

The U.S. Government's Intensified Efforts to Combat Money Laundering and the Implications for Financial Institutions

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On August 20, 2012, the U.S. government announced the seizure of \$150 million from the Lebanese Canadian Bank (LCB) for assisting Hezbollah, a U.S.-designated terrorist organization since 1997, in laundering illicit funds.^[1] This seizure follows a December 2011 complaint alleging that the now-defunct Lebanese Canadian Bank helped Hezbollah and its global affiliates conceal over \$300 million in criminal proceeds. According to U.S. Drug Enforcement Administration officials, between 2007 and 2011, LCB funneled at least \$329 million in illicit funds to the United States. Once in the United States, this money was used to purchase used cars that were sold in West Africa in an attempt to legitimize the funds. The cash proceeds of these cash sales were then routed back to Lebanon and, ultimately, to Hezbollah.

Because Lebanon's Société Generale de Banque au Liban purchased a majority of LCB's assets in September 2011, a significant portion of the proceeds from the sale are currently held in an escrow account at Lebanon's Banque Libano Française.^[2] As a result, U.S. officials seized the \$150 million from a U.S. correspondent account of Banque Libano Française. Neither Société Generale de Banque au Liban nor Banque Libano Française are alleged to have been complicit in the money laundering scheme.^[3]

As Preet Bhara, U.S. Attorney for the Southern District of New York, announced in the wake of the seizure, "Money is the lifeblood of terrorist and narcotics organizations, and while banks which launder money for terrorists and narco-traffickers may be located abroad, today's announcement demonstrates that those banks and their

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assets are not beyond our reach.” [4] He further warned that, “we will use every resource at our disposal to separate terrorists and narco-traffickers, and the banks that work with them, from their illicit funds, even those hidden in foreign accounts.” [5]

Notably, this seizure announcement follows closely behind other recent U.S. government actions to combat money laundering. In the past few years alone, several large financial institutions have made international headlines for failing to implement robust anti-money laundering policies (AML) and controls, while others have paid significant penalties for violating AML laws and regulations. Indeed, since Wachovia Bank agreed to pay \$160 million to settle allegations that it failed to prevent Mexican and Columbian drug cartel proceeds from being laundered through accounts at its bank in March 2010, a number of large domestic and international financial institutions have paid multi-million dollar fines to settle alleged AML violations. [6]

In light of the U.S. government's recent intensified efforts to combat money laundering, and given the operational, legal and reputational risks associated with failing to prevent such criminal activity, financial institutions should ensure that they have robust AML compliance program in effect. Although effective AML policies and procedures will not eliminate the risk of money laundering, they can help to mitigate the risk substantially. The Financial Action Task Force, an inter-governmental organization tasked with implementing measures to combat money laundering and terrorist financing, recommends that financial institutions pursue a risk-based approach in developing an appropriate AML compliance program, which includes a comprehensive evaluation of the level of risk that the financial institution's products, services and customers pose. Although there is no one standard AML compliance program that is appropriate for all institutions, at minimum, an AML program should include robust internal controls, including Know Your Customer and customer due diligence policies and procedures; a designated compliance officer; an employee training program; and an independent audit function to evaluate the program's effectiveness.

[1] See James O'Toole, *U.S. seizes \$150 million linked to Hezbollah money laundering*, *cnn.com* (Aug. 20, 2012); see also BBC News: Middle East, *U.S. seizer \$150m 'linked to Hezbollah money-laundering,'* (Aug. 20, 2012).

[2] See James O'Toole, *U.S. seizes \$150 million linked to Hezbollah money laundering*, *cnn.com* (Aug. 20, 2012).

[3] See *id.*

[4] See *id.*

[5] See *id.*

[6] See BSA/AML Penalties List, *available at* <http://www.bankersonline.com/security/bsapenaltylist.html#abnamro>.