



# The anti-money laundering activities of the central banks of Australia and Ukraine

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## Abstract

**Purpose** – This paper seeks to provide a textual analysis of the anti money laundering practices of the central banks of Australia (Reserve Bank of Australia (RBA)) and Ukraine (National Bank of Ukraine (NBU)).

**Design/methodology/approach** – The analysis is performed two ways by both calculating a disclosure index and through use of textual analysis.

**Findings** – The results show very low levels of anti money laundering disclosures by both NBU and RBA with NBU usually showing more. Textual analysis reveals that the NBU is prepared to internalise its discussion on anti-money laundering discussing wide-ranging topics. There appears to be a concerted communication effort by NBU to tackle the issues of money laundering head-on. Textual analysis of the RBA's four annual reports show a clipped discourse on anti-money laundering, treating it as if it were a distant concern. Over the four year period, there is little acknowledgement in the way of RBA textual discourse that Australia is a jurisdiction of primary concern.

**Originality/value** – The value of this paper is that, it emphasizes that, if the globalised activity of money laundering is to be crushed further energies are needed to woo central banks from varied backgrounds into exerting their considerable resources toward anti-money laundering enforcement.

**Keywords** Money laundering, Disclosure, Financial management, Australia, Ukraine

**Paper type** Research paper



## 1. Introduction

This paper examines the anti-money laundering practices of the National Bank of Ukraine (NBU) and the Reserve Bank of Australia (RBA). It is a timely study because it focuses on the role of two central banks in their effort to help stamp out money laundering practices and it examines their roles in the context of their unique country's cultural, economic and political system. This is particularly important as most money laundering studies have either been descriptive of the nature of money laundering (Pinner, 1994; Buchanan, 2004), instructive of the legislative moves to stamp out money laundering (Baldwin, 2004; Pieth and Aiolfi, 2004; Ping, 2004; Salu, 2004) or illustrative of individual country's efforts (Vella-Baldacchino, 2005; Angell and Demetis, 2005; Pieth and Aiolfi, 2004; McKenzie, 2004; Salu, 2004; Yu-Feng, 2004). Little work has been carried out on comparing and contrasting the effect of the regulatory work by anti-money laundering on key financial institutions across different geographical locations. This study contributes to the money laundering literature by focusing on the central banks' response to the initiatives of the regional money laundering regulators.

Money laundering is a crucially important globalised activity in contemporary financial society (BINLEA, 2006). It avoids national controls and distributes dirty money around the world. A country's financial controls and tax regime can be completely bypassed (Hampton and Sikka, 2005). Money laundering is a global phenomenon and a major obstacle in maintaining effective operating domestic and international financial systems (Buchanan, 2004). It, therefore, poses a significant problem to central banks as it damages the effective operations of national economies and promotes poor economic policies (Johnston and Abbott, 2005; Buchanan, 2004). Indeed, money laundering corrupts financial markets and erodes the public's confidence in the global financial system. It does this by involving itself in a wide variety of criminal activities such as bribery, drug trafficking (Pinner, 1994) embezzlement, fraud, illegal arms sales (Baldwin, 2004), insider trading, prostitution rings, smuggling, terrorism (Linn, 2005; Baldwin, 2004) and by obscuring illegal origins of profits by making them appear legitimate. FATF (2006) states that money laundering reduces the annual rate of growth by 2 per cent of the world economy.

Money laundering is of critical interest to the central banks of Australia and Ukraine because it often involves a complex series of transactions and numerous financial institutions from many jurisdictions which affect central bank operations. These transactions impact on a wide variety of financial institutions that the NBU and RBA directly or indirectly oversee, including major banks and non-banking financial institutions such as bureau de change, brokers, cheque cashing services, insurers and traders. These transactions also involve a number of complex money laundering techniques including "smurfing" (avoiding detection by conducting transactions in amounts under \$10,000), front companies (Passa, 2004) misinvoicing, shell companies, wire transfers, mirror-image trading and parallel systems. Such activities are conducted in order to fulfil the three main stages of money laundering: the placement stage which changes cash derived from criminal activities into the mainstream financial system; the layering stage which creates a large number of complex financial transactions resembling legitimate financial activity; and the integration stage which reintegrate washed funds back into the formal sector economic activity (Linn, 2005; Buchanan, 2004).

Accordingly, this study considers the role of central banks in dealing with the occurrence of money laundering by raising two inter-related research questions:

*RQ1.* To what extent do the central banks of Australia and Ukraine provide anti-money laundering information in their annual reports?

*RQ2.* What is the overall attitude conveyed in annual reports by the central banks of Australia and Ukraine of anti-money laundering information?

This study makes important contributions to the research literature. Firstly, by adopting a public interest regulatory theoretical framework, this study assesses anti-money laundering disclosures (AML/D) practices of agencies that enforce the anti-money laundering regulations. Such a wide-ranging perspective helps in explaining central bank practices carried out on a voluntarily disclosure basis and the work of regulatory boards with seemingly public interest duties. Secondly, this study examines global and regional regulatory; this is useful since because unique membership characteristics (e.g. membership of anti-money laundering regulatory agencies) and financial background (e.g. jurisdiction of primary concern) and country background (e.g. the income of status of Australia and Ukraine) may explain variations of disclosures prepared by central banks.

Section 2 reviews regulatory theory and regulatory environment on the NBU and the RBA. Section 3 presents the research methodology, particularly focussing on the dual research techniques of disclosure indices and textual analysis. The results of the descriptive and textual analysis are covered in Section 4. Finally, implications and recommendations for future research are offered.

## **2. Literature review: regulatory environment**

In examining the anti-money laundering records of the NBU and the RBA it is important to consider the nature of regulation itself, the central banks' broad regulatory environment and the key external regulators.

### *2.1 Regulation*

Regulation refers to the means by which any activity, institution, organism of person is guided to behave in a regular way or to rule (Picciotto, 2002). There has been in recent times much liberalisation and privatisation across the world involving deregulation by cutting back at existing forms of state action. However, this has been followed by reregulation to stem the ways economic actors may manipulate and sidestep rules. This regulation has occurred at the globalised level to combat money laundering and terrorist financing. Recent regulatory[1] work on the modern financial systems such as FATF (2003) recognises that countries have diverse legal and financial systems, yet it has been able to derive 40 recommendations to cover all the measures national systems should have in place within their criminal justice and regulatory systems.

Regulation has now gone beyond the dichotomous language of public authority versus private interests (Hancher and Moran, 1989). It has become apparent that differences between national regulatory requirements have led to distorted consequences. This has prompted regulation across the globe using multi-level governance through a specialised discourse involving specialist epistemic communities, broad financial policy and advocacy networks. Indeed, regulatory

action brings about discursive practices by building upon participants shared understandings of problems and solutions. Tadesse (2006), for example, suggests banking crises are less likely to occur in countries with greater regulated disclosures and transparency. Tadesse (2006) puts forward a transparency-stability theory which holds that greater disclosure and thus greater transparency facilitates efficient resource allocation by reducing informational asymmetry. If accounting information is viewed as a public good (Watts and Zimmerman, 1986) and central banks are funded by the public's conscripted taxpayers (and thus conscripted investors) then it is not unreasonable for central banks to produce extensive disclosures to satisfy the information needs of that public. This, of course, flies in the face of transparency-fragility theory which avers that greater disclosure may indicate widespread problems in the banking system which in turn creates negative externalities such as runs on money and concern about the financial system's vulnerability. But as Smellie (2004) explains, that there is now a global acceptance that the struggle against organised crime cannot be won unless some kind of enforcement is put in place. Such enforcement should be found in the contribution of central banks' extensive disclosure practices.

## *2.2 Regulatory background of Australia and Ukraine*

*2.2.1 Australia.* The Commonwealth of Australia is a democratic government within the British Commonwealth. The federal parliament is divided into the House of Representatives and the Senate. The leading party or leading coalition of the House of Representatives forms government. Australia generally has a sound debt rating[2] (Standard & Poor's: AAA; Moody's Investors Service: Aaa; Fitch: AA + ) (Economist Intelligence Unit, 2005) and generally enjoys low risk and gave Australia an overall risk rating of "B" political risk of "A" economic policy risk of "B" economic structure risk of "C" and a liquidity risk of "B". Australia has a highly sophisticated financial system dominated by four big banks. The banking system itself is very competitive with 53 financial institutions holding banking licences, including 14 Australian-owned banks, 11 foreign subsidiary banks and 28 branches of foreign banks. Australia also has 60 registered "money-market corporations" overseen by the Australian Prudential Regulation Authority (APRA). These money-market corporations compete with the commercial banks and are regulated by the Australian Securities and Investments Commission which took over the responsibility from the RBA in 2002, under the Financial Sector Act 2001 which repealed the Financial Corporations Act 1974. Australia is an open economy, open to foreign investment. Foreign financial entities provide services in brokerage, insurance and investment banking. Fully funded pensions and superannuation plans and unit trusts are active. Currency and interest rates are freely floated:

Corporate taxes are moderate, public services are good, and government and corporate officials hold themselves to a high level of integrity (Economist Intelligence Unit, 2005, p. 5).

Three key regulators of Australia's banking sector are the RBA which is Australia's central bank, the APRA, and the Australian Competition and Consumer Commission, which scrutinises bank takeovers and mergers and prevents anti-competitive conduct by all financial institutions under the Trade Practices Act 1974. The RBA is a banker to the Australian federal government and has the authority to issue currency. The RBA

implements monetary policy through one interest rate: the target cash (or overnight) rate. The RBA also determines lending policy, sets interest rates and may restrict funding to specific purposes. The RBA is responsible for the stability of the financial system. Under the Banking Act 1959, APRA is a prudential supervisor of all banks operating in Australia. APRA regulates over other authorised deposit-taking institutions (building societies, credit unions and companies that provide services to these organisations); life and general insurance companies; superannuation funds; and friendly societies (membership-based organisations offering benefits such as funeral costs, sickness and hospital insurance, hospital cover and retirement benefits through savings and investment).

Recent changes to Australian anti-money laundering legislation have been enacted under the Financial Transaction Reports (Amendment) Act 1997 which requires bullion sellers, cash dealers, money transmitters and solicitors to report significant cash transactions of A\$10,000 or more in currency what are entered through them. In recent times, a revised exposure draft of the Anti-Money Laundering and Counter-Terrorism Financing (AML/CTF) Bill has been released by the Federal Government on 13 July 2006 to bring Australia in line with international standards issued by the Financial Action Task Force on Money Laundering. Despite the legislative moves, a pilot study by Jackson (2001) on attitudes of Western Australian accountants, real estate agents and solicitors to money laundering training revealed that of the three respondent groups, accountants have the least enthusiasm for training and that throughout the professions of accountancy, real estate agency and law there was a need to bring their knowledge and skills of anti-money laundering up to an acceptable level. The findings suggesting that a launderer has opportunities to exploit weak links in the Australian commercial system.

Tadesse (2006) found that the Australian banking system for the period 1990-1997 has poor regulated disclosure quality and low disclosure informativeness. *Regulated-disclosure quality measures the effectiveness of disclosure in improving the quality of bank reports and disclosure informativeness measures the degree to which bank disclosure accurately represents the banks' financial conditions.*

*2.2.2 Ukraine.* Ukraine is a member of the Commonwealth of Independent States (CIS) which includes all the former Soviet republics except the Baltic states. Ukraine has a population of 47.1 m (2004). Ukraine's political system has changed recently with the transfer of political power from the presidency to parliament as of January 1, 2006. The Economist Intelligence Unit (2006, p. 4) describes Ukraine as politically unstable but with little security risks in armed conflict and terrorism. However, widespread impoverishment and spiralling wage arrears has brought social unrest, and a spate of high-profile businessman and politicians have been murdered, and organised crime and corruption is common.

Ukraine's financial system is underdeveloped and suffers from insufficient capital, limited investment opportunities and an unsatisfactory legal infrastructure (Economist Intelligence Unit, 2006). The capitalisation of Ukraine's banking sector is very small, with 50 per cent of it concentrated in the top 20 banks. Most of Ukraine's 163 licensed banks are tiny with an emphasis on funding their enterprise owners. Ukraine has 48 registered non-state pension funds but many do not attract pension contributions because they are used to lower corporate tax payments. Table I reveals a comparison of annual indicators of the countries of Ukraine and Australia over the years 2001-2004. Whilst the table reveals a generally improving Ukrainian economy, there are many

Annual indicator	2001	2002	2003	2004	Anti-money laundering activities
Ukraine GDP at market prices (HRN bn)	204.2	225.8	267.3	345.1	<b>121</b>
Australia GDP at current prices (Aus\$bn)	747.5	764.2	795.8	849.4	
Ukraine GDP (US\$bn)	38.0	42.4	50.1	64.9	
Australia GDP (US\$bn)	368.3	413.1	524.3	540.6	
Ukraine real GDP growth (per cent)	9.2	5.2	9.6	12.1	
Australia real GDP growth (per cent)	2.2	4.1	3.1	3.6	
Ukraine consumer price inflation (av; per cent)	12.0	0.8	5.2	9.0	
Australia consumer price inflation (av; per cent)	4.4	3.1	2.8	2.3	
Ukraine population (m)	48.2	47.8	47.4	47.1	
Australia population (m)	19.5	19.7	19.9	20.2	
Ukraine exports of goods fob (US\$m)	17,091	18,669	23,739	33,432	
Australia exports of goods fob (US\$m)	63,626	65,013	70,526	87,096	
Ukraine imports of goods fob (US\$m)	-16,893	-17,959	-23,221	-29,691	
Australia imports of goods fob (US\$m)	-61,890	-70,530	-85,862	-105,239	
Ukraine current-account balance (US\$m)	1,402	3,174	2,891	6,804	
Australia current-account balance (US\$m)	-7,855	-16,468	-29,695	-42,352	
Ukraine foreign-exchange reserves excluding gold (US\$m)	2,955	4,241	6,731	9,302	
Australia foreign-exchange reserves excluding gold (US\$m)	17,955	20,689	32,189	35,803	
Ukraine total external debt (US\$bn)	12.7	13.5	16.3	21.9	
Australia total external debt (US\$bn)	162.5	193.8	237.9	287.8	
Ukraine debt-service ratio, paid (per cent)	10.8	13.8	12.6	12.4	
Australia debt-service ratio, paid (per cent)	31.6	32.2	27.9	32.6	
Ukraine exchange rate (av HRN:US\$)	5.37	5.33	5.33	5.32	
Australia exchange rate (av A\$:US\$)	1.93	1.84	1.54	1.36	

Sources: Economist Intelligence Unit (2005, 2006)

**Table I.**  
Economic indicators of  
Ukraine and Australia  
(2001-2004)

developmental problems within Ukraine's economic political and social systems as the following passage demonstrates:

Ukraine has a host of problems routinely associated with post-socialist countries in transition. These include organised criminal groups overseeing lucrative narcotics and women trafficking networks, rampant income tax evasion by businesses, illegal banking, misappropriation of government funds, and theft of natural resources. Moreover, corruption remains rampant in the Ukrainian political and economic spheres. In a recent interview, the head of the Parliamentary Committee for Organised Crime and Corruption, stated that corruption has permeated every level of Ukrainian society and is getting worse, and that corruption is rampant in high places like the Presidential Administration, government and Parliament (Roule and Salak, 2003, p. 371)

The NBU is Ukraine's central bank and targets currency stability against the US dollar. The NBU controversially revalued the hryvnya in April 2005 and the exchange rate has remained fixed under a *de facto* currency peg through frequent interventions (The Economist Intelligence Unit, 2006).

### 2.3 External regulators of anti-money laundering

While domestic regulatory systems play a substantial part in countering money laundering activities, the role of external regulators also impact on a country's

anti-money laundering policies. Four important organisations that have had a bearing on the anti-money laundering approaches of Australia or Ukraine are FATF, Asia/Pacific Group on Money Laundering (APG), MONEYVAL and International Narcotics and Law Enforcement Affairs (INCSR).

*2.3.1 FATF.* The FATF is a global inter-governmental body which develops and promotes national and international policies to combat money laundering and terrorist financing (FATF, 2006). Created in 1989, It creates legislative and regulatory reforms in money laundering and terrorist financing, notably publishing 40 + 9 Recommendations in order to meet this objective (FATF, 2006). The FATF was established by the G-7 Summit that was held in Paris in 1989 (FATF, 2006; Pinner, 1994). FATF is given the responsibility of examining money laundering techniques, reviewing the actions already adopted by national or international level, and suggesting measures that needed to be taken to combat money laundering (FATF, 2006).

FATF examines the methods used to launder criminal proceeds and has completed two rounds of mutual evaluations of its member countries and jurisdictions (FATF, 2006). FATF revised the original 40 recommendations which resulted in the 1996 Recommendations and again modified the 40 recommendations in 2003 (Ping, 2004). In 2001, it developed standards in the fight against terrorist financing. Although FATF collaborates with other international bodies involved in combating money laundering and the financing of terrorism, it does not have a constitution and continues to exist through government member support (FATF, 2006). However, FATF does receive praise from some commentators for its profound impacts on the domestic laws of member states (Ping, 2004; Smellie, 2004). The key components of FATF recommendations are the criminalising money laundering and terrorism financing; establishing anti-money laundering measures by financial institutions; reporting suspicious transactions, including the financial intelligent unit; standardising for prosecution and punishment of money laundering offences and freezing and confiscation of criminal proceeds; and international cooperation (Johnston and Abbott, 2005).

The emphasis of FATF is on focussing on a jurisdiction's compliance with criteria regarding its international cooperation, regulatory framework and resource allocations. This wide-ranging focus ensures it has a pivotal influence on central bank activity and related disclosure.

There are many FATF-Style Regional Bodies; the two relevant organisations relevant for the purposes of this paper are the APG and the Council of Europe Select Committee of Experts on the Evaluation of Anti-Money Laundering Measures (MONEYVAL) (formerly PC-R-EV).

*2.3.2 APG.* Australia as a member of the APG adopts, implements and enforces internationally accepted anti-money laundering and counter-terrorist financing standards (APG, 2006). It enables regional factors to be taken into account in the implementation of anti-money laundering measures and is thus an autonomous regional body (APG, 2006). The APG assists countries and territories of the region to enact laws to deal with confiscation, extradition, forfeiture, mutual legal assistance, proceeds of crime. It helps setup systems for reporting and investigating suspicious transactions and assists in establishing financial intelligence units (APG, 2006). The APG also participates in and co-operates with the global anti-money laundering

network primarily the FATF and other regional anti-money laundering groups; carries out analysis, education and research activities to improve the understanding of the money laundering and the financing of terrorism environment and the global efforts against it; provides and co-ordinates technical assistance and training to jurisdictions in the Asia/Pacific region; and assesses APG members' compliance with the global standards against money laundering and the financing of terrorism (APG, 2006). Following the events of 11 September 2001, the APG expanded its scope to include the countering of terrorist financing. The APG conducts mutual evaluations of its members and holds a periodic workshop on money laundering methods and trends.

*2.3.3 MONEYVAL.* Ukraine is a member of the Council of Europe Select Committee of Experts on the Evaluation of Anti-Money Laundering Measures (MONEYVAL) MONEYVAL was established in 1997 by the Committee of Ministers of the Council of Europe to conduct self and mutual assessment of anti-money laundering practices (FATF, 2006).

According to Roule and Salak (2003), the first mutual evaluation by the Council of Europe's Select Committee of Experts on the Evaluation of Anti-Money Laundering Measures on Ukraine was conducted in 2000. The evaluation was very critical of Ukraine's anti-money laundering regime, particularly by the lack of an efficient system for reporting suspicious transactions to a financial investigative unit, inadequate customer identification and insufficient resources devoted to reporting suspicious transactions (Roule and Salak, 2003). As a consequence, in 2001 (the start of this study's textual analysis of the central banks' annual reports), FATF placed Ukraine on FATF's Non-Cooperative Countries and Territories (NCCT) list.

In 2002, another mutual evaluation by the Council of Europe's Select Committee of Experts on the Evaluation of Anti-Money Laundering Measures was conducted on Ukraine. Again the evaluation was condemnatory of Ukraine's anti-money laundering efforts. Ukraine had failed adequately to amend the bureaucratic, legislative and regulatory anti-money laundering frameworks. In response to the anticipated criticism, the Ukrainian Parliament (or Verkhovna Rada) introduced a new criminal code which expanded the number of money laundering drug offences and criminalised the use of illicit proceeds for legitimate business activities (Roule and Salak, 2003). FATF withdrew counter-measures against Ukraine in 2003.

*2.3.4 INCSR.* Many agencies with anti-money laundering responsibilities need to assess money laundering situations in terms of the consequences of serious crime, the steps taken to address money laundering, the country's vulnerability to money laundering, and the government's political will to take action against money laundering. For instance, the US Bureau for INCSR rates jurisdictions using a classification system consisting of three categories: "Jurisdictions of Primary Concern" "Jurisdictions of Concern" and "Jurisdictions Monitored" (BINLEA, 2006). The "Jurisdictions of Primary Concern" includes all those jurisdictions identified by INCSR as major money laundering countries whose financial institutions carry out currency transactions that involve large amounts of proceeds from international narcotics trafficking; the major criteria here is whether the amount of proceeds laundered is large rather than the amount of anti-money laundering measures taken (BINLEA, 2006). This is in contrast to FATF's criteria focus on a jurisdiction's compliance with certain regulations. Both Australia and Ukraine are "Jurisdictions of Primary Concern".



The detection of “Jurisdictions of Primary Concern” “Jurisdictions of Concern” and “Jurisdictions Monitored” is carried out with an America-centric viewpoint, particularly on the criteria affecting the US Government. Nevertheless, the theme of jurisdictions of concern is an important one because it focuses on the critical issues of critical vulnerability, the ability of money launderers to penetrate a financial system. Indeed, in terms of this vulnerability the INCSR compares actions taken by governments in terms of criminalising drug money laundering, criminalising beyond drugs, recording large transactions, maintaining records over time, reporting suspicious transactions, a jurisdiction’s financial intelligence unit, systemising for the identification and forfeiture of assets, arranging for asset sharing and monitoring of international transport of currency (BINLEA, 2006). Thus, jurisdictions of primary concern may also explain variations in the level of AMLD.

### 3. Research methodology

The analysis is performed two ways by both calculating a disclosure index and through use of textual analysis. A sample of the NBU and the RBA for the years ending 2001-2004 are collected to ascertain by way of disclosure index the extent that NBU and RBA provide AMLD and to evaluate by way of textual analysis the attitude of these central banks towards anti money laundering.

#### 3.1 Disclosure index

This study utilizes a disclosure indices technique to measure quantitative AMLD. The main advantage of utilizing disclosure indices is that the measurement allows the researcher to adjust disclosures that are not responsive to other more direct measure (Marston and Shrikes, 1991). It means that disclosure indices avoid penalizing companies for non-disclosure of items when it is not relevant for them (Cooke, 1991, 1992).

This study adapts a checklist developed by FATF (2003) of recommendations on money laundering. The recommendations apply not only to money laundering but also to terrorist financing. FAFT uses these recommendations to influence countries to take the necessary steps to bring their national systems for combating money laundering and terrorist financing.

The AMLD categories[3] are broken down into 35 specific disclosures categories (Table II) based on the 40 recommendations on anti-money laundering by FATF (2003). In measuring corporations’ quantitative AMLD practices, this study counts up and treats the components without differential weights. The unweighted approach arguably reduces subjectivity in assigning weights on each AMLD elements.

#### 3.2 Textual analysis

Carley (1993) identifies textual analysis as a way of examining texts. Textual analysis questions objectivism and relies heavily on constructivism and interpretivism (Ifversen, 2003). Constructivism asserts that knowledge and meaningful reality are constructed by human beings, and developed and communicated within a social context (Crotty, 1998). It invites the reader to search for richer meaning. The reader is not constrained by conventional meanings one has been taught to associate with an object, but invited to reinterpret that object for deeper insights. Interpretivism, based on hermeneutics, phenomenology, and symbolic interactionism, probes for culturally and historically derived interpretations of the world (Crotty, 1998) Through textual

Customer due diligence and record keeping	<ol style="list-style-type: none"> <li>1. Identifying the customer</li> <li>2. Verifying the customer's identity using reliable independent source document.</li> <li>3. Identifying the beneficial owner</li> <li>4. Verifying the identity of the beneficial owner</li> <li>5. Obtaining information on the purpose and intended nature of the business relationship</li> <li>6. Conducting continues due diligence on the business relationship</li> <li>7. Appropriate measures to determine politically exposed persons</li> <li>8. Senior management approval for establishing business relationships</li> <li>9. For politically exposed persons take measures to establish source of wealth and source of funds</li> <li>10. Gather sufficient information about a respondent institution</li> <li>11. Assess respondent institution's anti-money laundering and terrorist financing controls</li> <li>12. Document respective responsibilities of each institution</li> <li>13. Attention to money laundering threats arising from new or developing technologies</li> <li>14. Maintain at least five years of all records on transaction, domestic and international</li> </ol>
Reporting suspicious transactions	<ol style="list-style-type: none"> <li>15. Special attention to all complex, unusual large transactions</li> <li>16. Financial institutions to promptly report suspicious transaction to the financial intelligence unit</li> <li>17. Legal protection for the directors, officers and employees of financial institutions for reporting suspicious transactions</li> <li>18. Financial Institutions to develop internal policies, procedures and controls against money laundering and terrorist financing</li> <li>19. Financial Institutions to initiate ongoing employee training programmed</li> </ol>
Other measures	<ol style="list-style-type: none"> <li>20. Establish an audit function to test the system</li> <li>21. Countries to ensure effective, proportionate and dissuasive sanctions</li> <li>22. Countries to disapprove continued operation of shell banks</li> <li>23. Adoption of FATF Recommendations</li> <li>24. Special attention to business relationship with companies from countries not applying FATF Recommendations</li> </ol>
Regulation and supervision	<ol style="list-style-type: none"> <li>25. Ensure financial institutions are subject to adequate regulation and supervision to effectively implement FATF Recommendations</li> <li>26. Supervision and regulation of other non-financial businesses, e.g. casinos</li> <li>27. Competent authorities should establish guidelines and provide feedback to combat money laundering and terrorist financing</li> </ol>
Competent authorities, their powers and resources	<ol style="list-style-type: none"> <li>28. Countries should establish a Financial Intelligence Unit (FIU) that serves as a national centre for receiving, analysing and dissemination of suspicious transactions.</li> <li>29. Ensure designated law enforcement authority have responsibilities for money laundering and terrorist financing investigations</li> <li>30. Supervisors should have adequate powers to monitor and ensure compliance by financial institutions</li> </ol>

(continued)

Table II.

International co-operation	<p>31. Providing regulatory authority with adequate financing, human and technical resources</p> <p>32. Take immediate steps to become party to and implement the Vienna Convention, the Palermo Convention and the 1999 United Nations International Convention for the Suppression of the Financing of Terrorism.</p> <p>33. Provision of mutual legal assistance with respect to money laundering and terrorist financing investigations</p> <p>34. Recognition of money laundering as an extraditable offence</p> <p>35. Provide widest range of international cooperation to their foreign counterparts</p>
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analysis one may become aware of the perceptions, feelings and attitudes of others and interpret their meanings and intent (Blumer, 1969). Textual analysis finds out mechanisms that select and organise temporal and thematic links of segments of texts (Rosenthal, 2004).

In recent times, textual analysis has been used in the accounting domain to ascertain the financial milieu of certain accounting standard bodies (Brown, 2006; Brown and Shardlow, 2005). Accordingly, this paper uses both a disclosure index and textual material of the NBU and RBA for the years-ending 2001-2004.

#### 4. Analysis – disclosure index and textual analysis

##### 4.1 Disclosure index analysis

The results of the disclosure indices are shown in Table III. For the NBU, the range of the aggregated means of the six broad AMLD for the period 2001 to 2004 ranges from an aggregated mean of 0 per cent (2003) to an aggregated mean of 83.3 per cent the following year (2004). For the other two years, broad AMLD was as low as 33.3 per cent (2001) and as high as 66.7 per cent (2002). There appears, in other words, a gradual increase in means of the six broad AMLD for the NBU over the four year period except in 2003 (the year Ukraine was taken off the FATF list) when no disclosures were made.

By way of contrast, the RBA consistently scores the same aggregated low mean (16.7 per cent) for the six broad AMLD for the period 2001-2004. In other words, the RBA discloses only one of the six broad AMLD and that is in the category of international cooperation. Except for the year ending 2003, the means of the

Table III.  
Extent of AMLD by NBU  
and RBA (2001-2004)

Anti-money laundering broad disclosure categories	Anti-money laundering individualised disclosure components	2001		2002		2003		2004	
		NBU	RBA	NBU	RBA	NBU	RBA	NBU	RBA
DV (35 Categories)	DV (35 Categories) aggregated – percentage	11.4	2.9	25.7	5.7	0	5.7	34.3	2.9
Anti-money laundering DV (6 Categories)	Anti-money laundering DV (6 Categories) aggregated – percentage	33.3	16.7	66.7	16.7	0	16.7	83.3	16.7

aggregated six broad AMLD are higher for the NBU than for the RBA. Interestingly, the NBU only mentions international cooperation in the final year of the sample (2004).

In terms of the more specific 35 component AMLD for the period 2001-2004 ranges, 20 items out of the 35 AMLD components are not disclosed by either the NBU or the RBA for the entire period. The aggregated individualised AMLD shows the National Bank exceeding the RBA in all years except 2003. For the NBU, aggregated AMLD ranges from 0 per cent (2003) to 34.3 per cent (2004); for the RBA, aggregated AMLD ranges from 2.9 per cent (2002 and 2004) to 5.7 per cent (2001-2004). It would appear that the RBA generates no more than 2 out of a possible 35 AMLD a year. Both central banks disclose "International Cooperation" more than any other item. The NBU has consistently disclosed identifying customer over the four year period except, of course, in 2003.

#### 4.2 Textual analysis

The results of the textual analysis of both central banks discussion on money laundering is consistent with the results of the money laundering disclosure index.

For the RBA, very little narrative is devoted to money laundering topics in the annual reports. For the year ending 2001, text generated on money laundering appeared to locate the activity of money laundering outside Australia, as a regional problem rather than a specific Australian one. The following passage represents the total narrative by the RBA (2001, p. 38) in its annual report for the year ending 2001:

The issue of money laundering has also been high on the agenda of many countries and several international organisations this year. Australia is a member of the Asia/Pacific Group on Money Laundering which is undertaking a series of evaluations of the ability of regional centres to prevent money laundering. The RBA provided staff to assist in two of these evaluations in the past year.

This text is raised under the RBA's main heading of "Technical Assistance" providing technical assistance to other Asia-Pacific countries. Clearly, money laundering has been reduced to a distant regional priority. The RBA's token effort to provide staff to assist in money laundering evaluations is seen as an Asia/Pacific problem not a specifically Australian one.

For the year ending 2002, the RBA's discourse on money laundering slightly expands but with a focus on terrorism. This is hardly surprising given the events of 11 September 2001. Under the stand-alone heading "Combating Money Laundering and The Financing of Terrorism" the RBA (2002, p. 34) hones in on the terrorist theme and regional setting:

International financial co-operation has also aimed over the past year to improve measures to prevent financing of terrorism. This followed several years in which there were steps towards improving financial co-operation and the prevention of money laundering, including increased pressure on (and technical assistance from the IMF and other to[o]) offshore financial centres to improve their domestic regulatory environments and their interaction with regulators in the major financial markets. The RBA has been involved in these earlier steps through its membership of FSF, participation in the work of the Financial Action Task Force (FATF), and its support of the Asia-Pacific on Money Laundering.

Much of this written is, of course, a result of the United Nations resolutions on terrorism:

This work was given a new focus on combating the financing of terrorism following September 11. Later that month, the United Nations adopted Resolution 1373, which obliged

member states to freeze accounts of those individuals and organisations which had been identified as terrorists (and named as such in the Resolution). Australia's ... immediate response, action was taken under the Reserve Bank Act to implement a freeze on any such accounts and a ban on foreign exchange transactions with the entities named. These sanctions were imposed on 3 October 2001, through the Banking (foreign exchange) Regulations, and extended to further entities on 17 October and 9 November.

But as an afterthought, FATF is raised to remind readers that Australia, like many countries, is undergoing examination of its anti-terrorism and anti-laundering procedures though very little specifics of the Australian examination are given:

Further, work on combating the financing of terrorism is expected to be based on the set of Special Recommendations put forward in October 2001 by the FATF, which will in future be used by the IMF as a benchmark in its financial sector assessments. Like other FATF members, Australia has completed a self-assessment of its compliance with the Special Recommendations and is committed to their full implementation (RBA, 2002; p. 34).

As with its 2001 money laundering text, the RBA emphasises the regional context of the problem rather than the internal workings of it. Money laundering evokes international organisations: International Monetary Fund, Financial Action Task Force, United Nations, United States Administration rather than domestically linked organisations. Self-assessment on compliance with FATF's special recommendations is raised but never fully within the Australian context. It would be difficult for a reader of the RBA, 2001 Annual Report to learn that money laundering, like AIDS, is as much an Australian problem as it is a regional problem. Thus, the link between money-laundering and Australia is only indirectly made: funding, for example, of regional group The Asia/Pacific Group where money laundering seemingly happens outside Australia, rather than internally placed as the following passage demonstrates:

The RBA also provided a financial contribution to the costs of running the 2002 annual meeting of the Asia/Pacific Group on Money Laundering in Brisbane in June 2002 (RBA, 2002, p. 48)

In 2003, under the heading of "Group of Twenty" the RBA writes one paragraph on money laundering and again distances the problem of money laundering to a regional setting:

The RBA has occasionally been requested to assist the Asia/Pacific Group on Money Laundering in its mutual evaluations of member jurisdictions. These evaluations aim to identify where a member's legal, supervisory and law enforcement systems do not meet the international standards for preventing money laundering and combating the financing of terrorism. The objective is to assist members improve their systems rather than draw up a critique. During the year a member of staff participated in the evaluation of the Philippines (RBA, 2003, p. 21).

Here, the money laundering issues appears to belong to financial systems other than Australia. The RBA goes to pains to distance Australia's problems by devoting resources into the Asia/Pacific Group (once more) and the Philippines.

Finally, in 2004, under the heading "International Monetary Fund" the RBA draws on its anti-money laundering activities but only in the sense of helping other countries' money laundering problems, not Australia's:

As well as Executive Board decisions to grant assistance to countries experiencing balance of payments difficulties, other issues to which the RBA contributed in the past year included the review of the framework for granting exceptional access to IMF resources, efforts to enhance the quality and effectiveness of IMF surveillance, policies to strengthen the framework for crisis prevention and resolution, and measures to combat money laundering and the financing of terrorism (RBA, 2004, p. 2004).

Conversely, the NBU does not dismiss money laundering as some “foreign” problem but as one that requires immediate attention in its own domestic setting:

High emphasis was placed on the working out the problem concerning money supply withdrawal from “shadow” circulation to support mutual settlements between economic entities, to normalize the situation with payments and to prevent setting up and functioning of dummy firms and laundering the money obtained in a criminal way (NBU, 2001, p. 54).

Already in the 2001 text, one sees the enormity of the ML problems in a Ukrainian setting, the shadowy world of dummy companies and criminal activity. But the NBU does more than just provide an intriguing ambience of the murky underworld. It provides a catalogue of draft anti-money laundering legislation it works under with other governmental bodies to lead us to an overwhelming sense that the NBU will pull no punches in sparring with the many money laundering issues that it faces:

Issues on foreign exchange regulation and supervision were elaborated by the National Bank of Ukraine together with other executive bodies when preparing drafts of the Customs and Criminal Codes and draft laws “On Circulation of Bills of Exchange in Ukraine” “On Amendments to the Law of Ukraine” “On the Procedure of Settlements in the Foreign Currency” “On Regulation on Performing by Residents of Ukraine External Economic Operations with Non-residents from Off Shore Zones” “On Financial (S)ervices and State Regulation of Financial Markets” “On Prevention and Counteraction to Legalization and Laundering of the Gains Obtained in a Criminal Way”, etc. (NBU, 2001, p. 56).

It also takes on some of the terminology employed by FAFT: “identification of customers” and “control systems” by identifying the adoption of a specific policy to remedy money laundering practices:

Participating in the struggle against laundering of the gains obtained in a criminal way and to ensure a complex control system over identification of persons that open accounts with banking institutions and carry out business activity, the Board of Directors of the National Bank of Ukraine adopted the decision “On Strengthening Control over the Identification of Persons with whom Banks Establish Contractual Relationships” (NBU, 2001, p. 65).

In as far as the rhetoric can be believed, one also gets a sense from the NBU’s 2001 annual report, that anti-money laundering aims are given a high priority, particularly in its construction of a separate department to focus exclusively with money laundering problems:

In 2001, within the structure of the National Bank of Ukraine, the Anti Money Laundering Department and working group to prevent the legislation of the gains obtained in a criminal way whose task was to work out an anti-money laundering strategy were established (NBU, 2001, p. 81).

The NBU’s 2002 annual report continues from the lively anti-money discourse raised in the 2001 Annual Report by:

- scrutinizing foreign currency transactions that affect the Ukrainian financial system;
- learning from the anti-money laundering experiences of a developed country's central bank;
- providing information on how it intends to rid Ukraine from the shackles of FATF's non-cooperative status;
- demonstrating its anti-money laundering legislative intent;
- listing the anti-money laws; and
- outlining how key ministerial and other governmental departments would work closely with the NBU to seize upon FATF's recommendations.

Thus, the NBU's 2002 Annual Report shows much rhetorical flourish in attempting to rid the country of its money laundering difficulties, providing far more quantity and quality of information than its Australian counterpart for the same year.

However, all this full textual material ends suddenly in 2003; no mention is made of anti-money laundering initiatives by the bank. This is the year, that FATF withdrew its placement of Ukraine as a Non-Cooperative Country. It is only till one gets to the 2004 NBU 2004 Annual Report that the bank returns to the deep themes that were foremost in the 2001 and 2002 annual reports. The discussion turns from:

- criminal foreign currency transactions; to
- inspections;
- cooperation with other central banks; and
- discussions with a wide range of stakeholders.

For instance, they state:

In the year under report, the NBU held round table meetings together with executive authorities, Ukrainian banks, foreign, scientific and financial circles with respect to banking sector developments. At the meetings discussed were questions of approaching banking sector activities to the EU requirements, counteraction to laundering of the gains obtained in a criminal way and legal regulation of e-money issue and circulation (NUB, 2004, p. 86).

## **5. Implications and conclusion**

Disclosure and textual analysis were used to address two inter-related research questions: to what extent do the central banks of Australia and Ukraine provide anti-money laundering information in their annual reports; and what is the overall attitude conveyed in annual reports by the central banks of Australia and Ukraine of anti-money laundering information?

Disclosure analysis reveals that very little information about anti-money laundering information is provided in both central banks annual reports over the four year period from 2001 to 2004 although, for most years, the NBU clearly disclosed more information than the RBA. Textual analysis also showed that while the breadth and depth of the discussion of the anti-money laundering initiatives by both banks were not extensive, the NBU clearly covered more themes and issues of their anti-money laundering crusade than did the RBA.

From the literature review in Section 2, we find that the RBA and NBU come from very different cultural, economic, political and social backgrounds. Australia has a democracy, a sophisticated financial system, seemingly low corruption, membership of FATF and a British Commonwealth legacy. Ukraine has a democracy in transition, an emerging financial system, seemingly endemic corruption, no membership of FATF, and ties to the CIS. Yet for all their country background differences, both central banks face problems in their respective domestic financial systems. In terms of money laundering activities, both Australia and Ukraine have been described as “Jurisdictions of Primary Concern”.

From the analysis, we see the NBU, whose country is desperately trying to win fiscal credibility, addressing a wide sweep of issues concerning anti-money laundering, attempting to raise a high level of disclosure informativeness and regulated disclosure quality on money laundering issues. On the other hand, we also see the RBA, whose country is also labelled as a Jurisdiction of Primary Concern, communicates less about its money laundering activities, by preparing less helpful disclosure quality and low disclosure informativeness about anti-money laundering activities. In terms of the RBA attitude, this fits in well with Tadesse (2006) assessment of the Australian banking system for the period 1990-1997.

Overall, this study demonstrates that if international and multilateral organisations wish to win the war against money laundering then greater efforts will be needed for clearer communication of the key issues and what the central bank priorities and activities are for anti money laundering and terrorist financing activities.

#### Notes

1. Other regulatory influences include the Basel, IOSCO and IAIS Core Principles, and the revised Basel Capital Accord or Basel II; the Sarbanes Oxley Act in the USA; the OECD Principles of Corporate Governance; and the UK Financial Services & Markets Act 2000 and the Proceeds of Crime Act 2002.
2. Economist Intelligence Unit (2005) assesses risk by categories ranging from “A” the lowest risk, to “E” the highest risk.
3. The checklist was also analysed on a simplified AMLD index to observe disclosure/nondisclosure of environmental information by selecting six broad categories of AMLD, namely customer due diligence on money laundering, reporting suspicious transactions of money laundering, other money laundering measures, money laundering regulation and supervision, competent authorities, powers and resources on money laundering, and international cooperation on money laundering.

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