

UNIVERSITI TEKNOLOGI MARA

**MALAYSIA ANTI MONEY
LAUNDERING (AML) AND
COUNTER TERRORIST FINANCING
(CTF) MEASURES**

SITI NURWANY BINTI ISMAIL

Dissertation submitted in partial fulfillment
of the requirements for the degree of
Master in International Relations and Diplomacy

**Faculty of Administrative Science and Policy
Studies**

June 2019

ABSTRACT

Terrorism has become one of the most important threats today, not only because of the acts themselves, but because of the complex instruments that are used in order to put these actions into practice. Among them, the financing of terrorism has developed more diversified and increasingly complex facets, with various channels that terrorists use in order to launder funds and finance these actions. In order to better combat money laundering and terrorist financing, the Financial Action Task Force (FATF) was created, with a set of 40+9 recommendations that states should apply in order to address this pressing and potentially dangerous issue. States are evaluated among each other, in geographic groups, with the resulting mutual evaluations serving as a basis for compliance analysis. I propose to look at how money laundering and terrorist financing activities impact the level of implementation of FATF recommendations. I began by collecting a set of data reflecting the level of implementation of FATF recommendations to assess the effectiveness of anti money laundering and counter financing of terror efforts as determined by AML/CTF professionals to the Malaysia AML/CTF framework. The markers are Robust Regulatory Framework; AML Legislation Enforcement; AML Legislation Awareness; Private Sector Commitment and Cooperation; and Transparency. The analysis chapters attempts to measure these criteria using a variety of sources, various regulatory documents and policies enacted by Bank Negara Malaysia and other Malaysia bodies; expert opinion when available; and other materials from both official bodies and the country's media. The findings show generally uneven progress and sometimes-inconclusive results.

ACKNOWLEDGEMENT

Alhamdulillah, for the sake of Allah the All Mighty, the Most Compassionate, The Most Merciful and the Most Gracious, praise to Allah, the one and the only, for giving the quality, patient and ability to complete this dissertation. Not only that, this dissertation may not be able to complete without any support from the others like parents, lecturers and friends.

In the first place thing to start with, I would like to say thank you to Mrs. Asiyah Kassim for her most support and encouragement. She had guided me from scratch to the root regards to this dissertation. I thank her for giving me the chance to work under her supervision. Furthermore, I would truly to thank to my parents, families, and friends, who are unending support me in term of thought and money related guide. The output of this research would not be an achievement without any help from them.

I also would like to thank all the Universiti Teknologi Mara Shah Alam students and staffs, especially in Faculty of Administration Science and Policy Studies (FSPPP) for their dedication in completing this dissertation.

More or less, my thankfulness reaches out to all people who have contributed either direct or by implication in guaranteeing the achievement of this dissertation.

Thank you.

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CHAPTER ONE

INTRODUCTION

1.1 Research Background

The international community is undergoing rapid political, social and economic development. The use of modern technology has facilitated transportation and communications, and has made the world a small village. Although these developments have brought about positive outcomes globally, they have however, impacted the financial system exposing it to abuse from organised criminals. One of the major abuses of the world financial system is money laundering.

According to the 1998 Vienna Convention, money laundering involves the conversion or transfer of property, with the knowledge that property is derived from an illegal activity, or from participation in such an illegal activity. The purpose of this activity is to disguise the illicit origin of the property, or to assist any individual who is engaged in such an activity to dodge any legal consequences of his or her actions (cited in Mitsilegas, 2003). Of late, money laundering has been used to support terrorist activities. The World Bank cites financial terrorism as the 'financial support, in any form, of terrorism or those who encourage, plan or engage in terrorism' (World Bank, 2009, p. 88). Money laundering and terrorism financing are closely related because the techniques used to launder money are practically similar to those employed in concealing the sources and applications of terrorist financing. This is a point supported by Schott (2006), who states that there is a close link between money laundering and terrorist financing, as the methods used in money laundering are similar to those used in concealing the sources of terrorist financing. Whether the source of terrorist finance is legitimate or illegitimate, terrorists conceal their sources thereby achieving continuity in financing and blocking detection.

The increase in the number of money laundering crimes is increasing, despite the growing efforts to stop it. These increases highlight the need to control such criminal activities at an international level through the sharing of intelligence between countries. Further, funds for terrorists raised from money laundering are also a big threat to global peace. As a result, Malaysia has taken several measures to combat both crimes. Malaysia has participated in many bilateral and regional agreements relating to combating money laundering and terrorism financing. This includes the adoption of regulations set by the international financial advisories