



Study Guide

for

Organization for Security and Co-operation in Europe

**Topic Area: Addressing the issues of money laundering
and preventing the financing of terrorism**

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1. Welcoming Letter

Dear delegates,

Welcome to the 13th edition of RhodesMRC!

It is our utmost honour and pleasure to be serving as the Board of OSCE and we wish to make this conference an experience of a lifetime, worth storytelling to your friends and during family dinners! We are Zoi Triantou (22), Eleni Goridari (20), Pavlos Karagiannodimas (20), all of us students with a keen interest in international affairs and politics.

Our common goal for this conference is for you to further discover the current situation surrounding terrorist activity from its financial perspective, while working on your research, public speaking, and leadership skills. Our committee will be full of surprises with Crisis scenarios taking place unexpectedly that you will be required to discuss and manage to find common ground on how you deal with the situation at hand. Don't worry about being a beginner in a Crisis committee! It is our job to be there for you, guiding and giving you directions when lost. At the end of the day, we are all here with the purpose to learn, get out of our comfort zone and watch ourselves grow through the process! Therefore, please note that we remain at your disposal for any queries that may occur during your preparation.

We expect from you to arrive well-prepared on your speeches and solutions, after having researched the different dimensions of the topics and by utilising this study guide as your compass. We are looking forward to your rigorous debates, brilliant diplomacy, and a spirit of cooperation and fun! See you all in RhodesMRC again!

Best regards,

Eleni Goridari, Chairperson

Pavlos Karagiannodimas, Secretary General

Alexandra Moutropoulou, Rapporteur

2. Introduction to the Committee

The Organization for Security and Co-operation in Europe (OSCE) has 57 member States in North America, Europe and Asia and works for stability, peace and democracy, through political dialogue about shared values and practical work. OSCE is the world's largest regional security organisation and a forum for political dialogue on a wide range of security issues and a platform for joint action to improve the lives of individuals and communities, bridge differences and build trust between states by cooperating on conflict prevention, crisis management and post-conflict rehabilitation. OSCE addresses issues that have an impact on our international security, including arms control, terrorism, good governance, energy security, human trafficking, democratisation, media freedom and national minorities . OSCE contributes in a major way in many activities. The OSCE's Office for Democratic Institutions and Human Rights (ODIHR) focuses on the election observation missions in participating states. The ODIHR is the leading pan-European agency for election observation. OSCE staff and external personnel monitor the election procedures, while at the same time training the already existing domestic personnel that monitors the elections conducted each time. The main objectives of this office is to strengthen democratic institutions and the rule of law, promote human rights and civil society along the way. Another remarkable initiative of OSCE is the Representative on Freedom of the Media (FOM). The Representative's responsibilities manifest themselves in three areas: first observing relevant media developments of the participating states and calls for total compliance with OSCE principles concerning freedom of the media, second conflict resolution, should there ever be an incidence of non-compliance to these principles and third collection of information and constant reviews on the progress of the participating states.

3. Introduction to the Topic

a. Background Information

Throughout history and all around the world, both state and nonstate actors have engaged in acts of terrorism. However, the practice of terrorism underwent a significant shift in the 20th century, when terror came to represent a variety of political movements. Besides, the

technological development of arms and weapons opened up new opportunities to terrorists, thus facilitating the use of terror. Additionally, in totalitarian states terrorism became practically an official policy. Arrests, executions, torture and violence were carried out without any legal constraints to instill terror and promote obedience. The conflict between Ireland and the United Kingdom, the Japanese Red Army, the Taliban and al-Qaeda are some of the most prominent examples of the 20th century where terror was used.

One incident that shifted the Western world's perspective towards terrorism, due to its detrimental consequences, was the September 11 attacks on the World Trade Center in the United States, from terrorists associated with al-Qaeda. Since then, the centrepiece of USA's foreign policy is the "war against terrorism", which was initiated by the former President George Bush¹. Not only the United States though, but almost every nation in the world became alarmed by the 9/11 attacks, and started developing anti-terrorism policies and their intelligence programs in order to suppress and prevent terrorist attacks.

Moreover, international organisations have been actively trying to prevent or eradicate the consequences of terrorism through the adoption of legal documents, international agreements, conventions, resolutions and strategies. Specifically, many of their efforts focus on combating the financing of terrorism (counter-terrorism financing) in order to stop the flow of illegal cash to terrorist organisations. A milestone in this direction is the United Nations Convention for the Suppression of the Financing of Terrorism, adopted by the UN General Assembly in December 1999.

However, as explained below in our study guide, since money laundering and the financing of terrorism are tightly linked, the efforts to eradicate these practices cannot be done in isolation. That is why there have been many joint efforts between law enforcement agencies, the private sector and civil society actors. Thus, to enhance international anti-money laundering (AML) and countering the financing of terrorism (CFT) several international

¹ "Types of Terrorism." Encyclopædia Britannica. <https://www.britannica.com/topic/terrorism/Types-of-terrorism>.

entities have been created. For instance, the Financial Action Task Force (FATF) in 1989, the Egmont Group of Financial Intelligence Units in 1995 and Moneyval in 1997.

Similar attempts have been made in the European Union as well. The first anti-money laundering directive was adopted by the Commission in 1990, while in 2005 the EU Counter-Terrorism Strategy was adopted by the Council, to “fight terrorism and make Europe safer”².

When it comes to the history of money laundering, one of the first anti-money laundering laws was the Bank Secrecy Act (BSA), which the US enacted in 1970. New anti-money laundering legislation have updated and enhanced the BSA, a pioneering effort to detect and prevent money laundering. The current authorised administrator of the BSA is the Financial Crimes Enforcement Network (FinCEN), which has as its mission "protecting the financial system from financial crime abuses such as terrorist financing, money laundering, and other illicit activity."

Additionally, in 1989, several nations and organisations came together to form the Global Financial Action Task Force (FATF). Its goal is to develop and advance global standards for preventing money laundering. Shortly after the 9/11 attacks on the United States, FATF broadened its purview to include AML and terrorism funding.

The International Monetary Fund (IMF) is another significant organisation regarding AML. With 189 members, it has as its main objective maintaining the stability of the global monetary system. The integrity and stability of the financial system as well as the overall economy are issues that the IMF is worried about being impacted by money laundering and other similar activities³.

² “Global AML/CFT Context.” EU AML/CFT Global Facility, July 7, 2023. <https://www.global-amlcft.eu/global-anti-money-laundering-and-counterterrorism-financing-context/>.

³ “What Is Anti-Money Laundering (AML)?” sanction scanner. Accessed August 21, 2023. [https://sanctionsscanner.com/knowledge-base/anti-money-laundering-aml-49#:~:text=Officers%20and%20Professionals,-.What%20is%20Anti%20Money%20Laundering%20\(AML\)%3F,and%20these%20regulators%20build%20policies.](https://sanctionsscanner.com/knowledge-base/anti-money-laundering-aml-49#:~:text=Officers%20and%20Professionals,-.What%20is%20Anti%20Money%20Laundering%20(AML)%3F,and%20these%20regulators%20build%20policies.)

b. Definitions

Money laundering: According to INTERPOL, money laundering is “concealing or disguising the origins of illegally obtained proceeds so that they appear to have originated from legitimate sources”⁴. Similarly, the United Nations Convention against Illicit Traffic in Narcotic Drugs and Psychotropic Substances, uses the following phrase to describe this practice; “the conversion or transfer of property, knowing that such property is derived from any offence(s), for the purpose of concealing or disguising the illicit origin of the property or of assisting any person who is involved in such offence(s) to evade the legal consequences of his actions”⁵. Money laundering is a key component in several crimes, such as drug trafficking, extortion, or in our case terrorism. The process of this illegal practice follows three stages; placement, layering and integration.

The first stage, called placement, entails the transferring of the funds from the illicit source and their placement into a legitimate financial system⁶. It is the stage where the illicit money is being “washed”. There are numerous ways to place the funds into the financial system. The most common examples include the blending of funds with legitimate takings, invoice fraud, the placement of the money to offshore accounts etc⁷.

In the layering stage, the money is being separated from its origin source in order to disguise the trail and the criminal’s identity. Its main purpose is to confuse any criminal investigations by placing distance between the source of the proceeds and their present appearance⁸.

The final stage is the integration stage, where the proceeds are reunited with their owner from what seems to be a legitimate source. The money is now completely integrated into the

⁴ Money Laundering,” accessed August 9, 2023, <https://www.interpol.int/en/Crimes/Financial-crime/Money-laundering>.

⁵ “UNITED NATIONS CONVENTION AGAINST ILLICIT TRAFFIC IN NARCOTIC DRUGS AND PSYCHOTROPIC SUBSTANCES, 1988,” n.d.

⁶ Money Laundering,” United Nations : UNODC ROMENA, accessed August 9, 2023, [//www.unodc.org/romena/en/money-laundering.html](http://www.unodc.org/romena/en/money-laundering.html)

⁷ Financial Crime Academy Editorial, “The Three Stages Of Money Laundering: The Characteristics Of The Money Laundering Stages,” June 28, 2023, <https://financialcrimeacademy.org/the-three-stages-of-money-laundering/>.

⁸ *Ibid.*

economy and it is very difficult to figure out whether it comes from a legitimate source or not⁹. The primary objective of this stage is to create a compelling explanation for the origin of the proceeds.

Anti-money laundering (AML): “Anti-Money Laundering (AML) refers to the collection of laws, processes, and regulations that prevent illegally obtained money from entering the financial system. It includes policies, laws, and regulations to prevent criminals' financial crimes and illegal activity¹⁰”. National and international regulations are established with the aim of preventing financial crimes and these regulations must be followed by companies. This means practically that several businesses have to do extensive customer due diligence under Money Laundering Regulations in order to prevent money laundering. Failure to adhere to AML rules may result in fines and, in severe circumstances, disqualification as a director or corporate entity. The primary users of AML legislation are financial institutions, due to the fact that they are compelled to report suspicious behaviour to the authorities.

Terrorism: The Britannica encyclopaedia defines terrorism as “the calculated use of violence to create a general climate of fear in a population and thereby to bring about a particular political objective¹¹”. However, it is extremely difficult to narrow down a strict definition for terrorism, as there are many types of terrorist activities and movements, and the individuals or organisations engaged in this activity have different political, religious or financial motives. Generally speaking, there are three broad classes of terrorism: revolutionary, sub revolutionary and establishment.

The most prominent class is the revolutionary one. The aim of this kind of terrorism is the total overthrow of an existing political system and the establishment of a brand-new one. For instance, the Basque Separatist Group (ETA) and the Islamic State in Iraq and Syria (ISIS) belong in this class of terrorism.

⁹ *Ibid.*

¹⁰ “What Is Anti-Money Laundering (AML)?” sanction scanner. Accessed August 21, 2023. [https://sanctionsscanner.com/knowledge-base/anti-money-laundering-aml-49#:~:text=Officers%20and%20Professionals,-.What%20is%20Anti%20Money%20Laundering%20\(AML\)%3F,and%20these%20regulators%20build%20policies.](https://sanctionsscanner.com/knowledge-base/anti-money-laundering-aml-49#:~:text=Officers%20and%20Professionals,-.What%20is%20Anti%20Money%20Laundering%20(AML)%3F,and%20these%20regulators%20build%20policies.)

¹¹ Terrorism | Definition, History, & Facts | Britannica,” accessed August 9, 2023, <https://www.britannica.com/topic/terrorism>.

On the other hand, the practitioners of the sub revolutionary type seek the modification of the existing political order and not its complete abolition. For example, the African National Congress in its efforts to end apartheid in South Africa.

The establishment type of terrorism, also known as state-sponsored terrorism, is employed by governments against the government's citizens or foreign governments or factions within the government. It is difficult to detect this type of terrorism, due to the fact that the government's support is always concealed. The main element of establishment terrorism is secrecy. States typically try to deny their direct involvement in such crimes in order to escape international condemnation as well as political and military retaliation from those they are trying to harm. Some examples include the police states of Saddam Hussein in Iraq and Joseph Stalin in the Soviet Union¹².

Customer Due Diligence: "Customer due diligence is the processes used by financial institutions to collect and evaluate relevant information about a customer or potential customer"¹³. Its objective is to determine potential hazards to a financial institution due to its business making with a specific individual or organization by gathering information from various sources.

c. Legal Framework

The OSCE has adopted a number of Ministerial Council Decisions, the two most important ones being Decision No.1 on Combating Terrorism (MC(9)DEC/1 (2001)) and its Annex, the Bucharest Plan of Action for Combating Terrorism and Decision No. 1063 on the OSCE Consolidated Framework for the Fight against Terrorism¹⁴.

¹² "Types of Terrorism." Encyclopædia Britannica. Accessed August 10, 2023. <https://www.britannica.com/topic/terrorism/Types-of-terrorism>.

¹³ "What Is Customer Due Diligence (CDD)?" Swift. Accessed August 21, 2023. <https://www.swift.com/your-needs/financial-crime-cyber-security/know-your-customer-kyc/customer-due-diligence-cdd>.

¹⁴ Counter-Terrorism Module 5 Key Issues: European Region. "Counter-Terrorism Module 5 Key Issues: European Region," July 2018. <https://www.unodc.org/e4j/zh/terrorism/module-5/key-issues/european-region.html>.

1.1.1. **Decision No. 1 and the Bucharest Plan of Action**¹⁵

The terrorist attack of 9/11 shocked the international community and brought to the surface the need for very strict frameworks and regulations coming from strong institutions to effectively combat terrorism. Decision No.1, passed two months after the 9/11 incident reaffirms the Organization's foundational values, namely that "measures to conduct this fight must be undertaken with full respect for the rule of law, and in accordance with our obligations under international law, in particular international human rights, refugee and humanitarian law" as stated in OSCE Ministerial Council, released in 2006. To that end, a central focus of the activities of the OSCE have been on exhorting its participating States to ratify international anti-terrorism conventions, and to implement and enforce them in practice in a rule of law compliant manner.

The international legal obligations and commitments of OSCE can all be found in this decision accompanied by all major focus areas that all the actions need to be directed toward. OSCE Ministerial Council adopts The Bucharest Plan of Action for Combating Terrorism, annexed to this Decision and offers suggestions on institution building, strengthening the rule of law and state authorities, suppressing the financing of terrorism and promoting human rights, tolerance and multiculturalism.

1.1.2. **Permanent Council Decision No. 1063**¹⁶

Decision No. 1063, which was passed in 2012, is OSCE's consolidated framework for the fight against terrorism. It contains the commitment of the organisation in its participating States and the international community and the activities it carries out in order to eliminate the conditions conducive to the spread of terrorism. Its primary focus lies with strengthening international criminal justice cooperation, preventing and suppressing the financing of terrorism, and protecting human rights and fundamental freedoms in the context of counter-terrorism measures. As stated in the Decision OSCE assists its participating States, every time they request so and in coordination with the United Nations in fulfilling the international obligations and in the field of combating terrorism.

¹⁵ "The Bucharest Plan of Action for Combating Terrorism," OSCE, <https://www.osce.org/atu/42524>.

¹⁶ "Permanent Council Decision No. 1063," OSCE, <https://www.osce.org/pc/98008>.

As a regional arrangement under Chapter VIII of the United Nations Charter, OSCE acknowledges the leading role of the United Nations in eradicating terrorism and therefore reaffirms that the relevant United Nations conventions and protocols as well as the Security Council resolutions constitute the primary international legal framework for the fight against terrorism.

1.1.3. Resolution 1373 (2001) of the Security Council¹⁷

OSCE pledged to follow the directions of the United Nations as enshrined, inter alia, in United Nations Security Council resolution 1373 (2001). What is very interesting with this resolution is that it starts with an operative clause on preventing the financing of terrorism highlighting the urgency of cutting the resources of terrorist organisations. OSCE, following that lead, has adopted various decisions focused solely on how to eliminate the financial resources of terrorists.

1.1.4. Permanent Council Decision No. 487¹⁸

This Decision was passed in 2002 containing the completion of the Financial Action Task Force's (FATF) self-assessment questionnaire on compliance with the eight special recommendations on terrorist financing, the results to which must have been provided as soon as possible and no later than 1 September 2002. All of this was conducted in accordance to the United Nations Security Council resolutions 1373 and the Bucharest Plan of Action for Combating Terrorism.

1.1.5. Permanent Council Decision No. 617¹⁹

Following the aforementioned decision, this time the permanent council added seven more measures that could be proven useful in combating the financing of terrorism, thus completing the first two decisions that are dedicated to this particular economic area.

¹⁷ 1. United Nations S Security Council, https://www.unodc.org/pdf/crime/terrorism/res_1373_english.pdf.

¹⁸ "Permanent Council Decision No. 487," OSCE, <https://www.osce.org/pc/12938>.

¹⁹ "Permanent Council Decision No. 617," OSCE, <https://www.osce.org/pc/35014>.

4. Discussion of the Topic

a. Funding Terrorism

Terrorism is regarded as one of the biggest risks to social and economic growth, human rights, and peace, security, and stability in the OSCE region and beyond, according to OSCE participating States²⁰. The core principles that hold the OSCE together are under attack by terrorism. Additionally, all participating States categorically deny linking terrorism to any one racial group, nation, or religion. Since terrorism is a terrible crime that has no justification, regardless of its intent or source, the organisation is set in putting strong measures in place to prevent it.

Terrorist activity is funded through terrorist financial resources. It may entail money obtained from legal sources, including private donations and company and nonprofit revenues, as well as illegal ones, like drug trafficking, fraud, smuggling of products like firearms and other items, kidnapping, and extortion²¹.

To avoid detection by law enforcement and to conceal the identities of their supporters and the beneficiaries of the payments, terrorists employ strategies similar to those used by money launderers. If the proceeds of crime are used to finance terrorist activities, money laundering and terrorism financing may also be closely related²². However, compared to money laundering, financial transactions related to terrorism financing typically involve smaller sums of money. It is more challenging to identify and follow terrorists who raise money from reliable sources. Terrorists exploit smuggling channels, the legal banking system, unofficial value-transfer methods like Hawalas and Hundis, as well as the oldest technique of asset-transfer: physically transporting money, gold, and other valuables²³.

²⁰ OSCE. "Action against Terrorism." <https://www.osce.org/secretariat/terrorism>.

²¹ PO Box 23, St Peter Port, Guernsey, GY1 3AN, Channel Islands. "What Is Terrorist Financing?" Financial Investigation Unit. August 6, 2020. <https://guernseyfiu.gov.gg/article/175968/What-is-Terrorist-Financing>.

²² *ibid*

²³ PO Box 23, St Peter Port, Guernsey, GY1 3AN, Channel Islands. "What Is Terrorist Financing?" Financial Investigation Unit. August 6, 2020. <https://guernseyfiu.gov.gg/article/175968/What-is-Terrorist-Financing>.

Activities like money laundering and financing terrorism can have detrimental impacts that extend across borders and even across the globe²⁴. Money launderers and terrorism funders are particularly drawn to nations with weak or ineffective restrictions. By taking advantage of the complexity of the international financial system, the variations in national laws, and the ease with which money can move across borders, these criminals attempt to hide their criminal actions.

Over the past few years, the face of terrorism has altered. With the advent of terrorist cells and the absence of the crucial intricate networks and command structures found with organised terrorist groups, the nature of assaults has changed for the better. Financial Intelligence Units can be extremely helpful in identifying or detecting the purchasing of items that could be used in a terrorist attack. The more recent assaults are carried out by lone actors or small cells. Prior to an assault, relevant transactions can be found using financial indicators²⁵.

I. The Financial Action Task Force (FATF)²⁶

The Financial Action Task Force (FATF) is an intergovernmental body, which has primary responsibility for developing worldwide standards for AML/CFT and makes efforts at the international level to combat financing of terrorism and proliferation. The FATF investigates the methods used to finance terrorism and money laundering, pushes for international standards to lessen the dangers, and judges whether nations are acting effectively.

The FATF has made preventing the financing of terrorism a top goal ever since 2001. However, with terrorist attacks in numerous cities around the globe in 2015, as well as the terrorist threat posed by the so-called Islamic State of Iraq and the Levant (ISIL/Da'esh), as well as by Al-Qaeda and their affiliated terrorist organisations, the scope and nature of terrorist threats worldwide significantly worsened.

²⁴ IMF. "The Fight against Money Laundering and Terrorism Financing," February 7, 2023. <https://www.imf.org/en/About/Factsheets/Sheets/2023/Fight-against-money-laundering-and-terrorism-financing>.

²⁵ PO Box 23, St Peter Port, Guernsey, GY1 3AN, Channel Islands. "What Is Terrorist Financing?" Financial Investigation Unit. August 6, 2020. <https://guernseyfiu.gov.gg/article/175968/What-is-Terrorist-Financing>.

²⁶The Financial Action Task Force (FATF). "Terrorist Financing." <https://www.fatf-gafi.org/en/topics/Terrorist-Financing.html>.

Since then, there have been numerous changes in the terrorist threats, including the emergence of right-wing extremists and big terrorist organisations. Money moves across borders to fund nationally recognized organisations, and many jurisdictions continue to be targeted by small cells and radicalised lone individuals who are motivated by a variety of perilous ideologies.

By establishing global standards to combat terrorist financing, assisting jurisdictions in implementing the financial provisions of United Nations Security Council resolutions on terrorism, and assessing nations' capacities to prevent, detect, investigate, and prosecute terrorism financing, the FATF plays a crucial role in international efforts to combat terrorism. However, several nations have failed to effectively adopt the FATF Standards. They lack the knowledge necessary to effectively address the threats they face from financing terrorism.

The overarching goals for FATF's activities in this area are laid out in the FATF Strategy on Combating Terrorist Financing. Under this policy, the FATF has completed work to assist nations all over the world in combating terrorist financing. This work has been done in close conjunction with the regional FATF-style regional entities and other partners including the UN. The OSCE contributes significantly to the global fight against terrorism, coordinated by the UN and so assisting the work of FATF is no different.

The effectiveness of global safeguards to prevent money laundering and terrorist financing (AML/CFT) depends on whether the country has the strictest regulations. To successfully launder money or move assets to finance terrorism through the financial system, criminals have to get around lax AML/CFT rules. The FATF's primary goal is to consistently identify jurisdictions with serious gaps in their AML/CFT frameworks and to collaborate with them to fill those gaps. By alerting the public to the risks posed by the listed jurisdictions, the FATF procedure contributes to maintaining the integrity of the global financial system. These jurisdictions are under pressure to correct their shortcomings in order to keep their place in the global economy as a result of these public warnings. Public identity and the possibility of it motivate nations to quickly achieve important advancements.

II. Cryptocurrencies as a financial resource²⁷

Cryptocurrencies could be used to finance terrorism, although they are not currently a significant factor. Bitcoin is a sort of cryptocurrency with a decentralised transmission channel based on encryption and blockchain technology. Right now it has the greatest market capitalisation among cryptocurrencies, which has piqued the curiosity of both investors and governments. Bitcoin's value, which represents digital cash, has recently risen to new highs. It has demonstrated potential as a hedge against financial market and geopolitical risks because of its decentralised and anonymous features.

Terrorism may be funded with bitcoin. The decentralisation and anonymity make it impossible to control illicit transactions. Bitcoin is frequently linked to illegal activity, including the financing of terrorism and money laundering. According to the Federal Reserve and the European Central Bank, it entails a highly speculative asset that is utilised in unlawful financing (such as money laundering) activities. Therefore, there has to be global regulations on Bitcoin. However, enhancing regulatory capacity sometimes lags behind advancements in financial technology, opening up new channels for financing terrorism. As internet technology advances, terrorist organisations are paying close attention to virtual currency, online payments, and dark web transactions. Emerging technologies, such as the blockchain, are used by international terrorist organisations, such as the "Islamic State" (IS), to raise and move illicit cash. The Financial Action Task Force on Money Laundering published a report in October 2015 titled "Emerging Terrorism Financing Risks," which explicitly examined the hazards of virtual money being used to finance terrorism. This report emphasised how virtual currencies, like Bitcoin, have grown to be "accomplices" to several unlawful and criminal acts, making it easier to finance terrorism and money laundering. As new technologies develop, terrorist groups may be able to easily transfer money around the world. However, it also makes it more challenging for nations to combat terrorist financing. It is important to understand Bitcoin's hedging features and terrorist financing potential given the technological revolution in cryptocurrencies and the rise of terrorism.

²⁷ Song, Yu, Bo Chen, and Xin-Yi Wang. "Cryptocurrency Technology Revolution: Are Bitcoin Prices and Terrorist Attacks Related?" Financial innovation. U.S. National Library of Medicine, January 2023. <https://www.ncbi.nlm.nih.gov/pmc/articles/PMC9860235/>.

Terrorists using cryptocurrency to fund terrorist activities has gained traction in recent years and even though right now cryptocurrencies are not the primary resource of funds, it might very soon become the most prominent way for terrorists to financially back up all their activities. This is precisely why the need to find a solution to this issue now, before it becomes a problem that can no longer be handled, is crucial.

III. Financial Consequences of Terrorism Funding

The aftermath of the attacks is when the direct economic costs of terrorism are most noticeable and thus matter more in the short term²⁸. These costs include the destruction of life and property, emergency response costs, system and infrastructure restoration costs, and the provision of temporary living assistance. Direct economic losses are probably inversely correlated with attack severity, as well as with the size and makeup of the damaged sector. Despite the fact that the September 11 attacks on the United States severely disrupted activity, the direct economic impact was minimal in relation to the scale of the economy. The Organization for Economic Cooperation and Development estimated the direct costs of the terrorist attacks at \$27.2 billion (Bruck and Wickstrom, 2004), which was only about 14 percent of the U.S. annual GDP²⁹. By eroding investor and consumer confidence, the indirect costs of terrorism have the potential to have a long-term negative impact on the economy. The motivation to spend rather than save can decrease as a result of an attack, and this process can spread across the economy and the rest of the world through the regular business cycle and trade channels.

A number of variables, including the form of the assaults, the multiplier effects, the types of policies taken in response to the attacks, and the resilience of the markets, would determine the scope and distribution of the consequences across countries, industries, and time. Because of the loss of trust in the economy and its effects on output, the September 11 attacks had a very large impact on the major industrialised nations³⁰. Slowing global demand and a financial market flight to quality had an impact on emerging markets. Through

²⁸ Johnston R. Barry, Nedelescu Oana. "The Impact of Terrorism on Financial Markets," March 2005.

²⁹ *ibid*

³⁰ Johnston R. Barry, Nedelescu Oana. "The Impact of Terrorism on Financial Markets," March 2005.

commodities markets, other developing nations might have been impacted. This made it possible for the financial markets to carry out one of their primary tasks, which is to effectively absorb information about the economic and financial effects of terrorist attacks after an initial shock and incorporate it into asset prices so that it can be taken into account when making future decisions. Financial instruments have a price and act as a buffer against uncertainty because they contain long-term commitments. As new information is analysed and processed, every major crisis may cause the financial markets to overreact initially. However, after the long-term effects of the crisis are understood, the markets revert to their pre-crisis state. Following that, financial markets fluctuate upward or downward depending on how investors believe the situation will be addressed. Finally, it is debatable whether the attacks will have a detrimental effect on productivity in the long run by increasing transaction costs due to heightened security precautions, increased insurance premiums, and more expensive financial and other counterterrorism legislation³¹.

b. Linking Money Laundering to Financing Terrorism

Money laundering and the financing of terrorism are financial crimes with economic effects³². Money laundering involves the process of disguising the origins of illicitly obtained proceeds from criminal activities. Terrorist financing involves the collection or supply of funds intended for supporting terrorist endeavours. While money laundering entails the collection of funds derived solely from criminal sources, in the case of terrorist financing, the funds can derive from both legal and illegal sources. For this reason, the main objective of individuals or entities engaged in terrorist financing is not inherently the concealment of the funds' origin, but the concealment of both the funding activity and the nature of the funded activity.

Financial institutions employ AML techniques for the following reasons:

- To keep an eye on customers and transactions as well as report any suspicious activity in order to comply with rules.
- To safeguard the value of their shareholders and their brand.

³¹ Johnston R. Barry, Nedelescu Oana. "The Impact of Terrorism on Financial Markets," March 2005.

³² Anti-money laundering/combating the financing of terrorism (AML/CFT). Accessed August 10, 2023. <https://www.imf.org/external/np/leg/amlcft/eng/>.

- To avoid possible legal and criminal fines for disobedience or negligence, as well as consent orders³³.

The tactics used for both money laundering and terrorist financing are similar. Money laundering (source of funds) and terrorism financing are both addressed by AML legislation (destination of funds). More specifically, in each case the perpetrator makes an illegitimate use of the financial sector. The methods used to launder money and to finance terrorism often overlap and are, sometimes, identical. Therefore, an efficient framework for anti-money laundering (AML) and countering the financing of terrorism (CFT) should address both risk aspects. In detail, it must prevent, identify and punish the inflow of illegal funds into the financial system and the financing of individuals or entities engaged in terrorism³⁴.

Moreover, AML and CFT strategies coincide in their goals. They target terrorist organisations through their financial activities and utilise the financial trail to detect the various components of these illicit networks. This entails the implementation of mechanisms to scrutinise all financial transactions and uncover suspicious financial transfers.

As Min Zhu, a former Deputy Managing Director of the International Monetary Fund (IMF) said, “*Effective anti-money laundering and combating the financing of terrorism regimes are essential to protect the integrity of markets and of the global financial framework as they help mitigate the factors that facilitate financial abuse*”³⁵.

³³ “What Is Anti-Money Laundering (AML)?” sanction scanner. Accessed August 21, 2023. [https://sanctionsscanner.com/knowledge-base/anti-money-laundering-aml-49#:~:text=Officers%20and%20Professionals,-.What%20is%20Anti%2DMoney%20Laundering%20\(AML\)%3F.and%20these%20regulators%20build%20policies.](https://sanctionsscanner.com/knowledge-base/anti-money-laundering-aml-49#:~:text=Officers%20and%20Professionals,-.What%20is%20Anti%2DMoney%20Laundering%20(AML)%3F.and%20these%20regulators%20build%20policies.)

³⁴ Anti-money laundering/combating the financing of terrorism (AML/CFT) - topics. Accessed August 10, 2023. <https://www.imf.org/external/np/leg/amlcft/eng/aml1.htm>.

³⁵ Anti-money laundering/combating the financing of terrorism (AML/CFT). Accessed August 10, 2023. <https://www.imf.org/external/np/leg/amlcft/eng/>.

Criteria	Money laundering	Terrorism financing
Motivation	Profit-making	Ideological purposes
Intention	Disguise the origin of the resources	Intimidate through violence
Source of financing	Illegal Resources Extortion Kidnapping Drug-trafficking Smuggling Fraud Theft	Illegal Resources Extortion Kidnapping Drug-trafficking Smuggling Fraud Theft Legal Resources Donations Government sponsorship Controlled companies
Methods	Placement Integration Concealment	Placement Integration Concealment
Life cycle	Circular	Linear

c. Anti money laundering efforts

One of the key organisations involving themselves in the fight against money laundering is the International Money Fund (henceforth IMF). The IMF through its offices is engaging with member states and organisations, providing a space where its members discuss good practises in Anti-Money Laundering (henceforth AML) efforts, provides Technical Assistance (henceforth TA) to members, promotes desirables policies and standards, as well as evaluates the financial institutions of Member States (henceforth MS)³⁶.

The IMF in its effort to combat money laundering and combat financial terrorism (henceforth CFT) has created many bodies and programmes during the past decades. The Financial Action Task Force (henceforth FATF) was created in 1989, consists of 39 members, including the European Commission, and is based in Paris. It was created by an initiative of the G7, and its goal is the development of policies related to the combat of money laundering, as well as maintaining a certain amount of interest in the subject matter by the public. In the wake of the

³⁶ 'Anti-Money Laundering/Combating the Financing of Terrorism (AML/CFT) - Topics', accessed 15 August 2023, <https://www.imf.org/external/np/leg/amlcft/eng/aml1.htm#amlcounter>.

terrorist attacks in the 2001 terrorist attacks, its mandate was expanded to include CFT as well³⁷. The IMF and the FATF have been in close collaboration for many years, with the IMF ensuring that MS comply with the international standards set by the FATF. Alongside the FATF, the IMF has created the Financial Sector Assessment Programme (henceforth FSAP) and it developed the Report on Standards and Codes (henceforth ROSC) in 2000³⁸. Following the FATF, the IMF also expanded its mandate to combat of CFT, as well as including AML and CFT efforts in its main agenda and responsibilities³⁹. The IMF also developed an Offshore Assessment Programme, which evaluates Offshore Financial Centers (henceforth OFC) after a call from the international community in the 2000s to further crack down on ML. In 2004 it made AML and CFT assessments a mandatory ROSC in all FSAP and OFC assessments⁴⁰.

One of the other ways that ML is combatted is through Financial Intelligence Units (henceforth FIU). According to the IMF, FIU's are established by countries in order to process financial information that could be linked to criminal activity⁴¹. An FIU essentially acts as a "middleman" between a country's financial institutions and local law enforcement. It receives suspicious financial information from financial institutions, analyses it, and then passes along relevant information to local law enforcement in order to take appropriate action⁴². The role of the FIU's can not be understated, having a very important role in protecting the stability of state financial institutions from ML and financial terrorism (henceforth FT)⁴³.

In order to understand the ways AML and CFT efforts work, it is important to remember that ML always involves money that are of illicit origin, while international terrorist financing can be sourced both from legal and illegal sources. Even though they have differences between them, the strategies used for AML and CFT usually converge. In essence, AML and CFT aim

³⁷ 'Who We Are', accessed 15 August 2023, <https://www.fatf-gafi.org/en/the-fatf/who-we-are.html>.

³⁸ 'Anti-Money Laundering/Combating the Financing of Terrorism (AML/CFT) - Topics'.

³⁹ *Ibid*

⁴⁰ *Ibid*

⁴¹ *Ibid*

⁴² *Ibid*

⁴³ *Ibid*

to attack criminal and terrorist organisations through their financial activities, using their financial trail to identify the various components that comprise the criminal/terrorist network. It is also of utmost importance to comprehend the prevalent link between corruption in financial institutions and ML. Corruption in these financial institutions is a major source of ML, leading to widespread criminal activity and destabilisation of the national economy, as well as threatening the regional and global communities as well. It is for this reason why countries must focus their efforts in the fight against corruption, by strengthening financial institutions, by holding culprits accountable, and by establishing safeguards. Such efforts can greatly aid in AML and CFT efforts, cutting support for criminal and terrorist organisations⁴⁴.

Another very important tool in AML and CFT is typologies, which hold a crucial role in the combat against ML. Typologie is a term that, when used in the context of AML and CFT, refers to the various methods used in order to launder money. These techniques vary depending on multiple factors, including but not limited to the financial markets, the state of the local economy, as well as how strong and effective are the AML and CFT efforts of the specific country. The FATF ensures it has the ability to collect relevant information and to effectively communicate that information to the public⁴⁵.

Having discussed the importance of the FATF and its guidelines, it should not be taken as a surprise that a very large factor that separates effective and failing AML/CFT efforts is the compliance rate of a MS with FATF guidelines and regulations. AML/CFT laws and statutes should mainly focus on offering assistance to legal and institutional frameworks. While there can not be a [perfect AML/CFT system, nor can there be a perfect AML/CFT evaluations system, there are multiple criteria used in order to judge the effectiveness of AML/CFT in a country. These include:

1. Criminalisation of ML/FT: The first step in AML/CFT is the criminalisation of ML & FT, ensuring that the legal framework in place ensures a wide range, without criminalising normal financial behaviour, or leaving gaps that can be used by criminal enterprises, in order to circumvent punishment.

⁴⁴ 'Anti-Money Laundering/Combating the Financing of Terrorism (AML/CFT) - Topics'.

⁴⁵ *Ibid*

2. Comprehensive legal definition of ML: ensuring that a proper and definite legal definition of ML is used by a country can ensure that AML/CFT laws can be implemented effectively and efficiently, as well as ensuring that criminal organisations can't utilise gaps in the definition to avoid prosecution.
3. ML must be a predicate offence: A predicate offence refers to a crime that is part of a larger crime⁴⁶. In essence, a country's legal system needs to include ML in all its forms, penalising not only the act of ML itself, but also the acts that lead to money needing to be laundered.
4. Clear and separate categories: ML should be split into different categories regarding the nature of the funds, the amount dealt with, the acts that lead to ML, the receiver of the funds, etc. These categories must have their own definitions and punishments, in accordance with the country's law, as well as the FATF requirements.
5. Follow the scope of criminal liability rules: the legal system of a country must have taken into account the scope of liability, including but not limited to:
 - a. Cross-border crimes
 - b. Statue of mind
 - c. Corporate liability
 - d. Criminalisation of terrorism financing
 - e. Seizure & confiscation of laundered funds

Some of the ways that countries can improve their AML/CFT systems include measures that we have already discussed in this study guide. One easy to implement tool that many countries don't have is KYC/CDD measures. Know Your Customer (KYC) and Customer Due Diligence (CDD) systems are monitoring tools that can discern suspicious transactions and inform the appropriate authorities. |These systems include customer identification, making the act of tracing the people responsible for ML becomes an easier task. Another important step, as discussed previously, is the establishment/strengthening of FIU's, due to their capacity for combating ML/FT and ensuring proper compliance with AML/CFT laws. Finally, a country's international cooperation through international organisations, like OSCE, ratifications of international agreements, and by being compliant with the FATF standards,

⁴⁶Thitiporn Wongwishyakorn, 'Anti-Money Laundering Law: A Comparison between Thailand and Australia' (thesis, La Trobe, 2023), <https://doi.org/10.26181/21859668.v1>.

will strengthen not only the country's AML/CFT system and efforts, but it will also strengthen international AML/CFT systems and efforts⁴⁷.

The battle against ML and FT is a global effort, one where multiple intergovernmental organisations and countries combine their strengths to better combat that phenomena. A very prevalent example is the OFC assessments conducted by the IMF. These assessments are conducted, after a decision by the Financial Stability Forum, by using criteria from multiple other organisations, that include the Basel Committee on Banking Supervisors, the International Association of Insurance Supervisors (henceforth IAIS), the International Association of Securities Commission (henceforth IOSCO), the Joint Forum on Financial Conglomerates (henceforth Joint Forum), the G7 finance ministers, and the FATF. By utilising the criteria set by these organisations, as well as utilising various incentives like compulsory disclosure and membership of international organisations, it ensures the success of its programme⁴⁸.

OSCE has been a key player in global AML and CFT efforts throughout its existence, establishing various programmes in MS combating ML and FT. OSCE has programmes in operation in multiple MS, with one of the most recent ones being Turkmenistan, where OSCE has been promoting best practises and ensuring that Turkmenistan complies with the FATF standards⁴⁹, as well as organise lectures and trainings with the main goal of educating and training states official responsible with AML and CFT⁵⁰. OSCE also provides MS with TA, with Uzbekistan being the recent recipient of TA from OSCE, with the goal of eliminating shortcomes and to bring Uzbekistan in line with international standards⁵¹. OSCE also utilises AML/CFT knowledge and experience on other areas as well, for example the combat of

⁴⁷ Ibid

⁴⁸ 'Anti-Money Laundering/Combating the Financing of Terrorism (AML/CFT) - Topics'

⁴⁹ 'OSCE Promotes Best Practices in Anti-Money Laundering and Countering Terrorist Financing Efforts in Turkmenistan', accessed 15 August 2023, <https://www.osce.org/centre-in-ashgabat/494413>.

⁵⁰ 'Anti-Money Laundering and Countering Financing of Terrorism Focus of OSCE –Organized Lecture Course in Turkmenistan', accessed 15 August 2023, <https://www.osce.org/centre-in-ashgabat/528381>.

⁵¹ 'Uzbekistan and OSCE Join Forces to Combat Money Laundering', accessed 15 August 2023, <https://www.osce.org/project-coordinator-in-uzbekistan/538731>.

human trafficking, where AML/CFT techniques have the ability to destroy criminal networks and save countless lives⁵².

OSCE has also partnered with the UN Office on Drug Crimes (henceforth UNODC) in order to develop multiple programmes with the goal of promoting best practices on AML/CFT. The OSCE-UNODC programme on countering terrorist financing, a cooperation between OSCE's transnational threats department and UNODC's global programme against ML, aims at training future members of FIUs on the subject matter, as well as enhancing collaboration between MS and non-governmental institutions such as NGOs, private corporations, etc⁵³. The two agencies have also collaborated on other programmes as well, more recently conducting a joint meeting in order to discuss how to adapt AML/CFT practices in the wake of cryptocurrencies and virtual assets, in order to support Georgia, Moldova, and Ukraine⁵⁴.



⁵² 'Leveraging Anti-Money Laundering Regimes to Combat Trafficking in Human Beings', accessed 15 August 2023, https://doi.org/10.1163/2210-7975_HRD-0367-2014003.

⁵³ 'OSCE-UNODC Training Programme on Countering Terrorist Financing', accessed 15 August 2023, <https://www.osce.org/files/f/documents/c/9/482694.pdf>.

⁵⁴ 'OSCE and UNODC Launch a Project to Counter Money Laundering of Virtual Assets and Cryptocurrencies', accessed 15 August 2023, <https://www.osce.org/occea/529401>.

d. Customer due diligence

The fight against money laundering, a criminal act that involves hiding the proceeds of illegal activities and making them seem like legitimate funds, depends heavily on customer due diligence⁵⁵. To transfer illegal funds, money launderers frequently employ financial institutions and other enterprises. Customer due diligence is meant to assist businesses in spotting unusual activity and reporting it so that law enforcement officials may dismantle money laundering networks.

To effectively combat money laundering and the financing of terrorism, financial institutions must implement strong Customer Due Diligence (CDD) procedures and maintain a high level of transparency⁵⁶. When a business relationship is established or before a single cash transaction exceeds a specified threshold, CDD must be used. Financial institutions must use CDD anytime they have suspicions about money laundering or terrorism funding.

The fundamental actions of CDD measures include the proper identification of a customer and/or beneficial owner, the verification of the customer's or beneficial owner's identity, and the collection of information regarding the customer's purpose and the nature of the business relationship.

Customer Due Diligence processes must be implemented by banks and other financial organisations per legal requirements, however it is not just a financial industry practice. Implementing CDD safeguards can be beneficial for any organisation that runs the danger of being exploited to support money laundering or other illegal activities. This comprises companies in industries including real estate, law, gaming, and nonprofit and charity organisations.

Organisations may choose to employ standard CDD, enhanced CDD, or continuing CDD as their primary CDD measures⁵⁷:

⁵⁵ "Electronic Identification," Electronic IDentification - IDentity Verification Solutions, <https://www.electronicid.eu/en/blog/post/customer-due-diligence-cdd-and-its-role-in-banking/en>

⁵⁶ Anti-money laundering/combating the financing of terrorism (AML/CFT), <https://www.imf.org/external/np/leg/amlcft/eng/aml1.htm>.

⁵⁷ "Electronic Identification," Electronic IDentification - IDentity Verification Solutions, <https://www.electronicid.eu/en/blog/post/customer-due-diligence-cdd-and-its-role-in-banking/en>.

- a. Standard Customer or Client Due Diligence is the term used to describe the fundamental information that businesses must gather and verify about their clients.

Customer due diligence checks, which entail the information gathering and verification of a customer's identification and financial and business operations, are an essential component of the CDD process. These checks could involve looking at identity papers, learning more about the client's financial and professional background, and looking through public records and other information sources.

The purpose of CDD checks is to assist organisations in evaluating the risk posed by a customer and spotting any warning signs that could point to a higher risk of illegal activities, such as money laundering or financing terrorism. Typically, CDD checks take place during the onboarding phase of a customer engagement. To guarantee that the customer's risk profile is always current, they may also be carried out frequently. The type of checks to be performed and the level of detail needed will depend on the connection with the customer and their risk profile.

- b. For higher-risk consumers or transactions involving sizable sums of money, enhanced customer due diligence may be necessary. It entails a more thorough examination of a customer's behaviour and risk profile.

Enhanced due diligence (EDD) identifies dangers that aren't picked up by standard anti-money laundering customer due diligence procedures. EDD extends much further than standard CDD⁵⁸. It accurately assesses the customer's risk category and aims to create a greater level of identity assurance. The following are some ways that EDD measures differ from CDD measures⁵⁹:

- a. They demand substantially more proof and in-depth information from the client and are more rigorous and demanding.
- b. Regulators must have timely access to EDD reports and comprehensive documentation of the whole EDD process.

⁵⁸ Anti-money laundering/combating the financing of terrorism (AML/CFT), <https://www.imf.org/external/np/leg/amlcft/eng/aml1.htm>.

⁵⁹ *ibid*

- c. When determining KYC risk, EDD rules ask for "reasonable assurance". This means that when making a decision, staff employees must follow the proper research procedures and use their professional skills.
- d. Politically exposed individuals (PEIs) require special consideration.

When dealing with high-risk or high-net-worth consumers and significant transactions, EDD measures should be employed. This is because the banking sector is more at risk from these activities and clients. They are therefore closely regulated and observed.

- c. A customer's behaviours are continuously observed as part of ongoing CDD in order to spot any changes or warning signs that might point to an elevated risk of illegal behaviour.

According to Financial Action Task Force (FATF) recommendations, businesses should incorporate risk-based CDD measures into their AML due diligence procedures. These procedures ought to take into account the particular AML/CFT risk that particular clients pose⁶⁰. Companies can balance their obligations with their budgetary needs and resources by using risk-based customer due diligence. Additionally, businesses can guarantee that the client experience is maintained by ensuring that checks aren't overly burdensome. A corporation can implement enhanced due diligence (EDD) for high-risk customers more quickly and effectively with a risk-based approach to CDD.

Additionally, the institutions must maintain a record of all anti-money laundering client due diligence actions they take, such as:

- a. customer identification documents that they have
- b. all conducted risk evaluations
- c. rules, regulations, and practices
- d. records of staff training

⁶⁰ "Electronic Identification," Electronic IDentification - IDentity Verification Solutions, <https://www.electronicid.eu/en/blog/post/customer-due-diligence-cdd-and-its-role-in-banking/en>.

The institutions can prove that they complied with all requirements to law enforcement and regulators by keeping records. They will be obliged to provide all of this information promptly if they are audited or if one of their clients is the subject of an investigation. They must create and implement internal policies for information sharing within the institution as part of this. Due diligence should be the main priority, roles should be assigned clearly, and any questionable activity should be reported right away.

5. Conclusion

Taking into account the high volatility of the international and regional economic markets, as a result of the COVID-19 pandemic and the Russian invasion of Ukraine, Member States have an imperative role to take immediate action against money laundering and the funding of terrorism. Solutions for this topic have to ensure that they take into account the multifaceted aspect of money laundering and terrorist financing, as well as address the root causes effectively, in a way that can be adaptable and flexible. With authoritarian regimes gaining more and more power across the globe, as well as the concerning rise of political extremism being noticeable in regions across the world, member states must rise to the occasion and take a firm stance in the fight against money laundering and financial terrorism.

6. Points to be addressed

1. What features make it difficult to identify terrorist financing?
2. How will the OSCE tackle the abuse of the financial system for terrorist financing purposes?
3. What further steps can be taken to close off the options for terrorist financing?
4. What actions can be undertaken to enhance financial intelligence in the fight against terrorist financing?
5. What can the EU do to further address terrorist financing risks linked to high-risk third countries?
6. Is banning virtual currencies a solution?

7. What other non-legislative actions can the OSCE take in the fight against terrorist financing?
8. Why can it be difficult to tell the difference between money laundering and terrorist financing?
9. Why is it necessary to harmonise the criminalisation of money laundering?
10. How do we prevent terrorists from moving and laundering cash across borders? Are existing rules still fit for purpose?

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