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THE MONEY LAUNDERING MITIGATION FIRM

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

MONEY LAUNDERING & BUSINESS CRIME NEWSLETTER ISSUE 7 JUNE 2001

This newsletter is published regularly and delivered to clients and contacts of Proximal Consulting by e-mail
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ARE YOU UNWITTINGLY LAUNDERING MONEY?

As we described in our last newsletter one consequence of increased anti-money laundering legislation and regulation (which is predominantly aimed at financial institutions) is that launderers are utilizing the services and facilities of other companies and business sectors. This trend has already become prevalent in the United States particularly in the context of their dealings with South America.

Executives from some of the top corporations in America - including Hewlett-Packard, General Motors and Westinghouse - were summoned to the US Department of Justice last June because their companies were linked to South American drug cartel money.

laundering operations. It has also been reported that Philip Morris Companies Inc., is under investigation for laundering drug proceeds.

The black market peso exchange in which Colombian pesos are exchanged for dollars and then used to purchase goods in the US poses problems for numerous different types of businesses. These narco dollars are being used to buy household appliances, consumer electronics, alcoholic drinks, cigarettes and car parts. Ironically - and displaying some sort of black humour - money is laundered in part through buying washing machines.

Another problem is where US companies accept payments in cash or through third parties. The current advice being given is for companies to avoid all third party payments.

Whirlpool is the worlds largest manufacturer of home appliances - but in 1997 the company's name started to appear in connection with money laundering, Due to this Whirlpool instigated robust KYC policies that includes establishing a profile for every trading partner that is located in a high risk money laundering area. The profile includes detailed information on the company's principals, financial institutions it uses, the geographical regions in which it operates, any related companies and contract expectations.

As well as various other controls, all Whirlpool employees in positions that might include the risk of money laundering undergo annual training. The general advice to all companies at risk of being unwittingly involved of money laundering is to take the following steps:

- Ø Have a clear written policy that recognises money laundering as a serious problem which will not be tolerated and ensure that this policy is communicated to all staff
- Ø Define specific KYC (Know Your Customer) and due diligence requirements to all staff
- Ø Establish an independent reporting system so that any employee can report money laundering suspicions
- Ø Appoint a designated compliance officer who is sufficiently senior to investigate, correct and take action on potential problems
- Ø Conduct a regular audit of the systems and processes to ensure compliance

Additionally the following red flags should be watched for:

- Ø Payments from third parties - although this is common in Latin America, any third party payments should be scrutinised
- Ø Distributors or partners without appropriate facilities - if the facilities of your partners do not match the financial turnover or stated activities of their company, you should be wary. For example do their offices and warehousing facilities match with what they are telling you?
- Ø Unknown entities - beware of unknown entities, particularly where no one else in your industry has heard of the newcomers

- Ø Be suspicious of contracts that have a round number total - most transactions that involve commodities or products do not result in exact totals

And of course, the normal red flags to indicate possible money laundering activities still apply.

OCC FRAUD LETTERS – CLAIM YOUR REFUND HERE

The United States Comptroller of Currency (OCC) issued a fraud alert at the end of May this year which warned against fraudulent letters being sent out – by the OCC! Fraudsters have taken a leaf out of the Nigerian book and are sending letters out claiming that the OCC owe the recipient (usually an international company) a large monetary refund, which will be repaid when the recipient of the letter pays a “International Conversion Distribution Charge” of 1% of the total.

The fraudulent letters have what appears to be an OCC letterhead (which in fact is not even a copy of a genuine letterhead), but the telephone numbers quoted should have aroused suspicions. These are “Direct Satellite numbers” – which in reality are located in the geographical area of the Indian Ocean as opposed to Washington, where the OCC's headquarters are.

The letters themselves are almost classics of their type, containing such comments as:

“This avenue has been created by President George W Bush to offset all outstanding foreign payments On-Hold. In order to rehabilitate our past dignity to the International Community”

“We are delighted to inform you that we are in receipt of your payment from the Federal Reserve Bank of New York with an instruction to credit your account. Unfortunately the credit advice instruction requires you to pay 1% US\$ 415,000.00 for International Conversion Distribution Charge. Your account will be credited upon receipt of the International Conversion Distribution Charge”

“The Comptroller of Currency do not entertain any telephone conversation with customers or receive any correspondence via mail for further enquires, please bear with us, this has been our procedures when we are dealing with huge amounts usually above US\$ 10,000,000.00. Failure to pay your IDC to us within 48 hours, your payment scheduled for this quarter will be automatically cancelled. The Comptroller of currency remain communicated (?) to our financial principals. We hope you will benefit from our team of experts”

The real OCC advise recipients of such letters to “exercise extreme caution”. Our more prosaic advice would be to file such missives in the bin!

THE TOP TEN INVESTMENT SCAMS IN THE UNITED STATES

State securities regulators in the United States have recently released various lists of the top ten investment scams and frauds that they are fighting, and thus investors are losing money to. We summarise below the most common fraud types from the various lists published. One overriding trend is the offers being made by fraudsters of low risks and

high returns – although this appears to be an impossible combination, billions of dollars are lost each year on the back of such promises. The top ten types of scams are:

1. PROMISSORY NOTES

The horror stories relating to these “financial instruments” still abound – most offers promise returns of above 15% monthly. In Indiana 18 elderly investors lost \$1.4 million in a promissory note fraud; The perpetrators even knelt in prayer with their victims to gain their trust (and presumably to seek divine guidance)

2. INTERNET FRAUD

Whilst a very general term covering a multitude of sins, there is no better place to peddle every kind of investment fraud including pyramid schemes, offshore “banks” and prime bank instruments

3. TELEMARKETING FRAUD

Before the Internet was invented, high pressured sales of fraudulent investments by telephone were a key area of fraudulent activity. Even with the Internet the practice continues

4. INVESTMENT SEMINARS

Big business in the States, where unlicensed “experts” try and sell financial products that they have an interest in

5. AFFINITY GROUP FRAUD

More of a method than a fraud type: where criminals use their victim's religious or ethnic identity to gain their trust: no such group is immune to these fraudsters. In Texas an Indian immigrant who taught in Sunday school took fellow Indian parishioners for over \$1million

6. PONZI/PYRAMID SCHEMES

Another old favourite, named after the Italian Charles Ponzi who emigrated to the United States in the early 1900s. When there he defrauded investors out of \$10 million by promising 40% return from arbitrage profits on International Reply Coupons.

7. UNLICENSED INDIVIDUALS

Common the world over: unlicensed individuals selling financial products. However even licensed broker-dealers and agents figure highly in complaints where they have sold securities to unsuitable investors, failed to disclose critical information, fraudulently offered securities and manipulated the market in low priced microcap offerings

8. PRIME BANK INSTRUMENTS

Another old favourite: access to the secret investment portfolios of the world's elite banks and bankers (or so the sales pitch goes). Some new twists are that purveyors of these schemes now often target conspiracy theorists, promising access to secret investments used by the Rothschilds or Saudi Royal family. In North Dakota it is suspected that a small group of salesman, including a local pastor, used religious and family ties to defraud investors out of \$2 million in a prime bank instrument fraud

9. VIATICAL SETTLEMENTS

In the legal practice of viatical investing, investors buy life assurance policies of people who are dying from a terminal illness (such as AIDS or Cancer) to help with their medical bills. The investor then gets paid out when the person dies. However a few new twists are

emerging: such as the policy holder doesn't have a terminal illness or the policy holder doesn't exist

10. PAYPHONE AND ATM SALES

Even we are having some difficulty understanding the attractions of this one: In Washington DC 4,500 people have lost \$76 million dollars by buying coin-operated customer owned telephones. Investors leased payphones for between \$5-7,000 and were promised annual returns of up to 15%. State regulators describe these investments as nothing but Ponzi schemes

WANT TO BECOME A RUSSIAN JEW?

It has long been suspected that a proportion of Jewish emigrants from Russia to Israel were not in fact Jewish, but gentiles (for whatever reason) trying to escape. Confirmation of a further criminal side to this topic has been reinforced by the arrest of two managers of a company, Vesta in St Petersburg. Tamara Timofeeva and Eric Suomalinen have been accused of fabricating Jewish identities for clients in return for fees of upto £2,500. For this the company would:

- Teach potential emigrants about Jewish traditions, customs and manners
- Teach clients to speak Russian with a Jewish accent
- Create false documents to support the claims of the client. Fabricated documents include passport office documents and birth certificates
- The company apparently also specialised in manufacturing "evidence" that clients lives were under threat. Anti-semitic letters were created with phrases used such as "Jews, go to Israel" and "Suitcase, railway station, Israel"

The company appears to have been almost always successful in obtaining the emigration to Israel of their clients.

No one knows how many clients were assisted by this company – but the potential market for such services is seemingly massive as 19,000 people emigrated from Russia to Israel last year and between 1988 and 2000 900,000 people emigrated from Russia to Israel. To add to the confusion it is not known how many real Jews that there are in Russia: official estimates put the total at about 1 million; but it is entirely possible that this figure is actually much higher due to Jews hiding their national identity to avoid discrimination.

WANT TO CAPTAIN A SHIP?

For all readers who have an ambition to captain a ship, then we recommend that you make an application for a ships' officer certificate in Panama, which has the largest number of ship registrations in the world. The Secretary General of the International Transport Workers' Federation applied for, and was given a Panama Maritime Authority Certificate for first officer. As a first officer you are the second most important person on the ship after a captain, and are able to take over from the captain. The certificate cost \$4,500 and all that was needed was a form and a passport photograph. The only problem is that the successful applicant had no seafaring experience whatsoever – apart from crossing the channel to France as a passenger.

The Seafarers International Research Institute has uncovered more than 12,500 cases of certificates forged by criminals or maritime authorities; it is estimated that 40% of basic safety training certificates are false and a very substantial number of qualifications for officers using emergency equipment are false. Moreover a further worrying trend is the use of false certificates to then obtain legal qualifications from authorities that do not check or confirm the provenance of the documents submitted to them to support applications.

WANT TO BUY ANOTHER PASSPORT? YOU MAY BE TOO LATE..

The Caribbean Island of Dominica is reviewing its economic citizenship program. In simple terms this scheme enables you to buy a passport. Not unsurprisingly the scheme is being

reviewed because, in the words of the island's Prime Minister "it is giving Dominica a bad name as a number of people who hold Dominican passports were discovered to have criminal records" Over 1000 people have already become "economic citizens" of Dominica.

Neighbouring St Vincent has recently scrapped a similar scheme there. Ralph Gonsalves the Prime Minister of St Vincent commented that "The citizenship of this country will no longer be for sale. We are not selling our citizenship to vagabonds and rogues". However the economic downside of this decision is that the previous administration had forecast revenue of \$4.4 million from this scheme. More crucially if you hold such a passport, St Vincent intend to revoke them.

KANPUKIN ZANDAKA KAKUNINSHO JAPANESE BONDS

Whilst certainly not new, we think it worthwhile to run a warning about the fictitious "KanpuKin Zandaka Kakuninsho" Japanese bonds. In existence since 1984, examples of these bonds make regular reappearances. The certificates claim to be issued by the Japanese Minister of Finance to certify the existence of a remaining balance on a Japanese government bond refund. The document confirms that the Japanese Minister of Finance will exchange the amount specified for an equivalent amount of Japanese government bonds.

Essentially an IOU, each document is dedicated to a specific Japanese person and can be exchanged for 15 year bonds via the Bank of Japan "and the Dai Ichi Kangyo Bank as an agent of the Bank". They claim to have been issued in 1982 – or Showa 57 in the Japanese calendar. Their face value range from Y10billion to Y500 billion.

Leaving aside the various conspiracy theories that have sprung up around these bonds, and many fascinating stories of how they could have originated, the simple truth is that the Japanese Finance Ministry confirm that:

We have never issued such "KanpuKin Zandaka Kakuninsho" and such a certificate could never exist legally

In other words, however plausible claims are concerning the legitimacy of these certificates are, they are worthless.

GLOBAL NEWS ROUNDUP

UNITED STATES: The Securities and Exchanges Commission has confirmed that it is putting compliance with money laundering rules at "front and center" in its examination of broker-dealer firms. The SEC has stated that Securities firms must understand the "grave risks" they face if they let criminals use them to launder money. Whilst not all firms in the securities industry are yet required to report suspicious activities relating to money laundering all firms have ""significant compliance obligations" under the Bank Secrecy Act.

COLOMBIA: Colombia now has another area of illicit activity in which it excels: fake currency. Last year fake US currency with a face value of \$1 million was recovered in just one raid: Colombia is now regarded as the source of the world's finest counterfeit currency. This has developed as an offshoot of the cocaine trade as the demand for fake dollars to buy coca base from easily duped farmers has encouraged the growth of

counterfeit workshops. These are particularly prevalent in the agricultural region that surrounds the city of Cali.

AUSTRALIA: The Australian media have been running various stories about the alleged laundering of money through Australian banks by Russian organized crime groups. ABC TV have reported that more than US\$ 200 billion has been moved out of Russia since the collapse of the Soviet Union and some of this amount has passed through Australian banks. The Police Commissariat of New South Wales have commented that the "Russian Mafia" is buying expensive real estate and settling in Sidney, Melbourne and other major centres. The police warn that "Russian criminal groups in Australia are paving their way into the banking system of minor Pacific states".

LIECHTENSTEIN: In early June Liechtenstein's financial community launched new guidelines to combat money laundering through the principality. The aim of this private sector campaign is to both clean up Liechtenstein's image and get it removed from the FATF "blacklist" of countries that are soft on preventing money laundering.

RUSSIA: In April Russia finally ratified the 1990 international convention to combat money laundering. Once again this seems to be a direct consequence of the country being named on FATF's "blacklist" of 15 countries issued last year. Internal laws are expected to follow. Notwithstanding the damage already done to Russia's reputation because of the many and various financial scandals over the last few years, the ratification process could have one unlikely benefit for the country. Mikhail Zadornov, a deputy on the Duma's budget committee commented that "When Russia joins the convention, it will gain the ability to confiscate funds which were acquired in Russia in criminal ways and bring them back from abroad. We will join a respectable society which fights money laundering"

CANADA: The Nathanson Centre for the Study of Organized Crime and Corruption at Toronto's York University has issued a report observing that Canada's money laundering laws may be doomed because they largely rely on bankers becoming crime fighting sleuths. Intended new laws in Canada may require banks, trust companies, insurance firms, casinos and others to report suspicious dealings and cash transactions of \$10,000 or more. However the report, based on research of the six largest banks in Canada found that:

- There is a wide discrepancy across banks as to what was reported as a "suspicious transaction"
- There is a low level of computerised processing, thus ongoing transaction monitoring was impossible
- Lack of follow-up from the Police as to the outcome of case

The reports conclusions, which seem to us to be universally applicable, are that "the clumsy novice is most often the criminal that is caught in what is seen by some critics to be a very expensive and intrusive web".

THE FINAL WORD

Police in Perth, Scotland responded to a reported house break-in and found a man in the middle of the road outside the house with a broken hip. A subsequent x-ray of the man's hip also showed some of the contents of his stomach – thousands of pounds worth of jewellery he had just stolen. Detectives concluded that the thief heard the police coming,

swallowed the stolen jewels to hide the evidence of this break in and then proceeded to slip and fall as he tried to escape out of the second storey window of the house.

NINE NEW WHITE PAPERS ON BUSINESS CRIME ISSUES ARE NOW AVAILABLE FOR DOWNLOAD AT OUR WEBSITE. TOPICS INCLUDE:

- The Abacha Case
- Nigerian & West African Fraud
 - Reinsurance Fraud
- Steps to control Money Laundering
 - Russian Organized Crime
- Money Laundering through Stock Exchanges
- Caveat Emptor: how to protect yourself from financial fraud

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