



# **CARIBBEAN FINANCIAL ACTION TASK FORCE**

## **TYPOLOGY REPORT**

**NOVEMBER 21<sup>st</sup> 2008**

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**The Caribbean Financial Action Task Force (CFATF) is an organisation of thirty states of the Caribbean Basin , which have agreed to implement common countermeasures to address the problem of criminal money laundering. It was established as the result of meetings convened in Aruba in May 1990 and Jamaica in November 1992.**

**In Aruba representatives of Western Hemisphere countries, in particular from the Caribbean and from Central America , convened to develop a common approach to the phenomenon of the laundering of the proceeds of crime. Nineteen recommendations constituting this common approach were formulated. These recommendations, which have specific relevance to the region, are complementary to the additional forty recommendations of the Financial Action Task Force established by the Group of Seven at the 1989 Paris Summit.**

**The Jamaica Ministerial Meeting was held in Kingston , in November 1992. Ministers issued the Kingston Declaration in which they endorsed and affirmed their governments' commitment to implement the FATF and Aruba Recommendations, the OAS Model Regulations, and the 1988 U.N. Convention. They also mandated the establishment of the Secretariat to co-ordinate the implementation of these by CFATF member countries.**

**The main objective of the Caribbean Financial Action Task Force is to achieve effective implementation of and compliance with its recommendations to prevent and control money laundering and to combat the financing of terrorism. The Secretariat has been established as a mechanism to monitor and encourage progress to ensure full implementation of the Kingston Ministerial Declaration.**

**Currently, CFATF members are Antigua & Barbuda, Anguilla, Aruba, The Bahamas, Barbados , Belize , Bermuda, The British Virgin Islands, The Cayman Islands, Costa Rica , Dominica , Dominican Republic , El Salvador , Grenada , Guatemala , Guyana , Republic of Haiti , Honduras , Jamaica , Montserrat, The Netherlands Antilles, Nicaragua , Panama , St. Kitts & Nevis, St. Lucia , St. Vincent & The Grenadines, Suriname , The Turks & Caicos Islands, Trinidad & Tobago, and Venezuela .**

**Representatives of the Governments of Canada, the Kingdom of the Netherlands, France, The United Kingdom, and the United States of America (the "Cooperating and Supporting Nations"), meeting together in San Jose, Costa Rica, 9-10 October, 1996, considered the work of the Caribbean Financial Action Task Force (the "CFATF") since 1990, the benefits of effective implementation of mechanisms to prevent and control money laundering, and the need for expertise and training, and cooperation among Nations to assure such implementation in the Caribbean region.**

**The Cooperating and Supporting Nations are members of the Financial Action Task Force on Money Laundering (the "FATF") and as such are committed to the 1988 UN Convention Against Illicit Traffic in Narcotic Drugs and Psychotropic Substances and to the implementation of the 40 FATF Recommendations concerning anti-money laundering measures.**

**The Cooperating and Supporting Nations recognize the relationship between the work and objectives of the FATF and the work and objectives of the CFATF. Accordingly, these Nations are committed to making such contributions to the work and/or resources of the CFATF as are permitted by their respective national laws and policies.**

**At Council of Ministers Meetings in October 1999 and October 2000, both Spain and Mexico respectively joined the CFATF Group of Cooperating and Supporting Nations.**

**The CFATF Secretariat monitors members' implementation of the Kingston Ministerial Declaration through the following activities:**

- Self-assessment of the implementation of the recommendations.**
- An ongoing programme of Mutual evaluation of members.**
- Co-ordination of, and participation in, training and technical assistance programmes.**
- Biannual plenary meetings for technical representatives.**
- Annual Ministerial meetings .**

**Money laundering is growing rapidly and subject to ever changing techniques. Since February 1996, the CFATF has been conducting a number of Typology Exercises on money laundering with the aim of increasing awareness of the attendant risks to the region. These exercises allow for the sharing of information collated by various bodies involved in combating money laundering.**

**These exercises have explored money laundering activity in Domestic Financial Institutions; the Casino and the Gaming Industry; through International Financial Transactions conducted in both Domestic and Offshore Institutions and the Emerging Cyberspace Technologies.**

**Given ongoing negotiations for the establishment of a Free Trade Area between the Caribbean and Central America and the objective of a Free Trade Area of the Americas by 2005, the CFATF in October 2000 conducted Part 1 of a Typology Exercise into the money laundering possibilities in the Free Trade Zones. Part 11 will be undertaken during March 2001. The goal of this particular initiative is the development of a Model Free Zone Compliance Programme and a Code of Conduct. As a first step, the Exercise led to the formulation of Money Laundering Prevention Guidelines or CFATF Member Governments, Free Trade Zone Authorities and Merchants.**

**In April 2002, the CFATF and GAFISUD, the Financial Action Task Force of South America organized in Tobago , Trinidad & Tobago, a Joint Hemispheric Typology Exercise on Terrorism and Terrorist Financing.**

**In furtherance of its mandate to identify and act as a clearing house for facilitating training and technical assistance needs of members, the Secretariat works closely with regional Mini-Dublin Groups, the diplomatic representatives of countries with interest in the region, in particular Canada, France, Japan, the Netherlands, the**

**United Kingdom, and the United States, and, finally, international organisations. Included among these international organisations are OAS/CICAD, CARICOM, the Caribbean Customs Law Enforcement Council (CCLEC), the Caribbean Development Bank (CDB), APG Secretariat, The Commonwealth Secretariat, E.C./E.U., E.C.D.C.O., ECCB, FATF Secretariat, GAFISUD, GPML, IADB, INTERPOL, OGBS, Jersey, the United National International Drug Control Programme (UNDCP) and World Customs Organization (WCO).**

**With the support of and in collaboration with UNDCP, the CFATF Secretariat developed a regional strategy for technical assistance and training to aid in the effective investigation and prosecution of money laundering and related asset forfeiture cases. The development of this regional strategy by UNDCP/CFATF parallels and is being closely co-ordinated with similar initiatives by the European Commission and efforts arising from the Summit of the Americas Ministerial in Buenos Aires .**

**The CFATF Secretariat is hosted by the Government of Trinidad & Tobago. The CFATF Chairman is Mrs. Janet Harris, Financial Secretary, Ministry of Finance, St. Kitts and Nevis W.I.**

**Calvin E. J. Wilson, the CFATF Executive Director, is a national of Trinidad and Tobago , and a member of the Bar of England and Wales and Trinidad and Tobago . He was a former Senior Crown Prosecutor in the United Kingdom for eight years and is a member of Lincoln 's Inn .**

## **INTRODUCTION**

As part of its 2007/2008 Work Program, the **CFATF during the Costa Rican period as Chair**, undertook a new typologies exercise. The first phase of this work, including the discussion, selection and standardization of thirteen cases from eight jurisdictions, is now complete and the results are presented herein.

## **BACKGROUND**

Since February 1996, the CFATF has been conducting a number of Typology Exercises which allow for the sharing of information collated by various bodies involved in the fight against money laundering with the aim of increasing awareness of the attendant risks to the Caribbean Basin Region. These exercises have explored money laundering activity in Domestic Financial Institutions, the Casino and Gaming Industry, through International Financial Transactions conducted in both Domestic and Offshore Institutions and the Emerging Cyberspace Technologies.

During 2000/2001 the CFATF explored the money laundering vulnerabilities in the Free Trade Zones which led to the formulation of the Money Laundering Prevention Guidelines for CFATF Member Governments, Free Trade Zone Authorities and Merchants and a Model Free Zone Compliance Programme and a Code of Conduct. Further work on the Free Trade Zones as a logical follow through from the 2000/2001 Exercises is in progress and the Project Report should be ready by end of 2008 subject to positive responses from one of the CFATF's traditional donor partners and will be included the 2009 version of the CFATF Typologies Publication.

Chairman Torres Castro, in recognition of the importance of a CFATF Typologies Publication on regional AML/CFT methods and trends to public education and awareness raising initiatives and the overall strengthening of regional capacity to effectively combat trans-national organized crime and the financing of terrorism, has included this project as an important pillar in his Work Programme for 2007/2008. The goal is to compile, prepare and periodically disseminate a publication on the development of AML/CFT methods and trends in the Caribbean Basin Region.

The CFATF Typologies Publication has the potential to provide valuable input for the development of policies, plans and strategies in each CFATF Member country on AML/CFT matters and allows for the CFATF to contribute to the adaptation of the international AML/CFT standards in light of the changing techniques of regional criminal organisations and those who finance terrorism.

The central and active involvement of the delegates to the Heads of Financial Intelligence Units Forum has been and would continue to be critical to the ongoing success of this project and this contribution should be recognised and applauded. The May 2008 Forum, provided a timely launch pad for embarking on initial discussions and the creation of a CFATF Typologies Working Group, whose members, Panama (Chair), Bermuda, British Virgin Islands, Costa Rica, Dominican Republic, El Salvador, Guatemala, Honduras, Jamaica and St. Kitts and Nevis met in Panama City, Panama, during July 24-25 2008 for its inaugural meeting which led to the selection of thirteen typologies as the basis for the first issue of the Typology Publication.

Members of the Typologies Publication Working Group must be congratulated for their efforts in the initial steps towards the implementation of this important aspect of the 2007-2008 Work Programme.

The thirteen typologies generated by the CFATF Typologies Working Group thus far and the additional data that is to be supplied by Members could assist in determining which topics will be selected for exploration during the Joint FATF/CFATF Typology Exercise during **November** 2009 and would allow for contributions from the CFATF which would be substantial and meaningful to both Regional and International stakeholders.

These thirteen Case Studies that have been collated thus far and outlined below demonstrate four examples in the use of wire transfers with an admixture of breach of trust by employees and the commingling of illicit funds with the operations of genuine businesses; two examples of human trafficking through non profit organisations; one case each of abuse in the casino and gaming sector; the free trade zone facilitated by customs brokers, lawyers and businessmen; the use of a non profit organisation to channel illegal funds to political campaigns; the use of extortion techniques; the abuse of credit card facilities by legitimate business to facilitate currency conversion and cross border smuggling; a fraudulent lottery scheme; and finally corruption by a government employee.

The data below also provides a particular analysis of Money Transfer Businesses in Costa Rica which provides helpful guidance on warning signals in order to prevent abuses **and the involvement of Employees, Wire Transfers, Credit Card transactions and Free Trade Zones in anti money laundering activities.**

## **CASE STUDIES- OVERVIEW**

### **EMPLOYEES**

**Two of the cases involved employees at a private sector establishment and a government department.**

**In the former case, the key indicators were a bank employee with considerable responsibilities, who had acknowledged in writing that she had received extensive anti money laundering training at two financial institutions, training which may have allowed her to circumvent the insufficiently robust internal controls at the institution where the illegal activities were perpetrated. Despite her training she maintained known drug trafficking connections associations on whose behalf wire transfer transactions to recipients in two jurisdictions one of which was a well known drug producing country.**

**In the latter case, the employee worked at a government department which had a well known reputation for endemic corruption by its officers. The employee enjoyed a lifestyle which involved valuable real estate dealings and investments in the capital markets which were not commensurate with his monthly salary, which accumulated without withdrawals. A significant feature was the fact that whilst he was at work, a large number of deposits to his accounts were made by third parties at various Electronic Teller Machines which were not in close proximity to his workplace.**

## **WIRE TRANSFERS**

**Eight of the cases involved the use of wire transfer facilities to conceal illegal proceeds which were associated with corruption and in order to evade detection by authorities were transmitted in amounts which were below the reporting threshold. In some cases the illegal funds were sent to open foreign bank accounts as well as to accounts and addresses which were different from the holder of the account.**

**There have been instances where legitimate structures such as non profit organisations were improperly used to divert public funds, to engage in activities which were not part of the normal business of the organisation such as to transfer of funds to political parties, engage in the trafficking of human beings and to conceal illicit proceeds.**

**Other criminal enterprises involved the use of nominees, trustees, family members or third parties and the purchase of high value goods such as real estate, identity fraud and the use of false identification and the use of the internet i.e. encryption, payment systems, online banking.**

**Investigations have also shown that the large size and frequency of the wire transfers were not in keeping with the profiles of the individuals who were involved in the illegal activities. In some cases law enforcement officials were provided with assistance from the media which carried information on individuals who were involved in illegal acts.**

**Law Enforcement officials have identified the following warning signals which could point to illegal activity;**

**A large number of transfers made in a short time;**

**Remittances without any obvious family or obvious business relation;**

**Daily cash deposits and withdrawals to a considerable value;**

**Operations initiated in high risk area;**

**Currency exchange/cash conversion;**

**Criminal knowledge of and response to law enforcement/ regulations**

**Currency exchanges/cash conversion**

**Cash couriers/currency smuggling**

## **CREDIT CARD TRANSCATIONS**

**On significant case involved credit card transactions totalling US\$281,291.00 being credited to the account of a travel agency which involved the use of credit cards, issued by specific financial institutions in foreign jurisdictions, domestic bank accounts, cheques, promissory notes, shell companies/corporations, nominees, trusts,**



**family members or third parties. No prosecutions resulted in the case because the manager of the travel agency was kidnapped and murdered.**

## **FREE TRADE ZONES**

**Over a five month period the sum of US\$13,400,000.00 was transported across the borders of three countries on commercial flights by a gang of eleven who declared the sums to Custom authorities and thereafter passed the funds over to other operatives connected with companies in the Free Trade Zones. The scheme involved professionals such as custom brokers, lawyers and businessmen with cash payments to companies based in the Free Trade Zones.**

**In order to assist in combating these recognised vulnerabilities the CFATF Ministers on March 29<sup>th</sup> 2001 authorised the issuing of Money Laundering Prevention Guidelines For CFATF Member Governments, Free Trade Authorities, and Merchants which is included in this Publication.**

## **NEXT PHASE**

Based upon discussions with other CFATF Members it seems clear however that there is much more information that is available which could be utilised to construct a more fulsome picture of the methods by which criminal enterprises conduct their nefarious activities in the Caribbean Basin Region, **which could be included in the second edition of the Typologies Publication.** The information generated for this Typologies Publication would prove a valuable tool for the engagement of private sector elements such as the Designated Non Financial Businesses and Professions that are required to play critical roles in protecting our Region from criminals and terrorists. The reputation of the Region pivots on the vigorous involvement of all stakeholders in building strong defensive mechanisms.

All Members who have not submitted cases thus far are encouraged to share their data with the Secretariat on an urgent basis because of the following initiative which has been set in motion.

The Netherlands will hold the FATF Presidency during 2009-2011. Based upon informal discussions with representatives of the Netherlands, the FATF Secretariat and the Executive Director at the recent October 2008 Plenary meeting in Brazil, a tentative proposal was put forward for a Joint FATF/CFATF Typology Exercise during October 2009 with the understanding that Ministers will have to formally consider and endorse the project at the November 2008 Ministerial in St. Kitts and Nevis. The proposed Joint Typology Exercise will be in keeping with similar exercises with other Associate Members/FSRBs, and presents a valuable opportunity that should be embraced by the CFATF. **Ministers have approved the proposal and the Secretariat has commenced preparations accordingly.**

Chairman Torres Castro is to be congratulated for the inclusion of this initiative in the Work Programme for 2007-2008. Also to be congratulated are members of the Working Group for making this first draft issue of the CFATF Typologies Publication a reality.

## CASE STUDIES

### **Case Study One:**

The case involved breach of trust by a bank employee with extensive AML/CFT training who had connections with a known drug dealer and his associates and who was able to convert criminal proceeds using wire transfers and bank drafts by circumventing internal procedures which were not sufficiently robust.

### **Details**

A is an early twenties single parent who worked for about two years in a retail bank and received substantial anti money laundering training which was augmented by further anti money laundering training at another institution where the criminal activity was perpetrated. At both institutions, A had signed off on the training received, indicating that she understood the materials.

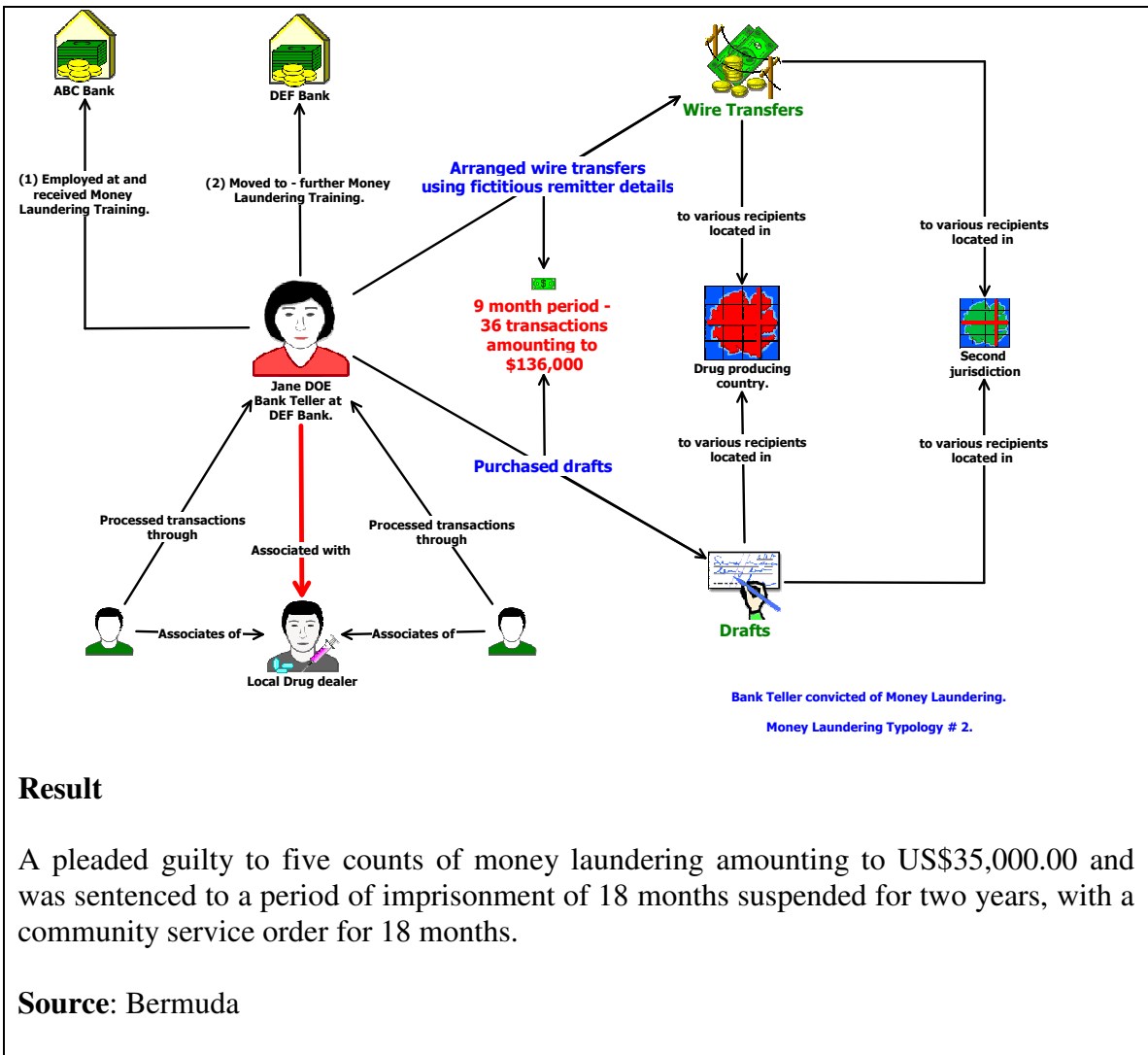
After just over one year, A was the subject of several internal Suspicious Activity Reports, one of which was subsequently filed with the local Financial Intelligence Unit.

As a result of Production Orders and investigations, A, although not living extensively beyond her means, was able to pay off debts, meet other financial responsibilities and was shown as having close associations with a known local drug dealer.

A did not follow internal bank policies and procedures in conducting transactions, used the identification and password of a fellow employee to enter wire transactions into the bank's computer system which also included fictitious sender details and on some occasions A's own name was used but with a false address.

A was arrested on suspicion of money laundering and search of a personal locker revealed two bank drafts executed just before arrest valued at US \$12,000.00 and made in favour of recipients located in two jurisdictions one of which is a well known drug producing country.

A's modus operandi entailed processing wire transfers and bank draft purchases for various customers who did not hold accounts at the bank, and were operating on behalf of the local drug dealer. Many of the transactions were kept around US\$3,000.00 and A would subsequently receive 10% of the value of each transaction. Over a nine month period 36 wire transfer and bank draft transactions were conducted involving a total of US\$136,000.00.



## Result

A pleaded guilty to five counts of money laundering amounting to US\$35,000.00 and was sentenced to a period of imprisonment of 18 months suspended for two years, with a community service order for 18 months.

**Source:** Bermuda

## **Case Study Two**

The abuse of a legitimate corporate structure by its beneficial owner using the services of a management company for the purpose of evading corporate tax liability, through cross border wire transfers.

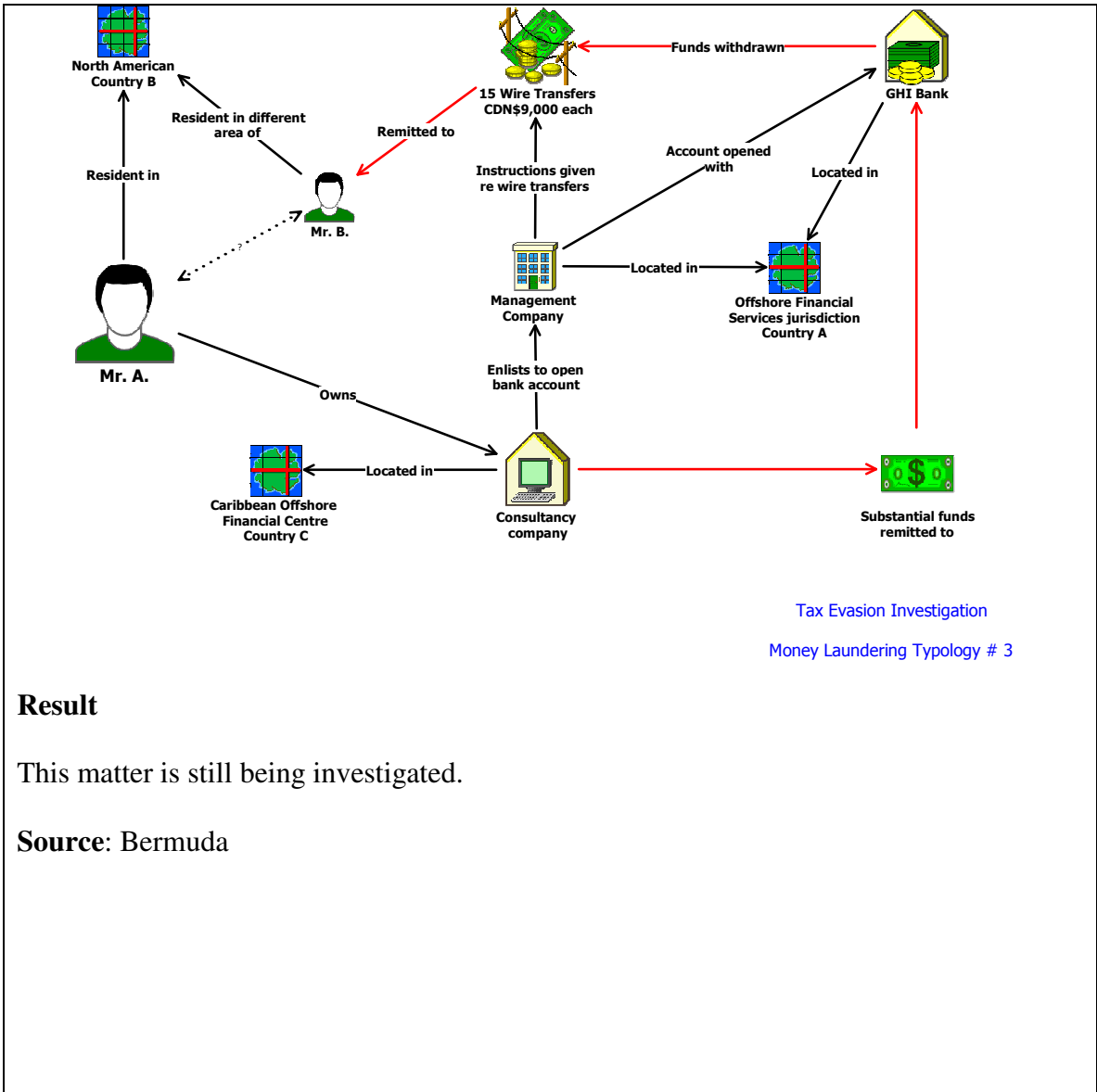
### **Details**

Country I is a small offshore financial services jurisdiction. A resides in Country II, and is the beneficial owner of a consultancy company incorporated in another small offshore financial services Country III. Soon after incorporating this company, A enlisted the assistance of a management company to open a corporate account with a local retail bank in Country I and a Euro Call Deposit account was opened with a substantial deposit originating from Country III.

Activity in this account appeared normal for a short period after which time an agent from the management company sent a letter to the bank with instructions to debit the account and generate fifteen (15) wire transfers of Cdn\$9,000 each on a number of specified dates within a one month period, four (4) of which were to be made on three (3) consecutive days. The wire transfers totalling Cdn\$135,000.00 were sent to the same beneficiary, a couple with an address in a different part of Country II than that of A. None of these funds were sent to the account holder.

The Money Laundering Reporting Officer/Compliance Officer filed a Suspicious Activity Report with the local Financial Intelligence Unit. The amounts being sent were below the reporting threshold, and were sent to a different account and address from the holder of the account. Additionally, this was not the first time that this request was made by the management company on behalf of the consultancy company.

Country I, an Egmont Group member fully utilised Egmont's Principles of Information Exchange, and spontaneously shared the details with its counterparts in Country II, where the subject was of interest for tax evasion matters. The funds apparently were deposited by a handful of different companies in Country II in order to evade that jurisdiction's tax legislation.



**Result**

This matter is still being investigated.

**Source:** Bermuda

### **Case Study Three**

Illegal money transfers generated from betting shops and (sport books)/gaming carried out through money remittance houses using various beneficiaries and remitters between the ages of 18 and 25 years, as well as persons of limited resources, mainly immigrants without means of subsistence.

The proceeds of fraudulent activity by con men operating by telephone who inform their victims that they have won a “prize” and who in order to obtain the prize, must deposit a certain sum in a specified account, for payment of taxes on the prize.

#### **Details**

A group of persons suspected of carrying out activities that might fall under the heading of money laundering need to transfer abroad (Country I) part of the proceeds of their illegal activities.

One member of the supposed criminal group who lives in Country II contacts various persons of humble origin, young, either local or foreign, pensioners or housewives willing to lend their names for transfer or receipt of remittances, in exchange for a commission for each operation (6 persons).

Names, identification data and telephone numbers of the persons contracted by the member of the criminal organisation in Country II are sent to the criminal group in Country I. Likewise, the member of the gang in Country II provides the persons lending their names for the operation with information about the remitter.

The criminal organisation in Country I, over a short period and from several agencies of the same transfer company, makes 40 transfers of US \$1,900.00 each, to 6 beneficiaries in cities in Country II.

When the beneficiaries, withdraw the money in Country II, they are met outside the remittance agency by a member of the local gang, who takes the money and pays the commission.

[chart pending]

#### **Result**

The concerned individuals have been prosecuted and other cases are being investigated.

Source: Costa Rica

## Case Study Four

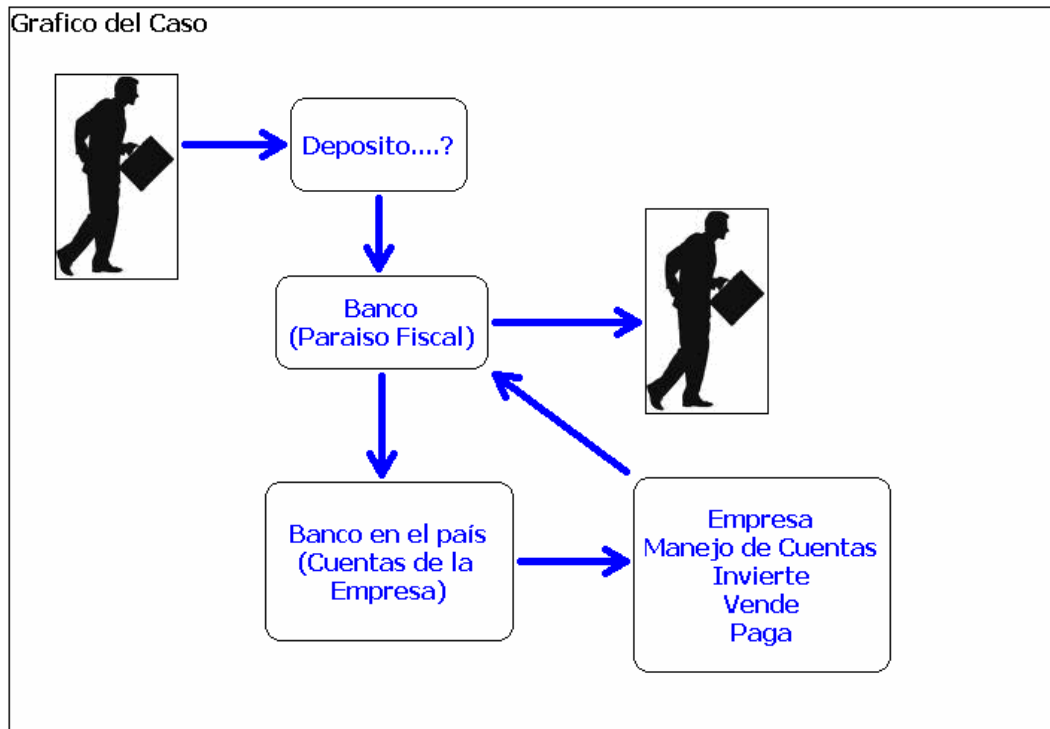
Drug trafficker concealing illegal proceeds by using wire transfers to open an account in a foreign bank, by purchasing real estate, motor vehicles and other high valued goods, and by investing in businesses through which illegal proceeds were laundered.

### Details

A, a drug dealer was arrested by the competent authorities when attempting to traffic 1318 kilos of cocaine.

Subsequent investigations revealed that A had deposited illegal proceeds in a bank in Country I then opened a savings account (*high-interest deposit account with immediate access*) with the money deposited. A requested a loan guaranteed by the same savings account and contracted a local company to manage the account, invest the money, sell and pay off the loan in the bank located in Country I. (The business of this firm was the construction of high-rise apartments).

A also owned vehicle dealerships, petrol stations, farms, villas, yachts, helicopters and a number of other assets which were used to conceal his ill-gotten wealth.



**Result**

A has been extradited to the USA, and the assets have been confiscated.

**Source:** Dominican Republic

**Case Study Five**

A criminal gang in the business of extortion used the bank accounts of family members to conceal illegal proceeds which were in excess of anticipated deposits based on the profiles of the accounts.

**Details**

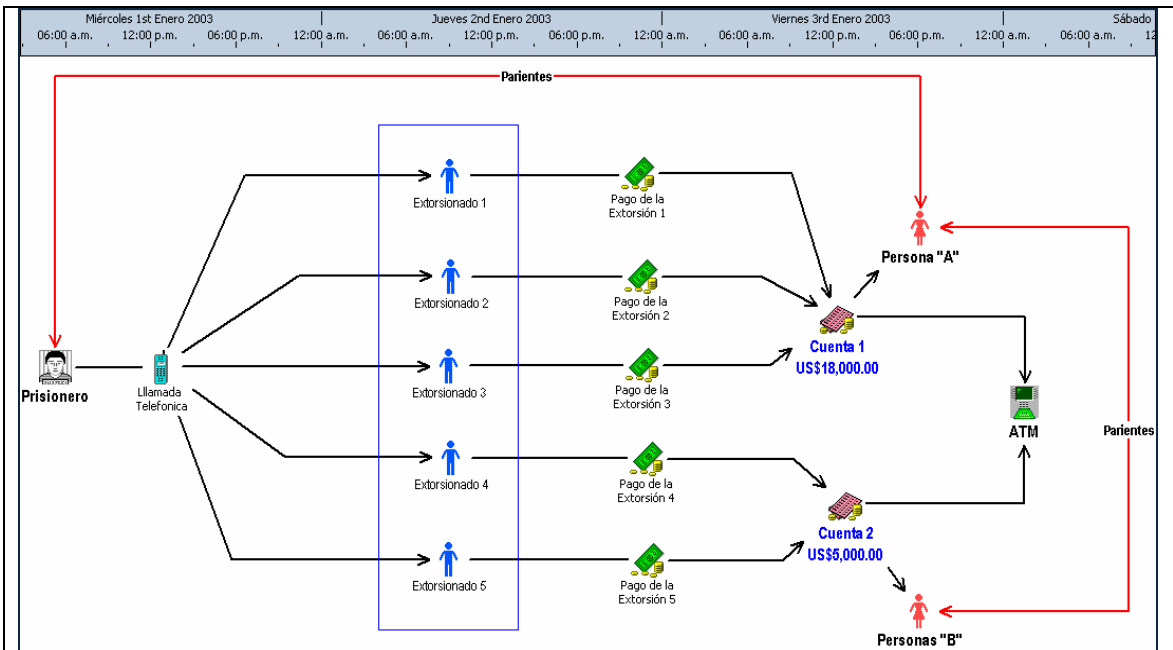
Country I is experiencing a serious problem of proliferation of criminal gangs.

A who was a member of a criminal gang, by means of telephone calls, extorted money from various persons, threatening and coercing them to make deposits to accounts in the names of B, A's wife and C a relative of B.

Deposits received in these accounts ranged from US \$400.00 to US \$2,000.00, and were then immediately withdrawn from ATMs. The total amount involved was US\$23,000.00.

C, according to the bank's opening of business form earned a salary US\$250.00 per month.





## Result

A was convicted of money laundering and imprisoned.

Source: Guatemala.

## Case Study Six

Professionals and family members using a Non Profit Organisation for the trafficking of children through illegal adoptions with the illegal proceeds being moved by wire transfers. The profiles of the individuals were out of step with the size and frequency of the transfers. Press advertisements revealed the illegal activity.

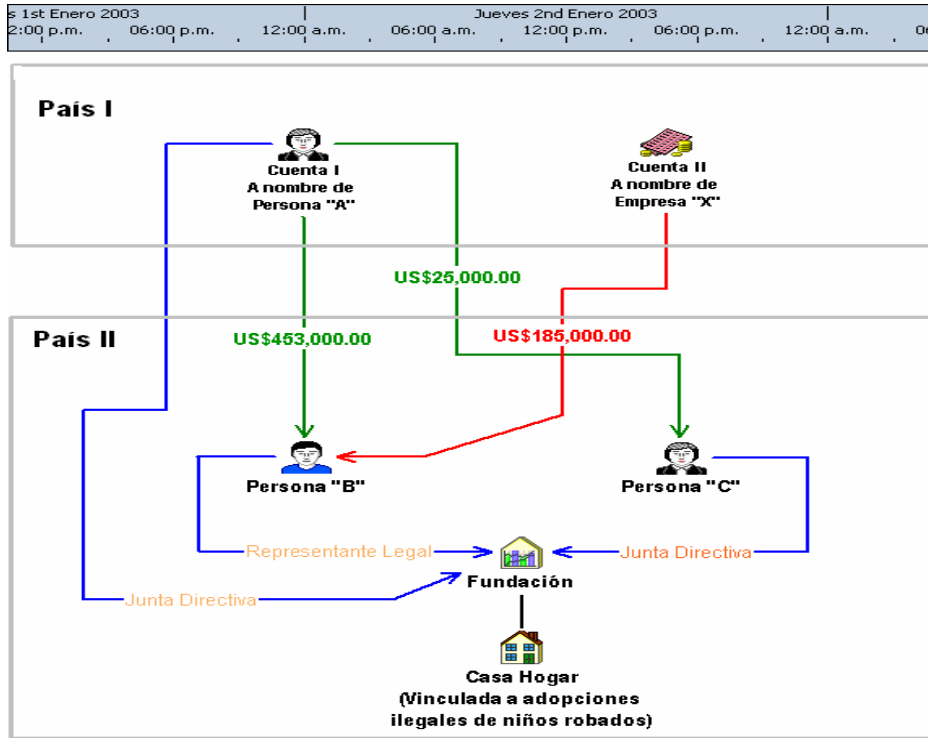
### Details

The proliferation of adoptions in Country I is reaching crisis proportions because of lax notary procedures and has turned it into a very lucrative business for notaries, children's homes and surrogate mothers.

From two accounts in Country I, one in the name of A, and the other in the name of company X, a child adoption agency, several transfers were made, totaling US \$ 663,000.00 which were deposited into three accounts, two in the name of B totaling US \$ 638,000.00 and one in the name of C for US \$ 25,000.00. The account holders are, respectively A's husband and sister.

B, of foreign origin, is the legal representative of a Foundation for the provision of social assistance and guidance to families as well as national and international adoptions through a children's home, based in an area of Country II frequented by tourists. A and B, are members of the Foundation's board of directors. A and C, are notaries.

Through advertisements in the press, links were established between A and B and the children's home, with suspicion of connections to the illegal adoption of stolen children.



**Result**

Children's home raided and two individuals detained.

**Source:** Guatemala

**Case Study Seven**

Corruption at a government agency using wire transfers and cheques in order to channel funds to political parties during elections through a non profit organization which was

engaged to provide services not within its capacity.

## Details

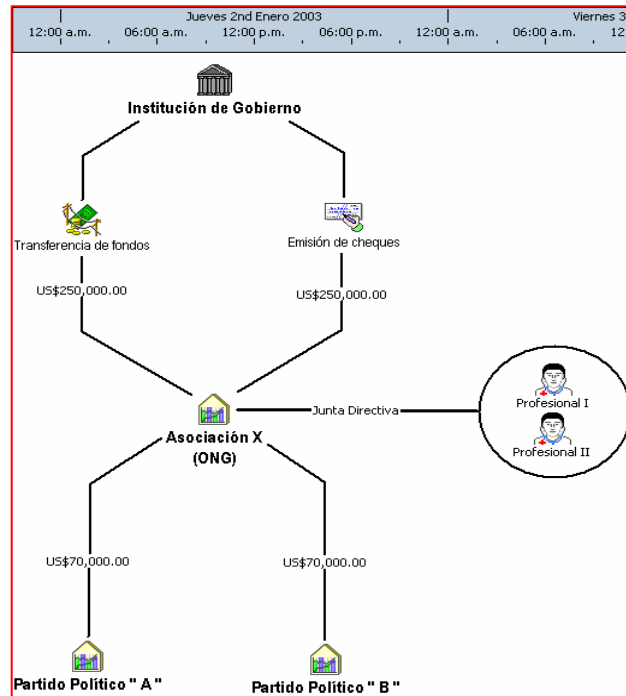
Political parties W and X in Country I were engaged in Presidential and Congressional election campaigns.

Y is described in its constitutive document as a non-profit association for total human development. Its objects are social services to the population and implementation of health and education projects. The majority of Y's Board of Directors is composed of health professionals.

The functions of Government agency Z are mainly financial and a Task Force was formed, for the purpose of analysing, promoting and implementing actions conducive to administrative and financial improvement of the agency.

This task force contracted Y to provide advice on the needs of the agency and to propose structural and organisational reforms. For this purpose Government agency Z pays Y, by means of a transfer and cheques, a total of US \$500,000.00.

Two days after the receipt of the money, Y issues two cheques totaling US \$70,000.00 to political Party W and Political Party X, which were engaged in election campaigning.



**Result**

Money laundering conviction

**Source:** Guatemala

**Case Study Eight**

A and B, a married couple, had made a large number of wire transfers totaling \$55,390.00 over a period of six months which was high in comparison with their account profile. The transfers were made from an area considered to be high risk and the recipients were various persons in the border areas in other countries. The geographic pattern linked the transfers to the illegal traffic in persons. The illegal proceeds were used to purchase real estate and high valued goods such as vehicles.

**Details**

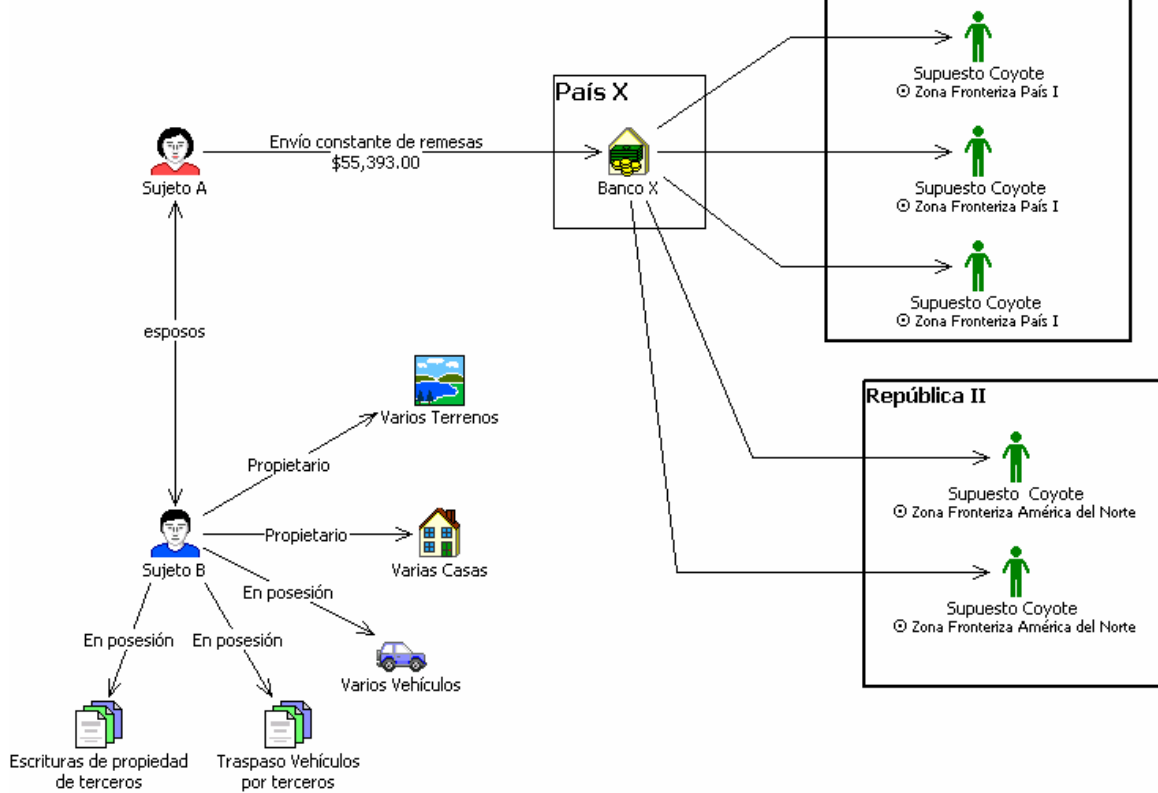
A and B over a period of six months, made 40 transfers totaling \$55,390.00 to persons in various border areas of Republics I and II to beneficiaries who had no apparent family or obvious legal business relationship with A and B.

Bank X, the reporting institution to the Financial Intelligence Unit, maintains an account for a remittance company. The transfers by A and B were made from a branch of the remittance company in an area considered high risk for the transit of drugs and showed a geographic pattern of travel by the persons concerned to another country.

Furthermore A and B held four (4) accounts in different banks with balances of up to \$20,000.00 into which deposits were made on a daily basis and from which withdrawals, transfers and the purchase of dollars were conducted. The source of these funds could not be determined.

At the couple's home documentation was found concerning houses, lands and transfer of vehicles that turned out to belong to customers who had moved to Republic II.

## Gráfica de Tipología



## Result

The Ministerio Público (Public Prosecutor's Office) took the case to trial. A and B were convicted of money laundering, with the predicate offence of illegally trafficking in persons. Approximately \$20,000.00, in cash as well as various dwelling houses and several vehicles were confiscated.

**Source:** Honduras

## Case Study Nine

Frequent deposits being made to the investment account of a government employee who was not known to be involved in any business venture.

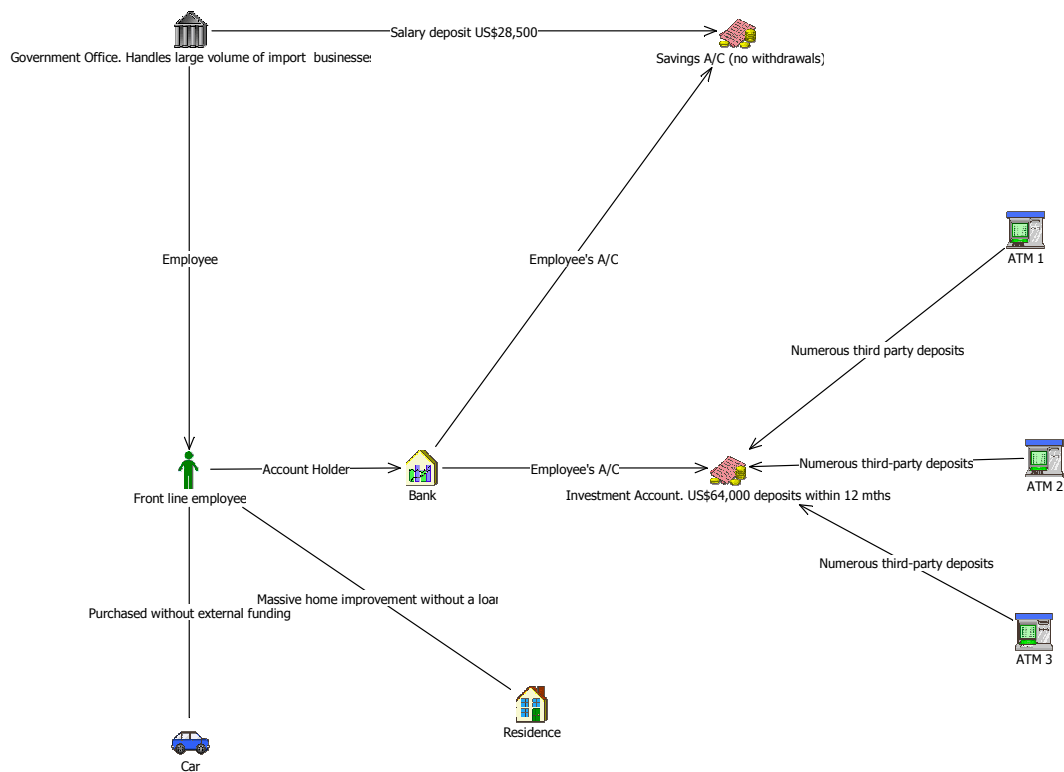
## Details

In late 2007, the FIU received a Suspicious Transaction report from a financial institution on A, an employee of a government department, known for endemic corruption on the

part of some of its officers. The report noted that large and frequent deposits were being made to A's investment account. The deposits were mostly made by way of Electronic Teller Machines not closely located to A's workplace, during A's working hours, and largely by third parties. Within a one (1) year period, in excess of US\$64,000 was deposited to the account. A's salary for the same period was less than US\$28,000, and was deposited to a separate account and left to accumulate without any withdrawals being made.

The initial investigation revealed that A had made substantial improvements to his dwelling house without any external financing, during the period under review.

Preliminary investigations have not revealed any additional legitimate source of income.



## Result

Customer Information Orders and Disclosure Orders are in force on several financial institutions, including the mortgage company. These Orders have revealed the existence of other accounts and other real estate transactions.

**Source:** Jamaica

## **Case Study Ten**

The Jamaica International Lottery/Sweepstakes is an organised fraudulent scam principally operating out of the city of Montego Bay, St. James. Fraudsters obtain the personal information of elderly United States citizens who purchase legally registered lottery games and then trick the victims into believing that they have won the lottery and need to make certain mandatory upfront fees, representing the cost of insurance, taxes, etc before the winning cheque is forwarded.

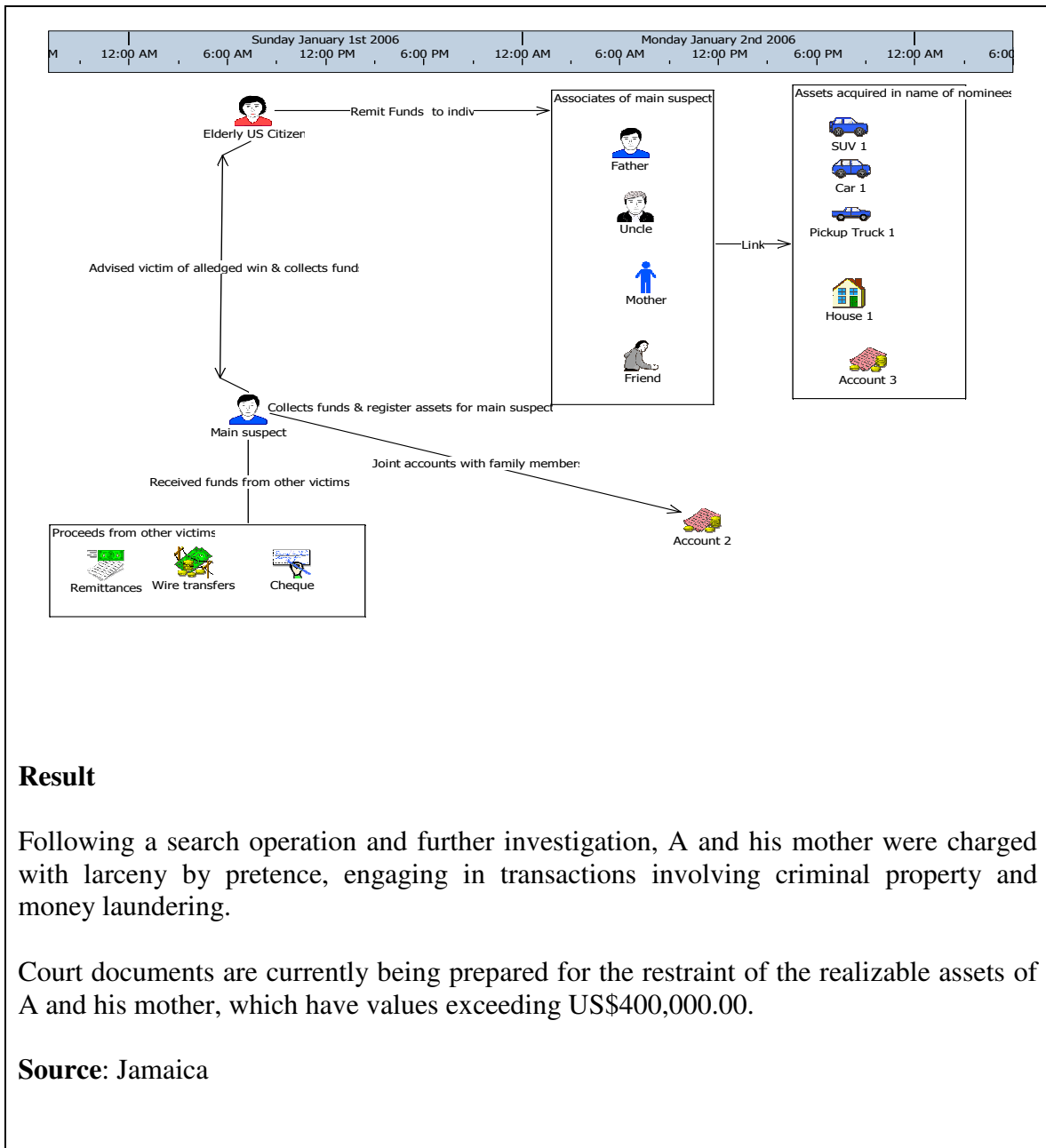
Following media reports about the arrest and charge of the two (2) accused, two major financial institutions operating in Jamaica identified several savings accounts and an investment account linked to them. Their criminal indictment provided the financial institutions with justification to assess the financial transactions on these accounts and submitted Suspicious Reports to the Financial Intelligence Unit in keeping with the provisions of the Proceeds of Crime Act.

### **Details**

Over a one (1) year period which ended September 2007, A successfully fleeced a seventy six (76) year old United States citizen of US\$637,500.00 which was remitted in bank drafts, made payable to at least three (3) individuals who cashed them at a cheque exchange facility operating in the city.

The funds were traced to the acquisition of three (3) houses in Montego Bay. One of the houses had undergone substantial modification and is presently estimated to have a value exceeding US\$200,000. A registered all three (3) properties in the names of nominees, including his mother, none of whom are gainfully employed. Additionally, the illicit gains were used to acquire at least five (5) motor vehicles, with an accumulated value exceeding US\$120,000, which were registered in the names of nominees, who are A's immediate family members and persons who were not gainfully employed.

Documents obtained from A's home supported the information supplied in the STRs, and revealed balances in banks and a building society in excess of US\$180,000.00.



## Result

Following a search operation and further investigation, A and his mother were charged with larceny by pretence, engaging in transactions involving criminal property and money laundering.

Court documents are currently being prepared for the restraint of the realizable assets of A and his mother, which have values exceeding US\$400,000.00.

**Source:** Jamaica

## Case Study Eleven

Large sums declared to customs at local airports carried by couriers and cash payments to companies based in Free Zone. The case involved professionals and businesses and a request from jurisdictional authorities following an international AML investigation.

### Details

The proceeds of illegal activities (presumably drug trafficking) were amassed in Country I from where the money was transferred momentarily to Country II and from there carried



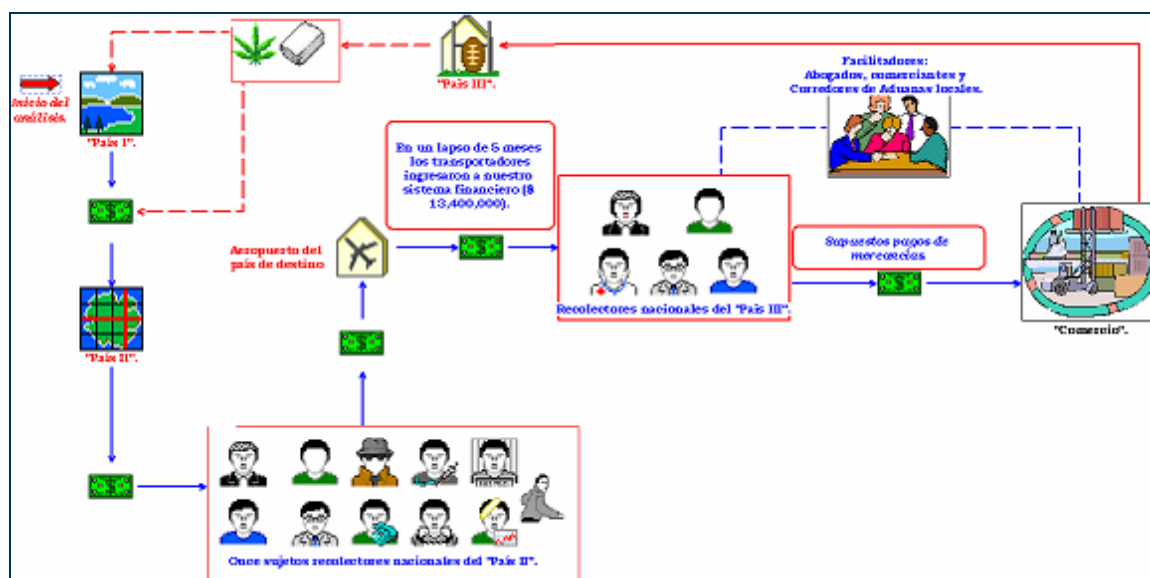
on commercial flights to Country III by human mules, citizens of **Country II**, of whom eleven (11) were identified.

Once the money had been brought into Country III and declared to the Customs, the mules handed it over to collectors and payers who were citizens of **Country III**, who were responsible for paying, in Country III's Free Zone, accounts related to merchandise supposedly exported or to be exported to **Country III**.

The collectors and payers of **Country III** were assisted by local facilitators, among whom, were customs brokers, lawyers and business people.

Over a period of five months the transporters from **Country II** brought into our financial system more than thirteen million four hundred thousand dollars (US\$13,400,000.00).

The structure of the organisation consisted basically of the money carriers, nationals of **Country II**, the collectors and payers, who were citizens of **Country III**, and the facilitators, who were locals.



## Result

The case is being tried before the competent judicial authorities.

More than US\$13,400,000.00 was brought into the country's financial system

**Source:** Panama

## **Case Study Twelve**

Breach of trust by an employee of a financial institution who used a fictitious name to facilitate wire transfers of the illegal proceeds to associates in other countries and gave false information on the source of funds declaration.

### **Details**

FIU in Country I received a Request for Assistance from Country II seeking the identification of funds on a bank account held by A in Country I.

It was alleged that the proceeds of a crime were wire transferred from Country II into A's account.

The funds purportedly came from B in Country II. B was an employee of a financial institution; and allegedly wire transferred employer's funds, without permission and acting in concert with individual C, to A's account in Country I.

B created a fictitious name that was used to facilitate the transfer of the funds through the banking system from Bank X in Country II to the bank in Country I.

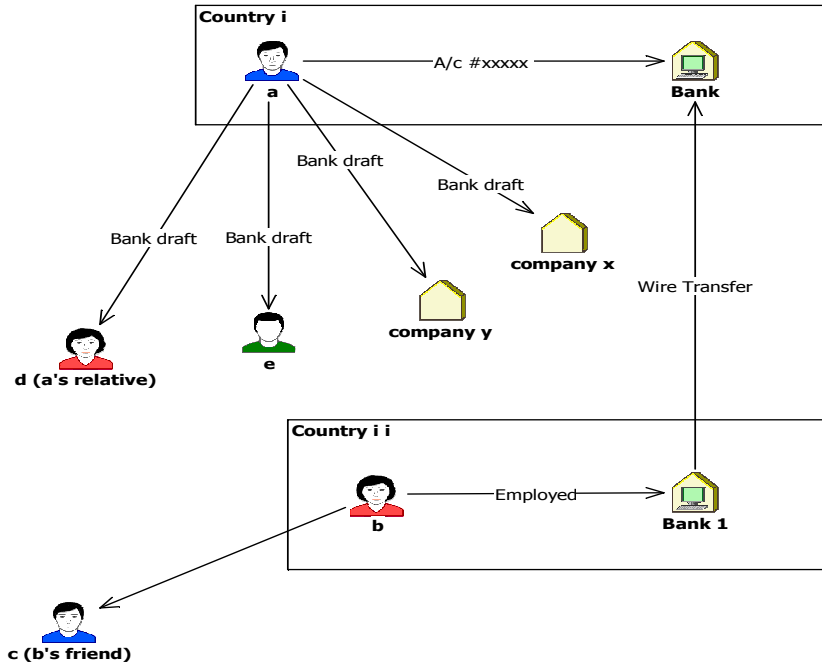
The Financial Intelligence Unit made enquiries and located the wire transfer at an identified institution in Country I.

FIU observed that 11 days after the account was opened in Country I by a (native of Country I), one transaction valued overUS\$300,000 was deposited into the account, via wire transfer from Country II. It was also noted that within two days of the deposit, A made several large withdrawals.

A then distributed the funds, via bank drafts. The bank drafts, each more than \$5,000.00, were made out to individual D in Country I (A's relative); E in Country III; and company Y and company Z also in Country II.

When A opened the account in Country I, the source of funds was stated as "settlement of personal injury". However, the financial institution did not seek documentation in support of source of funds from A.

**Me Amore**



**Result**

B was charged with and subsequently convicted of Theft; Conspiracy to Steal; False Accounting; and Procuring Execution of Valuable Security by Deception.

A and C were charged with Theft; and Conspiracy to Steal.

C's trial is ongoing and A is still being sought by the authorities of Country I and Country II.

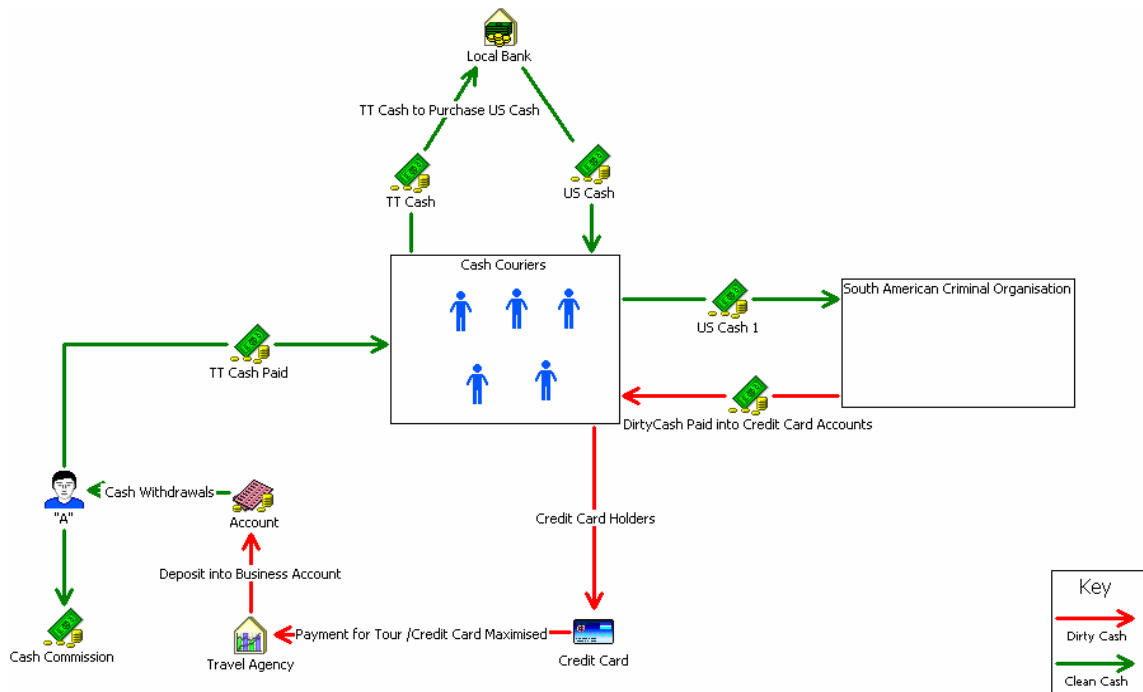
Remaining funds in the account of over US\$100, 000.00 were frozen.

**Source:** St. Kitts and Nevis

## Case Study Thirteen

Financial institution X reported a total of US\$281,291.00 in credit card transactions being credited to the account of a travel agency owned by A which led to cash conversion and currency smuggling.

### Summary of Case



A was the manager of a travel agency offering "tours" catering specifically for individuals who reside in South America. B along with several other individuals who reside in South America, were the holders of credit cards issued in that geographic location issued by specific financial institutions.

These cards were then loaded with funds suspected to be generated from criminal activity. B, along with these other individuals, went to A and paid for tours, which were equivalent to the value of the credit limit of the cards. A then retained a percentage and gave B, along with the other individuals the difference in local currency. B, along with these other individuals, then went to local financial institutions and purchased US currency with which they returned to their jurisdictions in South America.

In actuality no tours were being provided by A but was part of a scheme devised to obtain the equivalent of funds loaded on the credit cards in order to purchase US currency. B along with the other individuals were not of any financial standing to be the holders of credit cards. No prosecutions resulted.

**Result**

In May 2008 "A" was kidnapped and subsequently found murdered.

**Source:** Trinidad and Tobago

**ANALYSIS OF THE PRESENT SITUATION IN COSTA RICA CONCERNING MONEY TRANSFER BUSINESSES.**

Internet gaming is legal in Country I but it is not regulated. Proceeds of wagers at present must not come to Country I, but must be deposited in a foreign account, usually in another country, where betting is completely legal and unrestricted. The player's winnings cannot be paid from Country I, but is facilitated by cheque or wire transfer sent to the winner's account from another country.

Betting shops or "sport-books" houses in Country I run their businesses with the help of money transfer companies making use of a range of beneficiaries and remitters to avoid discovery. As betting and other transactions related to gaming are vulnerable to money laundering some financial institutions in Country I refuse to enter business relationships with money transfer companies.

By claiming to be engaged in legitimate commercial activity such as real estate, software development or payroll some of these money transfer companies have been able to open accounts with financial institutions in Country I. However in some cases, Compliance Officers of banks have closed such accounts when deposit of cheques and transfers from abroad indicate that they are the proceeds of betting and gaming activities.

Since October 2005 a money transfer company in Country I has been sending to the Financial Analysis Unit, Suspicious Activity Reports concerning transfers sent to and received from abroad. From the volume of reports received it is clear that some types of businesses, such as betting shops, use this system to move their funds, despite the high commission charged by the transfer companies for their services. Furthermore, these types of transfer are being used by con-men operating by telephone who inform their victims, that they have won a "prize" and who in order to obtain the prize, must deposit a certain sum in a specified account, for payment of taxes on the prize.

The methods for concealing the true origins of the funds and transferring the illegal proceeds include:

- Groups of inter-related individuals using different offices of the transfer company;

- Various persons receiving money from a single remitter and vice versa;
- Remitters and beneficiaries between the ages of eighteen (18) and twenty five (25) and persons of limited resources particularly immigrants who come to Country I with no means of support.

## **Money Transfers**

The system of international transfers and the connectivity of the systems offered by the money transfer companies has meant that various persons use their services to take advantage of the modern technology they offer for rapid and efficient dispatch of large volumes of money (legal money transfer); particularly from persons abroad to their families; nevertheless, they also permit the movement, in some cases, of illegal proceeds of money laundering or funds for the financing of terrorism.

Organised crime uses this particular method to send the proceeds of illegal activities to other countries, by means of transfers that are usually structured, and by the use of one or several “beneficiaries” in order to evade controls both in the country of origin and the country of receipt.

Funds sent through formal or informal third persons are withdrawn locally by each beneficiary. Payment is made in cash, either local currency or US dollars, depending on the transfer company. Once the supposed beneficiary has received the amount, he/she hands it over to the final or real beneficiary, in exchange for a commission.

## **Warning Signals**

- Transfers sent abroad by different remitters to a single beneficiary, without any apparent relationship or economic activity.
- Transfers sent abroad by a single remitter to various beneficiaries, without any apparent relationship or economic activity.
- Transfers sent from abroad by various remitters to various beneficiaries, without any apparent relationship or economic activity.
- Transfers sent abroad by various remitters to various beneficiaries, without any apparent relationship or economic activity.
- Beneficiaries who use a single agency for withdrawal or dispatch of the transfers, when they are known to be acquainted with one another or sometimes to have family relationships.
- Group of persons who collect or send transfers through agencies distant from their residence or country of origin.

- Persons who collect various transfers, admitting that the transfers belong to third parties, and that they receive a commission for allowing their name to be used as beneficiary or remitter.
- Beneficiaries of transfers who do not know the source, the amount and the purpose of the money, because it is not theirs.
- Use of apparently false or doctored identity documents to collect transfers.

## **MONEY LAUNDERING PREVENTION GUIDELINES FOR CFATF MEMBER GOVERNMENTS, FREE TRADE ZONE AUTHORITIES, AND MERCHANTS**

*Port of Spain, March 29<sup>th</sup>, 2001*

### **Background**

1. On October 18, 2000, government, law enforcement, and Free Trade Zone officials, operating under the aegis of the CFATF, met in Aruba to develop compliance programs and best practices guidelines to ensure that Free Trade Zones are operated in a manner that prevents their misuse by criminal elements.
2. These officials took note that in today's globalized economy, domestic and international trade, including that coursing through Free Trade Zones, is especially vulnerable to misuse by criminals engaged in illicit trafficking of narcotics, other serious crimes, and related trade-based money laundering.
3. Meeting participants acknowledged this problem and voiced their commitment to devising and implementing reasonable measures to reduce the risks of money laundering.
4. Taking note of Article 18 of the 1988 United Nation Convention Against the Illicit Traffic of Narcotic Drugs and Psychotropic Substances, (the Vienna Convention), CFATF Members recognized the need to implement enhanced regulatory measures in Free Trade Zones designed to prevent and sanction illicit drug trafficking and money laundering through Free Trade Zones.
5. With the goal of protecting legitimate international trade through Free Trade Zones against criminal misuse, the CFATF has undertaken to develop these Money Laundering Prevention Guidelines (Guidelines) for its Members and for Free Trade Zone Authorities and Free Trade Zone Businesses operating in their jurisdictions.
6. Acknowledging that crime in today's global economy cannot be effectively eradicated by government alone, CFATF Members premise these Guidelines upon the principle that Governments and the private sector must work together as partners, and that any legislative regime enacted and implemented by Governments must ensure transparency and integrity in commerce.

7. Free Trade Zone Authorities and businesses operating in Free Trade Zones in the region must operate in accordance with and adhere strictly to effective anti-money laundering rules and regulations that guarantee this transparency and integrity.
8. There must be optimal cooperation between and among individual Governments and their Free Trade Zone Authorities, businesses operating in those Zones, and law enforcement entities to ensure the success of this undertaking. CFATF Members acknowledge the need for international cooperation between Governments and undertake, through implementation of these Guidelines, to ensure the creation of common and compatible databases to collect and report data relating to international commerce.
9. Equally important, CFATF Members further undertake to ensure that this data is made available to competent authorities in other countries in accordance with applicable law, subject to strict safeguards to ensure proper use of information, to detect and prosecute crime and related proceedings.
10. Finally, CFATF Members are cognizant of the fact that the economic potential of a Free Trade Zone is of great importance to their respective economies. Simultaneously, they acknowledge that this economic potential is threatened by criminal misuse of Free Trade Zones.
11. Accordingly, in devising these Guidelines, CFATF Members have endeavored to achieve a balance between protecting and promoting the economic potential of Free Trade Zones, while at the same time providing effective preventative measures and all the tools required in order to effectively combat crime in them.

## **Methodology**

1. In researching trade-based money laundering through the Region's Free Trade Zones, the CFATF convened a two-part Typology Exercise. Part 1 was held October 18, 2000, in Aruba.
2. At this meeting, CFATF judicial, law enforcement, and Free Trade Zone officials examined and addressed:
  - Vulnerabilities of Free Trade Zones;
  - Operations of the financial and non-financial sectors within a Free Trade Zone;
  - Reporting mechanisms and due diligence practices within Free Trade Zones.
3. Part 2 of this Typology Exercise convened on March 29, 2001, in Port of Spain, Trinidad.
4. At this meeting, CFATF judicial, law enforcement, and Free Trade Zone officials discussed:
  - The Private Sector approach;



- The necessary regulatory and supervisory framework;
- The format and content of the proposed Recommendations.

## **CONCLUSIONS AND RECOMMENDATIONS**

With these considerations and objectives in mind, and upon the Plenary's recommendation based upon the observations and information provided by the noted experts, the Council of Ministers recommends that, where necessary, each CFATF Member Government:

1. Devise, enact, and effectively implement a comprehensive legislative regime affecting Free Trade Zones. The legislative regime must clearly and unequivocally define the term "Free Trade Zone" and must govern all areas of its operations. Areas of Free Trade Zone operations to be governed include, but are not limited to: the granting and revocation of licenses to operate a business therein; record keeping and reporting requirements for these businesses; and, establishing and defining the oversight and supervisory authority, functions, responsibilities, and powers of the Free Trade Zone Authority. Where necessary, such a legislative regime should meet the following requirements:
  - (a) The Free Trade Zone Authority, if necessary, should be physically present and operate in the Free Trade Zone. The appropriate National authorities should, at minimum, oversee and supervise all operations in the Free Trade Zone and enforce sanction violations of all applicable laws and regulations.
  - (b) Businesses operating in Free Trade Zones must comply with all applicable laws and regulations and must establish an anti-money laundering compliance program which includes an independent review and internal audits. It is strongly recommended that businesses designate a compliance officer who shall be responsible for monitoring and ensuring implementation of the compliance program.
  - (c) Businesses operating in Free Trade Zones should be required to identify their clients and to keep the record of each transaction and to report suspicious activities to the competent authorities.
  - (d) Free Trade Zone Businesses should be required to report suspicious transactions to the competent authority in the form and manner that the authority directs. Additionally, it may be required that all businesses operating in Free Trade Zones should report to the competent authority all transactions in cash or negotiable bearer instruments exceeding US\$ 10,000.00 or its equivalent in other currency, or postal or other money orders, travelers checks and third party checks.

- (e) Governments should discourage businesses operating in Free Trade Zones from accepting cash payments, or payments in money orders or third party checks, travelers checks, wire transfers, or other means from parties that are not directly related, as either the seller or buyer, to the underlying transaction. These businesses should, at a minimum, record such transactions and, when determined as suspicious report such transactions to the competent authorities.
2. Require competent Authorities to make available to regulated businesses current copies of all applicable laws, administrative resolutions, regulations, advisories and directives regarding: the conduct of business in the Free Trade Zone; compliance with all applicable legal requirements; and, advisories regarding suspicious activity and recommended countermeasures.
  3. Require competent Authorities to designate, as part of their core operation, a specialized unit responsible for all matters dealing with the prevention of money laundering and to carry out ongoing related training for businesses operating in the Free Trade Zone. This unit should, at a minimum, produce an instruction manual detailing the powers vested in the Authority, the obligations of businesses operating in the Free Trade Zone, and the internal anti-money laundering mechanisms, including all reporting and record keeping requirements, which must be maintained by these businesses.
  4. Devise and implement all necessary measures to establish and promote coordination between the administrative and all other authorities involved in the prevention, investigation, and prosecution of money laundering activities.
  5. Take affirmative measures to ensure uniformity in data collection practices affecting international commerce and enact measures to ensure that the data collected related to international commerce is available to other governments in accordance with applicable law.

## **INTERPRETATIVE NOTES**

### **1. Definition of a Free Trade Zone**

A Free Trade Zone<sup>1</sup> may be defined as:

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<sup>1</sup> **Such organisations could be defined under various names, such as:** Free Zones, Freeport Zones, (Port) Free Trade Zones, Foreign Trade Zones, Duty Free Trade Zones, Commercial Free Trade Zones, Export Processing Zones, Logistic Zones, Trade Development Zones, Industrial Zones/Parks/Areas, Hi-Tech Industry Parks, Hi-Tech and Neo-Tech Industrial Development Zones, Investment Zones, Bonded Zones, Special Economic Zones, Economic Development Zones, Economic and Technological Development Zones, Resource Economic Development Zones and Border Economic Cooperation Zones.

An area or regime within a country under special customs and/or tax controls, in which enterprises are licensed to conduct business or provide services for export purposes through the granting of special incentives to stimulate their development.

Such areas could include, among others:

- The receipt of goods duty free for processing and export;
- The provision of financial services such as banking, brokerage services and insurance;
- The provision of services such as tourism and gambling;
- The provision of technology based services;
- The provision of services with the petroleum industry.

## **2. Admission of Businesses to Operate in Free Trade Zones**

- (a) A legislative regime regulating Free Trade Zones (FTZ) must, among other things, govern the granting and revocation of licenses to operate a business therein. Because these guidelines are intended to help governments to ensure transparency and integrity in legitimate international trade and thereby protect it against criminal misuse, it is important to identify the parties to any given transaction.
- (b) It is equally important to fully and clearly identify the parties who control and operate businesses within a Free Trade Zone regime and to ensure that these are bound by all applicable laws and can be reached by competent authorities.
- (c) Accordingly, Governments should ensure that businesses are registered and incorporated in accordance with applicable laws.
- (d) These laws should require that Articles of Incorporation be filed upon registration and that the identity of all corporate officers and owners be fully disclosed. The identity of shareholders should be made accessible as determined by the applicable laws.
- (e) Further, any changes made to all of the foregoing information must be reported to the competent authorities and should be verified and updated periodically (minimum once every three years) to reflect any changes in ownership, location or other matters.

## **3. Free Trade Zone Businesses Operating as an Agent.**

- (a) In some cases a business not physically based in, registered, or incorporated in the same country as the Free Trade Zone may operate
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through a wholly-owned subsidiary, or other business that is physically present in the zone and registered and incorporated locally. In such cases, the business located within the Free Trade Zone and incorporated under local law is operating in a representative capacity, or as an Agent (company/branch).

- (b) To ensure transparency and integrity in all operations conducted by that Agent, applicable law should require that, whenever the business is acting as an Agent for another party, it must disclose that fact to the Free Trade Zone Authority. This information should be provided to all persons and all authorities with whom the Agent conducts business on behalf of the other party. Further, the Agent, in all such cases, should fully disclose the identity of the person on whose behalf he is acting.

#### **4. Revocation of Licence to Operate a Business in a Free Trade Zone**

- (a) Competent Authorities governing a Free Trade Zone will vary from one jurisdiction to the next, depending upon the provisions of local, applicable law. These Guidelines assume that for any Free Trade Zone there will be a Free Trade Zone Authority.
- (b) At a minimum, the competent Authorities should be empowered to impose sanctions such as imposition of fines, the suspension or revocation of licenses to operate a business.
- (c) Conditions that shall result in the suspension of business operations and/or the revocation of a license to conduct business must be clearly defined by the competent authority, likewise conditions that could result in the imposition of a civil or administrative fine shall be clearly defined by the competent Authority.

**CFATF SECRETARIAT  
NOVEMBER 21 2008**