

What is money laundering?

Money laundering transactions may occur in various forms. However, they have certain characteristics in common, mainly to alter the identity of criminal proceeds with the aim of making them appear to be legitimate funds or assets at some point. An important part of the ML- process is concealing the origin of funds that are being laundered.

Money laundering takes place in three main stages

1. **Placement:** The physical placing of the proceeds – i.e. placing in the financial system. Several different methods can be used for example to break up large amounts of cash into less conspicuous smaller sums that are then deposited directly into a bank account. This method is called structuring. Placement may also involve the purchasing a series of monetary instruments that are then collected and deposited into accounts at another location.

2. **Layering:** Separation and distancing of the proceeds from their source through (financial) transactions in order to hide the audit trail and achieve anonymity. The funds might be channelled through the purchase and sales of investment instruments, or the launderer might simply wire the funds through a series of accounts at various banks across the globe. This use of widely scattered accounts for laundering is especially prevalent in those jurisdictions that do not co-operate in anti-money laundering investigations. In some instances, the launderer might disguise the transfers as payments for goods or services, thus giving them a legitimate appearance.

3. **Integration:** Retransfer of funds to a person's property domain in a form where the proceeds have been converted into funds that appear to be legitimate. The launderer might for example choose to invest the funds into real estate, luxury assets, or business ventures. This is the final stage where the money launderer can now make use of the original illegal proceeds in the legitimate economic system.

Money laundering is criminalized in the General Penal Code no. 19/1940. Article 264 of the GPC in a following way:

„Any person who accepts, makes use of or acquires for himself, herself or other persons gains derived from offences against this Act or from punishable offences against other statutes or, amongst other things, converts such gains, transports, sends or stores them, assists in delivering them or concealing them or information regarding their origin, nature, location or disposal shall be imprisoned for up to 6 years. A person who commits the original offence and also an offence under the first paragraph shall receive the same punishment as is specified there. The provisions of Article 77 shall apply as appropriate. Punishment may take the form of up to 12 years' imprisonment in the case of gains from an offence under Article 173 a. If an offence under the first paragraph is committed through negligence, the punishment shall take the form of a fine or up to 6 months' imprisonment.”

Two other provisions in the General Penal Code complement the money laundering offence, as was for example noted in the 2006 FATF-report on Iceland . These are article 254 on concealment and article 263 on purchasing or accepting items that have been acquired by means of an enrichment offence. They criminalise the intentional and the inadvertent retaining of valuables unlawfully acquired with an intent of pecuniary gain or a fraudulent intent (e.g. due

to theft, embezzlement or fraud) as well as the assistance in retaining and the participation in the gain derived from such an enrichment offence.

The main purpose of the Act on measures against money laundering and terrorist financing no. 64/2006(AML/CTF law) as stipulated in article 1 is to prevent money laundering and terrorist financing by imposing on parties engaging in activities which may be used for the purposes of money laundering and terrorist financing the obligation to obtain knowledge of their customers and their business activities and report to the competent authorities any knowledge of such illegal activities.

The AML/CTF law covers in simplified terms who is obliged to report, how to conduct customer due diligence, when such measures are to be performed and reporting obligations.

Overall, laws and regulations regarding AML and anti-terrorist financing measures are constantly under review. Important amendments were made to Art. 264 of the General Penal Code in 2009 and the AML/CTF act in 2016 implementing the recommendations of the FATF. Currently, Iceland is preparing the implementation of the EU's fourth AML/CTF directive, which will lead to further changes in Icelandic laws and regulations.