



PROXIMAL CONSULTING

One The Parade Mews Marlborough Wiltshire SN8 1NE
Place du Bourg-de-Four 25 1204 Genève Switzerland
Tel: +44 (0) 1672 516725
Fax: +44 (0) 1672 516759
e-mail:proximal@bluemail.ch website:www.proximalconsulting.com

THE MONEY LAUNDERING MITIGATION FIRM

due diligence *training *asset tracing *compliance & assurance *investigations *strategic advice
*research

MONEY LAUNDERING & BUSINESS CRIME NEWSLETTER ISSUE 11 - FEBRUARY 2002

This newsletter is published regularly and delivered to clients and contacts of Proximal Consulting by e-mail

CONTENTS

- FATF BLACKLIST REMAINS UNCHANGED
- FATF MONEY LAUNDERING TYPOLOGIES
- THE GLOBAL THREAT POSED BY THE JAPANESE YAKUZA
- OUR INVESTMENT TIP OF THE MONTH (or perhaps not...)
- GLOBAL NEWS ROUND UP
- OUR REGULAR COLUMN ON WEST AFRICAN FRAUD
- THE FINAL WORD

FATF BLACKLIST REMAINS UNCHANGED

On Friday 1 February 2002, FATF (the Financial Action Task Force) at its Plenary meeting in Hong Kong reviewed its "blacklist" of non-cooperative countries and left the list unchanged. Reviewing the progress of countries on the list, FATF noted "with particular satisfaction the rapid and significant progress made by Hungary to eliminate the deficiencies previously identified". Additionally St Kitts and Nevis appear to be heading off the blacklist, with all countries being reviewed again at the next Plenary meeting of the FATF on 19-21 June 2002. Nauru still heads the blacklist and is the only country to be subject to "countermeasures" as it has "not adequately addressed the deficiencies found in the licensing, regulation and supervision of its offshore banking sector".

Additionally in June 2002, the FATF will "initiate a process to identify jurisdictions that lack appropriate measures to combat terrorist financing". This move, at first sight, is a good one but on reflection is a delayed response to a critical problem. We are now five months on from 11 September: by June 2002 when this process begins we will be nine months down the line – surely quicker action is required? Moreover the current "blacklist" of countries was drawn-up before the focus swung to the financing of terrorism and thus, in effect, only includes countries

that are used by terrorists to launder money as part of the wider problem of dirty cash, rather than countries which are specifically linked to the washing of terrorist funds. In our previous newsletter (Newsletter Ten, January 2002), we drew attention to terrorist funds that had entered the global banking system through the United Arab Emirates. Added to this are countries that are linked to this problem such as Pakistan, Iran, Iraq, Syria and even, it must be said, Saudi Arabia which has long been described by relevant US authorities as being very difficult to get reliable information on. Moreover are the controls present in sophisticated western banking environments (such as the United Kingdom – and the United States itself) sufficiently focused to identify terrorist funds?

The complete FATF “blacklist” of countries is:

- COOK ISLANDS
- DOMINICA
- EGYPT
- GUATEMALA
- GRENADA
- HUNGARY
- INDONESIA
- ISRAEL
- LEBANON
- MARSHALL ISLANDS
- MYANMAR
- NAURU
- NIGERIA
- NIUE
- PHILIPPINES
- RUSSIA
- ST KITTS & NEVIS
- ST VINCENT & THE GRENADINES
- UKRAINE

FATF MONEY LAUNDERING TYPOLOGIES

Also published on 1 February 2002, was the FATF 2001-2002 “Report on Money Laundering Typologies” which is split into seven topics:

- Terrorist Financing
- Correspondent Banking
- Corruption & Private Banking
- Bearer Securities & Other Negotiable Instruments
- Co-ordinated Money Laundering among Organized Crime Groups
- Euro Bank notes
- Suspicious Transaction Reports & Money Laundering Cases

The key elements of the report are contained in its first four sections:

Terrorist Financing

FATF observes that the financing of terrorism is achieved in two major ways: obtaining financial support from States or wealthy individuals and “revenue generating activity”. This revenue generating activity can include criminal acts such as kidnapping and extortion, smuggling, fraud, thefts and robbery, together with narcotics trafficking. Added to this are “legitimate” sources of funding involving collection of membership subscriptions, sale of publications, collections, appeals to wealthy benefactors and regular donations by supporters. The laundering of these funds, say the FATF, follow the same patterns traditionally associated with money laundering. FATF draw attention to various aspects of terrorist funding which are fairly self evident: the fact that there are difficulties because of the likelihood that funding could be obtained both through “legitimate” means and criminal activity; the fact that many transactions supporting the September 11 outrages were of a low value and the fact that terrorists are more concerned with being able to make use of their funds for attacks/ activities as opposed to just disguising the origins of the money.

Correspondent Banking

A year after the US Senate Permanent Sub-committee on Investigations report on the money laundering implications of correspondent banking relationships FATF address the issue and in most respects repeat what has gone before. The best practice guidelines proposed include:

- Establish rigorous "know your respondent" procedures such as obtaining information about the respondent bank's management, nature of the banking licence and business activities. Get detail on whether the respondent bank has a physical existence; volume and nature of transactions expected; the rigour of banking supervision in the respondent's home country; the quality of the respondent's money laundering prevention and detection efforts; obtain the identity of any third parties allowed direct access to the correspondent account
- Do not establish (or close if it already exists) any correspondent banking relationships with a shell bank
- Train staff to identify higher risks posed by correspondent accounts
- Report suspicions to relevant authorities

Corruption and Private Banking

This section of the report focuses on risks posed by "politically exposed persons" (PEPs) and their use of private banking facilities which has two key areas:

- When a private banker simply fails to apply appropriate and thorough due diligence to a customer and his activities
- The use of a professional intermediary to open an account, so enabling a corrupt public official to open and operate an account "virtually anonymously"

FATF then go on to restate their own basic KYC principles as a way of combating this problem together with reference to the Wolfsberg Principles.

Bearer Securities & Other Negotiable Instruments

FATF draw attention to the money laundering risks posed by:

- Bearer shares
- Bearer bonds
- Bearer cheques (unconditional money orders/cheques)
- Travellers Cheques
- Bank cheques and bank drafts

FATF observes that "there are considerable risks of abuse of these mechanisms by launderers, primarily stemming from their ease of transfer and their utility in concealing or disguising ownership of assets". However at the moment these issues are the subject of ongoing discussion.

THE GLOBAL THREAT POSED BY THE JAPANESE YAKUZA

Velisarios Kattoulas, writing in the "Far Eastern Economic Review" observes that the activities of organized crime groups are prolonging the economic crisis in Japan. The Yakuza is now recognised as a highly organized group (or strictly speaking set of groups) which is estimated to be responsible for almost half of the bad debts held by Japanese Banks. However it has been suggested that the Banks themselves courted Yakuza groups in the 1980s when large corporate borrowers defected to international markets. When the bubble burst the Yakuza borrowers were saddled with massive debts, but the banks were too scared to foreclose on them, fearing retribution. However as is common with all types of organized crime, the Yakuza are now actively seeking other sources of income – particularly via the United States where they are thought to have invested up to \$50 billion in financial markets.

OUR INVESTMENT TIP OF THE MONTH (or perhaps not...)

On 25 January 2002, McWhortle Enterprises, a multinational defence company, announced that it would go public on 30 January 2002. The company provides "the best protection from all terrorist bio hazards" and because of the national security implications of its products, the SEC had "pre-approved" its IPO. The company's website (www.mcwhortle.com) has a glowing array of testimonials such as:

"I didn't have to think twice when Tom McWhortle called to line up financing. We've been following his company for years. It is the most consistently profitable in its class, with a highly stable roster of clients. I know that the whole McWhortle family sees this new direction [marketing the Bio-Hazard Alert to individuals] as something they really want to do for the public. They don't need this product line. They are only doing it because they've always been patriotic Americans."

— A. F., analyst, major investment banking firm

Even better for potential investors is the investment details given on the site, which are extremely impressive:

McWhortle Enterprises has had to stop accepting investors for Stage 1 of its Pre-IPO investment after the program was over-subscribed by nearly 200%. Because of the enormous demand, we will, for a very limited time, accept new investors into this program.

The Stage 2 share price means that current investors have already made an average 217% annualized profit! (Dividends have been excluded from that calculation.)

Bidding is now accepted for Stage 2 of the McWhortle Enterprises Pre-IPO offering. Estimated share value is approximately \$10, which will, upon conclusion of the IPO offering in three (3) months, be worth more than 400 times the initial investment. To bid on these shares, you must quickly e-mail us the number of shares you wish to purchase, together with your major credit card number and social security number (for identification) so we can reserve your slot.

With such excellent returns, one might be forgiven for overlooking the following phrase contained in the "About Us" section on the company's website:

So confidential are its products that major corporate customers have asked that McWhortle not reveal their names. Suffice to say that they all involve multi-country operations in areas where security is a must.

One could also overlook the photograph of the company's head office, which looks like someone has created it with a clipart package. The truth only dawns (hopefully) when the visitor to the website clicks on the "buy now" button and is confronted with the following:

McWhortle Enterprises does not exist. It is a complete fabrication, posted by the Securities and Exchange Commission, the Federal Trade Commission, the North American Securities Administrators Association, and the National Association of Securities Dealers to alert investors to potential on-line frauds.

We created this site because we've all seen an increase in the number of investment scams preying on our fears of anthrax and other bio-hazards.

This site shows some of the telltale signs of on-line investment fraud. Promises of fast and high profits, with little or no risk, are classic red flags of fraud. Remember — if it sounds too good to be true, it usually is!

Before making any investment — online or offline — it pays to do your own research to make sure the company exists, that its products are genuine and its claims legitimate. McWhortle Enterprises has no track record and no legitimate products. (It can't, we made it up!) If a company is registered with the SEC, you can find financial statements on the SEC's website, filed electronically through "EDGAR." If a company is not registered with the SEC, check with your state securities regulator before investing.

McWhortle offers a lucky few the ability to get in on the ground floor through "pre-IPO" investing. Investing at the pre-IPO stage can be extremely risky. Pre-IPO offerings targeted at the general public — as is the McWhortle opportunity — are often fraudulent and illegal.

Finally, McWhortle asked victims to supply a major credit card and social security number, "for identification purposes." The FTC wants you to be aware that by stealing your name, credit card number and/or social security number, fraudsters can effectively steal your identity and ruin your credit rating. (And by the way, we have not collected any information about you.)

Our investment tip for this month (and any month) remains: Buyer Beware – if it sound's too good to be true, that's because it is!

WORLDWIDE: Over three million cars are stolen each year on a worldwide basis –that's one car every ten seconds. Interpol estimates that the value of cars on an annual basis stolen from Europe, North America, Africa and Asia at US\$ 21 billion. Such activity is now thought to be mainly the work of sophisticated criminal groups that are global in nature. Germany is facing an increase in the theft of rental cars by African nationals who use forged passports to illegally obtain credit cards and then cars from rental companies. Albanian criminal groups are actively involved in car smuggling from Italy and Greece. South Africa is used by criminal groups from Pakistan and Japan as a transit area to export stolen luxury vehicles to Europe, Australia, New Zealand and Asian countries.

NEW YORK: a partial answer to the question "Whatever happened to the Bank of New York Money Laundering Case?" was given in January. The US Appeals Court reinstated the lawsuit from Inkombank depositors, accusing executives of the Bank of New York of conspiring with the principals of the Russian Bank in an embezzlement scheme totalling \$1.5 billion.

FRANCE: On 28 January 2002, one of France's largest fraud trials concluded in Paris with the conviction of 88 people on charges of swindling \$71 million from banks and insurance companies. The case involved so many defendants (as a further 36 people were acquitted) that a special courtroom had to be constructed to accommodate them all. Eighty-two defendants were ordered to repay banks and other victims a total of \$20.2 million. The "Sentier" trial – named after the wholesale textile and clothing district in Paris – turned on a conspiracy by members of this clothing community, to cheat financial institutions by "insuring" non-existent businesses. It also included an elaborate pyramid scheme and obtaining numerous bank loans on fake credit guarantees. Many merchants created dummy companies, ordered merchandise that they never paid for and then filed for bankruptcy. Many of the defendants in the trial were Jewish and wider ramifications have caused ill feeling between France and Israel. A further ripple effect caused by the trial was when Daniel Bouton, Chairman of Societe Generale, was accused by French authorities of "aggravated money laundering". The allegations are that the bank cleared several thousand cheques drawn on bank accounts in France which were then deposited in Israel. These cheques were part of the fraud: either being stolen or drawn on accounts on non-existent companies. Societe Generale commented that it is being singled out for what may be a much bigger problem – particularly as a number of other leading French financial institutions have been named in the affair. Moreover the bank says that it handles three million cheques deposited abroad each year and thus cannot investigate each one of them. As an example of the Butterfly effect, an Israeli Ministry of Justice official commented before the FATF meeting covered above that "this French bank affair has come at a very bad time because we were hoping to be taken off the blacklist next month after the FATF meeting in Hong Kong...there is now a strong possibility that we will have to wait until the next session this summer".

OUR REGULAR COLUMN ON WEST AFRICAN FRAUD

In what appears to be a recurring feature on West African fraud, we reprint below (complete with spelling mistakes) two letters we received by e-mail on the same day :

Dear,

I am Mrs Theresa Coleman, a Sierra Leonean, and the wife of Late DR. JOHNSON COLEMAN of blessed memory. My late husband was the chairman of Sierra Leonean National Diamond & Gold Corporation. My husband was killed along with my Three children in our Freetown residence while I was out.

They were assassinated by rebels led by Major John Paul Koromah on 18/06/99, because my family never supported the way Major John Paul Koromah and his splinter group overthrew our legitimate President, Tijan Kabba and forced him to exile.

After the assassination of my husband and three children, when the African Peace Keeping Forces (ECOMOG) soldiers were in control of my village MENDE, I left my hideout in my village. When I was searching for some information in our family villa, I found the key to my late husbands underground strong room, I discovered the box containing Ten Million Five Hundred Thousand US Dollars (US\$10,500,000.00)

Meanwhile, I made an arrangement with a fisherman that operates a fishing trawler boat who smuggled me along with the box that contained the money through West African coast waters to Abidjan, Cote d'Ivoire, where I deposited the box as family valuable and artefacts in a security company.

Now, I have decided to look for a trust who will assist me to move this money to his country or any place of his choice for investment.

I suggest offering you (15%) of the total money if you will assist me to have this transaction done.

(1) You will help me provide a lucrative business where this money will be wisely invested.

(2) To help me to secure a permanent residence permit as I would love to spend the rest of my life doing business overseas.

Every other information needed will be given to you on request.

Note that your urgent assistance is needed to facilitate this transaction. For confidential purpose, you should handle this transaction with utmost secrecy. Looking forward to hearing from you soon.

For more information contact my only survival child Roland Coleman on the above telephone number 00225-07-71-91-95.

Thanks for your prompt co-operation.

Yours faithfully,

THERESA COLEMAN.

*FROM MRS ESTHER NBOMBO
Tel: 00225 07-89-36-95
E-mail : esther_nbom@yahoo.co.uk*

ATTN: SIR,

LETTER OF ASSISTANCE

Complements, It is a privilege to come in contact with you. Well, I came across your contact through a reliable source. I therefore wish to contact you in a business transaction with mutual trust and in confidence that you will not let me down.

I am MRS ESTHER NBOMBO the wife of Dr LAMIDI NBOMBO, the late secretary to FODAY SANKOH, the commander of rebel group in Sierra Leone war-zone, who was arrested in Freetown by United Peace Keeping Force on may last year if you are current with BBC or CNN news.

Before the arrest of my husband he have instructed me and my son to move his total sum of twenty two million dollars (\$22,000,000) contained inside two iron trunks which he stored in his strong room which according to him, was made from the sales of Gold and diamond. We have managed to convey the two iron trunks into Abidjan-Côte d'Ivoire where we quickly deposited the boxes to a reputable Security /safe deposit Company as UN-inspected African Artworks.

I therefore solicit for your assistance to transfer this fund on trust, into your account, but I will demand for the following requirement from you

- 1) would you be able to provide a safe Bank Account into which this fund will be transferred to, in your company or nearby country where taxation will not take great toll on the money
- 2) would you be able to assist me obtain travelling papers after the transfer, to enable me come over to meet you for the investment of the money in your country
- 3) would you be able to introduce me to a profitable business venture that would not require much technical expertise in your country where part of this fund will be invested on?

Please, all the requirement is urgently needed as I wish to establish a strong business relationship With you hence I will like you to be the general overseer of the investment thereafter.

I am a God fearing woman and therefore, I will please want you to handle this transaction with absolute carefulness as this fund is my only hope for the near future.

For your assistance in this transaction, I propose 15%(percent) commission to you at the end of This business and 10%share in every investment i will involved with as you remain the general overseer.

Please, the confidentiality of this transaction is very important to me, as I will like you to keep this transaction very confidential.

Upon your anticipated response I shall expect your urgent reply via. My telephone number 00225 07-89-36-95 or via my e mail esther_nbom@yahoo.co.uk as indicated above.

*Thank you and God bless you
Yours sincerely*

MRS ESTHER NBOMBO

THE FINAL WORD

On January 30 2002, Associated Press reported that two women in Salt Lake City have been awarded a total of \$290,000 because promises made by a fundamental church that they would see Jesus Christ in the flesh (strangely) did not materialise. The True & Living Church of Jesus Christ of the Saints of the Last Days was ordered to make the payments because of "fraud, breach of contract and intentional infliction of emotional distress".

Kaziah Hancock, one of the women, gave the church 67 acres of her farm and shares in water rights. Jim Harmston, the founder of the church, promised in return, payments on other property, membership in heaven's elite and the chance to meet Christ on earth. When the verdict was announced Harmston's wife commented that she was disappointed with it as " God's people have always been persecuted and right now is no different".

IF YOU OR YOUR COLLEAGUES WOULD LIKE TO BE ADDED TO OUR DISTRIBUTION LIST PLEASE E-MAIL US AT lynne@proximalconsulting.com or go to our web site and use our newsletter subscription form.

IF YOU WOULD LIKE COPIES OF OUR PREVIOUS NEWSLETTERS PLEASE E-MAIL US WITH YOUR REQUEST.

IF YOU WOULD LIKE TO DISCUSS A SPECIFIC PROBLEM OR PROJECT WITH US PLEASE CALL US ON +44 1672 516725, OR FAX US ON +44 1672 516759.

© PROXIMAL CONSULTING MMII

This research was prepared by Proximal Consulting and is for information purposes only.

This publication is not a substitute for specific professional advice

Any dissemination, distribution or copying of this communication without prior approval from Proximal Consulting is prohibited