

2.1 What is Money Laundering?

2.1.1 Put simply, “money laundering” covers all kinds of methods used to change the identity of illegally obtained money (i.e. crime proceeds) so that it appears to have originated from a legitimate source.

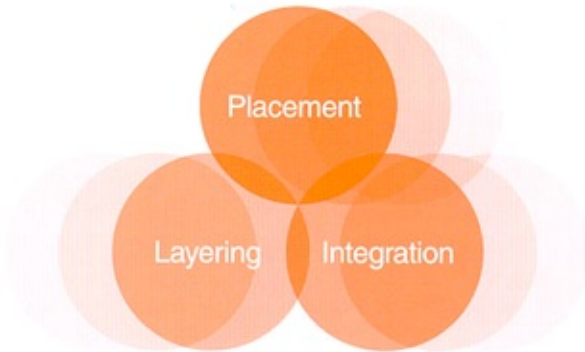
2.1.2 A money laundering scheme will therefore usually involve a combination of several different techniques and vehicles, which may not necessarily involve the conventional banking sector. Remittance agents, gem stone dealers, trust arrangements, and corporate vehicles etc., are all known to have been employed in money laundering schemes.

2.1.3 While the techniques for laundering funds vary considerably and are often highly intricate, there are generally three stages in the process:

- **Placement:** involves placing the crime proceeds in the financial system (e.g. depositing cash into a bank account, exchange currency of small denominations to currency of large denominations);
- **Layering:** involves converting the proceeds of crime into another form and creating complex layers of financial transactions to disguise the audit trail and the source and ownership of the funds (e.g. buying precious metals or stones with cash, buying and selling of stocks, commodities or properties; taking out and repaying a loan); and
- **Integration:** involves placing the laundered proceeds back in the economy under a veil of legitimacy.



- 2.1.4** These three stages are not distinct. They are very often overlapping with each other and repeated, making tracing of crime proceeds and their sources difficult.



- 2.1.5** In Hong Kong, crime proceeds are generated from various illegal activities. They can be derived from drug trafficking, smuggling, illegal gambling, bookmaking, blackmail, extortion, loan sharking, tax evasion, controlling prostitution, corruption, robbery, theft, fraud, copyright infringement, insider dealing and market manipulation.
- 2.1.6** When crime proceeds are laundered, criminals would then be able to use the money without being linked easily to the criminal activities from which the money was originated.