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THE MONEY LAUNDERING & BUSINESS CRIME MITIGATION FIRM

Due diligence + Training + Asset tracing + Compliance & assurance + Investigations + Strategic advice + Research

MONEY LAUNDERING & BUSINESS CRIME NEWSLETTER ISSUE 17 –JANUARY 2003

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

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IMPORTANT NOTE

Don't forget that from this month this newsletter will no longer contain KYC due diligence warning details. Our new "KYC Due Diligence Warning Newsletter" starts in February. A sample edition and subscription form are included as separate attachments to this newsletter. We believe that the "KYC Due Diligence Warning Newsletter" is a vital cost-effective tool for any organization or individual serious about fighting fraud and money laundering – and making sure that they do not loose money (or their reputation) to these serious threats

UKRAINE – A REAL MONEY LAUNDERING RISK OR AN EXAGERRATED ONE?

What has the FATF(Financial Action Task Force) done about Ukraine?

On 20 December 2002 the FATF imposed "counter-measures" against Ukraine

Why have the FAFT done this?

Because the FATF state that Ukraine have failed to "enact anti-money laundering legislation that meets international standards"

What exactly are the counter-measures imposed?

The FATF do not make this entirely clear – neither does it state whether all of the proposed actions should be introduced straightaway. The four types of actions that are suggested are:

- Stringent requirements for identifying clients and enhancement of advisories to financial institutions for identification of beneficial owners before business relationships are established with individuals or companies from Ukraine
- Enhanced relevant reporting mechanisms or systematic reporting of financial transactions on the basis that transactions involving Ukraine are more likely to be suspicious
- Greater care to be taken by other countries if Ukraine banks request permission/authorisation to set up foreign subsidiaries or branches there
- Warning non-financial sector business that transactions with entities within Ukraine might run the risk of money laundering

Have individual countries also imposed sanctions on Ukraine?

Yes – at the time of writing Austria, Sweden, Finland, the United Kingdom, Canada and Germany have imposed sanctions on Ukraine

Are there real problems in Ukraine or is this just a minor problem that has been exaggerated?

In the country large amounts of money are generated by domestic criminal groupings; Ukraine is also used as an entry point to the global banking system by international organized crime groups. In December 2002 the Parliamentary Committee on Combating Organized Crime and Corruption released a report which concluded that:

- The major problem in the country (and the most corrupt entities) are state law enforcement agencies
- Criminal organizations are able to operate openly in every region of the country because law enforcement agencies do not stop their activities, and in many instances are in league with the criminals
- Corruption in the country's court system is widespread
- Organized crime "has reached such proportions that it constitutes a real danger to the constitutional basis of government in Ukraine"

Prior to this report a February 2002 opinion poll in the country found that 84% of those questioned said that corruption was a nationwide problem; 67% said that corruption was at its highest level amongst the political elite and, to add to the depressing picture, 44% said that such corruption can never be stopped. Examples quoted in November 2001 on the Criminal Ukraine website are: to bribe a tax inspector costs \$87 and to have a telephone line installed incurs a payment of \$200. To add to the problems are continuing allegations of government illegal arms dealing with (amongst others) Iraq and the Taliban. The 2002 US Department of State report on human trafficking rates Ukraine at Tier 2 (a country not in compliance with minimum standards for elimination of trafficking but are making significant efforts). The Report states that Ukraine is a source country for women and girls trafficked for sexual exploitation to Central and Western Europe together with the Middle East. Whilst the report praises the Government for efforts it has made in this respect, it is stated that "a number of law enforcement officers may be corrupt thereby facilitating trafficking". The country was rated 85/102 (where 102 is the worst) of countries where corruption is perceived as a key problem in a survey by Transparency International in 2002.

So what should be done if we are considering doing business with any individuals and/or companies based in Ukraine or of Ukrainian origin?

Because of the current sanctions and counter-measures against Ukraine, combined with the underlying problems in the country extreme care should be taken with both new and existing business relationships involving the country. We suggest that detailed due diligence enquiries be undertaken as a matter of course on any relevant individuals and/or companies.

FATF ISSUE FRAUD WARNING

The FATF have issued a fraud warning which reads as follows:

It has been brought to our attention that the name of FATF/GAFI is being used for fraudulent purposes: people wishing to make international transfers of funds are allegedly asked by the FATF/GAFI to pay fees for fictitious services relating to verification of the origin of the funds. If the customer fails to pay the fees, the funds are blocked. In fact, the FATF/GAFI does not provide any such services nor does it request fees or have the capacity to block any account. In addition, the FATF/GAFI does not maintain any regional office or employees outside its headquarters in Paris.

The use of FATF's details in fraudulent transfers is also echoed in various warnings related to Nigerian frauds, detailed in the next article.

THE ENDLESS TWISTS OF NIGERIAN FRAUD SCHEMES

We have written on numerous occasions about the many and various Nigerian 419 fraud letters being sent to potential victims from a variety of claimed locations. Our recent experience also confirms (once again) the high level of activity by Nigerian criminal groups in a wide variety of frauds. Unfortunately whereas it is (hopefully) easy to realise that the infamous 419 letters are out and out scams, it is not necessarily as easy to spot and stop the other types of criminal activity now being undertaken:

- Canadian authorities have issued numerous warnings in recent months concerning Nigerian criminals operating fictitious "banks" and similar scam financial institutions (Details of these have been contained in previous newsletters, with the latest warnings being shown in our January "KYC Due Diligence Newsletter")
- We are aware of West African gangs operating fraudulent broker companies and financial consulting companies which claim to be located in a variety of places including, but certainly not limited to, Canada (again), Amsterdam, South Africa and Japan. These non-existent firms are making various financial offers including selling shares (stock) in worthless US registered corporations (see also "Cold Calling Red Flags" below)
- In September 2002 FinCEN (US Department of the Treasury, Financial Crimes Network) issued a warning about Nigerian gangs that have been sending letters using an imitation US Government letterhead with a forged signature of FinCEN's director, James F. Sloan. The letter claims that pursuant to the US Patriot Act and an Executive order, any money being wired into the country requires a fee to be paid, which would be used towards the rebuilding of the World Trade Center. FinCEN comment that "The information contained in this letter is false and the letter is fraudulent. FinCEN has never issued such a letter, there is no such fee required under federal law and Director Sloan's signature was falsified"

COLD CALLING RED FLAGS

We are continually surprised by the volume of communication we receive from individuals and organizations that have lost money as a result of their dealings with non-existent or fraudulent firms that are involved in telephone investment frauds aka "cold calling" scams. As the Australian Securities & Investments Commission (ASIC) website comments "Even people with significant business and professional experience have been swindled. It's a dangerous mistake to think that the only victims are financially inexperienced" Based on ASIC's warning paper on these frauds we suggest that the following red flags should be particularly watched out for:

GOOD SCRIPT, GOOD ACTING

- Ø Sound like professionals: know the jargon and sound genuine

- Ø Treat you as a valued client: seek a long term relationship, follow up calls, pass you on to a more senior executive as your importance increases (or at least that is what is claimed!), return your calls very promptly – for as long as you send them money!
- Ø Claim a good reputation – and (with no hint of irony) warn you about “less reputable” brokers

SLICK WINDOW DRESSING

- Ø Have reputable sounding company names (many scam operations chose the company name so it sounds like or is a close approximation to the title of a reputable company)
- Ø Phone numbers and addresses in reputable locations (but all of this is just window dressing – the telephones are re-routed to somewhere else entirely and the addresses are just mail drops)
- Ø Impressive websites (although is not always the case – some scam websites we have seen are truly awful!)
- Ø Glossy brochures
- Ø Investment offer documents that look genuine (but aren't!)

ATTRACTIVE PROMISES

- Ø High, quick returns on your trade
- Ø Your investment is “certain to rise”
- Ø Offering you the opportunity to “invest ahead of a public float”
- Ø They offer you information about future developments that are not yet widely known
- Ø Share discounts to coax quick investments
- Ø Low risk - investment is endorsed by “experts”, transaction is insured, refund of investment offered (but never actually given!)

IMPRESSIVE REFERENCES

- Ø Scam website has links to NASDAQ, Bloomberg and other reputable sites
- Ø False claims of relationships with reputable local, national or international companies or financial groups
- Ø False claims of registration, licences and authorisations from relevant regulatory bodies

THE HARD SELL

- Ø Once you're interested they'll never let go!
- Ø You will have repeated phone calls, some lasting more than half an hour
- Ø These fraudsters never take no for an answer – if they can keep you talking they still have a chance to get your money

There is no such thing as a free lunch – disbelieve promises of phenomenal and unrealistic financial returns. We have put together these basic guidelines to help you establish whether the financial offer you are being made is genuine or totally fraudulent. If you follow these guidelines you will almost certainly save yourself a substantial amount of money and pain – together with not having to endure a loss of face.

- Ø When you are approached by any unknown person and/or organization to establish any new business relationship you must validate their claims and history
- Ø Carry out searches on the Internet on the company name - start with Google and Alltheweb.com. As an example - if the firm has supposed to have been operating for thirty years, why can't you find any press or Internet coverage on them?
- Ø If the scam company has a website address, go to www.checkdomain.com or www.eamnesia.com to check the domain registration details. Do the registration details match the contact details given by the company?
- Ø Is the company listed in the local white pages?

- Ø Beware of websites that only give e-mail addresses as contact points - or addresses that may sound good, but don't exist (remember that these companies specialise in using "accommodation" / post box addresses)
- Ø Never forget: if any deal, offer or person appears to be too good to be true, turn it down - because it is
- Ø There are no such things as "once in a lifetime opportunities" or "guaranteed returns on investments" - when the figures guaranteed are astronomical
- Ø Be suspicious
- Ø Question all transactions
- Ø Jealously guard all of your personal and/or business information such as bank account details, credit card numbers
- Ø Don't sign any document before you have had it checked out. Find out if the individual or company exists, and is registered with the necessary regulators or licensing authority
- Ø How long has the individual/company been trading -who are the principals?
- Ø Check out the filings of the subject company - it might be registered somewhere but is it trading, if so does its financials in any way reflect the deal being offered
- Ø Check out addresses and contact details of those approaching you (it still surprise me how many of these people use dead lines)
- Ø Validate any documents presented for authenticity
- Ø Ask for references - but don't take them at face value. Ask for a prospectus and brochure
- Ø Don't pay for anything up front unless you've dealt with the person/company before and know that they are reputable. Don't be afraid to say no. Don't be rushed - one key factor in many of these frauds is that the criminals try and rush you, usually saying that you must act quickly to take advantage of the unique opportunity

GLOBAL NEWS ROUND UP

SPAIN: On 18 January Spanish authorities announced that they had cracked one of the biggest laundering operations in Europe with the arrest of 101 people, mainly from Spain, Colombia and the Dominican Republic. Among those arrested were several employees of different bureaux de change. Operation "Mother" resulted in the seizure of 542 kilograms of cocaine and € 9.5 million. The investigation had proved that € 237.5 million had been laundered by the gang since 2001.

UNITED STATES: The Federal Trade Commission said on 23 January that 43% of the complaints received by them in 2002 involved identity theft. This figure had nearly doubled from the previous year. The US Justice Department estimates that upto 700,000 US citizens might be the victims of identity thieves each year. The District of Columbia had the highest rate of identity theft, with 123 victims for each 100,000 people. California and Arizona followed with 91 and 88 victims per 100,000 people, respectively. During 2002 in New York 12,700 people were hit – up 80% on the reported figures for 2001. Increasingly such crimes are perpetrated with inside help – in November 2002 federal prosecutors said that a former help-desk employee at Teledata Communications allegedly stole credit card details and banking information of more than 300,000 individuals.

NIGERIA: After Ukraine, Nigeria is the next country viewed by the FATF to be of prime money laundering concern. This has led to the Central Bank of Nigeria's governor being empowered to freeze accounts of customers suspected of being involved in financial crimes. In order to try and avoid further sanctions by the FATF Nigeria is attempting to improve its AML regime by extending the Central Bank's surveillance activities to all sectors of the financial system together with amending the country's laws to include tracking of laundering proceeds and asset forfeiture.

PHILIPPINES: The Philippines is another country on the FATF blacklist, and is experiencing problems with financial transactions and relationships outside the country. In an official government hearing, the Bankers Association of the Philippines President confirmed problems being experienced included: some foreign banks are starting to refuse to service Philippine accounts; a foreign bank has refused to serve as correspondent bank of Rizal Commercial Banking Corp., one of the Philippines' largest banks; various other Philippine banks have been denied foreign correspondent

services whilst some foreign banks have stated that they do not wish to handle Philippine accounts at all.

SCOTLAND: The Scottish "Sunday Mail" have run various investigative pieces during January that claim that a busy garage and neighbouring car wash in Glasgow is used by "one of Scotland's biggest crime clans" to launder drugs money. The garage is alleged to "sell the cheapest petrol in Britain", thus increasing legitimate cash turnover. A Scottish detective is quoted by the "Sunday Mail" as highlighting the money laundering risks posed by such businesses as car washes: "It's a cash business and, for every pound that genuinely goes through, they can stick through a couple of pounds profit from their drug dealing. I'm sure that the irony of laundering money in a car wash won't be lost on them. You have to feel sorry for the legitimate businessmen who operate car washes because they could be undercut and forced out of business simply because they're honest."

UNITED STATES: On 22 January Sal Magluta, a reputed cocaine kingpin was sentenced to 205 years in prison and a fine of \$63 million. A federal judge in Miami imposed the maximum sentence for jury-rigging, money laundering and conspiracy charges. US prosecutors had pursued Magluta for more than a decade, accusing him and a partner of importing more than \$2 billion worth of cocaine into the United States during the 1980s and 1990s as a main distributor for Colombian cartels. However in 1996 a federal jury stunned prosecutors by acquitting Magluta and his partner, Augusto Guillermo "Willie" Falcon on drug trafficking charges. This result had various unexpected consequences: on losing the case the then US Attorney Kendall Coffey sought refuge in a few drinks at a Miami strip club. A topless dancer there accused him of biting her arm, and Coffey resigned a few months later. The jury foreman, Miguel Moya (an aircraft mechanic) seemed to have come into money immediately after the trial: he bought a house, a speedboat, a Rolex watch and various other luxury goods. Unfortunately he had little time to enjoy these pleasures as in 1999 he was convicted on a charge of accepting a bribe of \$500,000. However this was at a retrial - as Moya's first trial was deadlocked after his defence attorneys argued that his wealth came from drug deals not bribery. Kingpin Magluta was then retried on new charges of paying off witnesses, bribing jurors, paying his lawyers with drug money and hiring hitmen to kill former associates who were going to testify against him. In August 2002 a jury convicted him of 12 counts but acquitted him of ordering the murder of three witnesses. US District Judge Seitz made the sentences on the 12 counts consecutive so that Magluta will spend the rest of his life in prison.

THE FINAL WORD

"It looks to me like spring, when the snow melts and you see the dog shit that has been there all winter"

John Malone, chairman of Liberty Media, on the corporate scandals that have rocked the United States (Quoted in "Time" Magazine)

The wonders of the UK Friends Reunited website never cease to amaze us: most users post their details in the hope of getting back in touch with old school friends. Raymond Casling in the North East of England obviously wanted to show off to his former acquaintances and wrote that "I'm doing very well. I'm selling a lot of Charlie (cocaine) in Redcar. I've got three sports cars." Casling, a twenty-four year old, claimed that he was working at a seaside amusement arcade and was earning £45 a week. Despite his claimed modest earnings he owned three cars, including a Porsche 911. The local police were already investigating Casling, who was eventually jailed for three years. A detective commented that he could not believe Casling's stupidity in broadcasting his drug dealings on one of the most popular websites in the UK!

We have previously (in newsletter 15) reported problems with theft of snow in Italy. Spain appears to have a similar problem with theft of aspects of the country's natural vegetation. Gangs armed with mechanical diggers are unearthing ancient olive trees (some of which are 2,000 years old). The trees are then being sold to fashionable garden designers who include them in gardens all over Europe. Having such a tree in your garden is considered to be a sign of good taste.

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