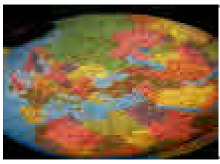


PROXIMAL CONSULTING REVIEW

SUMMER 2008 //

■ **Welcome to the Summer 2008 edition of the Proximal Consulting Review.** In this issue we take a look at the role of credit ratings agencies in the current global credit crisis and discuss the world's main money laundering countries as recently identified by US and UK agencies. There are also details of five frauds to watch out for in 2008 and more short stories that we have found particularly interesting or amusing! We hope you enjoy reading this issue of the review and as always we welcome your feedback - please feel free to contact us at newsletter@proximalconsulting.com.

THE ROLE OF CREDIT RATINGS AGENCIES IN THE GLOBAL CREDIT CRISIS

■ Credit ratings agencies, such as Moody's, Standard and Poor's, and Fitch Ratings, have been the subjects of sustained heavy criticism since the global credit crisis began last year. In August 2007 investors accused ratings agencies of being too slow in downgrading billions of dollars in mortgage-backed securities, with one observer questioning the need for ratings agencies if they only downgrade when the losses are clear to everyone. Some experts noted that the agencies' business models were inherently flawed; their ratings process relied on historical data, when many of the securities which had been rated were new packages for which no real historical data was available.

In December 2007 a panel of financial services executives at a conference in Washington stated that ratings agencies should perform more due diligence on loans that are securitised if further downturns in the global credit market were to be avoided. Michael O'Hanlon, senior managing director at Marathon Asset Management LLC said "People trusted the ratings agencies and it is very clear that their models were obviously wrong. More due diligence should take place going forward to avoid further problems." The conference participants also noted that ratings agencies were extremely influential but remained unregulated.

The case for ratings agencies to conduct more due diligence grew stronger in January 2008 when the chief executive of Moody's, Raymond McDaniel Jr, admitted to the World Economic Forum in Davos, Switzerland, that his company had made significant mistakes in rating structured finance products. One reason given by Mr McDaniel Jr for this failure was that the "information quality" given to Moody's, "both the completeness and veracity, was deteriorating" with the growth of the subprime mortgage market. He was speaking in response to accusations of conflicts of interest and suggestions that the large fees paid to ratings agencies by the companies which they rate had influenced the ratings.

Following the extensive criticism of credit ratings agencies, market regulators in Europe and the United States have been working on proposals for new regulations for the agencies. In March 2008 the Committee of European Securities Regulators (CESR), which unites national securities watchdogs from across the European Union, said that at the very least ratings agencies will have to face stricter voluntary codes of conduct, although it was not yet clear whether the European Commission would introduce new laws regulating ratings agencies. In addition, ratings agencies may face tougher regulation in the United States when the US Securities and Exchange Commission (SEC) publishes the results of its inquiry into the role played by the agencies in the credit crisis. Among the issues being considered by the SEC inquiry is the need to address potential conflicts of interests, such as the ratings agencies providing consulting services to the issuers of securities and then rating the structured securities designed by the ratings agencies themselves. Also under scrutiny are the agencies' business models and practices. The SEC's findings are scheduled to be released in the early summer.

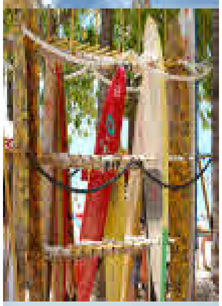
> "People trusted the ratings agencies and it is very clear that their models were obviously wrong. More due diligence should take place going forward to avoid further problems"
>
> MICHAEL O'HANLON, MARATHON ASSET MANAGEMENT LLC

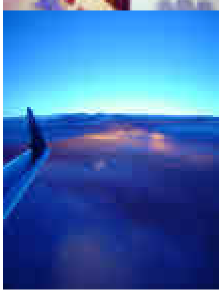
The credit ratings agencies have repeatedly defended their ratings, pointing out that investors should not rely solely on their ratings. This was an issue raised by the UK Select Committee on Treasury Sixth Report "Financial Stability and Transparency" of March 2008 in which it was stated; "This over-reliance on credit rating agencies by some investors appears to have been compounded by the lack of due diligence on the part of some investors in the products they were purchasing, with many investors taking a triple A score as a 'green light' to invest. It is incumbent upon the credit rating agencies to work together with investors to ensure that investors have adequate information to undertake their own effective due diligence and a clear understanding of the meaning of a rating."

The moral of this story seems to be "don't believe everything you are told!" The actions of ratings agencies in the credit market turmoil serves only to reinforce the need for enhanced due diligence on the part of both agencies and investors, as well as the possible introduction of regulation of credit ratings agencies.

And just for the record: the entire point of our due diligence services is that, unlike credit rating agencies, we never take for granted any information about an individual or company that we are provided with. We always independently verify such data, which may result in it being repudiated, and then carry out further research and investigations to identify key relevant intelligence from objective and independent sources.



THE WORLD'S MAIN MONEY LAUNDERING COUNTRIES

■ The recent UK "Guardian" newspaper article headlined "Britain among the world's 50 main money laundering countries, says US" was, at least on the face of it, an objective summary of the recently released US state department's 2008 "International Narcotics Control Strategy Report (INSCR)." As in the money laundering section of the report 57 countries are listed as being "Countries/Jurisdictions of Primary Concern" with the United Kingdom being one of them. However the headline could have equally read "US among the world's 57 main money laundering countries," as the report is objective enough to list the United States as a country of primary concern. The full list is:

- Afghanistan
- Antigua $ Barbuda
- Australia
- Austria
- Bahamas
- Belize
- Brazil
- Burma
- Cambodia
- Canada
- Cayman Islands
- China
- Colombia
- Costa Rica
- Cyprus
- Dominican Republic
- France
- Germany
- Greece
- Guatemala
- Guernsey
- Haiti
- Hong Kong
- India
- Indonesia
- Iran
- Isle of Man
- Israel
- Italy
- Japan
- Jersey
- Kenya
- Latvia
- Lebanon
- Liechtenstein
- Luxembourg
- Macau
- Mexico
- Netherlands
- Nigeria
- Pakistan
- Panama
- Paraguay
- Philippines
- Russia
- Singapore
- Spain
- Switzerland
- Taiwan
- Thailand
- Turkey
- Ukraine
- United Arab Emirates
- United Kingdom
- United States
- Uruguay
- Venezuela

In the detailed country reports provided in the INSCR, ML risks that are highlighted in various mainstream locations include:

United Kingdom: the UK Serious Organized Crime Agency estimates that £15bn worth of dirty money is washed through the country each year. The UK is described in the report as playing "a leading role in European and world finance and remains attractive to money launderers because of the size, sophistication, and reputation of its financial markets ….Businesses that are particularly attractive to criminals are those with high cash turnovers and those involved in overseas trading. Illicit cash is consolidated in the UK, and then moved overseas where it can more readily enter the legitimate financial system, either directly or by means such as purchasing property." The INCSR draws attention to the use of money transmission agents, cash smuggling and Informal Value Transfer Systems to remove funds from the country. The proceeds of heroin sales are often laundered through Dubai then to Pakistan and Turkey whereas cocaine proceeds are routed to South America through Jamaica and Panama.

In a separate development the UK House of Commons public accounts committee warned on 1 May 2008 that the 14 remaining UK overseas territories were at risk of becoming centres for money laundering because of a lack of qualified investigators to police their financial systems. The committee singled out the Turks and Caicos Islands, Montserrat and Anguilla as being the most at risk because of poor quality regulatory standards.

Switzerland is described as a "major international financial centre" with relevant reporting indicating "that criminals attempt to launder criminal proceeds in Switzerland via a wide range of illegal activities conducted worldwide." Attention is also drawn to Swiss bank accounts figuring in fraud and corruption of foreign government officials and heads-of-state. The INSCR also highlights the size of the Swiss art market and the attempts by organized crime groups to transfer stolen art or to use art to launder criminal funds via Switzerland.

Russia "is home to some of the world's most sophisticated perpetrators of fraud and money laundering, who rely heavily on electronic and Internet-related means." Additionally the INSCR refers to the vulnerabilities caused by the problems of endemic and official corruption, Russia's vast natural resource wealth and the pervasiveness of organized crime. However, experts consider that most money laundering in the country is domestic based and not predominantly narcotics related, as most of the dirty money flowing through Russia originates from domestic criminal activity, including evasion of tax and customs duties and smuggling operations.

Luxembourg is described as one of the "largest financial centres in the world" with "the size and sophistication of its financial sector creating opportunities for money laundering, tax evasion, and other financial crimes." However the INSCR highlights the view that because of these factors "the scarce number of financial crime cases is of concern."

The full INSCR is available at http://www.state.gov/p/inl/rls/nrcrpt/2008/vol2/html/100806.htm.
Details of country risk reports by Proximal Consulting are available at www.proximalconsulting.com.

FOCUS ON FRAUD: 5 FRAUDS TO WATCH OUT FOR IN 2008







■ We've rounded up five of the most common fraud scams to watch out for in 2008. With each scam costing the public a staggering amount of money – think somewhere in excess of over a million pounds each year, we feel it's important that you know what to look out for if you're targeted. But don't be fooled into thinking that this is an exhaustive list, there are probably several other scams being invented just as you read this! The moral is simple: don't be swayed by tempting promises – sometimes things are just too good to be true! Here's the lowdown…

BOGUS HOLIDAY CLUBS

Just when you thought you were never the type to even win so much as a bottle of wine in a church raffle, you receive a phone call congratulating you on winning a luxury holiday! But before you start believing that your luck has finally changed – there might be a catch! The Bogus Holiday Club will normally tell you that you must attend a presentation to collect your prize. But don't be taken in by the plush venue; once inside they will try to persuade you (sometimes for up to six hours) as to why you should join this exclusive club. The outcome: Those enticing promises will never materialise and at worst, you may end up forking out thousands of pounds on little more than a booking service. This scam costs UK consumers £1.17 billion a year.

MIRACLE CURE SCAMS

The thought of some secret formula or scientific breakthrough capable of combating unwanted ailments (we're talking anything from baldness to cancer) could probably entice many of us to part with our hard-earned cash, but if you receive a mailing or email promising miracle cures - we want to say simply 'beware'! About £20 million a year is spent on these so-called cures which are unlikely to have ever been tested properly or even proved effective. What's more, they could actually cause damage to your health.

PRIZE DRAW SCAMS

This time you're sent a letter, text or automated telephone message informing you that you are the winner of a top prize. At first you think it must be a hoax but when you hear that you've won cash, a car or a mystery prize worth at least £1,000 – curiosity gets the better of you and you duly ring the premium rate number to claim your prize, costing up to £1.50 a minute. Yes, you've been scammed! On top of the extortionate phone call that you will now have to pay for, you may never actually receive that fabulous prize, or if you do, it will probably turn out to be a cheap item worth less than the call itself. On average, this costs each person £80.

CLAIRVOYANT SCAMS

Amongst the bank statements and utility bills, something catches your eye – it's a letter from a clairvoyant promising to be able to predict your future and help change the course of your life forever. Of course, there will be a fee but that's a small price to pay when you are given the chance to control your destiny! The vulnerable in particular fall prey to this scam, which costs 170,000 adults in the UK £40 million a year.

INTERNET DIALLER SCAMS

It can be as simple as opening a spam email – but without knowing it, you could be downloading dial-up software which connects you to an expensive telephone line. You probably won't realise that it has changed your computer settings or that you are no longer connected via your usual internet connection…that is, until you receive the bill! It is estimated that internet dialler scams cost the UK public about £60 million a year.

For more information on UK fraud issues visit the Office of Fair Trading at www.oft.gov.uk.

TOP 10 LARGEST TRADING LOSSES

■ Following the recent and much publicised trading loss incurred by Société Général earlier this year, we thought it would be interesting to include in this edition a list of the top ten largest reported trading losses in history. Below is a list of trading losses equal to or exceeding US$100 million; however it is worth noting that due to the secretive nature of many hedge funds and fund managers, some notable losses may have never been reported to the public!

1. US$7.1bn Jérôme Kerviel at Societe General (2008)
2. US$6.5bn Brian Hunter at Amaranth Advisors (2006)
3. US$4.6bn John Meriwether at Long Term Capital Management (1998)
4. US$2.6bn Yasuo Hamanaka at Sumitomo Corporation (1996)
5. US$2.5bn Wolfgang Flöttl and Helmut Elsner at BAWAG (2006)
6. US$1.7bn Robert Citron at Orange County (1994)
7. US$1.4bn Nick Leeson at Barings Bank (1995)
8. US$1.3bn Heinz Schimmelbusch at Metallgesellschaft (1993)
9. US$1.1bn Toshihide Iguchi at Daiwa Bank (1995)
10. US$0.8bn David Lee at Bank of Montreal (2007)

HEAVEN CENT!

■ As specialists in fraud prevention, it's very rare to hear us use the words 'fraud' and 'funny' in the same sentence, yet this has to be the exception!

A 21 year old male, named Kevin Russell from Hobart, Indiana, was arrested and charged with fraud after he tried to cash in a $50,000 cheque from God. The cheque was allegedly signed "King Saviour, King of Kings, Lord of Lords, Servant" and had the word 'Inheritance' written on the top. Mr Russell identified himself to staff at Chase Bank in Hobart, as the son of God but after finding that the account number provided was invalid, they promptly called the police. When the police officers arrived they found that Mr Russell was also in possession of several other cheques 'from God' ranging in value of up to $100,000. "I've heard about God giving out eternal life, but this is the first time I've heard of Him giving out cash," said police Detective Jeff White.

EMPLOYEE FRAUD

■ The inherent risks of employee fraud are omnipresent – particularly false claims made on job applications and CVs. As if to prove nothing is new, two short articles from the previous incarnation of our newsletter, from April 2001 and September 2001 respectively:

> "...references are available from friends, family and US Attorney"
>
> BRIAN O'DEA, CONVICTED DRUG SMUGGLER/JOB APPLICANT

The Wall Street Journal under the headline "Ex-Pot Smuggler Turns Over New Leaf In Search for Job" reported that Brian O'Dea, who had recently completed a 10 year jail sentence for importing 75 tons of marijuana into the United States had advertised his skills in a classified advert. Looking for a legitimate job, Mr O'Dea listed his previous business experience as:

- "Co-owned and participated in the executive level management of 120 people world-wide in a successful pot smuggling venture with revenues in excess of $100 million annually"
- "Expert in all levels of security… .extensive computer skills… well traveled and speak English, French and Spanish"

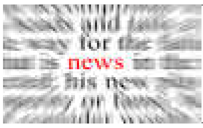
O'Dea concludes by commenting that "references are available from friends, family and the US Attorney."

The following comments and claims are from real CV's submitted to potential employers. No wonder the applicants weren't successful (or at least we presume they weren't successful!)

- "Wholly responsible for two failed financial institutions"
- "Instrumental in ruining entire operation for a Midwest chainstore"
- "The company made me a scapegoat; just like my previous three employers"
- "My goal is to be a meteorologist. But since I possess no training in meteorology, I suppose I should try stock brokerage"

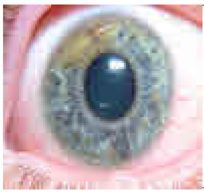
All previous editions of the Review and our earlier newsletters can be downloaded at www.proximalconsulting.com.

SERVICE DIRECTORY



NEWSLETTER INFORMATION

Can you afford to be without this critical intelligence? You can subscribe to this newsletter and download all previous issues from our website. The Summer 2008 edition of the Proximal Consulting Review is brought to you by Peter Lilley, Jane Smith, Alison Keyzor and Julie Venis.

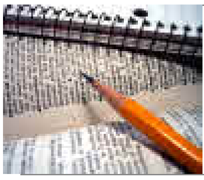


DUE DILIGENCE BACKGROUND REPORTS

One of our core business areas is providing global due diligence background reports on individuals and/or companies that are structured to provide focused intelligence in a cost efficient manner and in accordance with your needs. More importantly, our many years of experience in this field ensure that the legal and regulatory obligations of our clients in regard to due diligence are met. We ensure that you, as our client, are not exposed to reputational, operational, legal or concentration risks. Additionally, we have a wealth of experience in providing MERCHANT BACKGROUND CHECKS.

COUNTRY REPORTS

Our country reports provide you with reliable and credible advice on country risks, a further invaluable tool for staying ahead in the fast-moving international business environment of today. We analyse national and local risks in each country and provide a detailed examination of political, general business, money laundering and corruption factors.



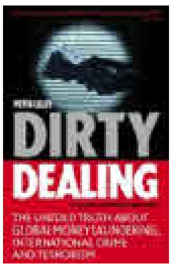
AML TRAINING

We provide a full range of high quality Anti Money Laundering training and prevention services. These include: creating and devising KYC and AML procedures, designing and delivering customised AML training packages, producing definitive AML training material (including client-specific training films), evaluating your AML "defences" to ensure regulatory compliance together with providing ongoing AML advice and guidance either on a general level or relating to specific events.

ASSET TRACING & OTHER INVESTIGATIONS

We are able to provide our clients with proven methodologies and the latest tools for investigation, evidence gathering and asset location to freeze and seize funds. Our in-house abilities together with our global network of contacts ensure that we are able to provide a worldwide coverage. Additionally, we have substantial experience in developing overall winning strategies in asset tracing projects and other types of complex and high profile investigations.

FURTHER READING



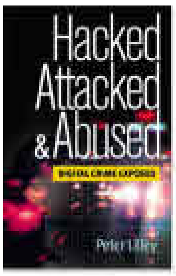
DIRTY DEALING

The third completely revised edition of Peter Lilley's acclaimed book on money laundering.

One of "Director" magazine's business books of the year.

"Entertaining, well written & well presented"
The Irish Times

www.dirtydealing.net



HACKED ATTACKED & ABUSED

"Hacked, Attacked & Abused" exposes the full extent of digital crime and how to avoid falling victim to it.

"This book is an excellent exposé of digital crime stemming from Peter Lilley's own expertise in the field of prevention, detection and investigation of global business crime and money laundering"
-Asian Voice

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