MONEY LAUNDERING TYPOLOGIES AND THEIR DETECTION MECHANISMS

5.1. International experience of detection money laundering

5.1.1. Using of electronic transfers with the purpose of money laundering

Analysis of electronic money transfers plays a significant role in the most of financial crimes investigations, starting with detection of money sources and finishing with detection of relations between terrorists or terrorist organizations and other associations or countries.

Electronic money transfers are one of the ways, which can be used for shadow money movement inside or outside of state border. For counteracting this effective control of following acting categories should be established:

determination of senders;

determination of beneficiaries;

determination of financial institutions;

determination of alternative money transfer operations;

ascertaining of account numbers;

establishing of communication between persons and/or organizations.

For instance, the FIU of Luxembourg detected such case of using money transfers.

A German citizen uses a false identity, with a stolen then forged identity card, in order to create a company, (he declares himself as the beneficiary owner) open accounts in the company's name in various banks of 3 countries, and to order transfers between these accounts. The suspicion arises when a foreign FIU requests information on the subject, suspecting him of embezzlement, as well as pursuant to a STR made by a bank following an analysis of the financial flow (numerous transfers from private individuals) that did not match the declared origin of the funds (activity as a professional counsel in the construction business). Once questioned regarding this incoherence, he provides the bank with a series of forged bills in the construction business.

Experience of the FIU of Sweden is interesting, concerning investigation of cases related to underground banking (bedroom banks). In this country about 15 organizations were detected, which participated in such criminal activity. These enterprises have the following distinctive features in common:

1) they provide professional money transfer service via the banking system;

2) they are long-term based and for profit;

3) business activities include intermediary cross-boarder transactions as well as domestic;

4) business is carried on either in the form of private firms or as trading partnerships;

5) the majority of the principals are from ethnical groups who immigrated into Sweden and subsequently obtained Swedish citizenship;

6) besides remittance service, they carry on other types of business such as carpet trading and travel agency activities.

The general transactions, which arouse suspicion of FIU of Sweden, are the following:

- deposits of large amounts of money from private controlled accounts held by people who collect money;
- in addition - a lot of cash deposits - a not insignificant number of these in the form of deposits into cash machine;
- transfers from abroad, mainly from Norway, but also from Germany, Finland, Austria, Denmark and the USA;
- transfers to abroad, predominantly the Middle East, but also to the rest of the world, for example Germany, the USA, the UK, France, Russia, Turkey, Canada, Singapore, Malaysia and Taiwan;
- the payments to and from abroad refer partly to transactions with private individuals, partly to transactions with business enterprises, the latter may be an indication that the businesses under survey are also trading commodities.

5.1.2. Using of non-commercial organizations for money laundering

Non-commercial organizations are most "suitable' for money laundering and terrorist financing. They can gather funds by way of membership fees, donations and so called non-profit activity, and existing funds they can expend for projects and necessary equipment.

It is quite difficult to trace such fraud and to prevent it because of nature of these organizations (their statute functions) and loyal system of state regulation and control of them in different countries. After getting status of charitable and absolving from taxes they were used for territorial movement of funds through their branches or for material support of terrorists (directly or as cover for their activity).

Many charitable non-governmental organizations can cross the border and act in "enemy" states quite easy, what makes them exposed for illegal use of them by terrorist groups. Many countries have imperfect charitable activity legislation, in other countries legislation is determined by separate states, what complicate actions co-ordination and permit corrupt non-commercial organization to act with impunity.

FIU of Norway has substantial experience in this sphere.

During 1996 –2001 the Anti Money Laundering Unit in Norway received 6 reports and also some additional reports where the suspicion was that charity organisations used bank accounts in Norwegian banks for purposes that could include criminal activity. The holders of the accounts had names that indicated that they were charity organisations B and D and belonged to Somalis. The Hawala banking system was used for the transfer of money to bank accounts in Dubai and Djibouti, and further to Somalia and other countries in Africa and also to other parts of the world.

It was suspected that the activity could have something to do with terrorist financing. However, it was difficult to prove, and the seven persons were charged with other offences, e.g. money laundering, violation of Tax Act, Accounting Act, Currency Act and Financial Services Act.

According to the judgement of the lower court the following could be observed as regards the B case:

- Four bank accounts were used. (One person who disposed the account is named on the UN-list).
- 16 229 transactions were carried out. The total amount was 3 948 839 USD. The average amount pr transaction was 243 USD.
- A fee had to be paid for each transaction. The total amount of the fees was 121 431 USD.

- 94 % of the transactions (86 % of the total amount) went to Somalia or other African countries.
- About 1000 remitters sent money to about 900 receivers.
- 549 790 USD was sent to other countries.

The following could be observed in the D case:

- Five bank accounts were used.
- During 10 months about 18 000 transactions were carried out. The total amount was about 50 million NOK.

All the persons were Somalis (Somalis in Norway have a high degree of unemployment - approx. 80 % - and a low average income). A memorandum of association and address existed for one of the organisations. As regards the others, no office, no membership lists were found. No traces of activity as regards collection of money in public areas like shopping centres or streets, marketing or advertising of fund-raising for the benefit of poor people in Somalia or other African countries could be observed.

The source of the money remained unclear. Taken into consideration the low average income of the people involved, and the fact that few traces of fund-raising could be observed, the suspicion was that parts of the money had to come from illegal activity. However, it could only be proved that two amounts, 103 660 USD (the D case) and 42 131 USD (the B case) did not have a legal source. In the D case the conclusion of the court apparently is that the illegal source was drug trafficking. In the B case the court concluded that the illegal source was tax fraud. In both cases the money laundering was found to be negligent.

It was suspected that some of the money was used for smuggling of human beings to Norway. Some Somali asylum seekers have told Norwegian police that their travelling expenses have been financed via the Hawala banking system. It was also suspected that parts of the funds and the fees could be used for terrorist financing. The Prosecutor decided to limit the case to the above-mentioned offences, in order to reach a decision as regards the legality of the Hawala banking system and to be able to finalize the case within reasonable time.

In the B case the holder of one of the accounts in Dubai was registered only with a mailbox address. At the same address several other companies were registered, which also were named on the UN-list.

Each transaction from the B in Oslo to the accounts in Dubai, and from the D in Oslo to the accounts in Djibouti was between 10000 and 12000 USD, so there was no obligation to inform about the objective of the transactions. Later it was proved that a great proportion of the money was transferred to Somalis.

In that way B and D organizations, which used the accounts, had income from the activity, and that the names that indicated that the holders of the accounts were organisations had been used as shelter for different kinds of illegal activity.

So, the characteristics of above-mentioned organizations are following: registration them as charity, belonging of engaged persons to one ethnic group, opening of bank account, absence of real office address and activity characteristic.

Analysis of non-commercial organizations is worth mentioning, conducted by FIU of Sweden.

About 15 non-commercial organizations were analysed, which had similar activity purpose to assist the same country. In 2001 about 130 million Swedish

crowns were moved using accounts of these organizations. The investigation proved that in 70% of cases cash amounts were moved directly to accounts of companies, the rest – to accounts of "branches" of those organizations, which directly attended cash amounts. Avoiding paying commission, organizations transferred money in the form of lump amount to beneficiaries via banking systems.

5.1.3. Using of service of the officials for money laundering

Because of intensification of combating money laundering, offenders use more perfect methods of money laundering. Instead of direct deposits they engage professionals for legalization (lawyers, notaries, accountants, tax advisers, auditors etc.), which can assist in "dirty" money entering into legal financial systems.

Engaging of officials is being conducted by advisers, who select trustful, corrupt or irresponsible clerks, per relatively closed system, which exists in each profession.

Adviser's so called "examination" is very important when forming scheme of money laundering. Such examination can include advises how to select organization form or offshore zone for realization of similar schemes, as well as how to select corporations and trusts – components of such schemes.

Experience of FIU of Australia (AUSTRAC) is important in detection fraud with engaging clerks.

One of cases involved the importation of 24 kg of Heroin concealed in cargo.

The case arose from the identification of suspicious flows (of more than $2.5 million AUD) from Australia to countries in South East Asia using smurfs who ordered wire transfers and bank drafts on behalf of the syndicate.

Bank drafts purchased from different financial institutions in South East Asia were then used to purchase real estate in Australia.

An accountant was used by the syndicate to open bank accounts and register companies. The accountant also offered investment advice to the principals.A firm of solicitors were also used by the syndicate to purchase the property using the bank drafts that had been purchased overseas after they had first been processed through the solicitor's trust account. Family trusts and companies were also set up by the solicitors.

Another case involved the production of large quantities of amphetamines in several states of Australia.

The suspects secreted away most of the proceeds of the manufacture of the amphetamine with the assistance of several persons in Australia depositing cash supplied to them by the wife of the main suspect (usually in structured amounts) in their own accounts. The funds were then either drawn from the accounts using cheques payable to the suspect's wife or a company or business of which she and her husband had control or, having those persons send the money by international transfer to overseas accounts.

Money was moved through different accounts, before being telegraphically transferred offshore. The case involved approximately $5 million AUD.

Well over $1million was also laundered by the group through an accountancy firm, principally by two partners of that firm. The firm was initially approached on the basis that one of the principals had substantial funds overseas which he wished to repatriate to Australia, however, because he was at the time a bankrupt, that money could not be held in his own name. The advice of the accountants was sought to devise a structure to enable the repatriation of the funds and acquisition of real estate.

On the first occasion the accountants were given $20,000 to be used as a deposit on a real estate purchase. They were aware of reporting thresholds and deposited the money into bank accounts in amounts less than the $10,000 AUD. The amounts of cash handed to the accountants soon increased to the point where they experienced substantial difficulty in introducing the money into the banking system without triggering the AUSTRAC limits.

Although the solicitors professed a number of schemes to the principals of the drug ring, their standard modus operandi was to filter the money into a number of bank accounts in amounts less than $10,000 and to subsequently draw cheques on those accounts The accountants used 15 different bank accounts to receive the cash including personal accounts, the bank accounts of other unwitting family members, the accountants business accounts (including trust accounts), and the bank accounts of corporate entities established for the purpose.

As the volume of cash he had to deal with increased, more novel methods had to devise. Two methods developed involved the use of bookmakers with whom they were acquainted and foreign gamblers.

In the case of the bookmakers, the modus operandi was to attend race days with substantial amounts of cash, usually about $20,000. He would see a bookmaker who he knew, express his discomfort at carrying such a large amount in cash and ask them to hold his cash for him until he either used it for bets or collected it at the end of the day. He would then leave it with the bookmaker and deliberately not collect it at the end of the day. Early the following week he would contact the bookmaker and ask him to post him a cheque for the money which the bookmaker invariably did. The bookmaker was not interviewed.

In the case of foreign gamblers, the accountants had a business association with a wealthy overseas businessman who was also a frequent gambler at Australian Casinos. The accountants approached the businessman and offered to provide cash at short notice to him or his associates for gambling at Casinos. The accountants offered to accept 95% of the value of the cash he provided on the basis that the gambler later repaid the money by depositing money into a foreign bank account which had been set up for the purpose.

The third case involved organized tax evasion.

A chartered accountant, her husband and a number of secondary suspects were the subject of an intensive intelligence gathering and surveillance operation.

The group acted in several lines. The Chartered Accountant provided services to clients whereby the income they derived in Australia was transferred into overseas bank accounts operated in an off shore banking centre in the name of the companies based there (the chartered accountants husband acted as nominee director and shareholder). The money sent offshore was recorded as business deductions in the accounting records of the clients, from which the chartered accountant prepared and lodged income tax returns. The off shore banking centre companies were administered by an accountant based in the jurisdiction. The money sent offshore were then returned to Australia via the chartered accountant's trust account, disguised as loans from the off shore banking centre based company to the chartered accountant clients, and used for private purposes, such as real estate purchases.

This alleged scheme offered the client the benefit of obtaining their income tax-free and afforded them the opportunity to claim interest payments as tax deductions. These 'back to back loans' included the fabrication of loan agreements and other accounting records to support the loans.

Foreign companies were also used by the chartered accountant's clients for the purpose of share trading in the name of the company, thereby hiding capital and/or trading profits and dividends received as a result of the share trading.

Another service provided to the clients of the chartered accountant involved the creation of personal superannuation funds to allow clients early access to retirement benefits.

Preserved superannuation benefits, belonging to clients of chartered accountant, were deposited into the chartered accountants trust account and labelled an investment from the fund to a off-shore banking centre based company incorporated by her husband. The funds were then forwarded from the chartered accountants trust account to a financial institution in the name of the individual who was a member of the fund.

This scheme allowed early access to preserved superannuation benefits to the members of the fund well before retirement. Clients of the chartered accountant also made payments to an off-shore banking centre -based company for services which were not provided by the company. This effectively provided a tax deduction for the client, to which the client was not entitled.

This case involved tens of millions of dollars.

The FIU of Belgium detected numerous cases of using legal expert for access to financial institution as fund owner representative, as well as men of straw for simplification of money laundering scheme.

Here is a number of *cases*.

A person not residing in Belgium had been introduced to a bank by a lawyer in order to open an account with the bank. This account had been credited with substantial transfers from abroad, from a principal whose identity was not known. These funds had then been used to acquire real estate property in Belgium. Within the framework of one of the investments made by the person of foreign nationality, the latter had been helped by other foreign investors to set up a particularly complex structure.

The information gathered by the Unit from the notary showed that two holding companies had been set up by four foreign companies with this notary in Belgium. These two holding companies had in turn set up two other companies in Belgium which were active in the real estate sector. It was through the intermediary of these companies that the property investment in question had been made. The persons representing these companies, one lawyer and one diamond merchant, played the role of straw men acting on behalf of the person of foreign

nationality. Furthermore, the lawyer who had introduced the person of foreign nationality to the bank was known for similar activities within the framework of several judicial files. The address of the registered office of the Belgian companies was furthermore the same as the address of this lawyer's firm. This illustrates that the role played by the lawyer in setting up a financial and company structure enabling the investment of funds from unknown foreign principals in real estate projects in Belgium.

2. A bank had reported suspicious international transactions to the Unit. Substantial transfers had been made by investment companies established in country A for the account of Belgian company B into the third party – law firm C – account of a law firm in Belgium. The third party account had then been debited with transfers to a company established in country D. The total of the transactions amounted to several million EUR. The Unit's analysis revealed that this third party account clearly served as a transit account in order to create opacity. There was in fact no justification for these funds to pass through this third party account, since Belgian company B held accounts with banks in Belgium. Furthermore it was found that the majority of the directors of company B resided in Asia and had no links with Belgium, and that the shareholders of this company were investment companies established in country A.

A bureau de change had reported a suspicious transaction to the Unit involving a substantial purchase of GBP made by a foreign national for the account of company B established in Belgium. The funds used in this purchase had previously been transferred into the account of the bureau de change by order of a lawyer who held an account with a bank in Belgium.

The funds transferred into the account of the bureau de change came from a transfer that was made into the lawyer's account by order of company E, established abroad. The funds had furthermore also been used to issue a cheque payable to company B. The Unit was informed by the bank that the transfer by order of company B was a false transfer. On the basis of this information, the bank stopped payment of the cheque issued by the lawyer.

Other intelligence gathered by the Unit showed that company B was run by the foreign national who had executed the exchange transaction. Information from the tax administration revealed that company B had not declared VAT for a long time. Police information revealed that company B, its manager as well as the lawyer were known for financial fraud. Part of the funds generated from this fraud had clearly been used to finance the purchase of GBP by the foreign national on behalf of company B.

3. There was a case related to a VAT carousel several companies established offshore had opened accounts with a bank in Belgium. These companies had been introduced to a bank by a firm of certified accountants established abroad. As soon as these accounts were opened, substantial international transfers had been made, both debit and credit. The Unit's analysis revealed that there was no economic justification for opening these accounts in Belgium or for these funds to pass through Belgium. These accounts had clearly been opened with the help of a firm of accountants to be used as transit accounts. Furthermore the names of the offshore companies referred to the oil sector, a sector known for being vulnerable for VAT carousel fraud.

4. An investment company, initially set up offshore, had had its registered office transferred to Belgium in order to adopt limited company status under Belgian law by the intermediary of a law firm. This company had been dissolved shortly afterwards and several new companies had been formed taking over the activities of the first company, the entire operation having been executed with the help of accountancy and tax firms. This investment company had opened an account in Belgium into which substantial transfers had been made from foreign companies. The funds had then been transferred to accounts opened with the same bank in the name of the newly formed companies.

These accounts had also been directly credited with transfers from the same foreign companies. Parts of the funds were put into term investments and the other part had been transferred to various persons abroad, among who were old shareholders of the investment company. The Unit's analysis revealed that the accounts of the investment company and then of the various companies issued from its split had served as transit accounts for substantial transfers from abroad.

The size of the funds involved in these suspicious transactions, the international nature of the structure, the use of company structures established offshore, the use of financial and tax advisers, the absence of any economic justification for the transactions described above, are all indications of a link between money laundering operations and serious and organized fiscal fraud setting in motion complex mechanisms or procedures with an international dimension. It also appears that the directors of the investment company had been the subjects of a file reported by the Unit in the past in connection with serious and organized tax fraud.

Typical examples of money laundering are significant, detected by FIU of Germany.

1. A bank established that an account had evidently been used as a capital depository for several years. The money, most of which had been deposited there by private individuals, was then transferred to an account maintained by a law office.

A firm in the travel sector collected accounts receivable for third parties. Examination of the account movements led the bank to suspect fraud associated with direct debiting transactions. The possibility that the transactions involved suspect money could not be ruled out.

A lawyer was one of the recipients of the money involved in the transactions. Various checks were deposited to the private accounts of a lawyer, checks that were not written in favour of the account holder but rather to the order of an unknown third party. Each time, the amount deposited was withdrawn in cash a short time later.

A bank noticed that large dollar amounts were being deposited to the account of a self-employed lawyer, which were being debited from another account that he maintained at a different bank. When asked about the economic background of these transactions, he stated that these were commissions and expenses related to business with an African business partner. Further transactions were stated as commissions paid for acting as an intermediary between a foreign manufacturer of civilian aircraft equipment and a foreign contracting party. These amounts were to be split up and transferred, with some of the transferred money going to a further foreign contracting party in London.

The fact that a business deal involving large amounts of money was being carried out via third countries (which the bank felt must be "viewed as problematic under the aspect of money laundering and terrorist") led to the filing of a report about the matter.

2. A notary opened a notarial trust account for the purpose of administering extensive foreign assets in a fiduciary capacity. Internal bank checks revealed that the bank guarantees from foreign banks presented as confirmation of the assets had been forged.

A notary opened a trust account on behalf of a firm. Alleged investment funds from the company account were transferred via this trust account to the account of another unknown firm.

Various - quite large - sums of money were transferred by a religious organization via a notarial trust account. An investigation by a public prosecutor's office on suspicion of founding a terrorist religious organization was in progress with regard to this organization.

The example of *FIU of Sweden* is noteworthy, related to fraud with assistance of lawyers.

A money laundering report was investigated and showed that the reported suspicious money originated from a lawyer. When checking further into the lawyer's various accounts a gross fraud came to light. The information surfaced when the lawyer bought 2 money orders for 4 million Swedish crowns each and issued them to be cashed at an exchange bureau.

A bank in Stockholm was exposed to a gross fraud where a non-identified person with a false ID transferred a total of 10 million crowns (approx. 1.1 million Euro) in varying sums from a wealthy person's account to a lawyer's business account (not the client's account).

The following day the lawyer transferred the 10 million to a Swedish national's account with the EFG Private Bank in Switzerland. He attempted to withdraw the whole sum but the Swiss bank only allowed cash withdrawal of USD 100.000. A few days later the Swede with the Swiss bank account transferred back 8.9 million Swedish Crowns to the lawyers business account in Sweden. Two days later the lawyer then transferred the money to another lawyer's client account in Sweden. After a further five days, that lawyer bought two money orders of 4 million each. The money orders were issued to be cashed at two different exchange bureaux in Stockholm and Malmö (southern Sweden). The money orders were then changed into foreign currency with the help of a well-known criminal. The money had at this stage been transferred back and forth and finally been exchanged and laundered.

The remaining money in the lawyer's account was used for different payments for example Lawyer's fees.

The reason for the transfer of the money back to the lawyer in Sweden was that the Swiss bank – and the assumption was reasonable – suspected money laundering and did not want to take part in further transaction.

The FIU of the USA uncovered money laundering committed by accountants and lawyers.

Between 1994 and 2001, Mr. S and his co-conspirators, including lawyers and an accountant, conspired to conceal approximately $10,000,000 from the U.S. government, creditors and ex-spouse of Mr S. They engaged in wire fraud, mail fraud, tax fraud, money laundering and obstruction of justice.

In April 1994, Mr. S was the Chief Executive Officer, President and majority shareholder of the common stock of National Revenue Corporation, a debt collection company that he started in 1973. On April 15, 1994, he sold his interests in the corporation for approximately $11,300,000. Two months later, in June 1994, a federal court awarded judgments against him totalling approximately $5,000,000. Also, in June 1994, ex-spouse of Mr. S threatened to sue him for fraud related to the property settlement in connection with their 1993 divorce.

Knowing that, Mr. S and two of his lawyers concocted a scheme to conceal $5,000,000 by fabricating and then backdating a letter that purported to transfer $5,000,000 in stock to Mr. S's father. The letter was actually typed in August 1994 on a 1970s-vintage typewriter in an attempt to make it appear authentic. The letter was then used as the basis for a collusive lawsuit filed by a co-conspirator lawyer, purportedly on behalf of father of S and

against him, who was represented by Mr M. Mr. C, business transactions lawyer of Mr. S, facilitated the collusive suit and participated in the creation of the fabricated letter and associated fraudulent correspondence. The lawsuit was used to obtain a judgment from the court. The judgment was later used in a New York lawsuit to shield $5,000,000 from creditors based on the U.S. Constitution's full faith and credit clause, which requires each state to honour judgments of the others.

In October and November 1994, Mr. S purported to enter into a contract to buy $5,000,000 in stock of a corporation operated by attorney and businessman Mr. R. The "contract" was drafted by Mr. C, lawyer of Mr. S, and facilitated by Mr. B, a Canadian accountant. According to the purported deal, Mr. S would pay $2,500,000 down with the balance due in one month. If he defaulted on the balance, he would forfeit the down payment. Mr. S failed to pay the balance and purported to forfeit the $2,500,000 balance. In fact, the defaults were planned and the Canadians assisted Mr. S in transferring approximately $4,200,000 to offshore bank accounts in Guernsey, the Bahamas and the Caymans. These bank accounts were in the names of Cayman and Bahamian shell corporations managed for S by his brother.

Between 1995 and 1998, Mr. S repatriated the funds to the United States for his use and benefit. Mr. F, formerly a London solicitor, facilitated repatriation scheme of Mr. S by managing his British Virgin Island corporation and bank accounts in London, Jersey and Luxembourg. Mr. F drafted documents that purported to be "loan" agreements between the British Virgin Islands shell corporation and a nominee of Mr. S in the United States. Upon arrival in the U.S. in bank accounts opened by nominee, the funds were transferred to Mr. S in Ohio. The London solicitor used the law firm's bank accounts to facilitate the transfers.

To be consistent with his plot and to evade taxes on the payment of the capital gains from the 1994 sale, Mr. S, with the assistance of his lawyer , caused the preparation and filing of false tax returns that claimed, among other things, false business deductions for the $2,500,000 and $2,000,000 "forfeited" down payments in the Canadian business deals.

The FIU of Italy also detected a number of typical cases of engaging of advocates and accountants to money laundering.

Mr. A conducted tobacco trafficking on account of a group affiliated to the Sacra Corona Unita (a mafia-type syndicate) led by Mr. B. The latter in fact, though imprisoned in an Italian prison continued to send orders and instructions outside of prison.

The lawyer Mr. X on one hand was the speaker of the decisions taken in prison by the defendant, on the other kept him constantly updated of on the state of activities and internal relations of the criminal organization.

From the investigative activity emerged that the contact person for Mr. A, only to buy the cigarettes for the market, was Mr. D, who was able to take large lots of tobaccos (i.d. several thousands chests) to distribute to MR. A and other buyers, as he could rely on a solid financial structure.

Mr. B the lawyer of Mr. D assisted him to legalize proceeds and to avoid its confiscation.

2. Accountant Mr. J, believed to be part of the criminal organization involved in money laundering and re-investment of illicit proceeds derived from drugs trafficking, led by Mr. X. Mr. J's role was mainly of a "legal and financial consultant" whose task was to analyse technical-legal aspects of the investments planned by the organization by identifying the most appropriate financial techniques to make these investments apparently licit

from a fiscal stance and, as possible, profitable. The accountant, as he was an expert in banking procedures and most sophisticated international financial instruments, was the actual financial "mind" of the network involved in the re-investment of proceeds available to Mr. X.

Mr. J, following generally a well experienced schemes operated by sub-dividing the financial transactions among different States through triangle transactions among companies and foreign credit institutions, by electronic transfers and stand-by credit letters as a warrant for commercial contracts.

As concerns investments, a major role was played by the criminal members operating in the sector of marketing of agricultural and food products, particularly in Central America.

3. Brothers Mr. X and Mr. Y and their brother-in-law Mr. Z, all "Cosa Nostra" members, in the period ranging about from 1985 to 1998, through companies manoeuvres as well as illicit financial transactions, proceeded to take from relatives and/or people of confidence property to them traceable, creating new companies or by acquiring the control of already acquired companies, all operating in the construction sector and/or real estate brokerage, but actually holding their control and full availability, thus realizing a skilled money laundering scheme.

From investigative results it was evident that also Mr. Z was fully aware of the purposes of the financial and company transactions, which, were increasingly improved.

The example of *FIU of Great Britain* is worth mentioning.

Mr. R found an apparently abandoned/derelict house. As a result of public access to Land Registry Mr. R discovers both the identity of the owner of the house and that there are no outstanding charges on the property. Mr. R made a false statutory declaration to solicitor, Mr. A, confirming that he was the named house owner. Mr. R was not previously known to solicitor A and was not required by A to either provide any confirmation of identity or give reason for the statutory declaration. Mr. R, using the false name, subsequently contacted solicitor B. Mr. R claimed that he was due to go abroad, and having delivered the statutory declaration, gave his power of attorney to solicitor B. Mr. R instructed solicitor Mr. B to apply for duplicate deeds to the property as he had 'mislaid' the originals. Solicitor B dealt with Mr. R via correspondence to the derelict property, although in the meantime Mr. R had arranged for post to the house to be diverted to two accommodation addresses in the UK and abroad.

Several months later, Mr. R instructs Mr. B to act as conveyancer for the sale of the property. The property is sold to an 'innocent' property developer who paid cash via his own conveyancer to Mr. B. Mr. R requested the proceeds of the sale to be paid in several drafts, each less than £10,000 in a foreign currency. Mr. B was instructed to transfer some of the money to an account in that foreign state. R collected the remaining monies from Mr. B. Mr. R then 'phoned solicitor G in the foreign country, instructing him to open a bank account in that country and deposit the drafts. Upon travelling to the country, Mr. R instructs Mr. G to transfer money to various British and offshore bank accounts.

Finally the rightful owner of the property found his derelict property demolished and another being built in its place. When the police suggested to solicitor B that he should have taken better care to determine the bona fides of his client he responded that he was conveyancing for an existing client and had no suspicions. B also claimed to have not realised he had never met Mr. R prior to the handing over of the proceeds. Given that his previous dealings with the client related only to the duplicate deeds, where he had also failed to either verify Mr. R's identity or make

a disclosure, this explanation was far from convincing. Mr. B was reported to the Law Society and no longer practices.

The *FIU of Canada* also repeatedly confronted with engaging advocates to money laundering.

1. Lawyers A and B used a number of complex methods to launder funds from narcotic sales for trafficker I. They accepted cash from trafficker I, and either deposited the funds into their own trust accounts or they converted it to drafts at financial institutions. They also established a false investment vehicle, based in country A. Lawyers A and B would then carry the cash overseas to country A, where an individual employed by the lawyers, Mr. X, would deposit the funds into the accounts of company A.

Mr. X established company A in country B, using lawyer C. Lawyers A, B, and the wife of Individual I were named as the directors of the company. Mr. X also opened commercial accounts under the company A name, in countries A, B, and C. From the accounts in country A, Mr. X transferred the funds to other company A accounts in countries B and C. Funds were then invested in the stock market.

When Individual I wished to draw on these assets, stock was liquidated of and these funds were then filtered back to him care of lawyers A and B via multiple jurisdictions and co-mingled through 3rd party accounts.

Next, trafficker I instructed these lawyers to transfer all of the assets of company A to company B, established in other country for him by his accountant. In the course of this transfer, accountant I was approached by an un-related lawyer D, seeking a method to launder $500,000 USD. Accountant I and trafficker I agreed, and lawyer D's request was accommodated of in the process. Trafficker I received the $500,000 $US in cash, and it ultimately made it's way to company B's account in country E. Both groups noted this opportunity to co-mingle the funds was also of great value as an impediment to any subsequent investigations.

Operators of the investment companies did not know the identity of the beneficial owner of the money passing through their accounts; however, they were confident in the transactions because they were taking instructions from lawyers.

2. Trafficker I headed an organization importing narcotics into country A, from country B. Lawyer I was employed by trafficker I to launder the proceeds of this operation.

To launder the proceeds of the narcotics importing operation, Lawyer I established a web of offshore corporate entities. These entities were incorporated in a country C, where scrutiny of ownership, records, and finances is not strong. A local management company in country D administered these companies. These entities were used to camouflage movement of illicit funds, acquisition of assets, and financing criminal activities. Trafficker I was the bearer of 100% of the bearer share capital of these offshore entities.

In Country A, a distinct group of persons and companies without any apparent association to trafficker I transferred large amounts of money to Country D where it was deposited in, or transited through trafficker I's offshore companies. This same web network was found to have been used to transfer large amounts of money to a person in country E who was later found to be responsible for drug shipments destined for country A;

Several other lawyers and their trust accounts were used to receive cash and transfer funds, ostensibly for the benefit of commercial clients in country A. Concurrently, lawyer I established a separate similar network (which included other lawyers' trust accounts) to purchase assets and place funds in vehicles and instruments designed to mask the beneficial owner's identity.

5.1.4. Using of insurance sector for money laundering.

Insurance market has a number of "sensitive" places in different segments. The down level of money laundering detection is typical for him in comparison with sector scale.

Insurance market is attractive for money laundering subjects because of insurance service realized by means of brokers – intermediaries, who act independent of insurance company, which offers insurance product, as well as using reinsurance of risks, including in abroad.

Sale brokers can not have sufficient knowledge in the sphere of combating money laundering and can be used for placing money in financial institutions of non-banking type. Their aim is to sell policies, and they often do not notice features of money laundering, such as unknown money origin or unusual ways of rate paying.

For instance *FIU of Germany* detected such mechanism of money laundering in life insurance sector.

A foreign national wanted to take out an annuity policy for payment of an annuity at a later date. These payments would be made from a special interest-paying account maintained by the insurance company into which the client would deposit a single payment of 10 million euros when the insurance policy was concluded. The money was to be transferred by a foreign bank. A loan granted by the foreign bank to finance a property purchase was to form the background for conclusion of the annuity policy. Agreement was to be reached on suspending repayment of the loan. The loan was to be repaid by using the monthly annuity from the insurance company that filed the complaint. The payments would begin after 13 years and would continue for the life of the client (for 5 years at the least). Checks made by the insurance company revealed that the applicant was wanted in connection with a fraud case.

The FIU of Luxembourg noticed a case of engaging insurance brokers into insurance policies fraud.

An insurance broker agrees with a French client to sign a life-insurance contract for the amount of 35.000 EUR in his name with an insurance company located in Luxembourg. Without the client's knowledge, this broker uses the client's name to sign an additional insurance contract for a similar amount with a different company, transfers his own funds for the second contract. Thus, the insurance broker injects funds into the official circuit, using the legal origin of his French client's funds.

Such insurance fraud is expanded also *in Belgium*.

1. The commercial company had been declared bankrupt, the husband of the owner of the company deposited cash into an account that had been opened in the name of another member of his family. The funds were

then immediately withdrawn by means of a certified cheque written out to a lawyer. The lawyer then returned part of the funds by issuing a bank cheque cashed via the account of the husband's relative. He also had the other part of the funds transferred by bank transfer to the husband's life-insurance company in order to pay the single premium on the policy the latter had taken out. That same day, the husband immediately surrendered the insurance contract. The single premium was paid into the account of the relative in question via bank transfer. The latter then withdrew all the funds in cash. The transactions performed by these persons were clearly intended to conceal funds obtained illicitly. There is no economic justification for the funds passing through the lawyer's account. The persons involved appear to have substantial cash funds that may have been embezzled to the detriment of the creditors of the bankrupt company.

2. Two life-insurance policies had been taken out for a very large amount in the names of Mr. X and Mr. Y. The payments were made by cheque drawn from the account of a bro kerage firm located in Europe. The two policies guaranteed a mortgage loan granted by a specialised company. Since the policy-holders did not make the settlement in their own name, the insurer had contacted the brokerage firm to find out the exact origin of the funds deposited into the account. The funds were paid in cash by occasional customers. Police intelligence revealed that Mr. X and Mr. Y were known within the framework of vehicle trafficking.

Typical cases of *FIU of Italy* are woth mentioning.

1. During the sign-up of insurance based financial instruments against cash payment of relevant amount, frequently resulting from the dealing of pluri-endorsed bank cheque, issued in favour of names others than the beneficiaries of the financial instruments themselves.

A significant part of the bank cheque issuers were in financial difficulties. Moreover, many of the purchasers of the financial instruments have resulted acting as nominees of a well known person, at the moment under investigation for the involvement in criminal conspiracy, money laundering and loan sharking, and having tight relations with an important group of "Camorra" (an organised criminal network based in Campania, Southern Italy). That modus operandi gives money laundering actors the opportunity to hide or at least to muddling the track binding the illegal origin of the funds (e.g. in cases of usury and extortion) with the final investment phase.

2. In order to conceal proceeds from crime, which were laundered by money transfer from banking to insurance sector, the financial documents were sighed, related to donations.

The wife of an entrepreneur, who was under arrest on criminal association charge in the field of public contracts, had transferred more than 1.200.000 Euro out of her husband's account, so that to exclude that amount of money to be sequestered by the court. The entrepreneur's wife, in fact, being the co-holder of that account, had requested on her favour the issue of 100 bank drafts of 12.000 Euro each (under the threshold of 12.500 Euro provided by the Italian law). The bank drafts were then endorsed by the wife and paid into an insurance company agent's account. Some days later, the agent transferred the funds paid on his account to the insurance company headquarters, there to be re-transferred to one other branch of the same company, whereby the wife herself had requested the issue of a life insurance policy.

The FIU of Great Britain has a large experience of detecting money laundering in insurance sector.

For instance, one of the mechanisms is related to the early redemption of policies. In this instance a launderer arranges a life assurance policy via an

intermediary or with the provider itself. Once the policy has been obtained, the launderer will request its early surrender, be it partially or entirely, typically at a loss. The resulting electronic transfer or cheque from the insurer will now be viewed as funds with a clouded audit trail. This method could be open to further abuse as the placement stage of the entire process if the intermediary is complicit or negligent and is willing to accept payment in cash.

Care must be taken to ensure the redemption is uneconomic as some insurance products can now be surrendered before term at a, potentially substantial, profit. This can be due to the structure of the product itself, designed to be as attractive as possible in a competitive market. Profits can also be generated by the machinations of collusive intermediaries willing to legally gift a portion of their lump sum commission to the investor beyond the loss that will be incurred by early redemption.

Moreover, the FIU of Great Britain underlines following typical examples in the insurance sector:

- Obtaining loans from external institutions using policies as collateral. An uneconomic transaction due to the high rates of interest charged. This is also a form of layering as the loaned amounts can in turn be moved to accounts or placed in to assets at will while appearing to come from a legitimate source.
- The overpayment and subsequent refund of premiums. A straight forward scheme whereby a customer overpays their premiums by “accident”, potentially with dirty cash, and then requests a now clean refund payment.
- The use of an intermediary which is not geographically local to the investor. While intermediaries are often used legitimately to arrange policies they can also be employed as a further method by which an investor distances themselves from their funds. This is particularly the case when the investor resides elsewhere in the country or in a high-risk jurisdiction considered as having less stringent anti-money laundering controls.

The FIU of Mexico detected such a complicated money laundering mechanism.

The drug trafficker J had $800,000 USD, product of his illicit activity. To legalize these funds he agreed with 3 high ranking officials (Mr. H, Mr. P and Mr. L), who in exchange ask him the 20% of the total amount.

Officials H, P and L, received a net annual income of $108,000USD, $96,000 USD and $114,000 USD respectively. During a year, in their individual job separation insurance, extraordinary contributions may be carried out for a maximum amount equal to the net annual income received by a person, and may be withdrawn by the end of the year.

In one year Mr. H, Mr. P and Mr. L obtained dirty money from Mr. J, carried out monthly extraordinary contributions to their individual job separation insurance.

The Insurance company became suspicious as to money laundering, because of the fact that all their month proceeds Mr. H, Mr. P. and Mr. L contributed to their individual job separation insurance.

By the end of the year, Mr. H and Mr. P withdrawed their extraordinary contributions from their individual job separation insurance carried out, plus the interests, adding up to $115,000 USD and $102,000 USD respectively. From said amounts, they withdrawed the 20% commission, agreed with Mr. J, by reason, the following amounts remain 173,000 USD with which a corporation rendering services was incorporated.

Real estate, furniture and equipment were acquired for that amount.

By the end of the year, Mr. L withdrawed from his individual job separation insurance, the extraordinary contributions, plus interests for the amount of $121,000 USD. From said amount he withdrawed the 20% commission.

As instructed by Mr. J, Mr. L used the commission to acquire two vehicles under his name, which he endorsed the day after their acquisition under the name of Mr. J.

During the first year of operations of the corporation Mr. J contributed to the corporation with $482,000 USD, product of his illicit drug trafficking activity. In order to provide these resources, Mr. J, Mr. P and Mr. H made it appear as if the corporation had provided consultancy services to several natural persons, to whom he files allegedly receipts of payment.

Corporation declared its proceeds as resulted from consultancy services and paid taxes. Mr. J and Mr. P obtained from Mr. J agreed 20% of the laundered fund of 482,000 USD.

Examples from *FIU of the USA* activity are worth mentioning separately.

1. Colombian narcotic traffickers were laundering funds through the company E located in the Isle of Man. Company had a representative office located in Coral Gables, Florida to assist in the endeavour.

Insurance company E offers investment products similar to mutual funds. The rate of return is tied to the FTSE, NASDAQ and other major indices. The insurance policies acted as investments. The funds sent to these accounts were sent from third party wire transfers, checks or the BMPE. The account holder (narco trafficker) can over-fund the policy, moving monies into and out of the fund for the cost of the penalty for early withdrawal. In the end, the funds emerge as a wire transfer or check from an insurance company and the funds can be moved as clean.

2. Mr. B was a chiropractor licensed to practice in West Virginia and Pennsylvania (in the USA chiropractors are licensed to provide certain types of treatments and services).

Between 1985 and 1996, Mr. B owned and operated Mountaineer Chiropractic Clinic, Morgantown, WV. In 1994, Mr. B with assistance of Mr. H formed Priority One Medical Associates, a professional medical corporation, at the same location as Mountaineer Chiropractic. Beginning in 1994, he caused chiropractic patients of Mountaineer to be transferred to Priority One. In 1994, he also formed West Virginia Health Care Management.

Through a series of leases and other contractual agreements, B managed and maintained control over both Mountaineer and Priority One.

In 1994 and continuing through 1997, Mr. B hired and paid a salary to two medical doctors to comply with State requirements that medical corporations must be owned by medical doctors. The stock of Priority One was held in the medical doctors' names. Priority One billed health care benefit programs in the name of the medical doctors for chiropractic and medical services, test, and procedures for which it claimed reimbursement.

Without regard to their medical need, Mr. B and Mr. H caused employees working at Priority One to support and assist their efforts to increase the frequency and number of treatments ordered for patients. A system was created by Mr. B and Mr. H to bill insurance companies and health care benefit programs by fraudulently listing a medical doctor as the provider of all services billed. Treatments were billed according to what the health care benefit program would cover with no thought of patient need.

Mr. B and Mr. H conducted financial transactions which involved the proceeds of specified unlawful activities (mail fraud and health care fraud). Real property and equipment leases, and a management agreement, were established to mask legitimate funds paid by health care benefit programs to Priority One to be diverted to West Virginia Health Care Management and then to Mr. B and Mr. H. These funds were then transferred Virgin Islands to conceal and disguise the nature, source, ownership and control of the proceeds of the specified unlawful activities.

5.1.5 Using of precious metals and stones for money laundering.

Gold, diamonds, other precious metals and stones market is potential area of illegal funds moving. High cost of values, their ability to keep their cost disregarding the form, simple converting, compactness and simplicity of transportation make them attractive for money laundering offenders. In particular, gold and diamonds can be used as origin of proceeds from crime (smuggling and illegal trade), and as real money laundering instrument (by way of direct purchase and selling).

The main sources of illegal funds, which were laundered, are illegal drugs traffic, organized crime and smuggling (including, of values).

The FIU of the USA has experience in this sector.

The FIU of the USA received information that numerous businesses in the New York area were laundering narcotics proceeds through the sale of gold and other precious metals. According to the information, a jeweler would receive narcotics proceeds (cash) and would either provide gold pellets (shots) or melt and mold the equivalent value of gold into various items.

Jewellers have molded gold into the following items: bolts, nuts, cones and wrenches. In some cases the gold was secreted into jewelry machines which where then shipped to Colombia. Once the gold was received in Colombia, it was then resold for cash, thus completing the laundering cycle.

5.1.6. Engaging of public officials to money laundering.

Public officials engaged to criminal activity often mask their illegal funds in a system of holding companies and offshore banks, which are placed in abroad. Public officials often engage intermediaries or family members for movement and possession of funds on their behalf. They use methods of concealing funds, similar to methods, which are used by other money laundering subjects.

Origin of money legalized by public offcials are not only bribes or other curruption actions, but misappropriation and stealing of state property, political parties funds, tax evasion, as well as funds resulted from dirrect organized crime or drugs traffic.

Political parties activity is not only the removal of funds from so-called underdeveloped countries or countries with currupt regimes. A number of benefits and diplomatical status can provide perfect money laundering way and legal barrier, which extremely complicate investigation of such cases.

In particular, the experience of *FIU of Luxembourg* is typical concerning public offcials' fraud in order to launder money.

A Luxembourg based bank drawed attention to one of their clients, a foreign diplomat, because of series of cash deposits on his account, that were shortly followed by outgoing transfers to third parties abroad. He justified the cash deposits as the proceeds of sales of antiques, for which he serves as an intermediary. The bank got suspicious when, during one of these transactions, he deposited an unusually large amount of small currency.

Information provided by the Luxembourg FIU has led the diplomat's country of origin to open an investigation and link the subject to money laundering activities in relation with drug trafficking, forgery and embezzlement.

The FIU of Great Britain uncovered such money laundering mechanism, where not only public officials were acting, but also subjects of insurance sector.

A recent case involved the state-owned insurance industry of an NCCT government charging government contractors excessive insurance premiums. They were reinsured through a UK-based company controlled by Politically Exposed Persons from the same foreign state. The excess in the premiums was subsequently disbursed through an offshore company to personal accounts held by the Politically Exposed Persons in several different countries.

Example of *the FIU of Canada* is concerned using of trust fund for buying property for proceeds from crime.

A public official accepted bribes and kickbacks from recipients of Government contracts. The public official deposited the proceeds of this illegal activity into local financial institutions and then transferred funds into his lawyer's trust account. The money was later used to buy real estate, with payments coming from the lawyer's trust account.

Experience of the *FIU of Spain* is worth mentioning concerning detection of money laundering systems.

In 2002 a system was uncovered for laundering money from cocaine trafficking in Europe. These individuals had set up a network of companies dealing in second-hand cars. This acted as a cover for their dealings with the banks and was used to justify the origin of the cash paid in and subsequently transferred abroad.

In the same operation an ambassador participated, who was accredited in Luxembourg. The ambassador had used his personal bank account to make cash deposits of more than 750,000 USD which he tried to make appear as the proceeds of intermediation in dealing in antiquities and works of art.

From this capital fed into the financial system by virtue of his diplomatic status, he had ordered transfers to a spanish bank, from where he channelled the money to other accounts in Miami and New York.

Concerning experience of the *FIU of Belgium*, there are some cases worth to be considered on money laundering with public officials bribery.

1. Several persons, of Eastern European origin, had opened personal accounts with the same banking institution in Belgium. Each of them had been introduced by a person of Belgian nationality. These accounts had mainly been credited with transfers from companies located abroad. The amounts involved in the transactions were several million EUR. These funds had been partly invested in term deposit accounts and partly withdrawn in cash in the country of origin of the persons involved. These persons held important official functions in their country, and the suspicions aroused, that they abused their position to obtain financial advantages. The transactions carried out by these persons and, in particular the cash withdrawals of funds in their country of origin, caused particularly high costs, which had no economic justification. This showed that the accounts opened in Belgium by these officials were used in order to conceal the anti-money laundering measures.

2. An account had been opened with a financial institution in Belgium in the name of a company whose registered office was offshore. The only movements on this account had been the receipt of substantial transfers from an account the said company held in a Eastern European country. These funds had been put into term investments as instructed by a national from a foreign country who had power of attorney on this account. These companies were involved in a vast money laundering operation involving public funds embezzled by a criminal organization through overbilling implicating the complicity of government officials from an African country. The funds had furthermore been previously passed through various pass-through accounts abroad in an attempt to conceal their criminal origin.

Activity of the *FIU of the USA* should be especially attended, on combating money laundering by public officials.

Mr. M (adviser of President Fujimori and head of Peru's powerful and secretive National Intelligence Service) and his associates including Mr. V (Military and Police Pension Fund) gathered illegal proceeds, forfeited through the abuse Mr. M's position. Some of the principal fraudulent schemes involved the purchase of military equipment and service contracts as well as the criminal investment of government pension funds.

Mr. V was involved in a huge kickback scheme that bilked both Peru's treasury and Peru's Military and Police Pension Fund. In 1994, Mr. V and others used pension fund money and their own money to buy a majority interest in a Peruvian banking institution F, which in June 1999 was bought by Peru's Banco de Comercio. Mr. V was in charge of seeking investments on behalf of company F and identified construction and real estate projects for the bank and pension fund to finance. He also controlled the construction companies which built those projects.

Mr. V established a pattern of inflating the actual cost of the pension fund investment projects by 25 percent and billed company F accordingly. Projects recommended by Mr. V were automatically approved by the board members at the police pension fund, as several of them received kickbacks. In just one project of this type, Mr. V constructed a mall as a company F investment. The $25 million project was fraudulently inflated by $8 million. Similarly, Mr. V covertly formed and controlled several front companies used to broker loans from company F in exchange for kickbacks from borrowers. When some loans defaulted, V would purchase the busted projects at extremely low prices for resale at a profit.

In addition, and members of company F's board of directors were authorized by the Peruvian government to arrange the purchase of military aircraft for the nation. In just two aircraft deals in 1995 and 1998, the Peruvian government paid an extra $150 million, because of a fraudulent 30 percent mark up tacked on to the sale price. From there, it flowed into numerous accounts under a variety of names in banks in the United States and elsewhere to conceal the origin of the illicit funds.

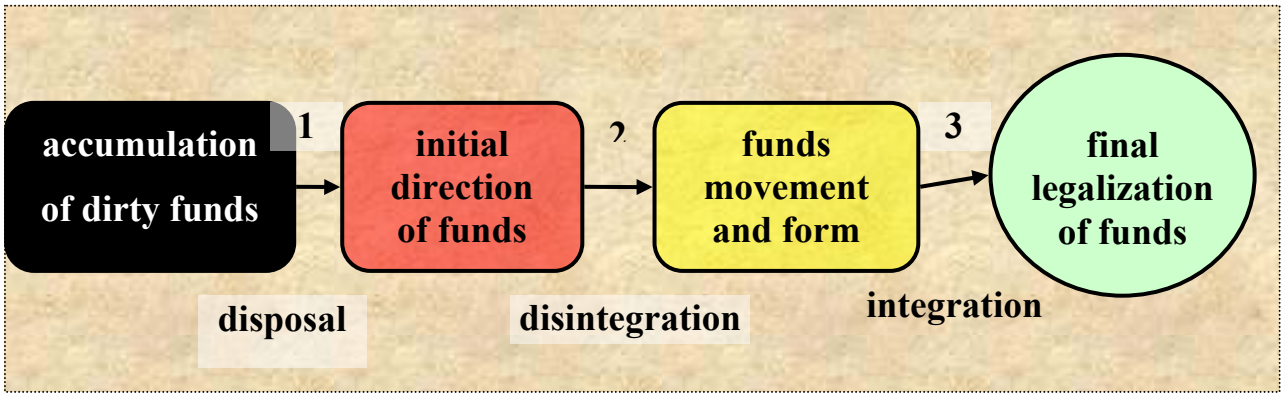
Mr. V consistently used a group of banks located in Peru, the Cayman Islands, Panama, the United States, and elsewhere to launder his and others' share of criminal proceeds. South American, Caribbean, and U.S. banks identified as funnels for their criminal proceeds.

5.2. Money laundering stages

According to the most prevalent money laundering model, which is being used by FATF, the legalization of process can be divided into three main stages: disposal, disintegration and integration.

Typical money laundering mechanism can look like it is showed in the picture 5.2.

Picture 5.2.



Gathered dirty funds get to financial system of any country, they were accumulated in certain bank (financial institution). Their origin is being masked than. For instance, funds were moved to another bank in offshore via several accounts. A credit is being given from these funds to a false company, which quasi pays for the services of another company – the final element of disintegration. As a result, values were purchased, financial or work investments were conducted, and criminal funds become legal.

5.2.1. Disposal of funds resulted from crime

The first stage – the disposal, can be realized by means of money deposition in banks or their disposal in other financial institutions.

Proceeds from crime (first of all in cash) were mainly turned into liquid funds in the form of currency, securities, real estate etc., also they were moved from their real sources (often to abroad).

In particular, in the mentioned stage such traditional credit-financial institutions were used, as banks, investment, insurance, stock companies, credit unions etc. Moreover, disposal can be conducted by non-financial institutions (bars, restaurants, hotels, commission or repair organizations, antiques and jewellery shops, gambling institutions, construction enterprises etc.).

The offenders' "*most popular*" ways of money disposal in financial systems are the following:

1) false overstating of trade proceeds (prizes manipulation) when selling goods;

2) control by criminal organizations of financial institutions or of their personnel activity (including bribery or threatening). Such relations simplify money disposal, their disintegration and integration. Such method is widely used in CIS states by criminal organizations, specialization of which is the legalization of proceeds from crime by means of establishing of own business structure;

3) smurfing – splitting of payments (deposits), i.e. cash transactions structuring without exceeding state limitation to avoid registration by state bodies. This is one of the most popular methods, which is used at the first stage of money laundering;

4) organized purchase of financial instruments against cash;

5) exchange of small bills into bills of bigger face-value, as well as exchange into another currency. Activity of currency exchange offices is related to service of a grate number of accidental clients, what makes identification difficult in itself. Many countries, including Ukraine, correspondingly amended their legislation and limited using of currency exchange offices for money laundering today;

6) movement of funds via banking institutions, including in abroad, using payment cards;

7) joining of legal and illegal capital, when a legal enterprise uses an account in absolutely legal way, and gradually "adds" funds, resulted from crime;

8) using of charitable organizations (in particular, masking of funds, resulted from crime, as charitable contributions and donations).

Disposal stage of large cash amounts is the "weakest" link in money laundering process, because the obtained money can be most easily uncovered at this stage. From this time they can be detected by law enforcement authorities and are mostly exposed during their origin examination.

Financial institution can not fail drawing attention to disposal of great amounts of “dirty” cash under proper organized monitoring procedure, though offenders’ control over financial institution is quite dangerous.

In context of organizations types the banking system is very attractive for disposal of criminal funds because of its universality. Banks offer wide variety of services, have stable relations with foreign financial institutions, quickly carry out transactions, operate with sizeable funds.

Nevertheless money laundering can be committed in other financial institutions. At the last time non-banking institutions were used for disposal of proceeds from crime, introducing them into a legal turnover. This tendency is mostly connected with more complete legislation on combating money laundering using banking system, and relatively better organization of monitoring in this sphere.

Intensity and quality of detecting initial money laundering schemes depends on active participation of direct subjects of initial financial monitoring in counteraction process, only they often have possibility to detect transaction at the beginning.

5.2.2. Disintegration of funds resulted from crime

Another stage of legalization is the disintegration, when the proceeds from crime were transformed into different funds and further disseminate in order to mask their real origin.

In practice money laundering stages collide with each other, so the disposal ways of criminal funds are identical to the ways of disintegration. If the disposal of great funds was not detected, uncovering of further money laundering is impossible.

This stage can include such transactions as transfer of deposited cash and moving them to other financial instruments (securities, travel cheques etc.), postal orders, payments via Internet, investment to real estate and legal business

(especially in the sphere of tourism and recreation), resale of high value goods and financial instruments.

Such methods are quite simple because of a number of foreign banks, which are not interested in informing law enforcement authorities on their clients. (In some countries failure to reply requests is allowed concerning data of their client accounts, except if money laundering accusation is available). First of all it is related to business in offshore, which is held as one of the most profitable one.

Typical instruments, used by disintegration, are false companies registered in offshore. Financial transactions with money laundering characteristics are quite hardly to detect because of many cover agreements and shirt time activity of false firms.

Also the men of straw can be used for conducting transactions, as well as lost or false passports, other documents, which conceal real origin, owners and location of proceeds from crime (e.g. intentional creating of mistaken documental/auditing trace).

One of the most popular method at this stage is so-called "link breaking", related to criminal funds transfer via some countries, via accounts of firms, which than disappear ("one-day firm"), and using of securities payable to bearer.

5.2.3. Integration of funds, resulted from crime

According to the three-phase model the final stage of the legalization is the integration. It shall mean giving of legal form to proceeds from crime. At this stage funds get a legal origin and were invested to legal economy, in order not to arouse suspicion of the law enforcement authorities concerning legality of their origin.

Basic methods of dirty funds integration include:

- real estate acquiring. For instance false firm resells real estate, to which criminal funds were invested, and obtains proceeds from selling, which are held as legal;
- forging of international contracts prices by integration of proceeds from crime to economy (i.e. amounts overstating, which were imported to the

country, in order to justify corresponding amounts in banks, or export overstating in order to prove obtaining of such amounts from abroad);

- using of bank accounts of foreign or joint enterprise to manipulate funds in the form of giving loan, payment of credits, fees for consulting, lectures, payments for false contracts or false service, of salary or commission payment to separate persons or companies;
- placing cash to account in order to form funds as proceeds from selling;
- declaring funds as casino or lottery winnings;
- false companies service. Illegal funds can be represented as obtained in legal way by giving them form of loan funds, if the creditor is nominally independent organization, which practically is controlled by offenders;
- purchase of unprofitable enterprises. At the same time positive financial result is being forged of enterprises, which were earlier unprofitable, at the expense of proceeds from crime;
- obtaining credit against funds resulted from crime and, correspondingly, placing of the proceeds in legal bank system.

Legalization of dirty money should not obligatory include all of mentioned stages, but can be finished at first or second stage. Often the connection between stages is so close, that they are hardly to differentiate.

In contrast to the most developed countries in Ukraine offenders prefer to keep legalized money in the most liquid form. In the most money laundering schemes mechanisms were used of funds transfer from cashless into cash form to avoid capital loss. Such transactions are illegal and were accompanied by tax evasion (VAT, income tax etc.). They mainly were transferred via banking institutions. Not only state bodies should have their detection skills, but also banks (which play an important role among subjects of initial financial monitoring).

When using of the simplest forms of money laundering the above mentioned stages can interflow with each other. Practically simple legalization schemes were often used as system, creating more complex, tangled multiply transactions.

Ukrainian system for combating money laundering is based on initial control of transactions, which were conducted by financial intermediaries, as in whole world. Correspondingly, much depends on how the subjects of initial financial monitoring carry out their task.

As a rule, the subjects of initial financial monitoring are not able to detect and to track whole legalization scheme, but at the same time they should draw attention to some of its elements.

5.2.4. Detecting of typical legalization schemes

The schemes can be detected when conducting outside examinations; operational measures and investigation; report analysis; financial transactions research; currency control.

Outside examinations give the possibility to familiarize directly with necessary documents, conduct inventory of material values. Examinations were conducted by State Taxation Administration of Ukraine, Administration for Control-Inspection, regulatory bodies (National Bank of Ukraine, State Stock Market and Securities Commission, State Commission on Regulation Markets of Financial Service of Ukraine).

Operational measures and investigation – search, attachment, examination, other operational work were conducted by law enforcement authorities (General Prosecutor Office of Ukraine, Ministry of Internal Affaires, Security Service of Ukraine, State Taxation Administration of Ukraine).

Analysis of reporting (administrative data) is conducted by control bodies (mainly National Bank of Ukraine, State Stock Market and Securities Commission, State Commission on Regulation Markets of Financial Service of Ukraine, State Taxation Administration of Ukraine, State Custom service of Ukraine), as well as law enforcement authorities in cases, which are foreseen by the legislation.

Financial transactions research foresees, as a rule, information collecting and bank accounts analysis by entities of initial financial monitoring, National Bank of Ukraine, State Stock Market and Securities Commission, State Commission on

Regulation Markets of Financial Service of Ukraine, State Taxation Administration of Ukraine, law enforcement authorities, as well as by SCFM (during conducting of financial monitoring).

Currency control is conducted by banking institutions and other currency control agents during foreign currency clearing, import/export, transfer and moving of currency values, including currency values placing to accounts outside of Ukraine, other currency transactions. The chief body for currency control is the National Bank of Ukraine.

5.3. Simple laundering schemes

Money laundering schemes can be complex, tangled, they can have many ramifications, but all of them consist of relatively little number of "elementary transactions". In this chapter examples were given of such elements, in which more complex schemes were formed.

5.3.1. False retail of goods, providing of service
(Picture 5.3.1.)

A small café sells weekly great lots of self made home-cooked pastry. These proceeds are the general base of this café. In fact technical possibilities of the enterprise allow producing less production volume. Contracts of its selling are implemented only on paper.

Using of the scheme foresees direct money laundering by means of fictitious products selling (in the sphere of retail trade, including catering). In such way illegal money looks like a legal purchase payment.

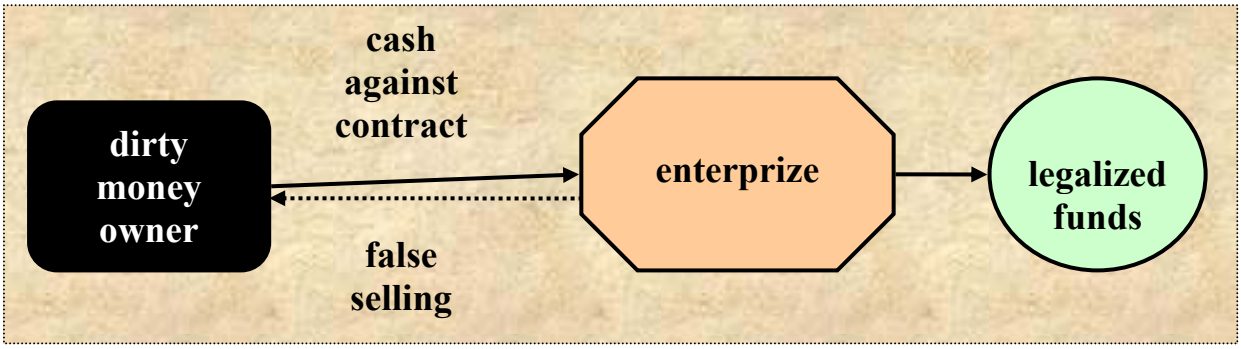
False selling is used at first legalization stage – placing of dirty funds is, as a rule, a part of more complex schemes.

Obligatory condition of the scheme realizing is accounting falsification.

Tax bodies can detect such scheme very easy (especially during outside examination and accounting analysis).

The scheme can be detected, as a rule, during inventory, suppliers' examination, bank accounts analysis (detection of payment object), during conducting operative measures (comparison of practically service/products per day with accounting data).

Picture 5.3.1.



5.3.2. Falsification of accounts for obtained goods and services (Picture 5.3.2.)

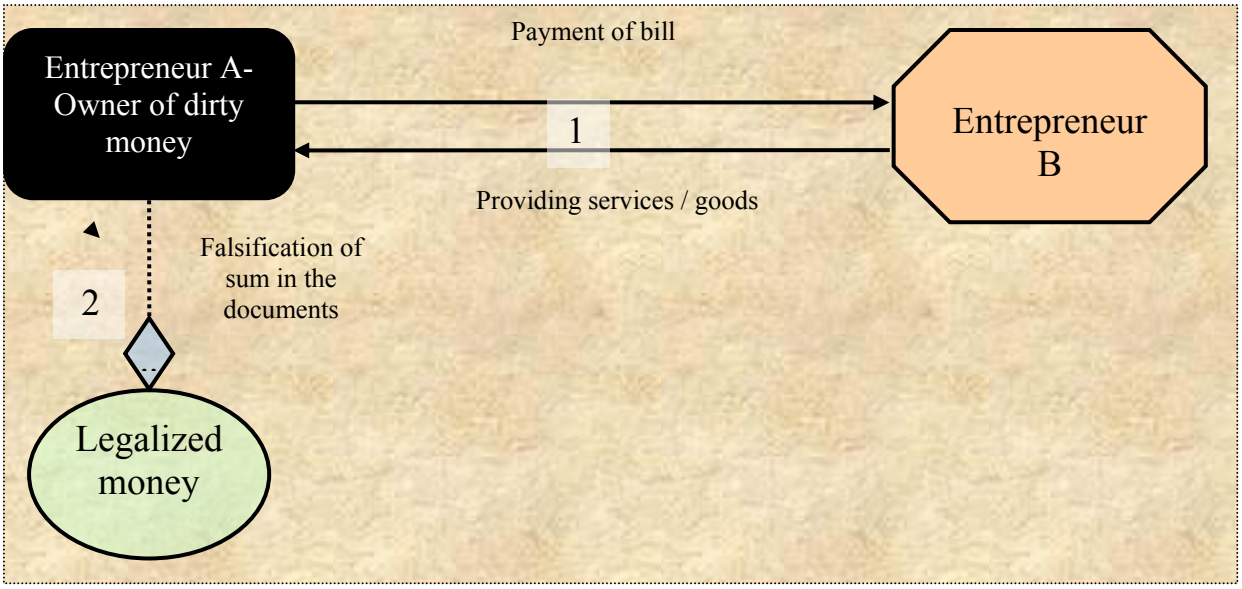
Employer A obtains and pays for service/work of employer B(1) and forges account by means of overstating the amount in documents on realized work/service and in account of expenses (2). Such "buffer expenses" can serve for further masking of money laundering.

Usually the scheme is used to foul the trail of dirty funds (at the stage of disintegration) and acts as element of a complex legalization system. Obligatory condition for scheme realizing is falsification of payment and contract documents.

The best chance to detect such scheme exists during conducting operative measures (by law enforcement authorities), as well as during research of financial transaction, especially during outside examinations and accounting analysis (by the SCFM).

The scheme is mostly detected during counter-examinations of suppliers, inventory, as well as during conducting operative measures.

Pic 5.3.2



5.3.3. Fake "loss" in the gambling business (pic. 5.3.3)

Money laundering occurs directly by means of fake transaction during gambling business process. The player "loses" necessary amount of dirty money at casino, providing legalization of illegally obtained money.

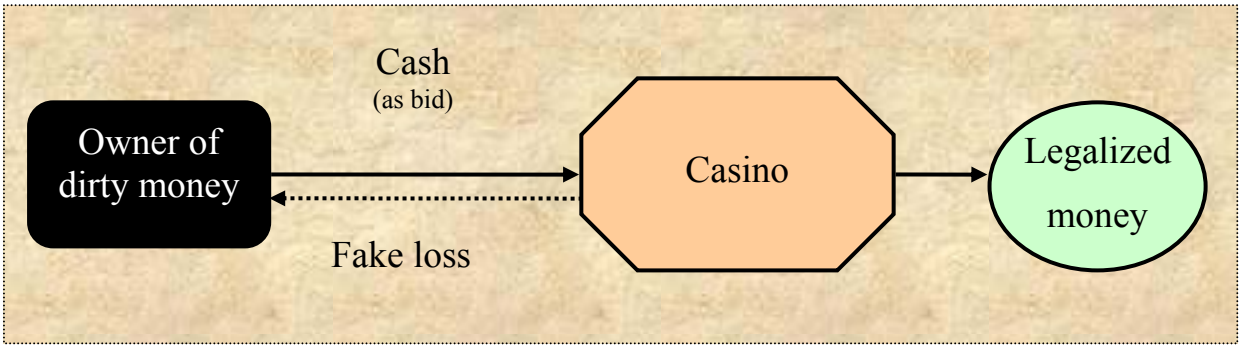
Used at the stage of dirty money placement and directly for giving legal look to this money. As a rule one is a part of more complex schemes. The distinguishing characteristic is that a criminal group usually controls gambling business that operates the scheme.

Possible breach of the law during transaction of this scheme is accounting falsification.

As a rule the scheme is determined during operational measures (comparing actual services provided per day and one reported, including payment tokens and chips sale).

Person "loses" at the gambling place big amount of dirty money. Then another person "wins" at the same gambling place. Whereas the place receives benefit for the laundering services.

Pic 5.3.3



5.3.4. Fake transactions insurance sector (pic. 5.3.4)

Money is laundered by using fake transactions between insurer and insured person. The scheme may include insurance agent. The client that has intentions to legalize money (via broker) transfers the specified amount to the account of insurance company according to cargo property, real estate and other insurance contract (1, 2). (Insurance payments are often proceeding with overvalued tariffs). The company reimburses to the "suffered" as if insurance accident happened (3).

The same scheme applied when legalizing dirty money as financial assistance, payments under reinsurance contract etc.

The scheme is used as placement of dirty money as well as giving them legal appearance (i.e. at the stages of initial placement and integration).

Often is used as part of more complex scheme.

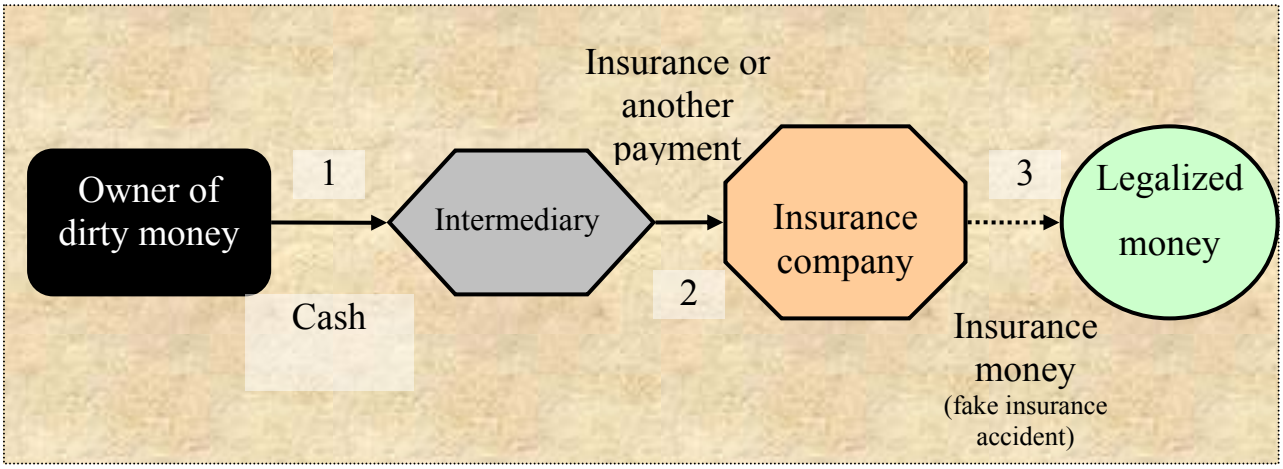
Possible breach of the law during operation of this scheme is falsification of insurance accident happening.

However the falsification of insurance accident happening is a weak place of this scheme, since it has to be confirmed by testimony of participants, expertise check etc. This scheme is most likely to be discovered during field checks (by law-enforcement authorities) and also during research of financial transactions, especially during field checks and accounting checks (by SCFM).

In order to mask the payments to persons, who control the activity of insurance company (formally – clients of the insurance company), the insurance company transfers money to another insurance company (most often – in another region of the country), as it was reinsurance of own risks. Further the money is paid as insurance benefit (according to the contacts with clients of the insurance company, same persons, who control the insurance company activity) for the fake insured accident.

The reinsurance company (resident) reinsures (with money transfer) its' risk at the insurance company (non-resident). From this accounts the mentioned money are transferred to companies, managed by persons, who controls the activity of insurance company, as clients of insurance company. Therefore as a matter of fact with help of insurance company the currency is exiting Ukrainian borders. Received cashless money are legalized as investments and purchased property in Ukraine and abroad or cashed via payment system.

Pic 5.3.4



5.3.5. Speculative transactions in securities sector (pic. 5.3.5)

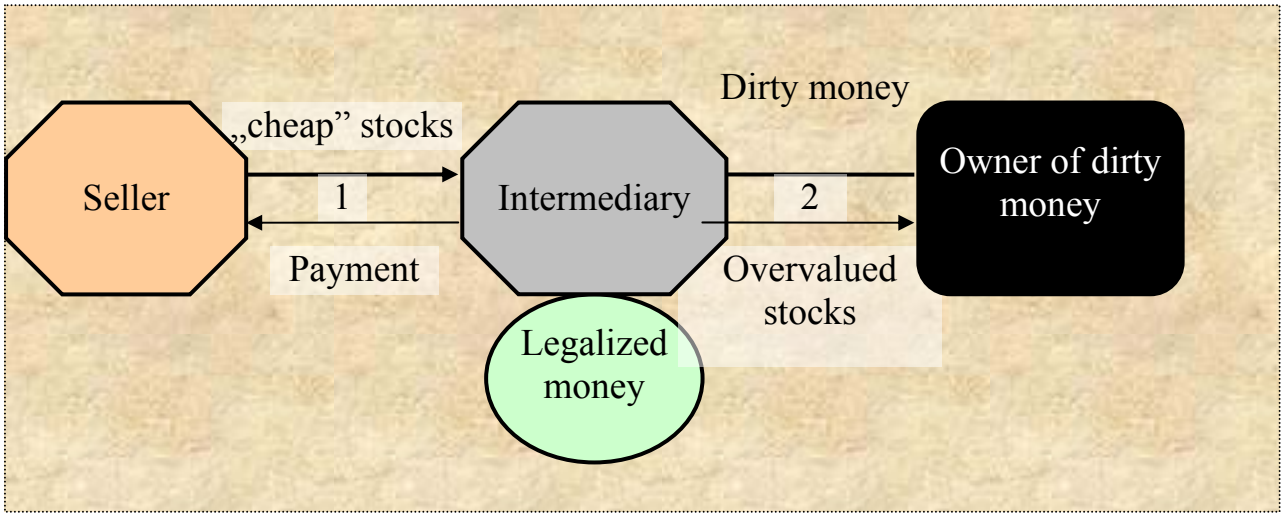
Legalization of criminal profits are done by accomplishing speculative transactions with securities (so called "junk shares")

Intermediary (friendly or controlled person) cheaply purchases stocks (1), and then sells it at higher price to the person, who purchases it using dirty money (2). The income from the resale receives legal form.

Often is used in complex schemes to directly provide legal form for dirty money.

Usually, scheme is determined by comparing nominal and real market value of stock. Most likely to determine such scheme by tax authorities and authorities who regulates stock market and derivative stocks market (especially during field checks and accounting analysis), also SCFM and professional participants of the stock market (directly during financial transactions research).

Pic 5.3.5



5.3.6. Speculative transactions in real estate sector (pic. 5.3.6)

Intermediary cheaply purchases real estate object (1), and then sells it at much higher price (2) to the owner of dirty money. The difference between the price of sale and purchase will be legalized income.

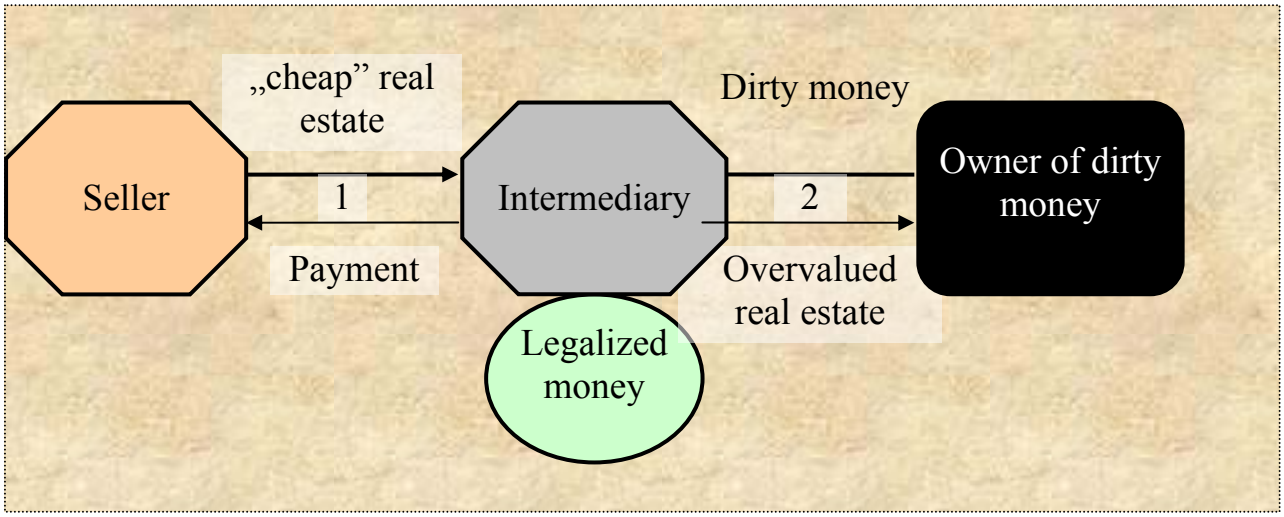
As a rule is part of more complex scheme and is used directly to give legal look for dirty money. Money is legalized using artificial increase in real estate value. Distinguishing characteristics of this scheme may be cyclical resale of real estate objects and participation in false firms.

Functioning of the scheme may include falsification of real estate assessed value documentation, sale contacts.

This scheme is most likely to be determined with help of tax authorities (especially during field checks) and by SCFM during research of financial transactions.

Usually, scheme is determined by comparing real and market value of real estate objects, also when researching resale deals (determining operations recurrence).

Pic. 5.3.6



5.3.7. Money laundering by bearer-certificates (pic. 5.3.7)

For dirty money a company purchases bearer-certificates in the bank (1). As a rule, then the certificates are passed to intermediary dummy (2) who presents them for remuneration at the same bank that deals the certificates (3) and receives legal money.

May be used as part of complex scheme at the stage of initial placement and integration (direct provision of legal look to dirty money by breaking the chain of legalization process). Frequently accomplished with help of bank employee.

Quite often fake documents (power of attorney), lost (stolen) passports are used.

The easiest way for bank organizations and SCFM to discover this scheme is during research of financial transactions. Also there is rather high probability of scheme discovery during the work of authority that realizes state regulation regarding bank activities – National bank of Ukraine (field checks, accounting analysis), and also law enforcement authorities (operative measures).

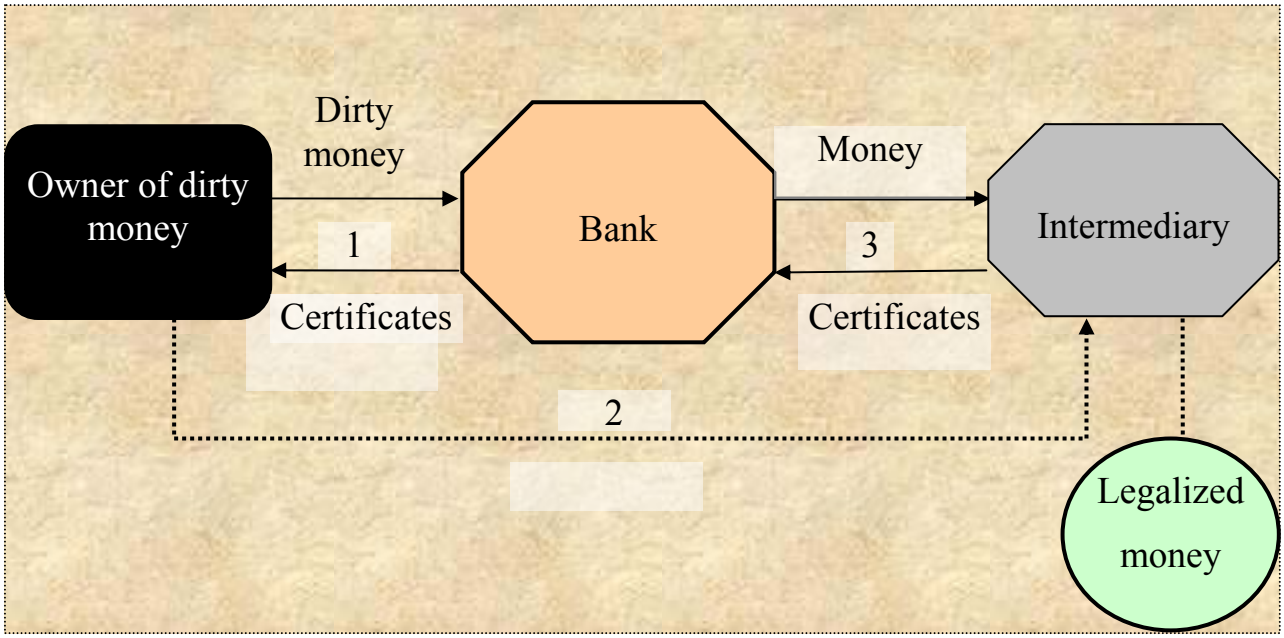
Use of fake documents and / or stolen (lost) passports is discovered during operative measures and / or by request to corresponding database.

In some cases certificates are presented for remuneration before the appointed time.

Note. *National Bank of Ukraine (NBU) has amended Regulation for banks of Ukraine on providing deposit transactions with legal and natural persons that was approved by decree of NBU from 03.12.2003 №516, and is*

targeted for actions counter this scheme. It sets minimal term for which the savings (deposit) certificate – 30 days (p. 4.1); in case of early reimbursement of certificate, money are accounted by bank on the current client's account before reimbursement and may be cashed or transferred by client's order to another account not earlier than after 5 days after they have been entered into account (p. 5.4).

Pic. 5.3.7



5.3.8. Transactions with sale of wealth items, that were obtained illegally (pic. 5.3.8)

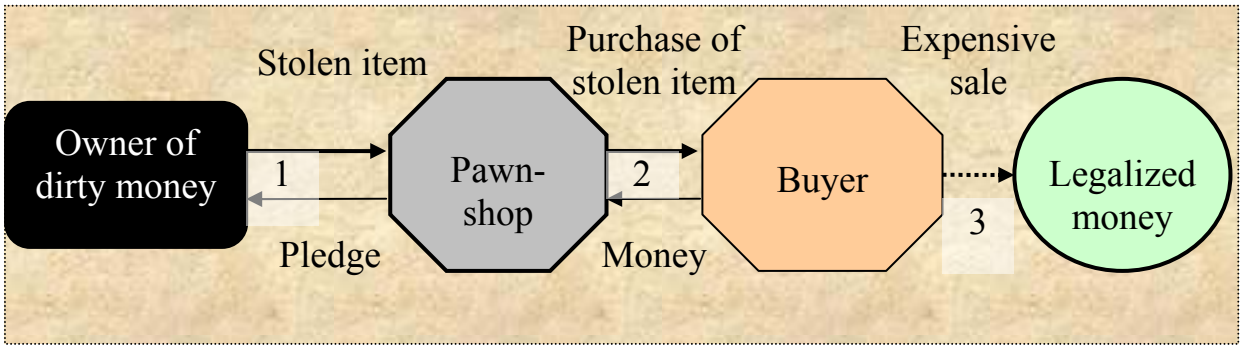
A stolen antique item, for example ancient painting pawned at pawn-shop for small pledge. The credit is not paid off (1). Very quickly another buyer comes and buys it cheap (2). In its turn, new owner resale the item at much higher price (3).

Used at the stage of dirty money placement and directly providing clean look for this money. Distinguishing characteristics of this scheme is that the object of legalization is not the illegal money, but material wealth items.

Possible violation of the law during operation of this scheme is use of stolen items.

Therefore, it is easiest to determine such scheme with help of tax authorities (especially during field checks) and by law enforcement authorities (during operational measures).

Pic 5.3.8



5.3.9. Transactions with stolen / lost credit cards (pic. 5.3.9)

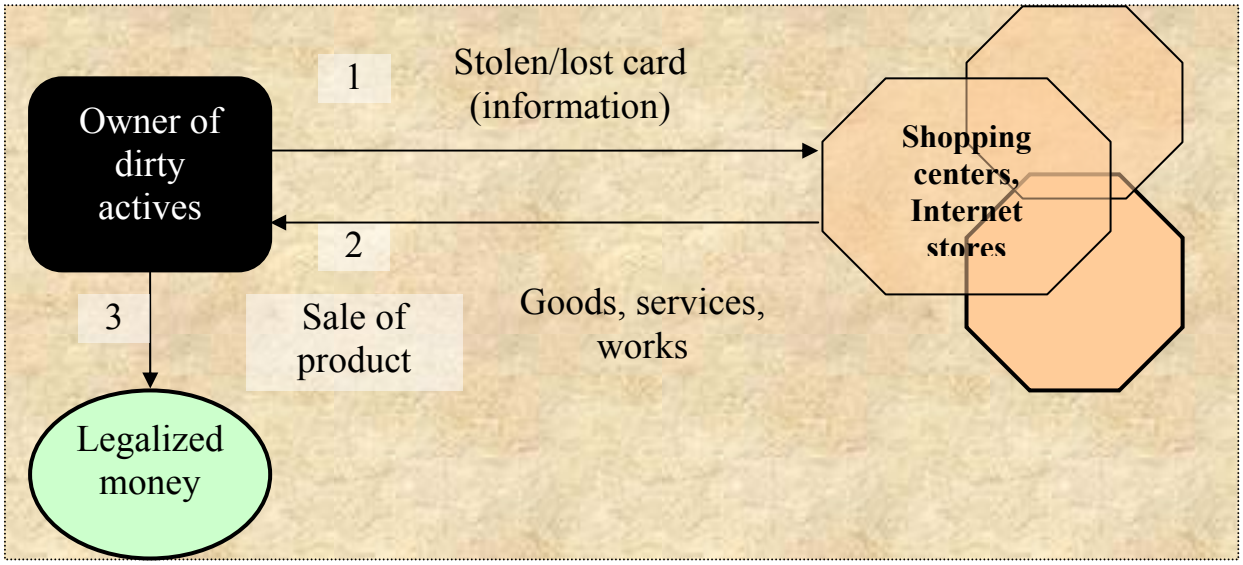
Stolen / lost credit card used by person for clearing transaction (1), for example for one or number of light industry products (2), that are resold later (3). Purchase maid in personal or incognito (by order via Internet).

Distinguishing characteristics of this scheme is use of stolen / lost payment documents or information about them. Criminal money is laundered by getting the form of purchased products. The scheme is functional at the stages of placement and integration and is frequently used as part of more complex one.

Possible violating of the law during transaction of this scheme is assignation of money from credit account. Stolen / lost credit documents or unauthorized accessed information about them or access to other persons account are used.

As a rule this scheme is most likely to be discovered by law enforcement authorities during operational measures and during the analysis of card transactions by bank. Usually, in case of stolen card the probability of determining the crime is very high, because one can observe a clear tendency of immediate change in purchases behavior that lasts constantly until the account is empty. In case of stolen information on the card the behavior change of purchasing activity is covered more and may have several cycles.

Pic. 5.3.9



5.3.10. Sale of goods, providing services over the false company (pic. 5.3.10)

Direct "whitening" of the money is accomplished by imitating trade operation (or operation of providing service) via the false company (1, 2). Money with illegal sources is becoming legal as payment for purchase.

The scheme may be used at all stages, but is mostly used at the second stage to foul the trail.

The distinguishing character of the scheme is that the seller company is created for a short term. In a short time after the transaction is completed the company and its accounting disappear. As a rule the companies are opened using fake or stolen passports or by the man of straw.

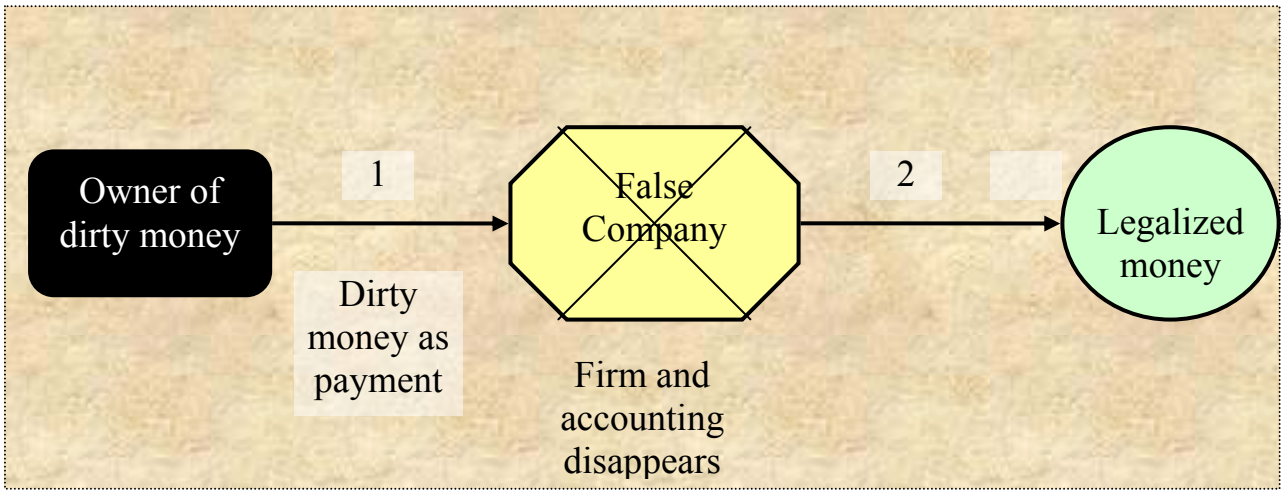
Possible violating of the law during transaction of this scheme is false entrepreneurship, fraud, falsification of documents.

It is most likely to discover such scheme by tax authorities (especially during the field checks) and law enforcement authorities (during operational measures).

Timely identification is important, considering the short term of "one-day-company" transaction and should be accomplished by operational measures or by exercising financial monitoring.

Because article 11 of the base law defines the basic financial monitoring of transactions during the 1st three months after the company incorporation, it is still possible to use of "sleeping" companies (that do not carry any activities during first months of existence) and / or "structured" payments (broke into smaller payments less then 80 thousands hrn.)

Pic. 5.3.10



5.3.11. False export of goods with aim of VAT compensation (pic. 5.3.11)

Money laundering is accomplished by falsified export of goods via false company (1, 2). Illegal money gets legal form as payment for purchase. Same time the due compensation of VAT occurs (3).

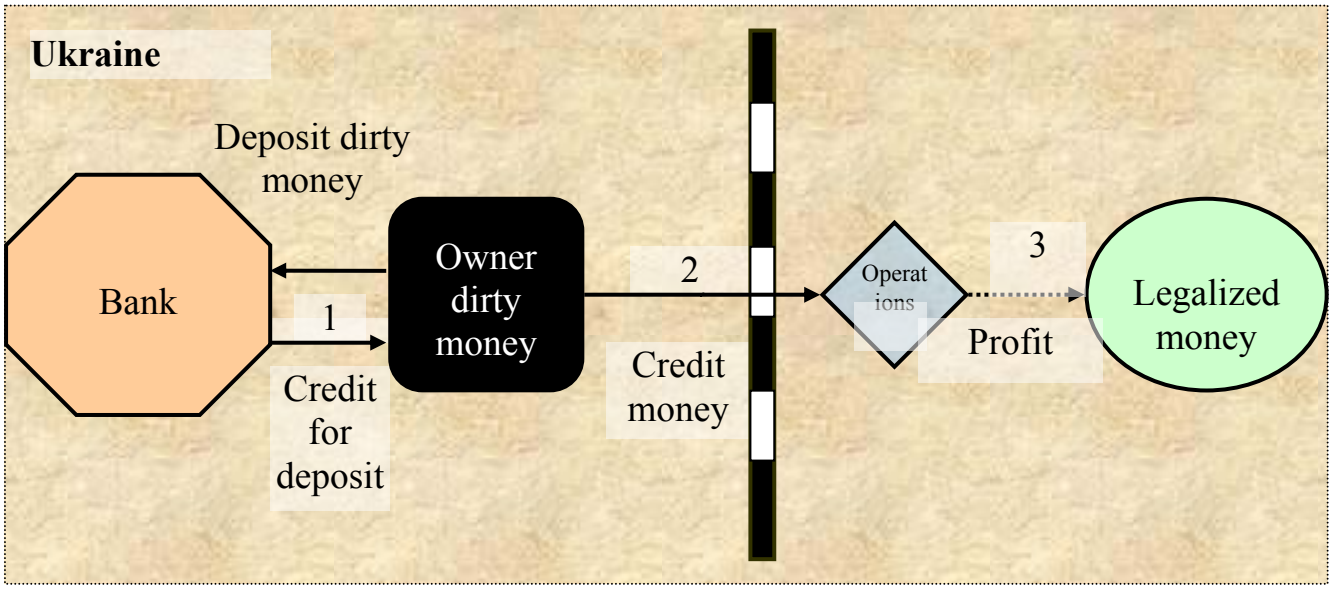
The scheme may be used at all stages, however most widely used for the tracks wiping out, but as a rule is part of other more complex schemes. The distinguishing elements of the scheme are: false companies and fake products (goods). The scheme is frequently organized as purchase of goods from one-day-company and its export to countries and territories far from Ukraine.

Actually there is no movement of goods, transportation and crossing the border, also lack of the contract and import relations with residents of Ukraine confirmed by competent authorities of foreign countries.

Therefore, possible breach of the law during transaction of this scheme is false entrepreneurship, fraud, falsification of accounting, falsification of other documents.

As a rule the scheme is uncovered by operational measures (by law-enforcement authorities) or during financial monitoring (by SCFM). Also there is probability that scheme could be uncovered by tax authorities, customs, National bank of Ukraine during inventory, suppliers checks and analysis of bank accounts (what the money have been paid for), currency control, accomplishing operational measures (comparing actual provided / sold services / products for the day with report data) with cooperation of competent authorities in other countries.

Pic 5.3.11



5.3.12. Transactions of dirty money removal abroad by resident natural person (pic. 5.3.12)

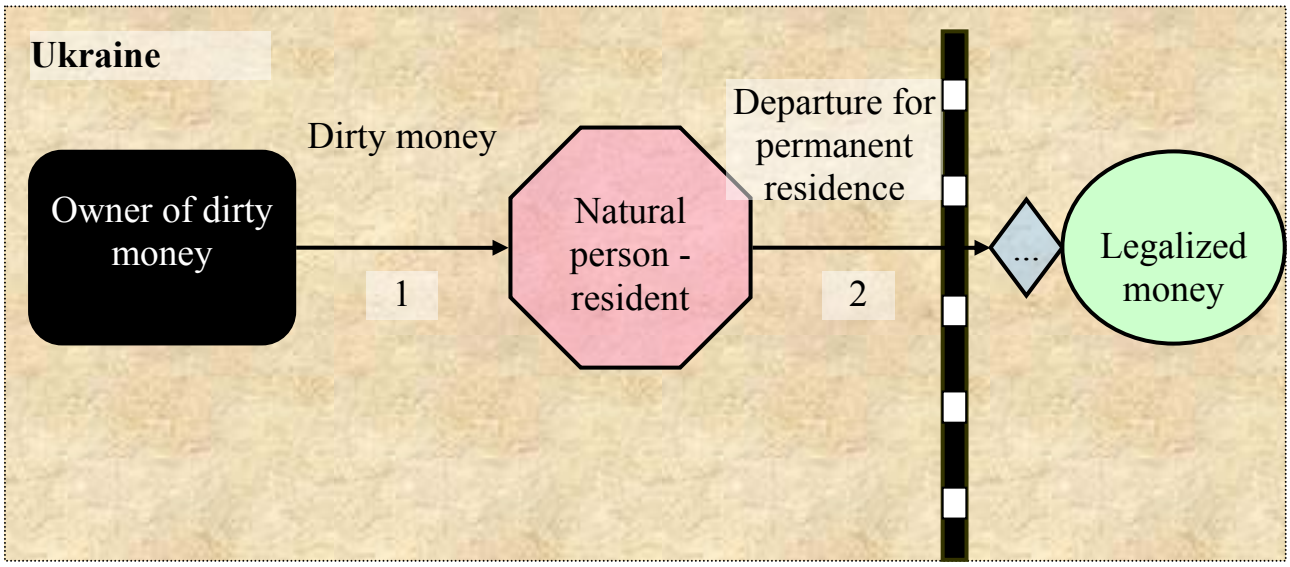
Transfer of criminal money abroad done by resident of Ukraine, who departs for permanent residency. The person obtains cash from the owner of such money in a certain way (1), transfer it to his account abroad (2). This money may return to Ukraine in a legal form through controlled companies, card accounts or as investments soon.

This scheme is often used as intermediate link in more complex schemes (at the diversification stage). Dirty money is transferred to mask the sources of its origin.

Such violation of the law as falsification of documentation regarding sources of origin for money that is to be removed abroad.

As a rule the scheme is uncovered by bank institution during currency control transactions and with high probability by tax authorities or by SCFM etc.

Pic 5.3.12



5.3.13. Transactions with transfer abroad of dirty money by non-resident natural person (pic. 5.3.13)

Non-resident receives dirty money (1) and transfers it to his account, that is abroad (2).

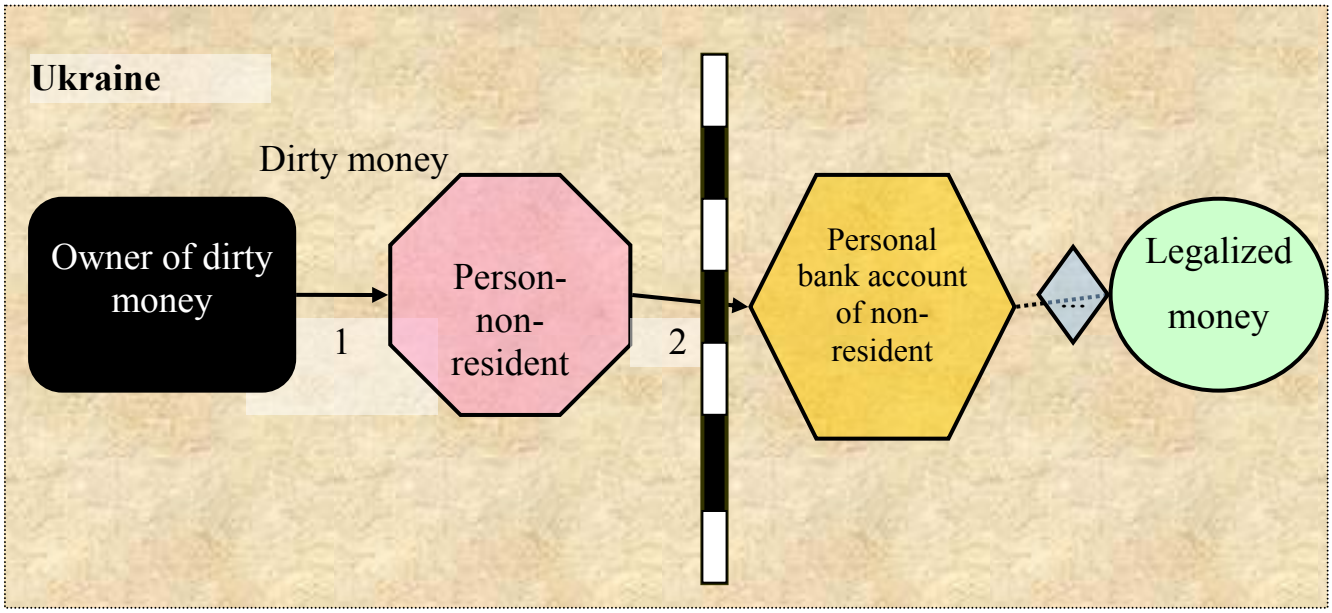
As a rule this scheme is a part of more complex schemes and needed for masking of real sources for criminal money.

Violation of the law is possible during transaction of this scheme. This concerns (according to realization of decree Board of Directors, NBU "About approval of Rules for accomplishment operations on inter bank currency exchange of Ukraine" from 18.03.97, №127) submission of falsified documents for purchase of foreign currency to authorized bank. (In case of obtaining the hryvnas at the

beginning stage for purchasing the currency at the interbank currency market of Ukraine additional documents should be provided to the bank)

Usually, the schemes are detected during the analysis of bank accounts, during checks of information regarding non-resident person, who is present in Ukraine.

Pic 5.3.13



5.3.14. False contract with transfer abroad of dirty (pic. 5.3.14)

Criminal money is going into Ukrainian enterprise (1) and with the help of false contract for supply of goods or provision of services with foreign firm (for example market research) are transferred abroad (2).

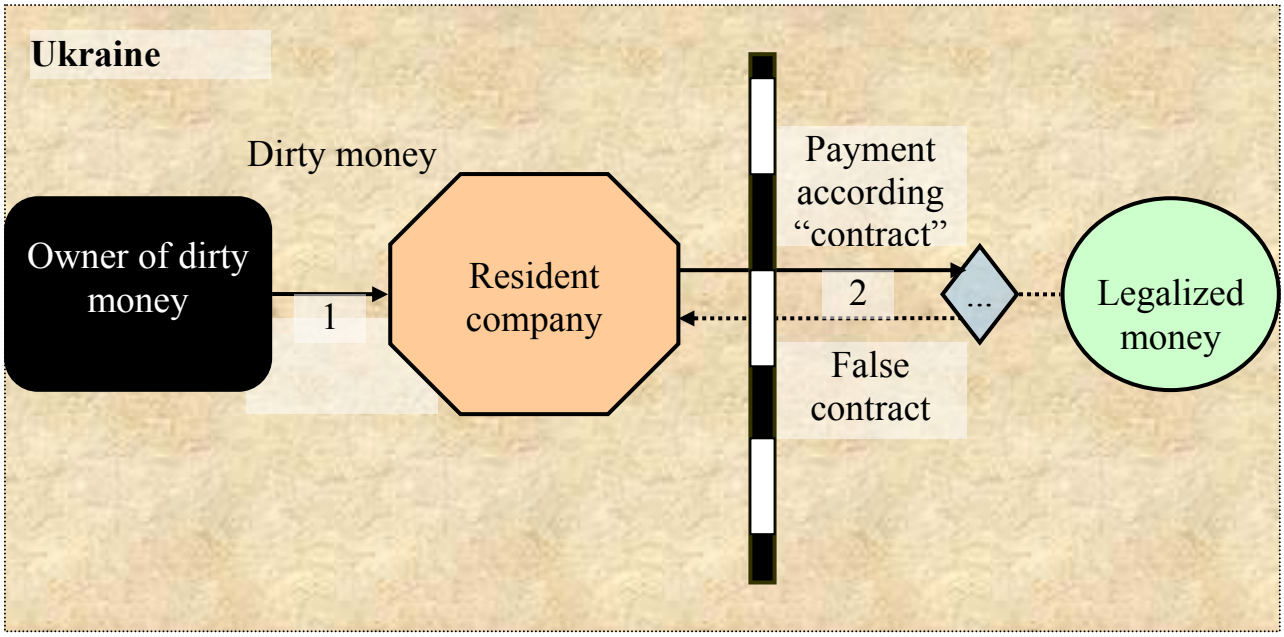
This scheme is used for masking of criminal money sources. The distinguishing element of the scheme is use of fake contract for delivery of goods / service provision. A variation of scheme is sanctions payment according to the contract.

Possible violation of the law during transaction of this scheme is falsification of documents, not following the demands of Ukrainian law "Realization of transactions in foreign currency" (specifically article 2, that demands individual license of National bank of Ukraine for resident's import

transactions with terms of 90 days delivery postpone from the moment of advance payment or giving promissory note to supplier of products (works / services) that are to be imported.

It is most likely to discover such scheme by banking institutions (during research of financial transactions, carrying out currency control) and directly by SCFM.

Pic. 5.3.14



5.3.15. Crediting with dirty money pawing, placed at deposit account (pic. 5.3.15)

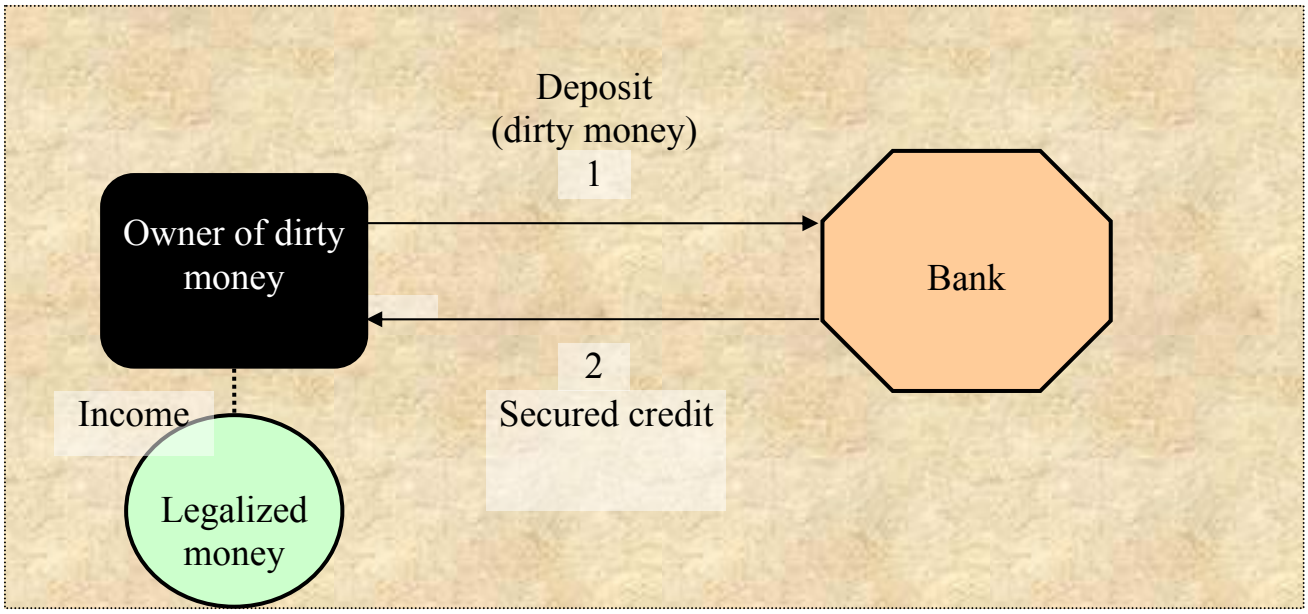
Person places illegally earned money at the bank deposit (1). Then one receives credit secured by deposit at the bank (2).

This scheme is used for masking of "dirty" money sources (at the stages of initial placement and integration). As a rule, one is a part of more complex schemes.

This scheme is distinctive by assets pledged as security for bank credit. Percents that are obtained from deposit are partially covering the expenses for use of credit.

Scheme is normally discovered by bank institutions during the analysis of status and dynamics of bank accounts and financial analysis. Also there is high probability to discover the scheme during field checks by National bank of Ukraine, researched by SCFM financial transactions, operational measures by law enforcement authorities.

Pic. 5.3.15



Note: this scheme is rather dangerous considering that large sums of money can be legalized. One has many variations, linked by different possible use of pawn objects (banking metals, securities, property rights). The pawn objects may be deposited not in a bank, that provides credit, but with another financial institution, also abroad in order to complicate the scheme. This scheme is especially dangerous if criminals deal with bank employees. The falsification of credit documentation and pawing documents is possible.

5.3.16. Crediting secured by dirty money as guarantee (pic. 5.3.16)

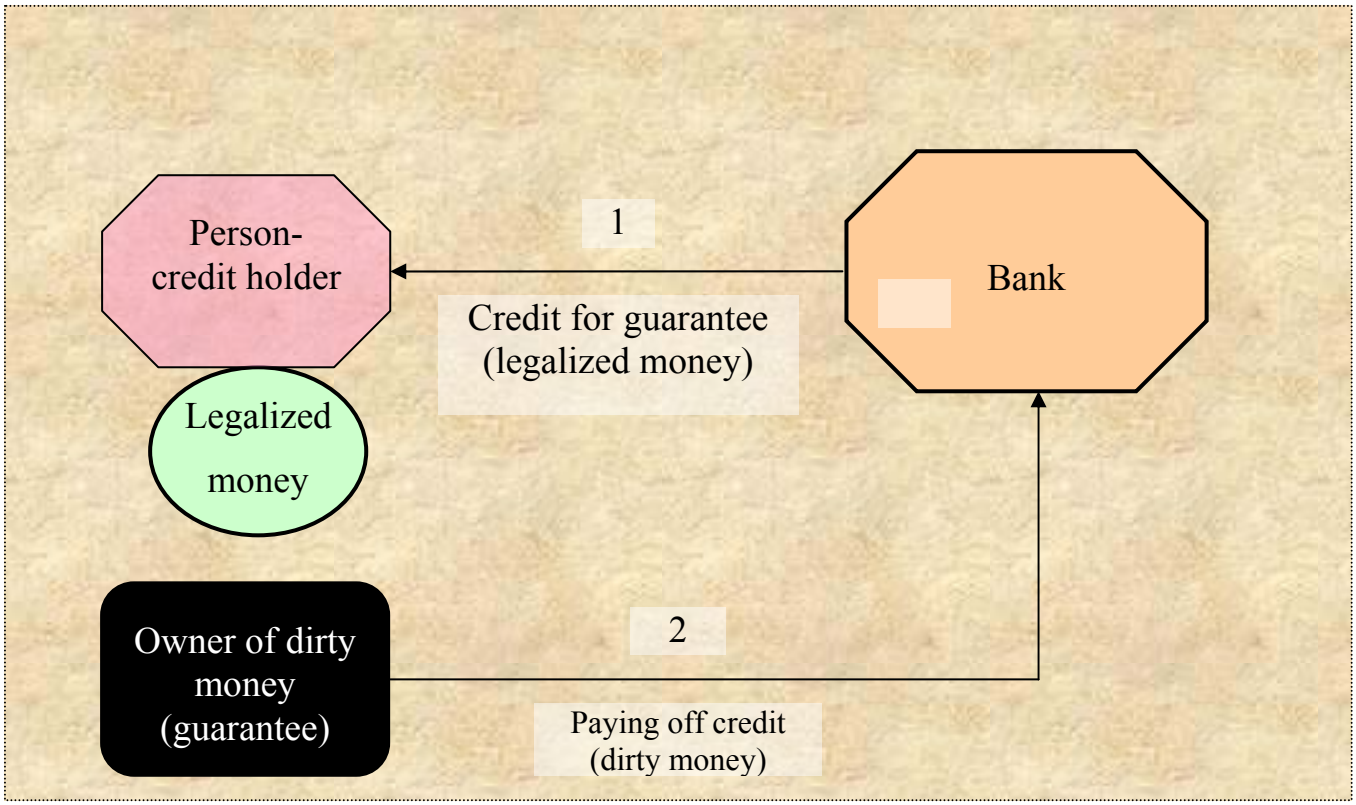
Person obtains a credit at the bank secured by guarantee from another person (1). The guarantee repays the liability by dirty money (2), which is legalized respectively.

The scheme is often included into more complex one in order to mask the sources of criminal money and its legalization.

During realization of the scheme the falsified information may be provided to the bank for obtaining the credit.

Most often the scheme is detected by banking institution during analysis of status and dynamics of bank accounts and also high probability of its detection exists during field checks by National bank of Ukraine, research of financial transactions by SCFM.

Pic. 5.3.16



5.3.17. Transactions using addressed bill (pic. 5.3.17)

Company makes agreement with a bank for domiciliation of bills and transfers the money to the bills account (1). The domicile issuing bank pays off the bill during the term specified in the contract (2).

This is one of the typical schemes that are applied for braking of laundering process “chain”. Use of domiciliation payments favors masking of the criminal money.

One of the scheme variants may be use of addressed bill as deposit to obtain real credit for natural person at the bank, incl. possible non-resident participation (who gives the bank addressed bill for payment). The addressed bill is convenient because it increases security of transactions; however additional cooperation with bank increases the terms of its use, therefore non addressed bill is often used for laundering.

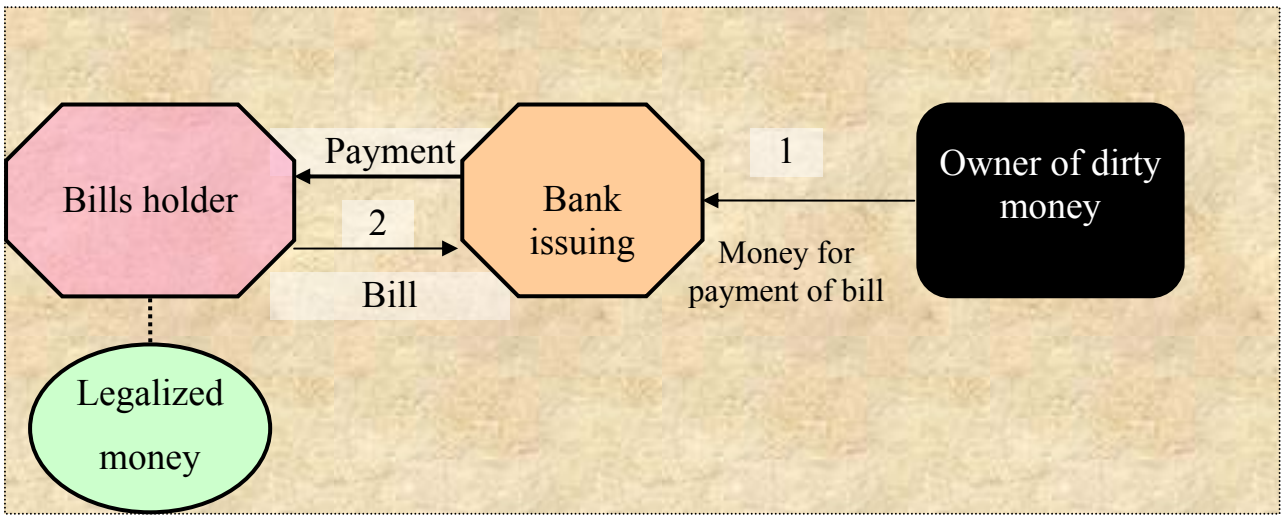
Realization of scheme may include accounting falsification, payment documents.

As a rule, scheme is determined by bank institution during analysis of status and dynamics of bank accounts and during financial analysis. Also there is high probability to discover the scheme by tax authorities (during field checks, analysis of transactions) also law enforcement authorities (during research of financial transactions).

Buffer intermediary company receives dirty money and then makes the contact with bank for domiciliation of bills. From now all money arriving for the company’s account are sent to address bill account in the bank.

Then the buffer company makes a contract for purchase of products (goods, services) with “one-day-company” with anticipated payment by bills. Bills received by “one-day-company” are presented to the bank for obtaining legalized cash.

Pic 5.3.17



5.3.18. Transactions using bill (pic. 5.3.18)

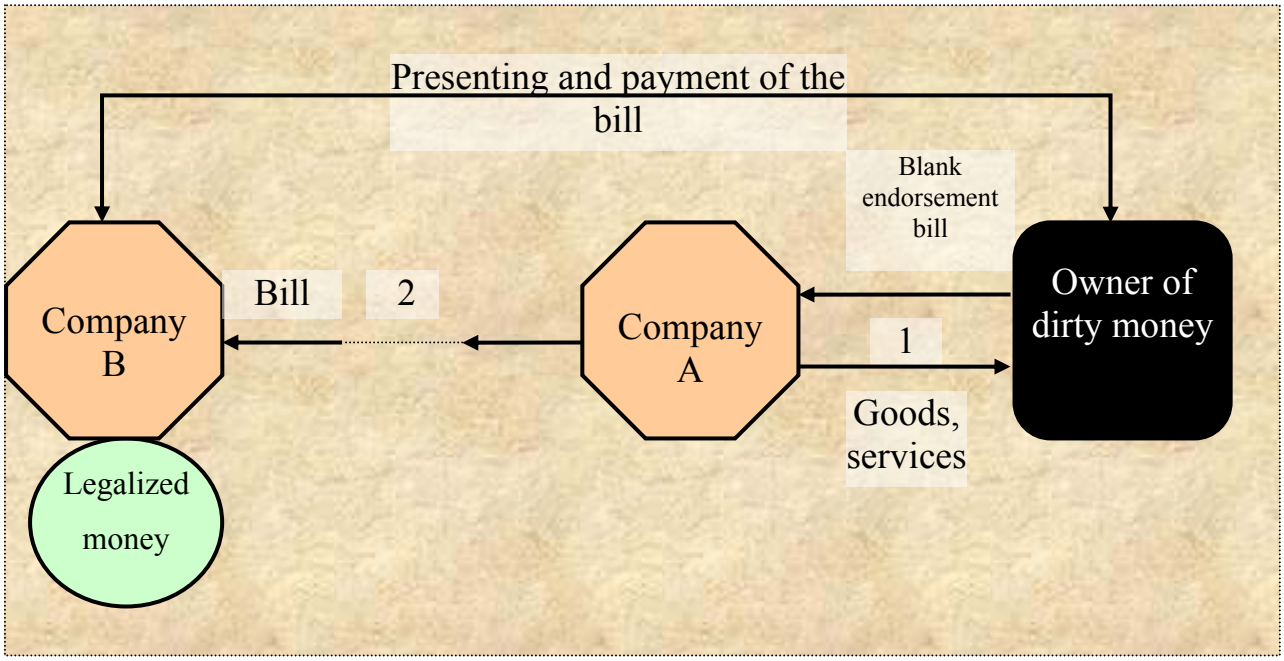
The owner of dirty money writes a blank endorsement bill as payment for some product or service from a company (1). Company B receives the bill after specific transactions and demands payment from the owner (2) and receives legalized money.

As a rule, this scheme is used in the combination of another for purpose of "chain brake" of legalization process.

Possible violation of the law during transaction of this scheme may include: falsification of accounting and payment documents.

As a rule the scheme is determined by bank institutions during the analysis of status, dynamics of bank accounts and financial analysis. Also there is high probability to discover the scheme during field checks (tax authorities, State commission for securities and stock market), and also with help of operational measures by law enforcement authorities.

Pic 5.3.18



5.3.19. Transactions using payment cards (pic. 5.3.19)

Behind the Ukrainian borders dirty money are transferred to payment card (1). The card is then physically brought to the territory of Ukraine and cashed (2).

As a rule, the scheme is used to foul the trail, specifically for the currency money that was illegally accumulated at foreign banks and returning to Ukraine for further use in the shadow business.

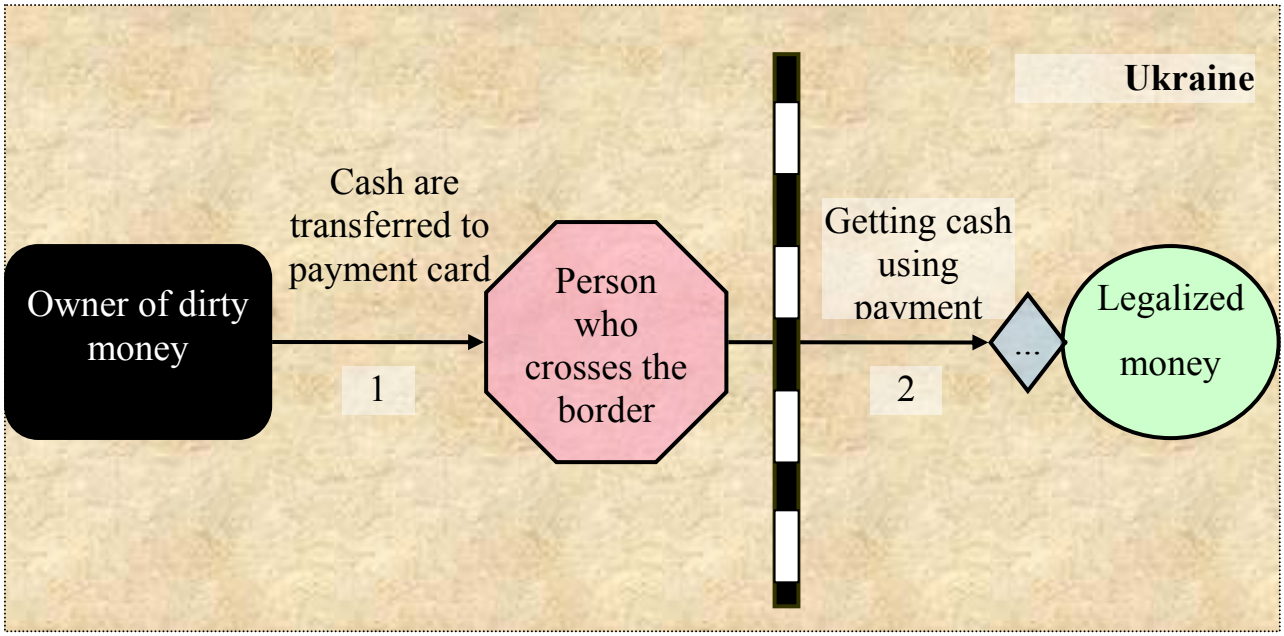
Possible violation of the law during transaction of this scheme may include:

- use of the payment card by the person who is not its legal owner (art. 200 by the Criminal code of Ukraine);

- violation of the order for currency transfer over Ukrainian border (precisely, the demand of the payment card oral declaration, defined by art.1, 2 chapter IV Resolution by decree Board of Directors, National Bank of Ukraine from 12.07.2000 N283 “About approval of instruction for transfer of Ukrainian currency, foreign currency, banking metals, payment documents, other banking documents and payment cards over the border of Ukraine”).

Usually the scheme is determined during operational measures (check of sources for money, which are brought in).

Pic. 5.3.19



5.3.20. Speculative export trade transactions (pic. 5.3.20)

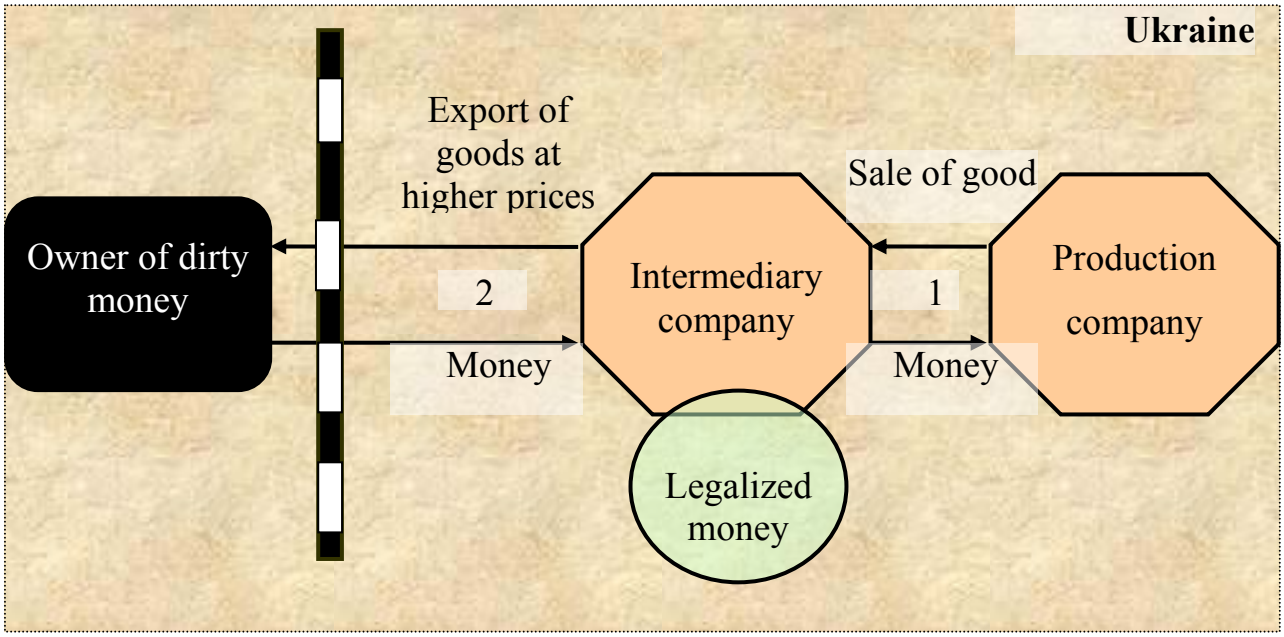
Company sells the product as if it was bought by intermediate company (as a rule this is controlled company with exclusive rights of products distribution that is produced at the main company) (1). A consignment of goods is then sold abroad at higher prices. Payment for the transaction is done using dirty money that was accumulated abroad (2).

This is one of the typical mechanisms of laundering with manipulation of export-import prices. As a rule the scheme is used for hiding sources of dirty money origin and its further legalization.

Considering great income obtained by selling company the use of additional schemes to avoid taxation are possible.

It is most likely to determine the scheme during research of financial transactions by SCFM and also tax authorities during filed checks. Moreover, detection and counter measures are possible by cooperation with competent authorities of other countries.

Pic. 5.3.20



5.4. Complex laundering schemes

5.4.1. Fictitious transactions with transfer of securities abroad (pic. 5.4.1.)

Non-resident concludes securities purchase agreement, receives securities from false seller, but he doesn't pay for them (possibly: he receives securities whereupon the agreement is annulled, but securities are not reimbursed) (1). Further these securities are sold by nonresident for dirty money (2). Money is transferred abroad from Ukraine to the account of non-resident under the pretence of "investments reimbursement". (3)

As a rule the scheme is used as a source of concealment for origin of dirty money, which is aimed at their further legalization, and can be the link of a huge laundering scheme.

The following belongs to the possible violation of legislation within the realization of the scheme. The requirements of resolution of National Bank of Ukraine as of 18.03.97 No. 127 (as to the submission of additional documents) can be broken in the scheme. In particular, fraud and documents falsification, including use of false and stolen/lost documents while offering them in bank during purchase of foreign currency; also the absence of documents, which can confirm previous investments of funds in Ukraine, made by a person; representation of

“reimbursement of investments” as justification of transactions of currency transfer abroad.

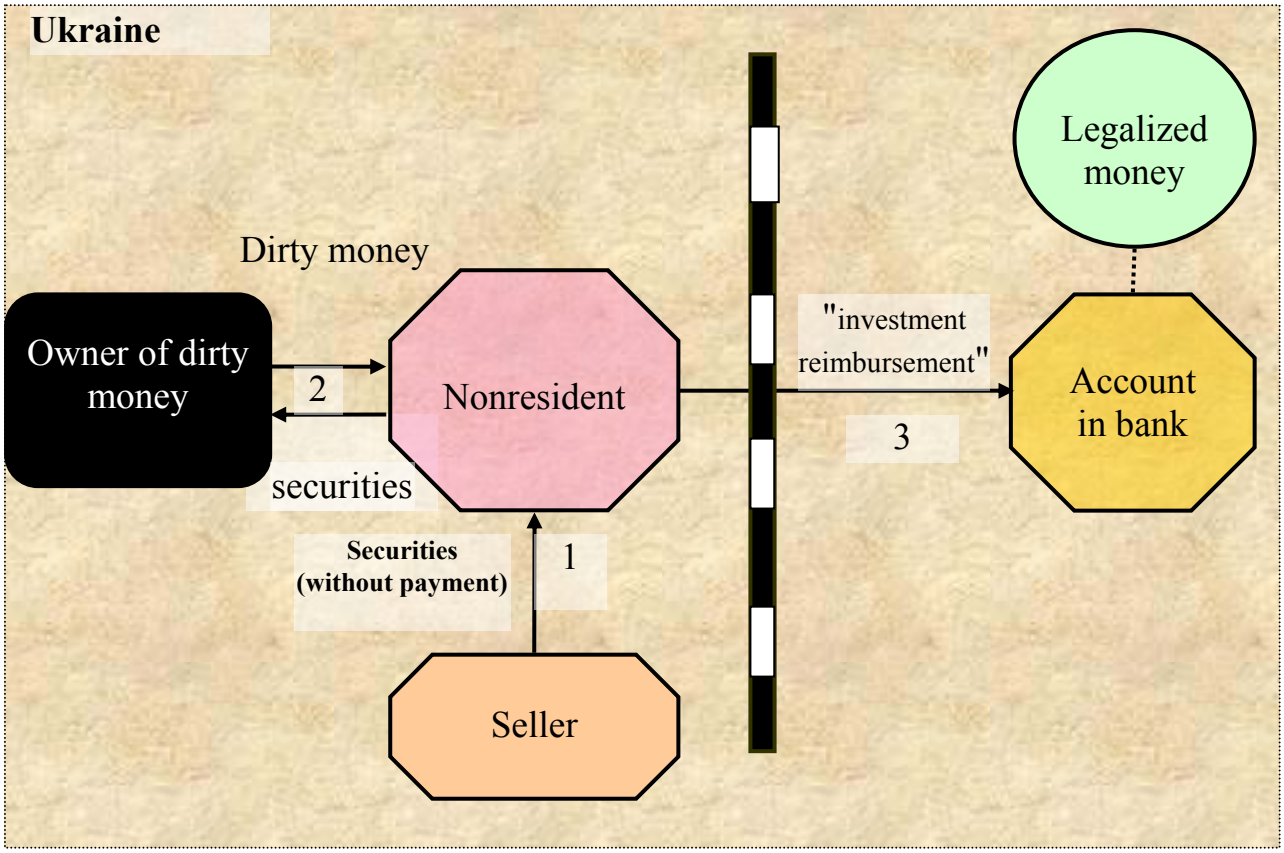
The peculiarity of the scheme lies also in the fact that securities are purchased and sold by nonresident almost at the same price (this is done to prevent nonresident from forthcoming of taxable income). Taking into consideration the significant extent of transaction the full settlement with the seller for the purchased securities isn’t executed.

Note The purchase of foreign currency according to investment transactions in case of full and partial termination of holding of securities, emitted by resident provided their sale to resident for hryvna and also full and partial repatriation of profits, proceeds, other proceeds of investor’s holding of securities, emitted by resident, requires according to the point “g” of the paragraph 2.13 of Resolution of Board of National Bank of Ukraine as of 18.03.1999 No. 127 “On confirmation of rules for carrying out of transactions on the interbank exchange market of Ukraine” such documents (in case of absence of notarized copy of informational announcement about deposit of foreign investments):

- declaration with indication of a sum which is the subject of reimbursement and repatriation, requisites of nonresident, to whom previously made investment is reimbursed and/or proceeds of investment activities in Ukraine are repatriated, including requisites of account in foreign bank where the money are to be transferred;
- notarized copies of a contract (agreement, treaty), which testifies purchase of residents’ securities by investor with documental affirmation of its fulfillment (global certificate, extract from shareholders register and from the investor’s account in depository etc.);
- bank extracts (certificates) about actual receipt of money in Ukraine.

Usually the scheme is discovered during analysis of bank accounts within the execution of currency control.

Pic. 5.4.1



5.4.2. Speculative transactions while formation of authorized capital of joint-stock venture (pic. 5.4.2.)

Legalization of proceeds from crime occurs by means of money laundering during establishment of joint-stock venture. The statute fund of joint-stock venture is formed owing to "cheap shares" (1, 2). Investors A, B (amicable and under control persons) purchase shares of a joint-stock venture, the authorized of which was established with "garbage shares" (3, 4). Founders' proceeds become legal. (5)

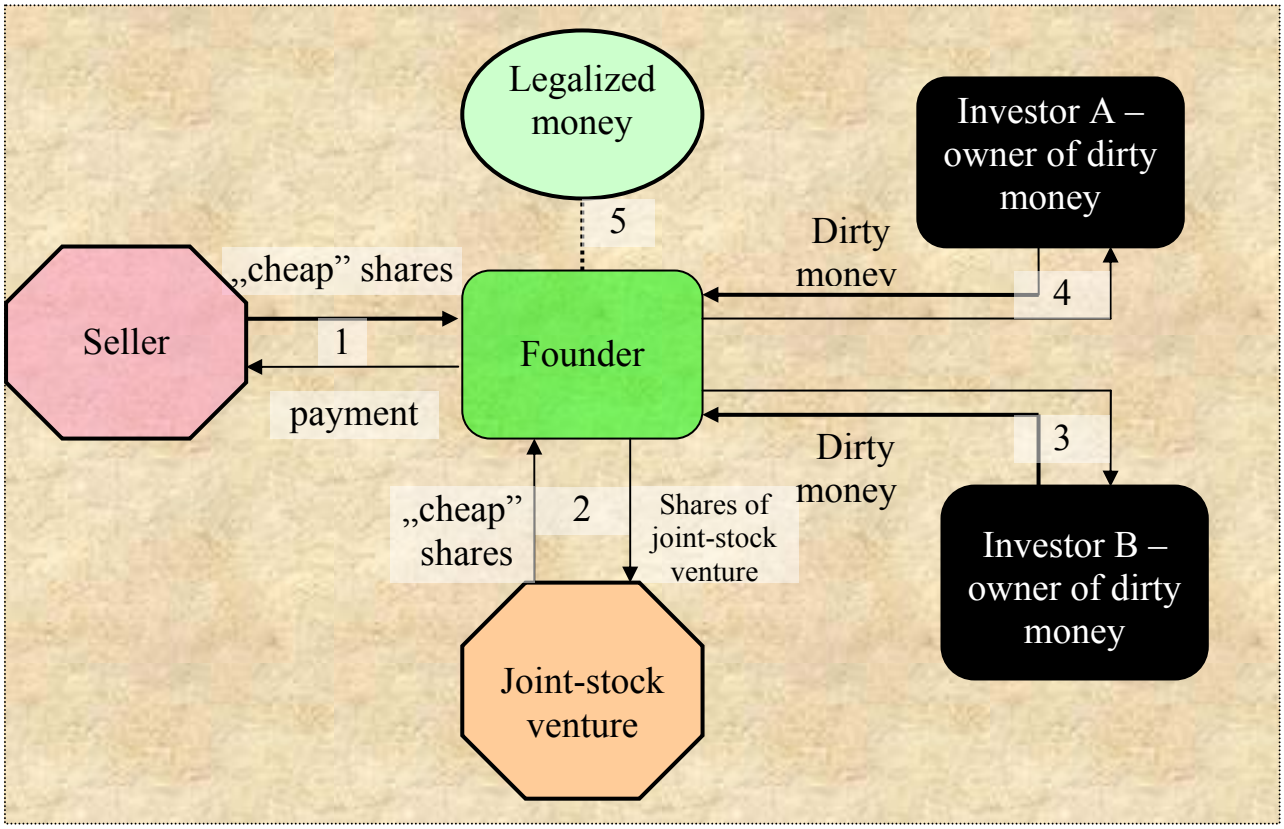
The scheme can be a part of more complicated one and is used directly for provision of legal description to the dirty money. The money is legalized owing to artificial overcharged price of shares, which form the authorized capital, and owing to emission of shares of established joint-stock venture at overcharged face-value.

Violation of legislation as a rule is absent within realization of such a scheme. At the same time a fraud is possible.

As usual, the scheme is discovered during verification (because such companies rarely exercise statute activity) and within the analysis of documents, rendered for registration of shares emission in the State Commission on Securities

and Stock Market, and rendered auditing conclusions as to establishment and payment of authorized capital.

Fig. 5.4.2



5.4.3. Fictitious transactions in the sphere of motor insurance (pic. 5.4.3.)

The owner of dirty money passes criminal money by way of unalterable financial assistance or deposit into authorized capital (1) of affiliated firm. The firm which has its own new fleet concludes with insurance company an integrated insurance contract of all its workers in motor insurance and third parties liability insurance, pays designated by the contract sum of insurance payments (2).

Within duration of the insurance contract the "fleet" passes through check-up and jobbing in the subordinate vehicle inspection station where as a matter of fact replacement of new elements into old ones is conducted (which is direct violation of terms and conditions of the contract). The new elements are sold later (3). At the same time a vehicle of dirty money's owner is serviced in analogue way (4).

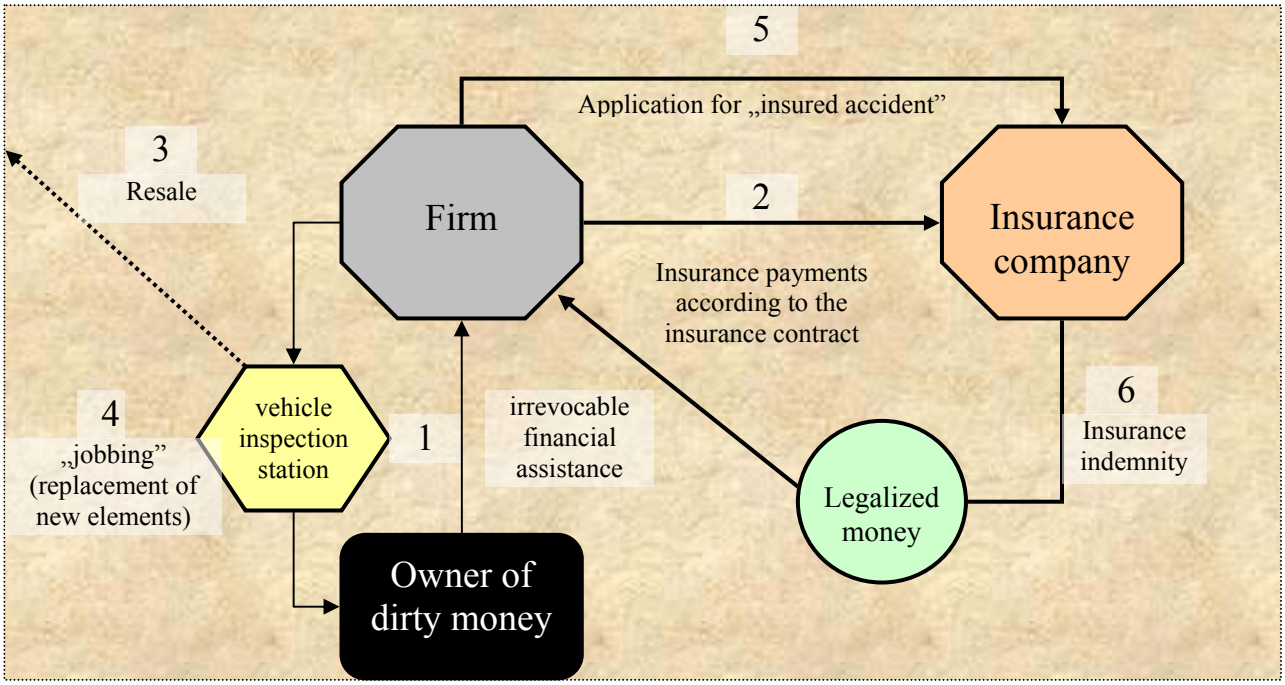
Later an insured accident is staged where both parties are aggrieved (culprit – insurant firm). Insurer files an application for the indemnity of insured losses (5). The insurance company in a framework specified in the insurance contract pays indemnity to the insurant firm and to third party (6).

The scheme is used for placement of dirty money and directly for its legalization. Money is legalized due to collusion between insurer and third party and imitation of insured accident. Moreover, profit is received from resale of new vehicle's elements.

Falsification of insured accident and fraud are possible breaches of legislation during realization of such a scheme.

Because of the fact that falsification of insured accident and fraud with substitution of objects of insurance is the weak points of the scheme, it can contribute to its disclosure thanks to evidences of participants and to results of examination etc.

Pic. 5.4.3



5.4.4. Investment transactions in securities with usage of dirty money, made by natural persons – nonresidents (pic. 5.4.4.)

Man of straw purchases securities in firm A (securities' seller) (1). Man of straw sells these securities to the man of straw – nonresident (2), which in its turn sells them to the owner of dirty money at overcharged prices (3). Money from account of a natural person is transferred to account in a foreign bank passing it off as investment

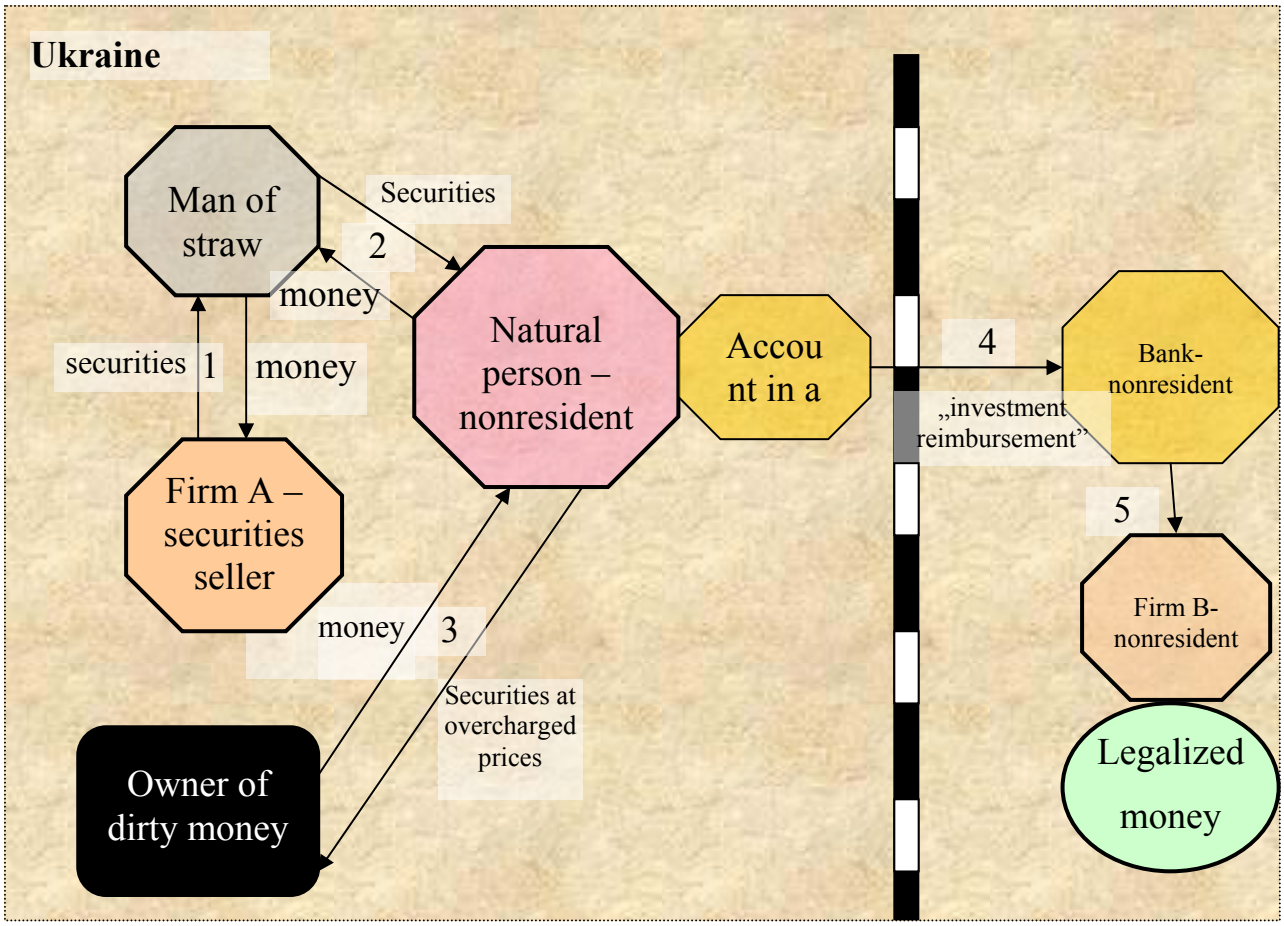
"return" according to sale contract for securities (4) and is transferred to the firm B, which is accountable to the owner of dirty money (5).

As a rule, the scheme is a link of a large scheme of laundering and is used for concealment of source of origin for dirty money with the goal of it further legalization. Transactions of money accumulation for a natural person occur on the correspondent accounts of one bank-resident.

Falsification of accountability and usage of false and stolen documents for representation in a bank during purchase of foreign currency (on "execution" of requirement of resolution of National Bank of Ukraine of 18.03.97 as per No. 127 about provision of additional documents) while negotiating of such a scheme is possible.

As usual the scheme is disclosed during analysis of bank accounts, during execution of currency control and operative measures (verification of sources of money which are exported).

Pic. 5.4.4



5.4.5. Crediting on the security of dirty money on deposit account with carrying out of a transaction from abroad of Ukraine. (fig. 5.4.5.)

Bank gives a credit on the security of dirty money on the deposit account (1). Money is directed abroad from Ukraine (2) and for some time they are active there returning in Ukraine (2). Received legal proceeds are accumulated abroad (3).

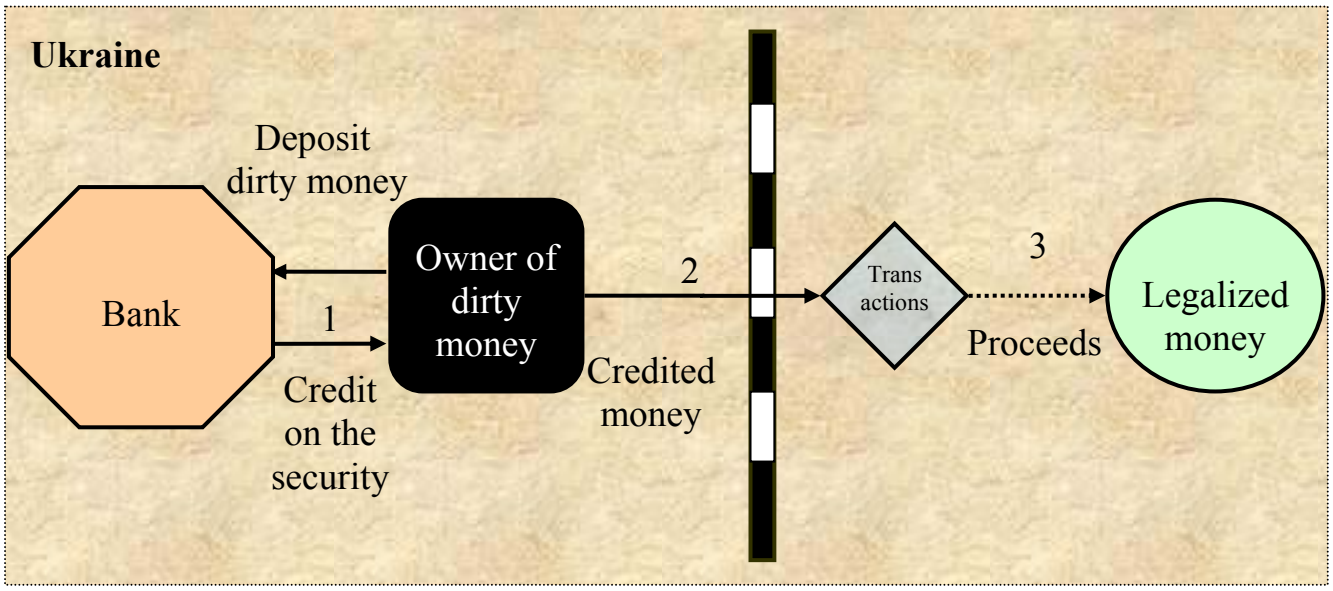
Such a scheme is used for concealment of dirty money sources of origin (stages of stratification and integration). The particularity of the scheme lies in the fact that deposit money plays the role of the security for bank credit.

Usually falsification of accountability is condition of the scheme realization.

As a rule the scheme is disclosed by the bank institution within control of currency transaction and also during general analysis of bank accounts.

Bank institution gives to Ukrainian residents credits for execution of prepayments in accordance with external economic contracts. Credit money is transferred to accounts of nonresidents in offshore banks. In a term (90 days) prescribed by law they return to Ukrainian bank in connection with contract default from the part of firm-nonresident. But during 90 days credit money of some Ukrainian bank is used in commercial activity of offshore structures and received income remains abroad.

Pic. 5.4.5



5.4.6. Money laundering transactions with the help of deposit bearer certificates, emitted in foreign currency (pic. 5.4.6.)

In Ukrainian bank Y there are accounts of firms "exporter" and "importer". Bank Y has corresponding account in foreign currency (II or III group of a classifier of National Bank of Ukraine, namely: hard currencies, which are not widely used for execution of payments as to international transactions and are not sold on the main world foreign-exchange markets and irredeemable currencies) in bank A of a country A. In the same bank the bank of another country B has its corresponding account in the same currency. The country B as a rule is territorially remote and it is difficult to obtain information, which constitutes bank secrecy. In the bank B there are accounts of "dirty" and "clean" firms.

Exporter with the help of fictitious export contract receives currency proceeds from the "dirty" firm (1). At the same day it buys in the bank Y (or at a securities' seller) deposit bearer certificates in a currency (2). Certificates are passed to the 'importer" (3). Importer at the same day represents them for payment (4) and transfers currency to the "clean" firm against false import contract (5).

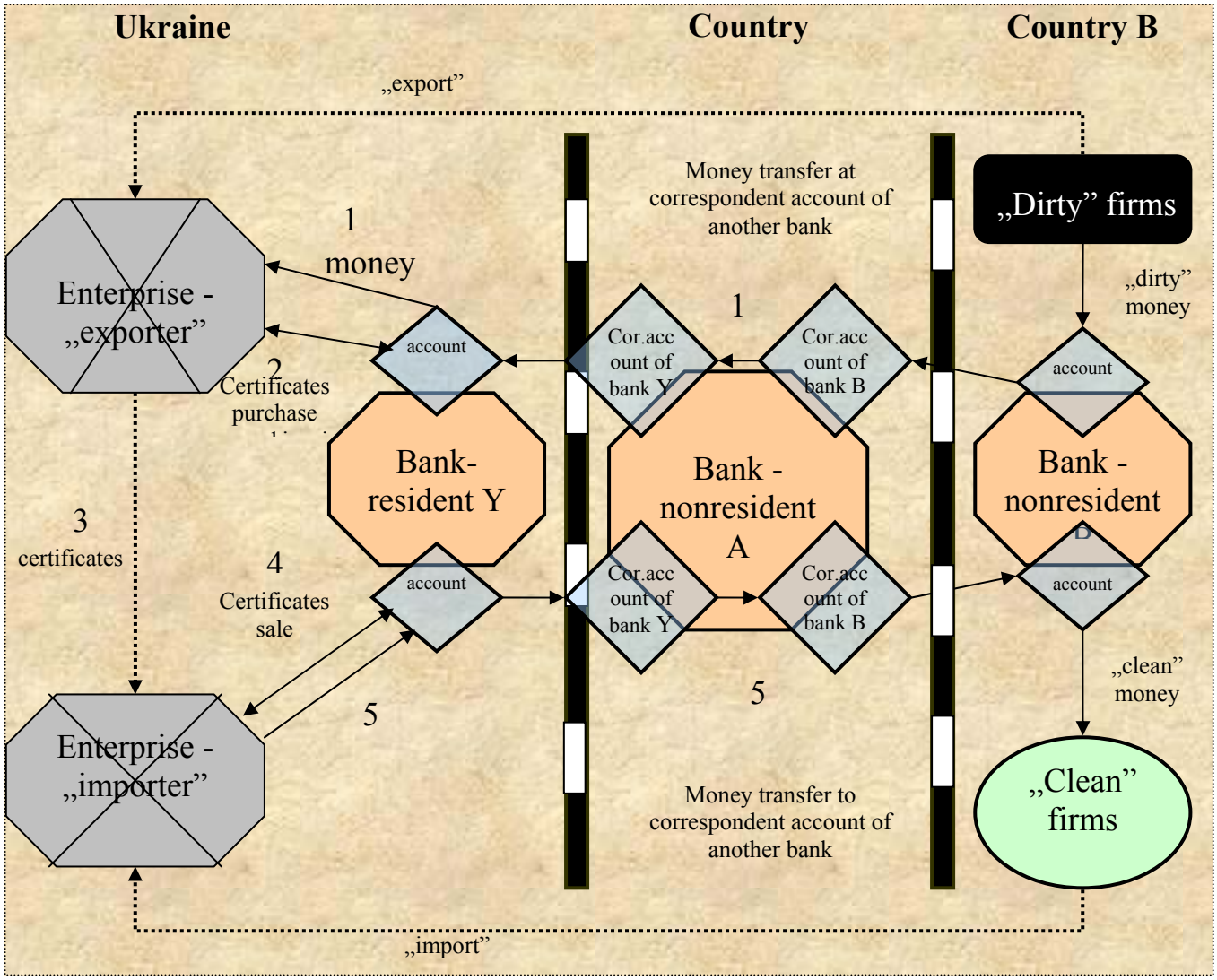
Scheme can be used to provide dirty money with legal description by means of breach of chain of legalization process. Money disguising occurs also because of engaging of foreign shell-banks inclusive of usage of transactions with correspondent accounts. Abroad it is almost impossible to trace connections between money, which passed through Ukraine.

Because of the fact the transactions are conducted in the same day, balances are closed in the banks Y and A. All transactions are conducted within correspondent account in the bank A. The scheme can operate without real money at entry, making confirmation of legal origin of unlimited some of money possible. At the same time exporter in Ukraine can claim for VAT compensation. If exporter and importer are fictitious firms, immediately after having conducted the transaction they disappear completely together with accountancy.

Falsification of export and import transactions can be violation of legislation within realization of such a scheme.

Usually, the scheme is discovered within the analysis of transactions with savings certificates, emitted in foreign currency, within monitoring of external economic transactions of clients and under the stipulation of cooperation with competent bodies of other countries.

Pic. 5.4.6



5.4.7. Speculative commodity transactions with repeated resale and export (pic. 5.4.7)

Exported previously goods return on the Ukrainian territory to the false buyer (1) at prices which are ten times less than export price. Further the goods are soled at overcharge through the chain of fictitious and transit firms. The firm A purchases goods (2) and sells them at overcharge to the firm B (3). The same consignment of goods at the firm B at once buys the firm C but again at overcharge (4). Further at the same price the goods are resold to the firm D (5) and are imported by the firm E of country X (6) and at last the goods “settle” at the firm F (by means of conducting of export transaction to the country Y) (7). In its turn firm-exporter D receives the right for VAT compensation from budget of Ukraine (8). Criminally obtained money is converted into cash and divided between participants of the scheme. Surplus of money is transferred to the account of foreign importer of goods wherefrom they return as official income for exported goods.

The scheme can be used to give legal description to the dirty money at all stages of laundering.

As a rule, such a scheme is duplicated (while returning the goods to the country of origin), establishing several cycles of laundering within price speculation and machinations with VAT.

Falsification of accountancy often appears within realization of the scheme.

Usually the scheme is discovered during counter-verifications of consignees (including analysis of prime cost and the price of product's sale, losses for customs research), analysis of banks accounts and also during execution of currency control and with the help of cooperation with competent bodies.

Fig. 5.4.7