detect AML risks.

Related terms: Rule engine, Alert generation

Explanation: TMS applies risk rules, thresholds, and pattern detection to flag suspicious activity. A sudden spike in inbound wires from high-risk jurisdictions triggers an alert.

Practical application: Configurable rule sets allow institutions to tailor monitoring to their risk profile.

Challenges: Tuning rules to reduce false positives while maintaining detection effectiveness.

Travel Rule

Concept: A regulatory requirement that financial institutions collect and transmit originator and beneficiary information for certain transfers.

Related terms: FinCEN rule, AML data sharing

Explanation: For cryptocurrency transfers above a set amount, the sender's and receiver's details must be shared between VASPs. A \$20,000 Bitcoin transfer must include name and address data.

Practical application: VASPs integrate Travel Rule compliance into their platforms.
Challenges: Interoperability between different VASP systems and privacy concerns.

Trusted Third Party (TTP)

Concept: An independent entity that facilitates verification or transaction processing.

Related terms: Escrow agent, Notary

Explanation: In AML, a TTP may provide identity verification services or certify the authenticity of documents. A KYC service provider acting as a TTP validates client passports.

Practical application: Contracts stipulate TTP responsibilities and data handling.

Challenges: Ensuring the TTP's own AML controls are robust.

Underground Banking

Concept: Informal value transfer systems that operate outside formal banking channels.

Related terms: Hawala, Money mule

Explanation: Participants transfer money through a network of brokers, often relying on trust and community ties. A hawala operator moving funds from Country X to Country Y without a paper trail is an example.

Practical application: Law enforcement monitors known hawala nodes and patterns.

Challenges: Lack of documentation and cultural barriers to detection.

Unusual Transaction Pattern

Concept: A sequence of activities that deviates from normal behavior and may indicate laundering.

Related terms: Red flag, Behavioral anomaly

Explanation: Examples include frequent high-value foreign exchange purchases by a low-income individual, or a sudden shift from domestic to international transfers.

Practical application: Behavioral analytics flag patterns for analyst review.

Challenges: Defining "normal" baselines for diverse customer segments.

Virtual Asset Service Provider (VASP)

Concept: An entity that conducts activities involving virtual assets, such as exchanges or wallet providers.

Related terms: Crypto exchange, Digital asset custodian

Explanation: VASPs are subject to AML obligations, including customer verification and transaction monitoring. A crypto exchange must file SARs for suspicious token movements.

Practical application: Integration with blockchain analytics platforms enhances detection.

Challenges: Rapid innovation in the crypto space and jurisdictional regulatory gaps.

Virtual Currency Mixer

Concept: A service that blends multiple cryptocurrency transactions to obscure the origin of funds.

Related terms: Tumbling service, Anonymisation tool

Explanation: Mixers receive coins from a sender, shuffle them with other inputs, and return "clean" coins, making tracing difficult.

Practical application: AML systems flag addresses linked to known mixers.

Challenges: Constant emergence of new mixer services and evasion techniques.

Whistleblower Policy

Concept: Procedures that enable employees or external parties to report suspected wrongdoing confidentially.

Related terms: Internal reporting, Protection program