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THE MONEY LAUNDERING MITIGATION FIRM

MONEY LAUNDERING & BUSINESS CRIME NEWSLETTER ISSUE 4 JANUARY 2001

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

Peter Lilley's new book "Dirty Dealing: The Untold Truth About Global Money Laundering" was published in December by Kogan Page in the United Kingdom/Europe and the United States.

Named as the book choice of the month in the UK Institute of Directors "Director" Magazine, "Dirty Dealing" is described as painting "an alarming picture of the power and scale of today's crooked and corrupt financial world". The review goes on to say that "Lilley has done his homework thoroughly and is wise to the variety of techniques used", concluding that "this book comes not a moment too soon".

"Dirty Dealing" can be ordered at an on-line discount through our website at www.proximalconsulting.com

MONEY LAUNDERING THROUGH STOCK EXCHANGES

This article, written by Peter Lilley, originally appeared in a recent edition of the London Financial News

It was Al Capone who observed that he was surprised that so many people turned to crime when there are so many legal ways to be dishonest. Mr Capone would have been familiar with both the theory and practice of money laundering as the term - and the process of money laundering - originated in the United States in the 1920's. Criminal gangs then were trying to do much the same as today: disassociate the proceeds of their criminal endeavours from the activities that generated them. To do this they took over businesses with high cash turnovers- such as laundrettes and car washes. The criminals then proceeded to mingle the cash from nefarious activities with legitimate income, thus creating a logical commercial reason for the existence of large sums of cash.

The financial world has moved on substantially in the intervening years - however it is open to question whether the response to (or understanding of) money laundering has developed at the same pace. The London Stock Exchange is, just like any other international financial forum, a magnet for money laundering: which is conservatively estimated to be worth 1.5 trillion per year. The very simple reason for this is because it is an effective vehicle to wash funds. Examples are:

- Criminal funds transferred into alternative financial instruments, ownership of shares and bonds
- Brokerage firms taking washed or partially washed funds that are then used to buy shares or other financial instruments

Research has shown that 80% of all money laundering transactions involve an international component: certainly criminals have fully embraced the new global marketplace. This creates additional problems, as criminal money arriving to be invested in the Stock Exchange is more likely to come from another reputable financial centre than a country with discernible links to organised criminal activity. The increased globalisation of financial marketplaces also throws up other difficulties: such as criminals establishing a trading account in the office of a financial institution in one country and then having it transferred to London.

Another more extreme method to utilize the Stock Exchange as a money laundering vehicle is through listed companies being nothing more than a laundering operation themselves. The now infamous YBM Magnex International Inc was delisted by the Toronto Stock Exchange in December 1998. A US class action suit claimed that YBM's "only successful business is the laundering of criminal proceeds". Red flags have already been raised about the money laundering possibilities inherent in the listing of dotcom companies with no track record and unsustainable market valuations.

The current regulatory regime that highlights identification procedures, record keeping, internal reporting systems and staff training can effectively combat money laundering only if it is applied on a coherent basis in a serious and effective way with a true understanding by those in the market of what they are trying to fight and why. Critical to the success of The UK anti-money laundering regime is the disclosure of suspicious transactions (and clients) to NCIS (National Criminal intelligence Service)

In 1999 of 271 member firms of the London Stock Exchange 18 made disclosures – 6.6% of the total. This compares unfavourably with almost 77% of Building Societies that made

disclosures in the same period but favourably with the 0.1% of Accountants in the United Kingdom that made a disclosure.

But disclosure of suspicious transactions and/or clients can only be successful if relevant staff are trained to identify "red flags" of money laundering activity. Whilst it is not possible to list all of these within the confines of this article, here are a few more obvious ones:

- "Know Your Customer" (KYC) procedures are vital: but nothing should be taken at face value, as identification documents are very easily purchased on the black market or forged. Effective due diligence at this stage can avoid many problems – including loss of reputation – later
- It is doubtful whether any organization can rely on the due diligence/KYC checks carried out by another firm: this is particularly relevant when clients are referred from one party to another. In the end, it is your organization that has responsibility (and culpability) for such checks
- The use of shell companies (such as International Business Companies registered offshore) is now a very common money laundering tool. Moreover it is one which is being targeted by both regulatory and law enforcement authorities. Variations on this theme include transfers of funds from offshore banks; loans to and from offshore banks; A high level of transactions with offshore entities or companies in geographical high risk areas

And finally two old favourites: believe it or not, potential clients still do turn up with suitcases full of cash and if a client appears with a set of financial instruments from Nigeria, be very sceptical

FATF WILL NOT AMEND OR DROP "BLACKLIST"

The FATF "blacklist" of non-cooperative countries and territories (which was the subject of our special bulletin of 27 June 2000) will not be amended despite various new laws passed by jurisdictions appearing on the list.

The countries named on the list are:

Bahamas
Cayman Islands
Cook Islands
Dominica
Israel
Lebanon
Liechtenstein
Marshall Islands
Nauru
Niue
Panama
Philippines
Russia
St Kitts and Nevis
St Vincent and the Grenadines

FATF have said that it will assess any progress made by these jurisdictions "over the coming months" to see if the deficiencies identified have been remedied, and if so whether the relevant country can be removed from the "blacklist". So far the following laws have been enacted in response to FATF's action:

BAHAMAS

- Money Laundering (Proceeds of Crime) (Amendment) Act 2000
- Evidence (Proceedings in Other Jurisdictions) Act 2000
- Evidence (Proceedings in Other Jurisdictions) (Amendment) Act 2000

CAYMAN ISLANDS

Amendments to:

- Monetary Authority Law
- Proceeds of Criminal Conduct Law
- Banks & Trust Companies Law
- Companies Management Law

COOK ISLANDS

- Money Laundering Prevention Act

ISRAEL

- Money Laundering Prevention Act

LIECHTENSTEIN

- Due Diligence Act and Law on Mutual Legal Assistance in Criminal Matters

PANAMA

- Law No 41 (Regarding the Crime of Laundering of Capital)
- Law No 42 (Regarding Prevention of the Crime of Laundering of Capital)

ST VINCENT & THE GRENADINES

- International Banks (Amendment) Act 2000
- Confidential Relationships Preservation (International Finance) (Amendment) Act 2000

GLOBAL NEWS ROUNDUP

SPAIN: At the end of December Spanish Police seized more than 1,000 forged paintings that were attributed to Pablo Picasso and Salvador Dali. The paintings were being sold in Mallorca.

BRAZIL: A 1600 page report by a congressional commission in Brazil, made public in early December recommended that charges be brought against 827 people. These include judges, mayors, federal congressmen and state legislators. Between 1992 and 1998 \$60 billion worth of drugs money passed through Brazil from Bolivia, Colombia and Paraguay. The commission discovered not only drugs related money laundering but also arms smuggling, cargo theft and tax evasion.

POLAND: The Polish Finance Ministry says that an estimated \$3 billion is laundered in the country each year. In October 2000 the Lower House of parliament voted to tighten anti-

money laundering laws. However this new regime is not without opponents who have serious concerns about the invasion of privacy of Polish citizens.

NIGERIA: It is very difficult to not mention Nigeria in these pages - but this month's entry is for a different reason. The National Association of Resident Doctors of Nigeria has discovered a massive fraud in the Federal Ministry of Health. In essence two thousand non-existent doctors are being paid salaries and allowances.

COLOMBIA: In a story that is stranger than even the best fiction a half built submarine constructed by Russians has been discovered in Colombia. Three Russians were building the 100 foot vessel in the Andean mountain village of Facatativa. It is suspected that the submarine was a joint venture between Russian and Colombian organized crime groups to smuggle up to 10 tons of narcotics. However this idea is not a new one - in 1995 the Cali cartel unsuccessfully tried to buy a used Russian submarine. Ties between Russian and Colombian crime groups have existed since the early 1990's when the Cali cartel started supplying cocaine to Moscow and St Petersburg through the Solntsevo gang, one of the most powerful Russian organized crime groups. Just to emphasise the financial value of this trade, the submarine under construction would have cost \$25 million to build.

RUSSIA: In the week before Christmas Russian prosecutors confirmed that a 26 month enquiry into financial relationships between Mabetex Project Engineering SA and Boris Yelstin's inner circle of family and advisors because it had yielded "no evidence of crime". It is unclear what effect this will have on Swiss investigations, which are continuing into whether the country was used to launder bribes/kickbacks paid to Russian officials.

DUE DILIGENCE WARNING LIST

Attached is our latest warning list of financial institutions and other related entities that are either suspected of committing fraud/money laundering or are unlicensed to offer financial services. Whilst this list in itself is long enough, in fact it is only a fraction of the information we have recently collected concerning both companies and individuals that are known or suspected to be involved in fraud and money laundering. However because of the size of the entire list it is impractical to reproduce it as part of this newsletter.

We therefore would welcome feedback on a new initiative that we plan to launch within the first quarter of 2001: providing a due diligence alert list on CD-ROM or through a separate internet site. This would mean that the entire blacklist could be made available in a searchable format.

We would welcome your feedback and comments on such an initiative.

YOU CAN FIND ADDITIONAL INFORMATION AND UP TO THE MINUTE NEWS ON MONEY LAUNDERING AT OUR WEB SITE www.proximalconsulting.com

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

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

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PROXIMAL CONSULTING DUE DILIGENCE WARNING LIST JANUARY 2001

Based on information we have received we believe that the following companies may be either offering financial services in various jurisdictions without the necessary licenses or be involved in fraudulent activity

Access Bank International (Nauru), Ltd.

629 Second Street, SE
Puyallup, WA

Allied Boston Bank Inc (Palau)

100 Pine Street Suite 2260
San Francisco
CA 94111 OR
523 Toirois Malakal
Koror
Republic of Palau 96940

Al-Manaf International Merchant Bank

1819 Pauger Street
New Orleans, LA

Atlantic Bank, Ltd.

1300 Division Street, #200
Nashville, TN

Atlantic Caribbean Bank & Trust Co., Ltd.

St. Johns, Antigua

Banca Populara Ardealul

Bistrita, Romania
(NOTE: NOT AUTHORISED BY GOVERNMENT OF ROMANIA)

**Banhofstrasse, Commercial Bank AG
(Melchizedek)**

110 East 59th Street
6th Floor
New York, NY
(NOTE: MELCHIZEDEK DOES NOT EXIST! SEE NEWSLETTER NO 3 OR OUR WEBSITE)

Bank of Business Western Samoa

12-A Nampacia-Center
Apia Upolu, Samoa OR
6223 NE 8th Avenue
Portland

Bank of Finance

P. O. Box 770729
Woodside, NY

BANQUE de Petite MARTINIQUE

St. George's
Grenada, West Indies

Caribbean Bank of Commerce, Ltd.

Chase Bank of Las Vegas, Nevada

C.I.A. of Las Vegas

7624 San Mateo Way, Suite #206

Las Vegas, NV

(NOTE: STRUCK OFF THE REGISTER IN ANTIGUA & BARBUDA)

Commercial Credit of New York, LLC

Holding Group Corporation

Commercial Credit of New York Holding Corp.

Commercial Banking Group

Commercial Bank, A.G.

Creditanstalt A.G.

110 East 59th Street (6th Floor)

New York, NY

(NOTE: NONE OF THESE ENTITIES ARE CONNECTED TO CREDITANSTALT AG)

Commercial Intercontinental Bank, Inc

(NAURU) 8249 NW 36th Street, Suite N-106

Miami, FL

(NOTE: LICENCE REVOKED BY GOVERNMENT OF NAURU)

Digital Commerce Bank (Kuiu Thlingit Nation)

Top Floor, Atlantis Building

Shallow Draught

Bridgetown

Barbados

(NOTE: BANK CHARTER "ISSUED" BY A NON EXISTENT INDIAN NATION!)

Dominion International Bank, Ltd.

Christchurch

Barbados, West Indies

(NOTE: BANKING LICENCE REVOKED)

Dunbar National Bank of Maryland

<http://www.ncsinccards.com>

European Union Bank

(Address Undetermined)

**The Excelsior Bank/The Excelsior
International Bank Corp.**

Barbados, West Indies

Fidelity International Bank

520 Madison Avenue

New York, NY

First Americans Trust

211 South Washington Street

Sonora, CA

First Americans Trust Company

"aka First Americans"

Oklahoma City, Oklahoma

Apache Tribe General Bank

of Anadarko, Oklahoma

620 East Colorado
Anadarko, OK

First Lenape Nation Bank

Route 1, Box 174D
Anadarko, OK

First National Bank, FSB

First National Bank National Trust and Savings Association

First National Trust

2614 Wyoming Ave.
Burbank, CA

First Savings Bank

800 W. Oakland Park Blvd., Suite 306
Ft. Lauderdale, FL

First State Bank of Montana

P. O. Box 278
Fairfield, MT

First Zurich National

P. O. Box 20290
Cheyenne, WY

Focus International, Ltd.

West Indies

Greater International Bank of Nauru

719 E. Bird Street, Suite 444
Miami, FL
(NOTE: LICENCE REVOKED BY GOVERNMENT OF NAURU)

Industrial Bank, Inc.

Samoa
(NOTE: LICENCE REVOKED BY GOVERNMENT OF SAMOA)

International Business Bank Corporation Ltd

Level 2 Chandra House
Apia Samoa
(NOTE: LICENCE REVOKED BY GOVERNMENT OF SAMOA ON 12 OCTOBER 2000)

Liechtensteinische-Amerikanische Union Bank Corp.

USA Management Office
545 8th Avenue, Suite 401
New York, NY

London Chartered Bank, Ltd.

(Melchizedek)

28720 Roadside Drive, Suite 178
Agoura Hills, CA
(NOTE: MELCHIZEDEK DOES NOT EXIST! SEE NEWSLETTER NO 3 OR OUR WEBSITE)

Meridian Merchants Bank, Inc. (Nauru)

1420 Fifth Avenue, 22nd Floor
Seattle, WA

Metrobank International Limited
PO Box 211 Moore Stephens House
Lini Highway
Port Vila
Vanuatu

Midland Credit & Guarantee Bank, Ltd.
67 Wall Street
New York, NY

Mitsubishi Trust & Banking Co. Finance Corporation

(Address Undetermined)

Mitsubishi Finance Corporation

(Address Undetermined)

(NOTE: NEITHER OF THESE ENTITIES ARE RELATED TO MITSUBISHI TRUST & BANKING CORPORATION)

Netware International Bank

136 Stutts Road #2
Mooresville, NC

Panacea Bank & Trust

P. O. Box 30054
Bellingham, WA

Prime Bancorp, Ltd.

82 Wall Street
New York, NY

Richard Jones' Bank

111 South Lewis Street, Apartment B
New Iberia, LA

Royal Meridian International Bank

Nauru, Mid-Pacific

South Atlantic International Bank, Limited

f/k/a Americapital International

(NOTE: BANKING LICENCE HAS BEEN REVOKED)

Swiss Merchant Bank, AG

1730 K Street, N. W.
Washington, DC

Sunfirst Trust Co., Ltd.

912 Thousand Oaks Drive
Virginia Beach, VA

Sunlight Church World National Bank

2255 West 15th Street, #2
and
777 South Figueroa Street
Los Angeles, CA

**United Bank and Trust Company
(NAURU)**

13351 Bridgeford Avenue #36
Bonita Springs, FL
and
P. O. Box 9076
Naples, FL
(NOTE: LICENCE REVOKED BY GOVERNMENT OF NAURU)

United Funding Bancorporation, Ltd.

318 North Carson Street, Suite 214
Carson City, NV

United Overland Trust & Bancorp

2005 Woodmont
Austin, TX

United Pacific Bank, Ltd.

Port Vila, Republic of Vanuatu
South Pacific

Western Credit Bank, L. L. C.

245 Winter Street, S. E.
Salem

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