



## 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: [info@proximalconsulting.com](mailto:info@proximalconsulting.com)  
[www.proximalconsulting.com](http://www.proximalconsulting.com)

THE MONEY LAUNDERING & BUSINESS CRIME MITIGATION FIRM  
due diligence \*training \*asset tracing \*compliance & assurance \*investigations \*strategic advice  
\*research

### MONEY LAUNDERING & BUSINESS CRIME NEWSLETTER ISSUE 13 – JULY 2002

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

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#### DUE DILIGENCE FAQ

Carrying out due diligence research on individuals and/or companies is one of our core business areas. As such it is an area that frequently prompts questions from clients and potential clients on a variety of issues. Peter Lilley answers some of the most commonly posed questions.

##### *What are the advantages of carrying out due diligence enquiries?*

Due diligence enquiries are essential in today's market for a variety of important reasons. At a very basic level it ensures that the person or company that you are dealing with (or intend to deal with) actually exists – or are who they say they are. This may seem a very fundamental point, but we do on quite a few occasions find that the person/company under examination is a fiction. Secondly – and related to the first point – even if the person/company does exist, it is foolish to take what they say at face value without verifying it. Again we have many examples where the subject of our research is a known criminal, fraudster and/or money launderer. Without due diligence, our client runs the risk (if not the certainty) of losing money, their good reputation – or both. Thirdly, due diligence enquiries are critical to prevent money laundering and ensure that “Know Your Customer” regulations are complied with. Moreover our due diligence enquiries seek to show that the subjects are “clean” – that they have no connections with terrorism, organized crime or money laundering activities. Thus all of our due diligence work is focused to ensure that our client does not

become involved with any individuals or companies which could cause reputational risks, compliance problems and/or financial loss.

*In what geographical areas does Proximal Consulting carry out due diligence enquiries?*

In simple terms, we are able to carry out research on a worldwide basis. Whilst we still do a substantial amount of work in Russia, the former Soviet Union and Eastern Europe, our activities are not solely focused there. For example, we carry out many enquiries in mainstream European locations, the United States and South America. Additionally we are active in the Far East, Scandinavia, Australasia and Africa. We have a very good combination of technological resources and a global network of associates.

*At what stage of a customer relationship do your clients ask you to carry out due diligence enquiries?*

Normally we carry out our research before our client establishes a relationship with the subject of our research. However it is also perfectly possible to carry out research at any stage of the customer relationship. For example, our client may have had a relationship with Person Y for a number of years, but something may have occurred which gives rise to suspicions or doubts, and thus a due diligence enquiry would be a prudent safeguard.

*What kinds of enquiries are made as part of a due diligence report?*

Whilst each report is different – and it must be borne in mind that the types of information that can be obtained in each country varies – there are various fundamental enquiries which are made. For commercial reasons it would be foolish for me to outline exactly what we do, how we do it or who we use but I believe that our activities are very complete and competent. Most importantly I know, from the facts that we have discovered in relation to individuals and companies, that our methodology is very effective.

*Is the due diligence work that you do “invisible” to the subject of the research?*

Unless our client tells us otherwise, everything that we do should be totally invisible to the subject of our enquiries. We believe that because of our extensive experience in this area we are able to obtain detailed information but still be extremely discrete in our activities. Moreover we are crucially aware of not doing anything that would be an embarrassment to our client.

*What are the charges for a due diligence report?*

We work on a fixed price basis – in this way our client knows exactly what the charges are. Dependent on our client's exact requirements then the cost is between £500 and £750. I have the view – based both on the quality of our reports and what our competitors charge! – that this represents very good value.

*Is it possible, after the initial report, for you to carry on “monitoring” the subject of your research?*

We have been asked this much more recently. The point that is being made is that when we carry out due diligence research we are looking at the current position and historical activities of the subject. Whilst we cannot predict the future, it would be very beneficial if we could provide a service to our clients that would alert them if anything of note happened involving the subject in the future. This is why, from later this month, we will be offering a new service which, for a small additional fee, monitors the subject of our research for a period of a year after our initial report. In that period we would run various checks on a monthly basis and inform our client of any material findings. It will then be possible to renew this monitoring service on a yearly basis. As an example, if we produce a due diligence report on Company Z in July 2002 we would then monitor this company until July 2003. If through our monthly checks we discover, say in December 2002, that an event has taken place that could materially affect our client's relationship with Company Z we will immediately inform our client.

*What about confidentiality?*

Client confidentiality is paramount – we never divulge (under any circumstances) the names of our clients or the type of work we carry out for them. All information provided to us by our clients is treated with the utmost discretion. It is our aim to establish a partnership with our clients so that we can be trusted completely to assist them in the most delicate and sensitive matters.

*Have you seen any examples of what happens when due diligence enquiries have not been carried out?*

I think that this is a very good point – and a suitable one to end on. Over the years I have been involved in hundreds – if not thousands – of fraud and money laundering investigations. This is where money has been lost, or reputations affected. In a high proportion of these cases no due diligence was carried out at the beginning of the relationship. If due diligence had been carried out in a proper manner then it is certain that many of the problems which subsequently occurred would have been prevented. Just as importantly, the overall costs involved would have been much lower. One of my favourite sayings in this respect is that “An ounce of prevention is worth a pound of cure” – or in metric terms “A gram of prevention is worth a kilo of cure!”

#### THE SPECIAL FORCES COMMANDO – PROBABLY FROM NIGERIA!

You may have recently received an e-mail from Bradon Curtis, a special forces soldier based in Afghanistan. He has found \$36 million in drug money during a patrol. The cash is currently kept in a suitcase – all he needs is your help moving the cash out of Afghanistan. As the e-mail continues:

We will thus send you the shipment waybill, so that you can help claim this luggage on behalf of me and my colleagues. Needless to say the trust in you at this junction is enormous. We are willing to offer you an agreeable percentage of these funds.

Sounds strangely familiar? Probably because this is the latest twist in the Nigerian 419 saga. But far from being simply a joke, the number of recipients who are still taken in by such irresistible offers is staggering, according to the latest FBI figures:

- 2,600 Americans said that they were victims of 419 frauds in 2001
- Sixteen reported losses totalled \$345,000
- Two individuals lost over \$70,000 each
- The US Secret Service gets about 13,000 advance fee scam letters forwarded to its offices every month
- It also gets approximately 100 telephone calls each day from victims or potential victims

#### A SPIDERS WEB - FROM MOSCOW TO NEW YORK VIA PARIS, RIMINI & TAUNTON, DEVON(?!)

Although (for obvious reasons) full details are not available, over 50 individuals have been arrested in “Operation Spiderweb”, which is in turn linked to money laundering investigations involving the Bank of New York. Described in media reports as “a \$9 billion money laundering ring” and “the biggest money laundering operation in history”, the case has a dazzling array of alleged participants, locations and companies. Italian police suspect that as much as \$9 billion of Russian organized crime funds were laundered in six years by a network allegedly run by two Russian twins, Igor and Oleg Berezovsky. The proceeds of drugs, arms and human trafficking have been traced from Russia to New York and through six European countries.

Ivor Berezovsky was arrested in France, whilst his brother Oleg is believed to be on the run in Russia. Police are also investigating the role of Florida Trading, a now defunct British company that was based in Taunton, Somerset (hardly noted previously as a centre of money laundering activity!) It is alleged that the company received funds from one of the key laundering companies in New York and passed them onto Italian companies. However it has also been stated that there is no reason to believe that this company knowingly received the proceeds of crime.

It is believed that the laundering process began in 1996 when two banks in Russia transferred funds to accounts in the name of “Benex Worldwide” at the Bank of New York. The funds were then sent to accounts in Europe and ultimately returned to Russia – by then the money had been washed and was “clean”. Peter Berlin, a director of Benex was arrested in 1998 as part of the Bank of New York money laundering case.

However Italian police noticed that dozens of companies across Europe were transferring small amounts of money to each other for non-existent work. The transfers – although small – were

effected on a daily basis, and thus cumulatively totalled billions of Euros. The funds were ultimately returned to Russia to companies with links to major organized crime families.

In June an operation in seven different countries resulted in the arrest and charging of 50 people, half of whom are of Russian descent. Igor Berezovsky had ten companies registered at an address on the Champs Elysée in Paris. One of them was involved in a large contract to rebuild Russia's Siberian railway. Another company in Rimini, Prima SRL was owned by Oleg Beresovsky and arranged contracts with other companies all over Europe. A Couple were arrested in Monaco on the weekend of the Grand Prix and it has been reported that their bank accounts holding \$8 Million have been frozen. Further reports suggest that over 300 bank accounts in Europe and North America have also been frozen as a result of the investigation. It has also been reported that another Russian, Andreas Marissov has been arrested. He is suspected of providing funds and other support to rebel groups in Chechnya.

#### GLOBAL NEWS ROUNDUP

SWITZERLAND: On 27 June 2002 Swiss authorities closed three companies that did not have the necessary authorisations to conduct business combined with the fact that the companies did not carry out the necessary due diligence obligations placed upon them. The three companies involved are Allguard AG (based in Schlieren and promoting itself as offering "Transactions and Management – safe and sound"); Fimanet Finance Management Network AG (based in Oberaach) and Aggadon AG (based in Zurich and offering currency trading and financial consultancy).

UNITED KINGDOM: A Turkish asylum seeker with a criminal record fooled the UK Home Office about his identity by simply changing his birth date. He applied for asylum from jail, where he was serving a sentence for supplying heroin. All of the details he provided were correct – except the day he was born, the month and year were correct. He was granted asylum – and the error was only made public when the man was jailed for 18 years in the UK after being found guilty of trying to kill a police officer.

UNITED STATES: After Enron and WorldCom what next? A recent survey of top US executives found that although 99% of those surveyed said that they were honest in business, 82% of them admitted to cheating at golf: even though there were no large salaries or bonuses at stake (just pride!).

UNITED STATES: On 27 June the Drugs Enforcement Administration announced charges against a former Mexican governor, a former Lehman Brothers employee and five others. They have been accused of smuggling cocaine into New York through Mexico and laundering millions of dollars in drug proceeds. It is alleged that drug traffickers paid Mario Ernesto Villanueva Madrid, the former governor of Quintana Roo, \$30 million in the mid 1990's to move drugs with the co-operation of the government. Consuelo Marquez, a former account representative with Lehman Brothers in New York, is alleged to have laundered about \$15 million for Villanueva Madrid through establishing offshore corporations thus disguising the ultimate ownership of the funds. The drug trafficking was carried out by the Southeast Cartel, one of Mexico's most powerful and violent narcotics organizations. Cocaine was shipped from Colombia to various locations in Belize and Quintana Roo, Mexico by speedboat and then transported to the US.

RUSSIA: A new criminal code has been (finally) implemented in Russia with the aims of providing fairer trials, curb abuse and corruption, ease the problems in the prison system and grant defendants more rights. However there have still been grave doubts expressed as to whether these reforms go far enough – particularly as the acquittal rate in Russian trials is approximately 0.05%. In simple terms, once you are in custody awaiting trial you are not likely to experience freedom again for many years. Under the new system detainees are entitled to a two-hour meeting with a lawyer before being questioned and can only be remanded for two days unless a judge grants an extension. Judges can now authorise arrests, searches and detentions, whereas previously prosecutors had unlimited powers of arrest and detention. However the new code does not solve the more fundamental problem of corruption. A detailed study of this subject released in May found that Russians spend an incredible \$274 million a year in bribes to court officials –equal to \$2 per capita!

UNITED STATES: In previous months we have deliberately refrained from mentioning Enron and similar US corporate debacles. However one interesting fact that has now emerged is the correlation between such "failed" companies and their auditors: Arthur Andersen. The roll call is – for want of a better term – impressive:

- WorldCom, audited by Arthur Andersen: "misclassified" \$4 billion worth of maintenance costs as capital spending
- Enron, audited by Arthur Andersen: where to start? How about "creative" use of off balance sheet entities
- Qwest, audited by Arthur Andersen: Forced its Chief Executive to resign, is believed to be the subject of a US Attorney's Office Investigation, a FBI investigation and SEC scrutiny
- Global Crossing, audited by Arthur Andersen: faces probes by the SEC and FBI regarding its accounting practices
- Waste Management: audited by Andersen who subsequently made a \$7 million settlement with the SEC

UNITED KINGDOM: An attempted fraud (with a touch of the surreal) against St Paul's Cathedral in London that took place in 1999 has come to light. A gang of fraudsters, posing as film financiers, offered £50 million to restore the historic building's dome commenting to Cathedral administrators that the building was a fantastic place, but "you want to get rid of all that scaffolding". The gang said that to trigger the donation the cathedral would have to put £100 million on short term deposit with the United States Federal Reserve. It is not clear as to whether the promised £50 million would be the "guaranteed profit" on this investment or be paid once the £100 million was handed over. The church was assured that there was no risk to this arrangement. Ultimately no money was paid over and various arrests were made. However a spokesman for St Paul's admitted that the fraudsters were "sophisticated and plausible...Initially we wanted to give them the benefit of the doubt because we do need a great deal of money to keep this building going, It needed to be taken seriously, but clearly as we spoke to them the warning bells started to ring"

#### HACKED, ATTACKED AND ABUSED: DIGITAL CRIME EXPOSED

"Hacked, Attacked & Abused: Digital Crime Exposed", the new book by Proximal Consulting's Peter Lilley will be published in September 2002. It provides an eye opening account of the various risks posed by the digital age, and what can be done to secure both individual and corporate information and privacy. Risks such as:

- organized digital crime;
- cyber laundering;
- fraudulent Internet Web sites;
- hacking and cracking;
- viruses;
- Web site defacement;
- unauthorised disclosure of confidential information;
- electronic cash;
- identity theft;
- hardcore and child pornography;
- information warfare;
- denial of service attacks where systems are inaccessible to legitimate users;
- invasion of digital privacy;
- government digital monitoring such as Echelon.

This is an in-depth exposé of the Internet underbelly giving a compelling account of the risks inherent in our reliance on technology. It provides an overview and evaluation of crime, fraud and risk in the digital age by exploring how we got where we are now, where we are going and what risks we face on this journey. Terrorists, organized criminals, fraudsters and money launderers have all jumped at the opportunities offered them. In the meantime Hackers, Crackers and Virus Creators have tried and succeeded in subverting the online environment. It is as equally relevant to business as it is to the individual, we are all customers in the brave new world of the Internet.

Peter Lilley looks at the major themes in turn:

- The development of technology and the way it has impacted on our personal and business lives
- Forms of attack and the use of technology to facilitate illegal activities
- The Internet and the way it lends itself to abuse so readily
- Information warfare: the use of technology to attack other nations and the relevance to business
- The loss of privacy: what sort of information is stored on individuals, how it's used and when that becomes unethical
- The practical steps users can take to manage and minimise the risks of electronic crime and fraud

Further advance details of "Hacked Attacked & Abused" are available on our website ([www.proximalconsulting.com](http://www.proximalconsulting.com)).

## DUE DILIGENCE WARNING LIST

We detail below various dubious, questionable or fraudulent entities and transactions that we have recently become aware of. As always – Caveat Emptor (Buyer Beware)!

### 1. TRAFOL / VCI PRIVATE BANKING

Italian securities regulators (CONSOB) have issued a warning regarding Trafol and VCI Private Banking. These firms have offices in Zurich and Lugano but have no relevant authorisations to provide investment advice in Italy (including "cold calling" from outside the country). Our own enquiries suggest that these companies may be associated with Planet Finance Ltd. and VCI Asset Management.

### 2. CASSA DI INVESTIMENTO IMMOBILIARE s.r.l.

CONSOB have also issued a warning regarding this company, based in Rome. The company has been prohibited from offering real estate investment contracts. Previously CONSOB had suspended the activity of the company for 90 days.

### 3. VARIOUS COMPANIES

The Central Bank of Ireland issued advisories on 12 June 2002 regarding various companies that are not authorised to provide investment business services and/or investment advice in Ireland. These companies are:

- CLOVER INTERNATIONAL ADVISORS (USA)
- INTERNATIONAL CONSORTIUM GROWTH HOLDINGS (Bahamas & USA)
- LLOYDS AND ASSOCIATES LTD. (SPAIN)
- MILLENNIUM FINANCIAL LIMITED (Uruguay, Brazil, Switzerland, Singapore & Mexico)

### 4. EUROSTAR PARTICIPATIONS

The Netherlands Banking & Finance Commission has warned about the activities of this company, which is located at:

Nieuw-Mathenesserstraat 39-41  
3029 AV Rotterdam

It is believed that this company is offering investments that will earn a monthly return of 4% and be reimbursed after a year. The company does not have the necessary authorisation to receive deposits from the public.

### 5. ORIGINAL FINE MINT

The Office of the Superintendent of Financial Institutions, Canada has issued a warning about various companies that are not authorised banking or deposit taking institutions in the country. The companies also operate websites which "contain erroneous and misleading information on

the requirements to incorporate banks in certain offshore jurisdictions". The related companies are:

Original Fine Mint  
2603-558 Broughton Street  
Vancouver BC  
V6G 3E3

British Capital Group	<a href="http://www.britishmint.com">www.britishmint.com</a>
Fine Mint International	<a href="http://www.britishmint.com/intl_financing_trade.html">www.britishmint.com/intl_financing_trade.html</a>
FM International Capital Group	<a href="http://www.imffunds.com">www.imffunds.com</a>
Lloyds Funds	<a href="http://www.lloydsfunds.com">www.lloydsfunds.com</a>
O.P.E.C. Capital	<a href="http://www.internation.com">www.internation.com</a>
Petrofunds	<a href="http://www.petrofunds.com">www.petrofunds.com</a>
Swiss Venture Funds	<a href="http://www.finemint.com">www.finemint.com</a>
World Venture Funds	<a href="http://www.worldventurefunds.com">www.worldventurefunds.com</a>

#### 6. STANDARD TRUST OFFSHORE BANKING LIMITED

The Office of the Superintendent of Financial Institutions, Canada has issued a warning about this company which is not an authorised Canadian financial institution, and is "a fictional entity and may be part of various Nigerian advance fee scams". The company claims to be located at:

161 Bay Street  
Toronto ON

Warnings have also been issued about the following entities, which also may be involved in the same type of activity:

FIRST ATLANTIC TRUST  
191 Bay Street  
Toronto ON

SCOTIA FINANCIAL TRUST  
191 Bay Street  
Toronto ON

Note: This entity is not related in any way to the Bank of Nova Scotia, a legitimate organization.

CONTINENTAL FINANCIAL TRUST  
191 Bay Street  
Toronto ON

CONTINENTAL TRUST BANK OF CANADA  
123 Front Street West  
Toronto ON

GLOBAL BANKING & SECURITY CANADA  
PO Box 1087 Station B  
Toronto ON

INTERNATIONAL INVESTMENT BANKING CORPORATION  
Address unknown – operating from [www.iibcnet.com](http://www.iibcnet.com)

EQUITY FINANCE & SECURITIES  
1140 Ste Catherine Street West  
Montreal QC

## 7. AFRIQUE BANQUE, MARYLAND INVESTMENT CLUB, ALPHA CREDIT UNION BANK

The Office of the Superintendent of Financial Institutions, Canada has also issued warnings about three other (unrelated) entities that do not have relevant authorisations. These are:

AFRIQUE BANK – claiming to be based in Toronto. This entity is not an authorised Canadian or Foreign Bank. It has previously been operating a website, [www.afrique-bank.com](http://www.afrique-bank.com) that had unauthorised links to legitimate Canadian financial institutions.

MARYLAND INVESTMENT(S) CLUB – This entity has been falsely claiming to be linked with MD Private Trust Company, a legitimate and authorised Canadian deposit taking institution. This entity operates at least two websites:

[www.eprivacysecured.com/invest](http://www.eprivacysecured.com/invest)  
[www30.brinkster.com/marylandic/index.htm](http://www30.brinkster.com/marylandic/index.htm)

which offer “high-yield international tax-free investing with as little as \$500!”. We can’t find a physical address on either of these websites – but one of the e-mail contact points given is on a Latvian ISP! The apparent address of Maryland Investment Club is:

33 Prince Arthur Avenue  
Toronto ON

ALPHA CREDIT UNION BANK – this entity purports to have a location in Canada, but it is not an authorised bank or other deposit taking institution in the country. The address quoted is:

51 Frederick Street  
PO Box CB-12287  
Nassau  
Bahamas

## 8. FSA WARNING LIST

On 24 May 2002 the UK Financial Services Authority issued a warning on unauthorised firms targeting UK customers. Whilst the press release was well meaning, it was short on detail about each of the firms and rather negated its effect by commenting that “the FSA is not seeking to imply that any of these firms would necessarily deal with its customers in the manner described above (*i.e. rip them off – our words*)” The firms named (with no additional information on them) are:

- PREMIER EQUITIES LIMITED
- MILLENNIUM FINANCIAL LIMITED
- PACIFIC FEDERAL SA
- WORLD TRADE FINANCIAL CORPORATION
- GLOBESHARE
- FIELDING CLIFFORD
- MERCANTILEBANC INC.
- ALLIED INTERNATIONAL INVESTMENT LIMITED
- CARTER JAMES SL
- STEIN MORGAN INTERNATIONAL
- WEST SHORE VENTURES LIMITED

## 9. FinCEN COUNTRY ADVISORIES

The United States Department of the Treasury Financial Crimes Enforcement Network (FinCEN) has issued five country advisories, recommending enhanced scrutiny in relation to relevant transactions. The countries are:

- BURMA (MYANMAR) – enhanced scrutiny to all financial transactions originating in or routed to or through Burma as “the counter-money laundering regime...suffers from serious systemic problems”
- GRENADA - enhanced scrutiny to all financial transactions originating in or routed to or through Grenada as “the counter-money laundering regime...suffers from serious systemic problems”
- UKRAINE – scrutiny to certain transactions or banking relationships involving Ukraine
- EGYPT - scrutiny to certain transactions or banking relationships involving Egypt
- NIGERIA - scrutiny to certain transactions or banking relationships involving Nigeria

## THE FINAL WORD

“Trust and reputation can vanish overnight. A factory cannot”

-Alan Greenspan commenting on Enron, highlighting the fragility of companies that lack tangible assets

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