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EUROPEAN COMMITTEE ON CRIME PROBLEMS
(CDPC)

SELECT COMMITTEE OF EXPERTS ON THE EVALUATION OF ANTI-MONEY LAUNDERING MEASURES
(PC-R-EV)

REPORT OF THE 3RD PC-R-EV TYPOLOGIES MEETING (ANDORRA LA VELLA, 5-7 JUNE 2001)

C O N F I D E N T I A L

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1. INTRODUCTION

This meeting on typologies was the third meeting of this kind to be held by the Council of Europe's Select Committee of Experts on the Evaluation of Anti-money Laundering Measures (PC-R-EV). The first two meetings had taken place in Strasbourg on 7 December 1998 and 7-8 February 2000. The authorities of the Principality of Andorra had offered to co-organise and host this third meeting, which was held on 5-7 June in Andorra-La-Vella, under ideal working conditions.

Following the example of the Financial Action Task Force (FATF), the purpose of these typologies meetings was twofold:

- To identify money laundering trends and techniques used by criminals and criminal organisations and thus assist law enforcement and government regulators to develop prevention and enforcement programmes to combat money laundering;

- To identify common problems and possible solutions for law enforcement and regulatory authorities in the control of the money laundering.

Experts from 15 PC-R-EV member States attended. In addition, Spain (the current President of the FATF), Portugal (the former President of the FATF), the United Kingdom, ICPO-Interpol and the International Monetary Fund (IMF) were also represented by experts.

In advance of the meeting, the participants were asked to comment on the following issues:

- Money laundering cases involving trustees and other "eligible introducers": specific problems of applying due diligence principles (e.g. "Know Your Customer") to these categories of operators;

- Money laundering indicators: utility and/or reliability of money laundering indicators (checklists) for reporting suspicious or unusual transactions.

The structure of the programme was based on these issues. The programme and the list of participants are appended (Appendix 2 and 3).

2. OPENING OF THE MEETING

The meeting was opened by Dr S. CAMILLERI, Chairman of Committee PC-R-EV. He welcomed the participants and expressed on behalf of the PC-R-EV his gratitude to the Andorran authorities, in particular the Andorran Minister of Finance, for their generous hospitality. He underlined that anti-money laundering measures had become a priority issue for governments in Europe and that the work of the PC-R-EV should contribute to identifying tools which have proven their efficiency.

Mr J.-A. ALIAGA MENDEZ, on behalf of the current Presidency of the FATF, recalled the importance of typologies meetings. This kind of exercise provides a forum for exchanging views at an operational level as well as sharing experience and determining priorities in certain areas. In the light of the various documents produced by delegations, the challenge will be how to transform the knowledge contained therein into daily police work. He also underlined the importance of developing reporting systems, for the financial community to take advantage of financial intelligence units and to co-operate actively through open dialogue with FIUs and the police. Long-term observations show that problematic clients are not profitable to banks.

Mr L. GUGLIELMINI (ICPO-Interpol) recalled the emphasis put by his organisation on measures against money laundering and the need to build partnership and improve the effectiveness of co-operation between the financial sector and law enforcement authorities (given the complementarity of prevention and repression). He also stressed the need to grant adequate investigative powers to law enforcement agencies (including covert investigation techniques) and the importance of adequate equipment and training of financial institutions (a factor often overlooked).

The Head of the Andorran Government, Mr M. FORNÉ MOLNÉ, recalled the undeniable results obtained by the first evaluation round and deeply regretted the current lack of budgetary means of the PC-R-EV. In his

view, holding this meeting in Andorra also reflected the progress achieved by his country with the new law against money laundering (passed in December 2000), which had taken into account European Union directives and the first round recommendations of the PC-R-EV. He added that being a small country can sometimes be an advantage when it comes to rapidly introducing legal reforms.

The Andorran Minister of Finance, Ms M. MAESTRE, and the Secretariat also welcomed the participants. In addition, the Secretariat expressed its gratitude for the generosity of Andorra and recalled that the aim of this meeting was to allow for an informal exchange of experiences.

3. PLENARY DISCUSSION, PART ONE:

Money Laundering Cases Involving Trustees and Other "Eligible Introducers"
(See presentations at Appendix 1 – Part I).

Mr R. CHALMERS, Adviser to the Financial Services Authority of the United Kingdom, presented the experience of his country and authorities with regard to the role of trustees, intermediaries and so-called "eligible introducers". He also analysed the problems encountered by these different types of financial operators, in particular when it comes to identifying the real beneficiaries or owners of financial assets on behalf of whom these operators make transactions. The introduction of business in the name of a trustee or through a financial intermediary can obscure the source and ownership of funds and can block the audit. Banks often consider these operators as customers, without further applying the principle of "know your client". From an international point of view, trusts, intermediaries and eligible introducers correspond to a variety of operators, established and regulated by national legal systems. Consequently, general solutions are sometimes pointless: for instance, the FATF had called for the abolition of trusts, whereas trusts are a core element of the common law system.

Mr K. STROLIGO, Head of the Slovenian Office for the Prevention of Money Laundering, presented a case dealt with by his Office in co-operation with the Croatian FIU. A report to the Slovenian FIU had indicated that the same financial operator had opened 13 accounts altogether in Slovenia and Croatia, on behalf of 13 offshore companies from Liechtenstein and the US State Delaware. At the time, important and complicated transactions (including false transactions) had been made between these companies. The extent of these operations made it difficult to know who was doing what and for what amount. But experience had shown that registers of such transactions exist and that searches can allow locating them in a given place. But such cases inevitably raise the question of determining who is criminally liable: the owner(s) of the assets, the operator or the directors of the offshore banks, etc. One also wonders whether corporate liability can be applied?

Mr A. BARTOLO from the Maltese Financial Services Centre (MFSC) presented a case which had started with a written report from two companies (forming part of an international accounting firm), authorised by the MFSC to act as nominees/trustees for foreign trade companies and trusts registered in Malta. The report indicated that the companies had reasons to believe that the two US citizens who were beneficiaries of the companies and trusts had used these structures to facilitate the import and sale within the US of equipment intended for the illegal interception/decryption of cable/satellite signals. The funds and assets held by the companies in question were likely to derive from this illegal activity. The investigation of the case confirmed the suspicion. This case illustrated a concrete example of good national and international co-operation: the importance of having adequate statutory provisions requiring nominees/trustees to report to their licensing authority any illegal activities carried out by their clients, the confiscation and sharing of assets between Malta and the USA despite the absence of a formal assets sharing agreement.

Mr M. LAUBER, Head of the newly established Financial Intelligence Unit of Liechtenstein introduced his Unit and its activities, based on the Due Diligence Act of May 1996, the Due Diligence Order of December 2000 and the Executive Order for the FIU of February 2001. Like most other FIUs, the Liechtenstein one is responsible for the collection and analysis of suspicious transactions reports. The information can then become a legal case, which will be forwarded to the Prosecutor's Office. Mr LAUBER underlined that the FIU's power is limited: its dialogue with banks insufficient and it cannot carry out investigations. The FIU is trying to become a member of the Egmont Group. He further described the first ongoing case involving onshore and offshore accounts, showing that financial institutions had not tried to identify through

questioning the origin of the funds in offshore places. He also presented the lessons learnt from this case.

During this first session, the discussions focused on the following issues:

- Legal/jurisdictional limitations to assets protection trusts;
- Identification of shareholders, registration of bearer-shares, abolition of bearer-shares;
- Flight clauses.

4. PLENARY DISCUSSION, PART TWO:

Money Laundering Indicators
(See presentations at Appendix 1 – Part II).

Mr M. STYLIANOU from the Central Bank of Cyprus presented the experience of his country when dealing with money laundering indicators. He emphasised, among other things, how important it was that managers of financial institutions fully understand and appreciate the risks linked to money laundering and carry out their obligations in the spirit of the provisions of relevant laws and regulations. Where the reporting of suspicious transactions is concerned, national anti-money laundering standards should provide for reasonable steps to identify customers and their activity, for reasonable measures to enable suspicious transactions to be recognised, for clear communication procedures and for instructions to staff for reporting internally suspicious transactions as well as reporting validated suspicions to the authorities. He recalled also that suspicion is personal and subjective by nature. Consequently, the list of indicators as used in many countries is a useful tool to help employees of financial institutions to recognise the most basic ways used by criminals to launder illicit money. In this respect, Cyprus has paid special attention to operations of offshore companies, as the sector is particularly vulnerable. Mr STYLIANOU concluded by saying that lists of money laundering indicators and suspicious transactions developed by supervisory bodies should form the basis for practical training of employees.

Mr J. TORRES FLORES, Head of the Anti-money Laundering Group in the Andorran Police presented an operation which had started with a suspicious transactions report (based on the law of 1995) from an Andorran Bank and which appeared to be a large drug-connected operation involving Columbian operators, Spanish associates, accounts in France, Andorra and Portugal, the drugs being sold mainly in London. He described the modus operandi used by the criminals to launder their proceeds: very cautious collection and transport of funds, utilisation of the banking system, funds transferred abroad with the use of shell companies in the food sector etc.

The detailed description ended with the indication that there seems to exist an international financial black market used for international payments and compensation. Mr TORRES FLORES also emphasised the important role played by the detecting bank, as it probably had based its suspicions on information gathered through its own preliminary banking investigations.

Mrs I. UHRINOVÁ, Head of the Internal Audit Department of the Slovak Tatra Banka, presented the point of view of a commercial bank in approaching an unusual business transaction. She presented the changes introduced to the Slovak anti-money laundering mechanism by the Law 367/2000 which included:

1) extension of the reporting obligation to insurance companies, stock exchanges, casinos, betting agencies, auditors, post offices, leasing companies;

2) record-keeping of transactions for 10 years;

3) strengthening of the financial police's authority (fines and withdrawal of license as pressure means);

4) possibility for the bank to retain unusual business transactions (for 48 hours).

At present, a data-base centralises all STRs through a network linking all branches. Urgent cases are reported by telephone to the Internal Audit Department. Access to the data-base is restricted to two persons only of the said Department. It is also responsible for maintaining and updating a list of unusual business transactions. Mrs UHRINOVA gave concrete details about other examples of good practices, as

well as problems occurring in practice (identifying real beneficiaries of transactions made by third persons (usually lawyers, attorneys).

Mr J.P NAVARRETE from the Spanish Directorate General of the Guardia Civil described a concrete case. "Operation Princesa" was concluded in 1999 by the Monetary Offences Investigations Police Unit (which is part of the Spanish FIU – SEPBLAC), in collaboration with the Police of Andorra. The case concerned the money laundering of cocaine trafficking profits. After having presented the operative backgrounds and the outlines of the operation, Mr NAVARETTE concluded that "Operation Princesa" had extended significantly police experience as regards money laundering and organised crime techniques: use of commission merchants operating between drug dealers and launderers, irregular cross-border cash transport, use of cash declarations forms filled in by a non-resident, intervention of figure-heads, contribution of (rewarded) bank employees in the laundering process, use of non-resident accounts etc. He stressed that the obligatory declaration of cash movements through borders has appeared to be an efficient tool when discovering non-declared cash becomes a strong indicator of criminal activities.

The discussions focused on the following themes:

- Extent of investigation and amount of information to be gathered by banking employees in practice;
- Need for clear application of reporting and indicators;
- Meaning of suspicion in practice, concept of reasonable and justifiable doubt;
- Sanctions against unco-operative banks;
- Role of central banks with certain information;
- Process of determining and updating the lists of indicators (co-ordination with other sectors, liberal approach based on in-house banking experience versus centralist approach based on indicators provided by FIUs and authorities etc.);
- Indicators issued by financial bodies others than banks (stockbrokers etc.);
- Domestic evaluation of regimes on suspicious transactions;
- Importance of means to detect illegal cash flows, usefulness of the prevention of cash flows.

5. WORKING GROUP 1: Discussions to Examine in Detail the Specific Problems of Applying Due Diligence Principles (e.g. "Know Your Customer") to Trustees and Other Eligible Introducers

Due to a lack of time during the plenary session, some delegations also made presentations in the working groups. The text of these presentations is appended.

The discussions held within this working group are reflected in the conclusions prepared by Dr S. CAMILLERI, who acted as rapporteur and facilitator.

CONCLUSIONS OF WORKING GROUP 1

The main issues addressed in the course of the workshop could be conveniently summed up under three headings:

1) Trustees
2) Other eligible business introducers
3) Internet banking.

1) Trustees

- The core problem with trusts is that of identifying the beneficiary and real owner of funds with the trustee shielding the identity of the beneficiary.

- The impossibility to identify the beneficiary owner of funds creates serious difficulties to the administrative and judicial authorities seeking to distinguish between legitimate and criminal financial activity.

- While trusts complicate the life of investigators they need not necessarily represent an insurmountable obstacle to a successful money laundering investigation.

- Where it has been possible to determine the identity of the persons behind the trustees, in particular the settler as well as the beneficiary, it has been found possible to pursue investigations successfully.

- Major problems arise where behind a trust you have a whole chain of other trusts since in such cases it becomes practically impossible either to determine the real beneficiary or the legitimacy or otherwise of the activity at source.

- Consideration needs to be given to measures which will allow the identification of settlers and beneficiaries behind the trustees.

- Having a register of trusts identifying the settlers and beneficiaries in each case would be a step in the right direction. Speedy access to such a register by competent administrative and judicial authorities has to be ensured. The scope and extent of such access will have to be determined.

- Because of the particularly insidious nature of the problems posed by trusts when they operate within the financial system consideration should be given to placing restrictions on their operation in certain financial transactions in which case the nature of these restrictions and the particularly vulnerable financial transactions in question need to be identified.

- To make the keeping of the register of trusts a worthwhile proposition the creation of trusts should be more strictly regulated and some documentation evidencing the creation of a trust should be imposed for a trust to have any legal effect.

- The need to identify the parties to a trust at all times gives rise to the requirement that changes in the identity of the parties should be notified and registered.

- Because of the uncertainty and lack of transparency that trusts generate financial operations in which their involvement is detected should arouse a great degree of alertness and greater attention to due diligence procedures.

- It is not a viable proposition that a register of trusts should be completely accessible to the public since this would completely undermine a fundamental feature of trusts leading to their abolition which, even if desirable in an anti-money laundering context, is not a realistic objective in present circumstances.

- Access to such a register should therefore be restricted but it should be accessible under conditions consonant with the requirements of money laundering investigations not only to judicial but also to investigative, prosecutorial and administrative authorities.

- Consideration should be given to some kind of limitation on the establishment of trusts which have another trust behind them.

2) <u>Other Eligible Introducers</u>

- Among eligible introducers lawyers appear to pose a greater problem than others such as accountants and auditors because of their professional mind-set geared to the defence of their clients which is seen to demand strict confidentiality of the communications exchanged between lawyer and client which are therefore protected by strict professional secrecy rules.

- The applicability and scope of these professional secrecy rules tends to become questionable when lawyers act more as business introducers rather than legal advisers.

- It should be possible to apply certain, if not all, of the standard preventive measures developed to fight money laundering when lawyers and similar professionals such as accountants and auditors act as financial business introducers.

- Attention should be given to identify the professional qualities, conditions and circumstances which render business introducers eligible to act in that capacity so as to ensure that these are persons sensitised to the problems of money laundering.

- Consideration should be given to placing eligible introducers under the scrutiny of a supervising authority which in dialogue with them could provide them with guidance as to the manner of the exercise of their functions.

3) Internet Banking

- Although perhaps strictly not falling within the precise scope of the theme of the workshop some attention was also given to the special problems raised by Internet banking and the application of the "Know your Customer" principle.

- Problems of transparency similar to those described in relation to trustees and eligible introducers were identified in this area as well.

- Due to the very nature of Internet banking dispensing the client from the need to be physically present at the bank at the moment of the transaction, problems of determining the real identity of the client at the moment of the transaction arise.

- Notwithstanding what might be seen as the very essential nature of the Internet the initial face-to-face contact at least at the beginning of the business relationship should remain an indispensable preventive requirement.

- Consideration should be given to introducing other technical measures to verify the identity of the client in the execution of internet transactions in the course of the business relationship e.g. electronic signatures, passwords and combinations of them: automatic client profiling, software applications allowing the system to automatically generate red flags which allow the continuous monitoring of electronic transactions.

- Consideration should also be given to the periodic renewal of face-to-face contact and of documentation to keep track of the identity and existence of the client.

- A purely cost-benefit approach to the measures required to monitor internet transactions is not appropriate if the high standard of anti-money laundering measures achieved with great effort and extensive international co-operation is to be maintained.

- In the long run, the laying down of clear rules, even at some cost of sacrifying some of the undoubted benefits of the possibilities offered by the internet, should prove better from a cost-benefit perspective than avoiding to lay down such rules.

- Finally, the suggestion was made that company formation agents could be one of the useful topic(s) for the next Typologies meeting.

6. WORKING GROUP 2: Discussions to Examine in Detail the Usefulness and/or Reliability of Money Laundering Indicators for Reporting Suspicious Transactions or Unusual Transactions

Due to a lack of time during the plenary, some delegations also made presentations in the working groups. The text of these presentations is appended.

The discussions held within this working group are reflected in the conclusions prepared by Mrs V. ŠEME-HOCEVAR, Slovenian Office for the Prevention of Money Laundering, who acted as rapporteur and facilitator.

It should be noted that the participants have agreed to draft recommendations for the attention of the PC-R-EV.

CONCLUSIONS OF WORKING GROUP 2

Three main areas of concern were discussed: creation, implementation and revision of indicators.

1) Creation

The various representatives of the PC-R-EV countries described their different systems of creation, ranging from totally liberal approaches (leaving the creation to the obliged entities themselves) to the obligatory lists issued by the regulatory bodies. To summarise the opinions of the participants, all preferred the development of a mixed approach, involving the obligated entities, the associations of interest, the supervisory authorities, the Police representatives, the FIU representatives (and other bodies). In addition to this, different sectorial approaches should be applied taking into consideration all the regional and other specifics of each particular sector and country. The process of creation should be based upon specific sectorial needs which should be prioritised. Attention should be paid in the creation of guidance to ensuring a level playing field regarding obligations within individual sectors.

2) Implementation

Various methods of education, training and assistance were presented which help the obliged entities to implement the list of indicators for suspicious transactions: leaflets, presentation of typologies and cases, videos and regular sectorial co-operation. The active involvement of associations of interest, FIUs and other involved bodies helps a better implementation of the indicators. Feedback from Police, Prosecution and FIUs is essential. Communication and attitude problems within the financial sector still present a challenge to most participating countries. To counter this, it was suggested that international pressure through prepared lists of suspicious indicators by international groups may prove to be of great assistance.

Bad examples (non-compliance) could also be used to stimulate implementation even in most problematic sectors which have no supervision (through the media, meetings with top management or educational training sessions). In a sound financial and non-financial environment ethics present an important issue which stimulates the implementation of the list of suspicious indicators.

Compliance should be regularly checked by supervisory institutions for particular sectors or regions. More attention will be needed to the sector of securities and the capital market.

The important role of compliance officers, their training, their internal positions and their decision-making was also stressed. In particular where there are national compliance officers for undertakings they have a role in checking the spread of reports within their group and taking proactive remedial action. Also the issue of administrative sanctions and criminal sanctions (negligent money laundering) was considered helpful and important. Training of Prosecutors by the financial sector and the FIU was also considered to bring great benefits to the process. In this regard it was questioned how many prosecutors in individual jurisdictions had access to, or, indeed, were aware of, the list of indicators used by the financial sector, when considering prosecutions for negligent money laundering.

The need for national co-ordination on all these issues was strongly felt. This could be undertaken by an FIU or national co-ordinating committees, as recommended in PC-R-EV reports.

3) Revision of Indicators

The revision of indicators has not yet been undertaken by the majority of the participating countries with the exception of Portugal. Nevertheless it is necessary regularly to undertake this process with the inclusion of all the above mentioned regulatory supervisory and other bodies, bearing in mind Recommendations of international organisations and other findings concerning new typologies (FATF etc…). New types of money laundering and new types of predicate offences should be taken into consideration (high-tech crime, cyber-crime and other new types of crimes). In majority of cases it is expected that the revision will bring new additional indicators and keep the existent ones valid.

RECOMMENDATIONS OF THE WORKING GROUP

A) The PC-R-EV should prepare a working blue print for and overarching list of suspicious indicators, leaving sufficient flexibility for the reflection of local problems.

B) The PC-R-EV should as part of this process conduct an evaluation/analysis of best practice in the PC-R-EV member countries concerning the creation, implementation and revision of indicators of suspicious transactions.

C) The PC-R-EV should consider whether the result of this work should be reflected in formal Recommendations of the Committee and/or the Council of Europe.

7. GENERAL DISCUSSION ON THE FINDINGS OF THE WORKING GROUPS, AND CONCLUSIONS

The findings of the working groups were presented and discussed during the plenary session. The versions reproduced above take into account some minor amendments.

The consultant appointed for the meeting, Mr J. RINGGUTH, underlined that the composition of the discussion groups was representative of the various types of actors involved in the fight against money laundering, as well as of the various national legal traditions and backgrounds. He noted that the right way for implementing indicators should result from a compromise between State authorities and the financial sector. The same logic could apply to the relationship between States and the international community, international initiatives intervening to overarch domestic efforts in the fight against money laundering.

The Secretariat emphasised how positive this first experience with a meeting held outside Strasbourg had been. He recalled the kind offers of Liechtenstein and Cyprus to host the next typologies and training meetings. It was therefore agreed that Liechtenstein would host the next typologies meeting in April 2002 and Cyprus the next training seminar in October 2002.

It was furthermore agreed that the presentations and conclusions made during the meeting would be compiled in a report.

The Andorran Minister of Finance, Ms M. MAESTRE closed the meeting with a friendly address.

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APPENDIX I

PART I

COMPILATION OF THE WRITTEN CONTRIBUTIONS ON THE SUBJECT:

MONEY LAUNDERING CASES INVOLVING TRUSTEES ANS OTHER "ELIGIBLE INTRODUCERS"

(CASE STUDIES OF SOME PC-R-EV COUNTRIES)

BULGARIA

I. Description of the case

In 2001 the Bulgarian National Bank received from a Bulgarian association an application for registration of financial credits under Article 4, par. 2, section 1 of the Currency Law, to the total amount of 1 200 000 000 USD. Contracts are concluded with two foreign companies for financing of approved by the association more than 100 projects of persons and entities. The conditions of these financial credits are not specified, the major parameters of the credit deals are unclear (including the mechanism of paying the credit obligations – neither on the part of the association towards the foreign companies, nor on the part of the persons that are applying for respective credits under the separate projects).

1. One of the financial credits comes from a foreign company and the amount of it is about one milliard USD. This amount of money is provided for to be spent for financing of 138 projects, which in separate cases vary from 400 000 USD to 40 000 000 USD, average – about 7 million USD per project.

2. The second financial credit comes from another foreign company and its amount is above 200 000 000 USD. The amount is provided for to be spend for financing of 8 projects, which in separate cases vary from 10 000 000 USD to 140 000 000 USD, average – about 29 million USD per project.

3. Persons, who take part in the association, have paid in 5 000 Euro as a guarantee for future granting of credits for every participator to amounts that depend on the project. The requested and provided bank documents show that the paid fees of that purpose are being periodically withdrawn.

II. Reasons for the Suspicion of Money Laundering

1. A non-person society is established, which is not subject of law, it cannot assume rights and obligations and is not a subject of registration under the Law on Banks and under the Law on Measures against Money Laundering.

2. The activity, performed by the association, is defined by the Law on Banks as bank activity.

3. The concluded with the foreign companies credit contracts have been drawn up in a way that suggests authenticity, nevertheless that some major indicators and conditions are unclear.

4. The companies, which are presented as possible creditors, have not to their disposal the potential financial resources for granting credits:

    - According to the data, received from our foreign colleagues, the first foreign company is registered on 10 April 2000 and since 22 August 2000 Director of the company is the Bulgarian citizen, who is Chairman of the General Assembly of the partners in the Bulgarian association. The company nominated its secretary on 22 August 2000. Before that date, that is to say between 10 April 2000 and 22 August 2000 two companies, as nominated director and secretary of the company is question, have been acting as nominated owners and legal representatives of the company by assigning;

    - A company with the same name as of the Bulgarian association is registered in the country of the first foreign company. Chairman of the company is the Chairman of the Bulgarian association – a Bulgarian citizen with address in the capital of that country. The work address of the foreign company, as pointed in the forms for money transfers, is also in the capital of that country. The company has received several money transfers, mainly from Bulgarian citizens, and the total amount of the transfers between June and August 2000 is approximately 17 000 USD;

    - According to the information, received from our foreign colleagues, it turned out that the second foreign company is inactive since June 2000.

As a whole, the so elaborated scheme of actions of the Bulgarian association gives rise to suspicions that a money laundering network and/or a frauds network has been created and is functioning. A great number of physical

persons, representatives of commercial and other small companies, are being misled that they would receive credits in the future and were motivated to dispose of with property in the form of money fees, the amounts of which are very high for the Bulgarian living standards.

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CYPRUS

MONEY LAUNDERING CASES INVOLVING TRUSTEES AND OTHER "ELIGIBLE INTRODUCERS"

CASE 1

The Customs Authorities of Cyprus reported to the Unit for Combating Money Laundering (MOKAS) that various large amounts of cash, mainly sterling pounds, were imported and declared at the airport to the Customs Authorities, by certain individuals. Most of the money was imported from a Western European Country (Country A).

The Unit carried out investigations in co-operation with the competent authorities of country A and it was found out that these large amounts of money were imported to Cyprus and declared to the Customs Authorities by individuals on behalf of companies registered in country A.

The said amounts were then deposited to the bank accounts of two international business companies, which were established and registered in Cyprus and also to some personal accounts of certain individuals in Cypriot Banks. These companies were registered in Cyprus by an accountants firm, on behalf of the foreign subjects.

After the money were deposited in the accounts of the said companies, various amounts were transferred to accounts of companies and persons outside Cyprus, mainly in Country A, B and C, all in Europe. Some other amounts were withdrawn in cash.

From the investigations carried out, it was further emerged that the said amounts seemed to have been derived from drugs trafficking. More specifically, in September 1998 a drug trafficker was arrested in country B in relation to importation of drugs. The final destination of these drugs seemed to be country A. In addition, the above drug trafficker seemed to be connected to the owner of a company registered in country A on behalf of which the cash was imported to Cyprus.

From inquiries carried out by the Unit, with the Central Bank of Cyprus, the beneficial owners' identity of the companies registered in Cyprus, was revealed and serious suspicions were raised that these persons and companies registered in Cyprus were directly or indirectly connected with the individuals involved in the drug trafficking and money laundering schemes.

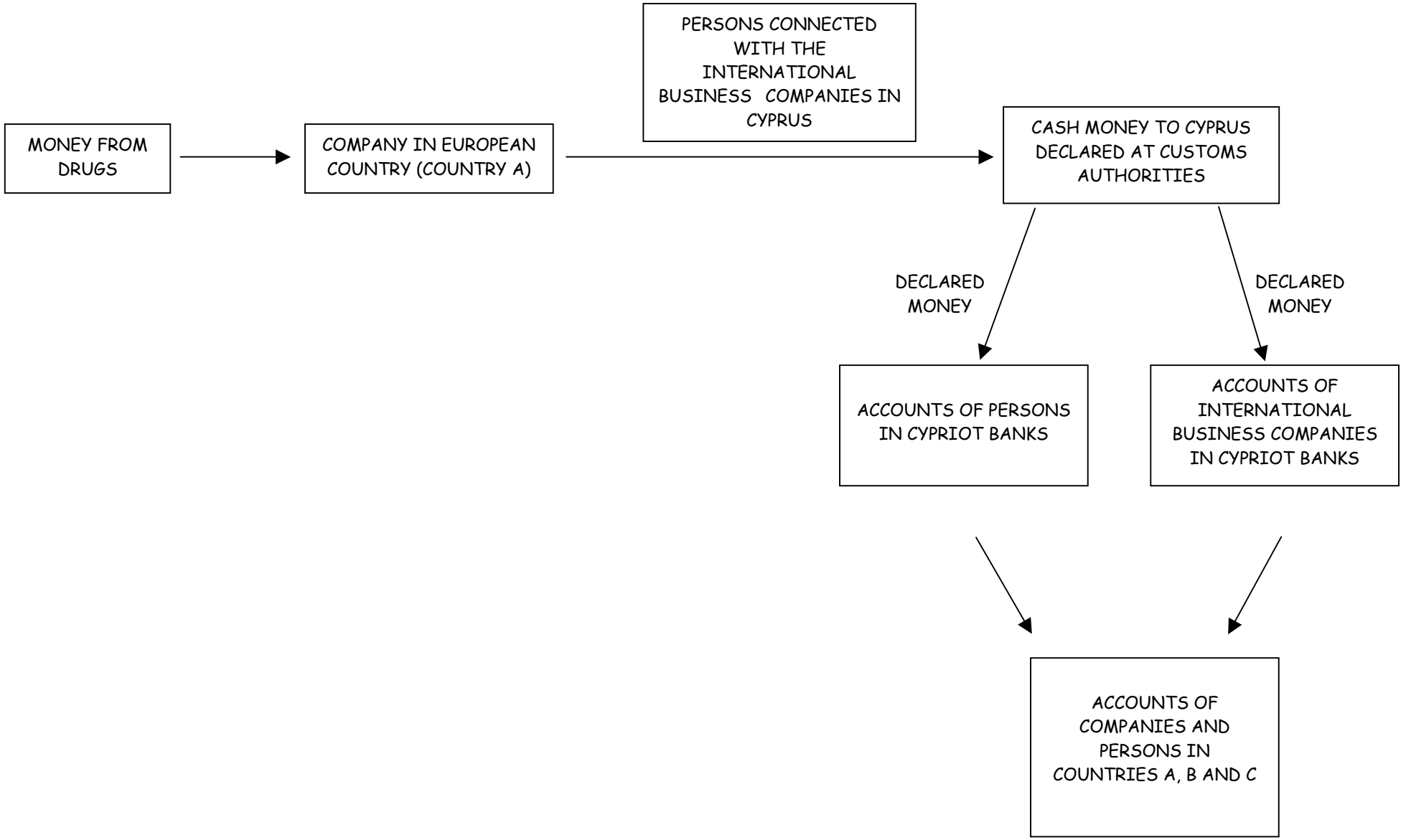
It should be noted that the firm of accountants which set up one of the two companies, eventually, and before approached by the Unit for inquires, seized to act on behalf of the company due to the fact that this company had failed to provide them with satisfactory explanations in relation to the nature of their business activities.

The Bank accounts of the companies and the persons involved, have been restrained with freezing Court Orders obtained by the Unit which are still in force.

A number of people were arrested in countries A, B and C in relation to this case for money laundering offences and drug trafficking. Inquiries are still carried out, in co-operation with the competent authorities of the countries involved.

MOKAS IS CONDUCTING ITS OWN INVESTIGATION CONCERNING THIS CASE AND AS SOON AS THE INVESTIGATION IS COMPLETED, PERSONS INVOLVED IN THIS CASE IN CYPRUS WILL BE CHARGED WITH MONEY LAUNDERING OFFENCES.

CASE 1


MONEY FROM DRUGS
COMPANY IN EUROPEAN COUNTRY (COUNTRY A)
PERSONS CONNECTED WITH THE INTERNATIONAL BUSINESS COMPANIES IN CYPRUS
CASH MONEY TO CYPRUS DECLARED AT CUSTOMS AUTHORITIES
DECLARED MONEY
DECLARED MONEY
ACCOUNTS OF PERSONS IN CYPRIOT BANKS
ACCOUNTS OF INTERNATIONAL BUSINESS COMPANIES IN CYPRIOT BANKS
ACCOUNTS OF COMPANIES AND PERSONS IN COUNTRIES A, B AND C

CASE 2

The Unit for Combating Money Laundering received a suspicious transaction report from a Banking Institution, according to which, between December 1998 and April 1999, a number of suspicious transactions were conducted between two international business companies registered in Cyprus.

These companies were registered by a Cypriot auditor/accountant, on behalf of foreign beneficiaries.

Further inquiries emerged that the beneficial owners of these two companies were two other companies registered in a Western European Country (Country A).

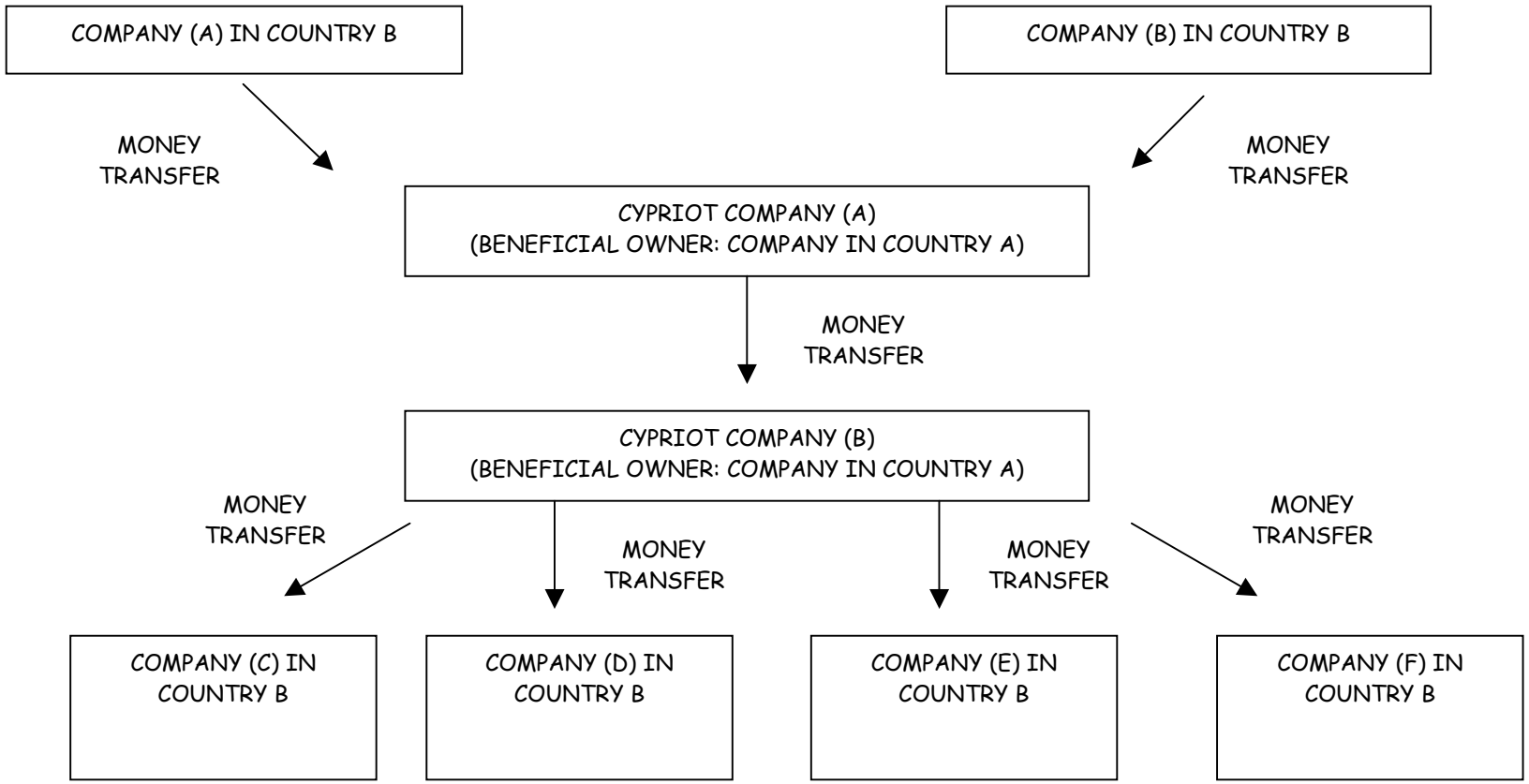
The accountant who set up the two companies in Cyprus, when interrogated by the Unit, explained that before proceeding with the registration of the two companies, he made all necessary inquiries from colleagues from the Western European Country (Country A) and received good Bank references from a reputable Bank of that country about the business activities and the background of the persons involved.

It was further established that two companies of an Eastern European country (country B) transferred large amounts of money to one of the international business companies, registered in Cyprus, which on its turn transferred the money to the account of the second international business company registered in Cyprus.

The second company further transferred the money to four different companies in country B.

The case is still under investigation upon requests for assistance made by the Unit to the competent authorities of the countries involved. Even though there are reasonable suspicions that these firms were established mainly to assist in laundering certain amounts of money however, the possible illegal source of the money has not yet been established or identified.

CASE 2


COMPANY (A) IN COUNTRY B
COMPANY (B) IN COUNTRY B
MONEY TRANSFER
MONEY TRANSFER
CYPRIOT COMPANY (A)
(BENEFICIAL OWNER: COMPANY IN COUNTRY A)
MONEY TRANSFER
CYPRIOT COMPANY (B)
(BENEFICIAL OWNER: COMPANY IN COUNTRY A)
MONEY TRANSFER
MONEY TRANSFER
MONEY TRANSFER
MONEY TRANSFER
COMPANY (C) IN COUNTRY B
COMPANY (D) IN COUNTRY B
COMPANY (E) IN COUNTRY B
COMPANY (F) IN COUNTRY B

Analysis/Results/Possible Problems

From the above cases and the general experience of the Cypriot Unit for Combating Money Laundering it could be said that the setting up of international business companies, which are usually companies with activities outside the jurisdiction in which they are registered, entails some problems if certain measures and Laws are not in place.

Most importantly law and procedures should be in place, to enable the F.I.U. and other Law Enforcement authorities to get the identity of the beneficial owners, i.e. the real persons behind such companies, since such companies are using very often other persons, legal or natural, and not the real owners, acting as trustees or nominees on behalf of them.

If there is the ability to identify the real owners, then possible investigations can be carried out. Otherwise it is very difficult even impossible to proceed.

Furthermore, Bank secrecy should not be an absolute rule, in order to have the necessary access to essential information so as to be able to trace the money.

Another important element is the obligation to file audited financial statements in order not only to trace business transactions but to examine whether a certain company is really conducting business or not. If not, suspicions are raised, and for some jurisdictions this is a good enough reason for the withdrawal of the license or permit given to this company for its registration.

Such a procedure has been followed by the Central Bank of Cyprus, in many cases, and in some cases upon the advice of the Unit for Combating Money Laundering (MOKAS).

The role of professionals such as lawyers or accountants acting in many cases as trustees or nominees is also very important.

These professionals very often, offer their services to establish companies or open Bank accounts on behalf of third persons, acting as trustees or nominees, or they are conducting financial business or transactions on behalf of such persons.

Sometimes, these trustees or nominees are used by criminals for their illegal activities, such as money laundering.

Recently, in various jurisdictions consideration is given towards the imposition to some professionals the requirements contained in the anti-money laundering legislation, particularly the preventive measures and the reporting obligation.

From the cases presented earlier, it is clear that the companies were registered using the services of accountants. In case one, the accountants refused to continue working for the company involved in the scheme, because they failed to give sufficient information about their business activities. The accountants, however, could proceed further and report it as suspicious, but they did not.

The need for certain professions to be covered by anti-money laundering measures and to have certain obligations is recognised and is under consideration in many counties.

IN CYPRUS WITH A DECISION OF THE COUNCIL OF MINISTERS TAKEN LAST MARCH, SUPERVISORY AUTHORITIES FOR LAWYERS AND ACCOUNTANTS WERE APPOINTED AND THE UNIT IS NOW WORKING WITH THESE SUPERVISORY AUTHORITIES IN ORDER TO ISSUE RELEVANT GUIDANCE NOTES CONCERNING THE PREVENTIVE MEASURES THEY HAVE TO APPLY AND THEIR OBLIGATION TO REPORT.

Concerning the issue often raised internationally in relation to the professional privilege of confidentiality on behalf of lawyers, for us it is clear, and there is a Court precedent on this, that when a lawyer is acting on behalf of a client for a business transaction of a financial nature, he is not covered by this privilege. This covers only the legal opinion and the handling of legal issues or cases before a Court.

Mrs Eva ROSSIDOU-PAPAKYRIACOU,
Counsel of the Republic A΄
Head of the Unit for Combating
Money Laundering (MOKAS)
CYPRUS.

OoO

ESTONIA

HAZARDS IN E-BANKING
ESTONIAN PRACTICE

(POWERPOINT PRESENTATION)

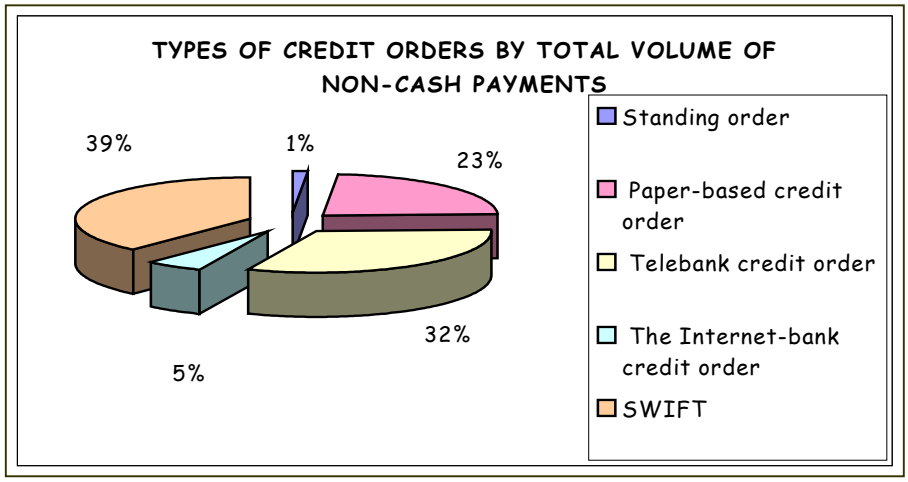
GENERAL SITUATION

- There are 6 credit institutions and 1 branch of a foreign credit institution in Estonia;
- The total number of inhabitants is close to 1.4 million;
- All in all there are close to 350 thousand internet-bank customers and 160 thousand telephone-bank customers, in addition there is a possibility to use other electronic devices such as tele-banking and ATM;
- The number of internet-bank customers is expected to increase up to 800 thousand in the coming 2-3 years.
- The possibility to communicate with a bank without being in personal contact is widely used by all types of customers;
- Banks are expanding their untraditional services:
  - social services related to financial sphere (tax declarations etc);
  - e-commerce;
  - e-media.

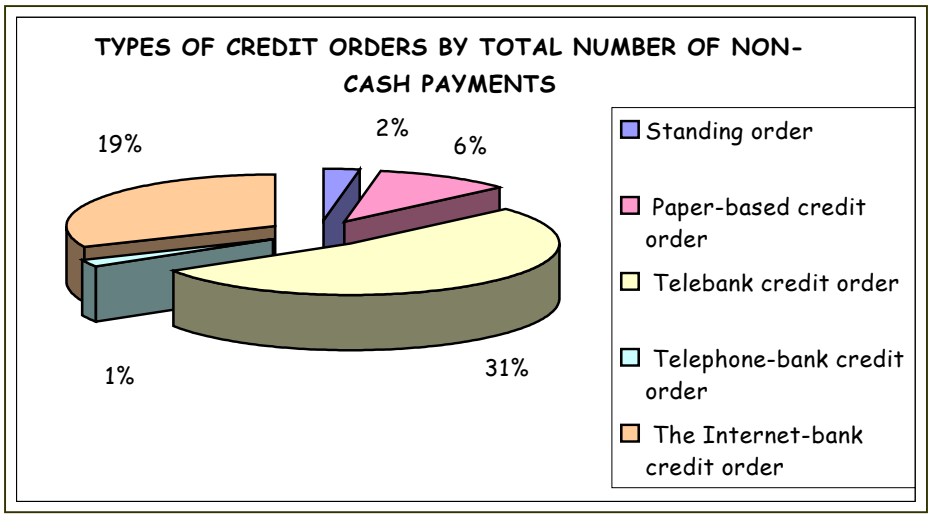
PAYMENT STATISTICS (FIRST QUARTER OF 2001)

- Non-cash payments make up 99.7% of total payments;
- Distribution of non-cash payments;
  - Card payments make 0.6% of total payments volume and more than 32% of total number of payments;
  - Direct debit orders make 0.08% of total volume and close to 7% of total number;
  - Credit orders make 99.0% of total volume and 59% of the total number of non-cash payments;
  - Cheques make less than 0.03 % of total volume and number of payments.

TYPES OF CREDIT ORDERS (1)



TYPES OF CREDIT ORDERS (2)



HAZARDS IN E-BANKING

- Most credit orders are executed via electronic devices;
- E-banking is a result of technical revolution in banking technology and social life;
- Banks are in the position to increase customer base and services turnover through modern channels of sale;
- Banks are in the position to reduce operational expenses and rise efficiency of services;
- Combat for new markets leads to cross-border relationships with customers with different cultural and legislative background;
- General requirements of identification for trustees and eligible introducers in banks are in general the same as for other social activities i.e. requirement to present documents legally valid in Estonia;
- *Convention de La Haye du 5 octobre 1961,* does not cover traditional "risk" areas for Estonia and *off-shore* countries;
- Trustees have to present valid documents for the moment of entering into contract with a credit institution;
- All electronic devices are used according to a written agreement between the customer and bank;
- Breach of the agreement is difficult to monitor;
- There are no time limits for validity of contracts with a customer (all contracts are without time limit);
- Weak regulations in case of termination of customer's legal activity or death;
- In case of e-transaction - banks have to identify only the correctness of test keys;
- The customer identification process is not applicable during the e-transaction;
- **The critical moment is still before entering into contract with the bank;**
- To catch ST (suspicious transaction) from the mass of payments needs special analytical tools;
- Any IT expense not oriented to support main activities is not welcome
- Any STR forwarded to the FIU brings about the obligation to participate in pre-investigation process, which is time and resource consuming and not in line with banks' main activities
- Weak legislative independence of contact persons
- **E-banking gives ample opportunities to misuse bank confidence while being its customer.**

SUSPICIOUS TRANSACTIONS IN BANKING PRACTICE

- The most frequent suspicious transactions are related to **cash transactions**;
- As general such transactions include wire transfer (credit order) in first stage and cash withdrawals at the last stage or *visa versa* - there transaction starts from cash down payment and ends up with several wire transfers.

FIRST STAGE

1. Funds come from foreign bank (FB) to beneficiary in local bank (LB). Beneficiary (*shelf company*) might be especially established for this occasion and/or represented by a *dummy person:*

(FB) ⏩ (LB)

2. Funds come from another local bank (LB 2):

(LB 2) ⏩ (LB)

3. Cash down payment ($🕹) in local bank:

- in local currency;
- in foreign currency (obviously illegally smuggled into the country).

SECOND STAGE

1. Funds move to another beneficiary inside local bank:

(LB) 🔄 (LB)

2. Funds move to another local bank:

(LB) ⏩ (LB2)

3. Funds move to foreign bank (often the beneficiary is registered in an *off-shore* centre):

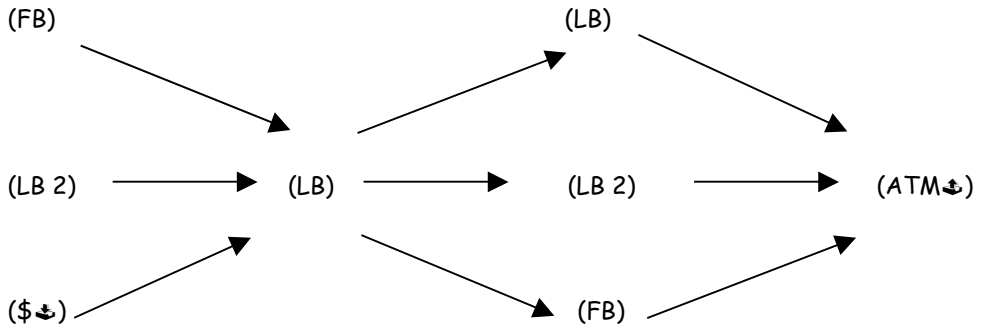
(LB) ⏩ (FB).

FINAL STAGE

Cash withdrawals from ATM (ATM🕹) up to the maximum possible sum:

- from ATM in local country
- from ATM in first foreign country (from where the initial funds have come)
- from ATM in third country

THE MOST TYPICAL SCHEMES



RELATED PROBLEMS

- Banks are not obliged to carry out any investigations. Although the client is identified according to the law (General identification requirement), there are no obligations to identify the origin of the funds;

- Generally the cash withdrawals are exercised in ATM-s, sometimes in ATM in foreign country. Credit institutions cannot identify the persons who in reality execute cash withdrawals;

- Companies (*self-companies* and *off-shore firms*) used in STs are founded just for one set of transactions. Usually the parties involved in such transactions are represented by *dummy persons*.

COUNTERMEASURES

- Implementing the principle of "Know your customer before entering into contract";
- Improvement of legislative background in line with technical progress;
- Improvement of legislative background regarding requirements set to public activities;
- Introduction of electronic ID in banks' practice;
- Implementing pre-investigation measures in banks before sending out STR;
- Co-operation.

Bank of Estonia

OoO

LIECHTENSTEIN

(POWERPOINT PRESENTATION)

DEFINITION

"The FIU Liechtenstein is a central independent agency responsible for receiving, analyzing and disseminating to the prosecutors office suspicious transaction reports received by the financial institutions an get information to detect money laundering, organized crime an its predicate offences".

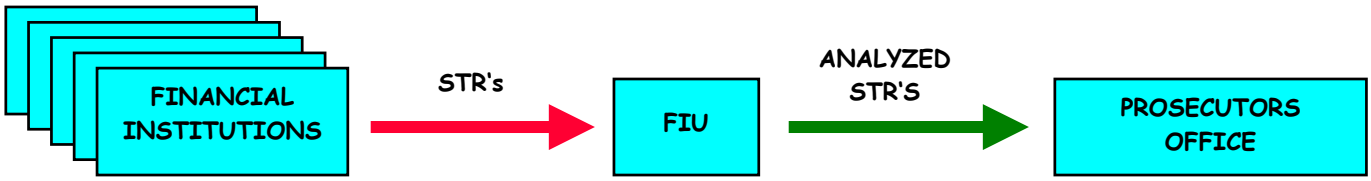
LEGAL BASE

- Due diligence act (22nd of May 1996);
- Due diligence executive order (5th of December 2000);
- Executive order for the FIU (2nd of February 2001).

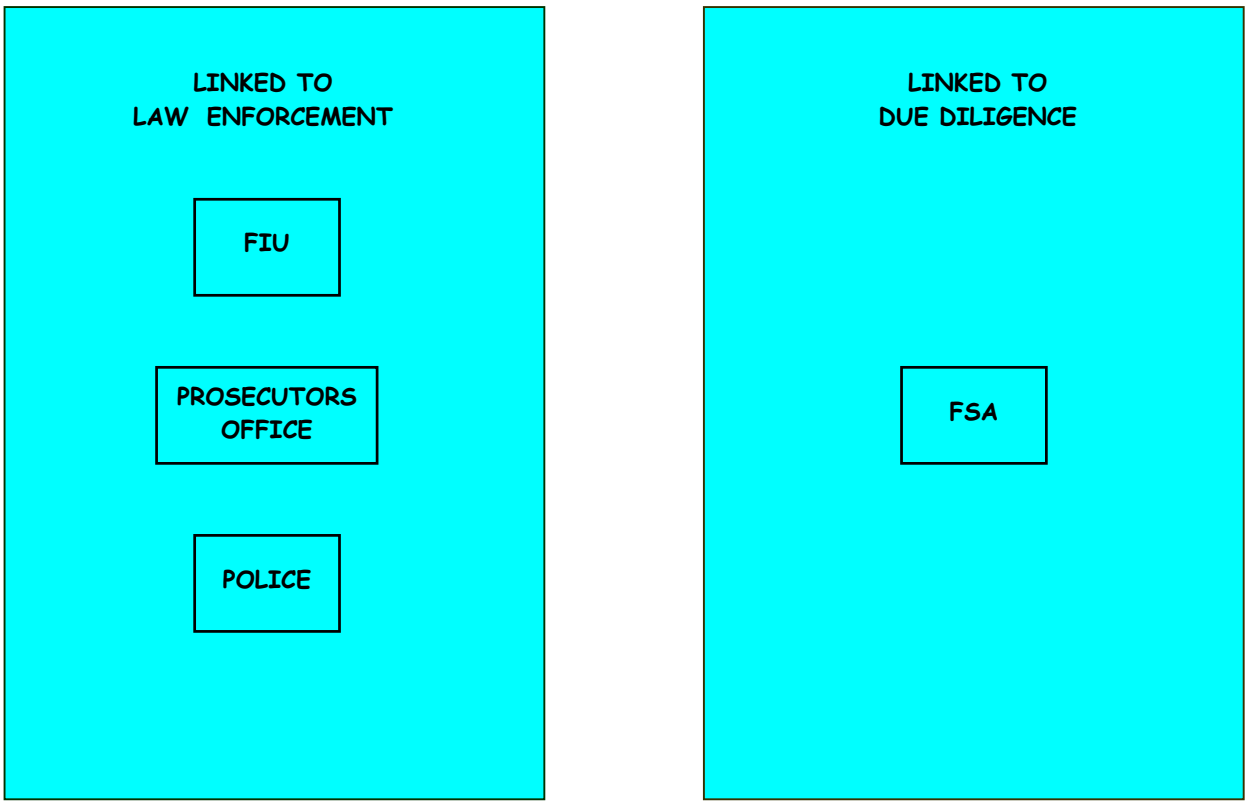
ART. 9 DUE DILIGENCE ACT

"If after entering into the business relations and following the clarification of all details the suspicious factors could not be eliminated and the suspicion remains that there is a connection with money laundering, a predicate offence of money laundering or organized crime, the persons subject to this law must immediately report to the FIU".

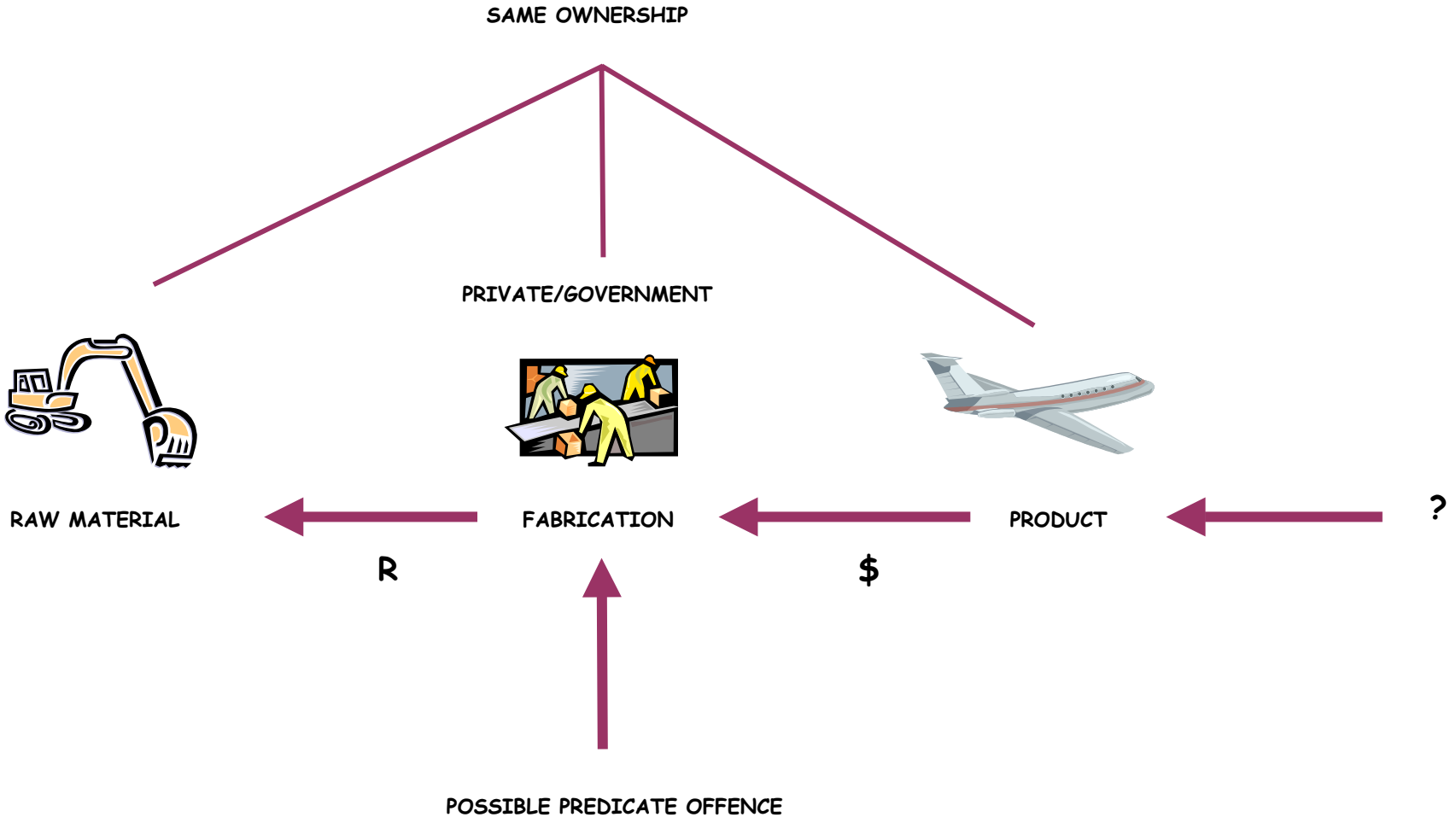
ART. 9 DUE DILIGENCE ACT

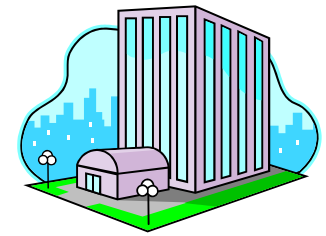


ORGANISATION



"MONETA" CASE
(OFFSHORE AND MONEY LAUNDERING/ORGANIZED CRIME)





ILLEGAL/LEGAL BUSINESS
AND MONEY MIXED

OFFSHORE ACCOUNTS

VARIOUS OFF- AND
ONSHORE ACCOUNTS

ONSHORE ACCOUNTS

TYPOLOGIE

- Box-system as one possible and effective delaying tactic;
- Mix between legal and illegal business and money related to it
- No or few questions asked by financial institutions about the origin of the funds in offshore places.

ACTUAL STATE

- Case still in ongoing investigations in several countries;
- In Liechtenstein;
  - subjects of mutual legal assistance demand;
  - subjects of domestic investigation;
  - subjects of suspicious transaction reports.

LESSONS

- Regarding just one single transaction can provocate wrong consequences;
- Knowing your customer means over all asking questions but not just easy ones;
- Financial Intermediaries have to learn to ask questions more precisely and they have to be sensitized on this important issue;
- FIU needs a performant data base;
- International exchange of information has to be quick and accurate;
- Procedures in domestic exchange of information has to be simple.

OoO

MALTA

MONEY LAUNDERING CASES INVOLVING TRUSTEES AND OTHER "ELIGIBLE INTRODUCERS"

A CASE STUDY FROM MALTA

In June 1997 the Malta Financial Services Centre (MFSC), which is the government regulatory authority for the financial services sector, received a written report from two companies (forming part of an international accounting firm) and authorised by the MFSC to act as nominees / trustees, on the activities of certain Maltese registered companies and trusts to which they had rendered professional services. The beneficiaries of the companies and trusts in question were two US citizens.

The report was made in terms of statutory requirements which place on nominees / trustees the duty to ensure that the provisions of the law are observed at all times, particularly to ensure that the persons for whom they act or to whom they render professional services do not act in any unlawful manner and the duty to report to the MFSC any act by such persons which is unlawful or constitutes criminal activity.

The nominees / trustees informed the MFSC that according to information that had become available to them, they had now reason to believe that:

1. the individuals in question had used their companies (both Maltese and foreign) to facilitate the importation and sale within the US of cable television / satellite reception equipment intended for the illegal interception / decryption of cable / satellite signals; and

2. funds and assets held by the companies in question may constitute, in part or in whole, the proceeds of this illegal activity.

The MFSC was furthermore informed by the nominees / trustees concerned that US and UK government authorities were actively conducting criminal investigations in connection with the activities of the two individuals concerned. From the very outset the nominees / trustees expressed their readiness to co-operate and assist the Maltese and foreign authorities in their investigations.

It resulted that the individuals in question had been introduced to the nominees / trustees in 1992 by a Maltese government agency and a Maltese bank with whom they had been discussing the possibility of setting up a manufacturing company in Malta. Although the initial project was not pursued, in 1993 these two persons requested the services of the nominees / trustees to set up a Maltese company. A complete due diligence exercise and know your customer procedures on the persons in question were carried out by the nominees / trustees, including obtaining references from a US bank, a US firm of attorneys and a US firm of accountants. A number of requisite declarations, CVs and information on their business activities as also copies of their passports were retained on file. Other companies and trusts were registered in due course.

The individuals concerned operated through a network of companies and trusts, both in Malta and overseas. Their business activities related primarily to the purchase of electronic components, their assembly into cable television equipment and the sale of the finished product in the USA. A number of companies were involved in the trading operations while other companies and trusts (including the Maltese entities) were the recipients of profits made from the business.

From 1992 up to February 1997 there were no indications whatsoever that the individuals or the entities concerned could have been involved in illegal activities. However in February 1997 the nominees / trustees came in possession of copies of plea agreements entered into by their clients with the US Attorney General's Office wherein their clients had pleaded guilty to a number of crimes committed in the USA including unlawful use and reception of cable television services. In the said agreements clients had also declared (falsely) that they had no beneficial interest in a number of companies / trusts, including the Maltese entities. From investigations made by the nominees / trustees it transpired that their clients were being indicted in the USA for conspiracy:

1. to defraud cable operators and local government bodies;

2. to handle stolen property that had crossed state lines;

3. to manufacture, assemble, import, sell and distribute equipment with the intention of facilitating the unauthorised decryption of satellite cable programming; and

4. to assist in the interception of cable system services where interception was not authorised by the cable operator or by law.

(It is relevant to point out that conspiracy to commit a crime is not a criminal offence in Malta; and at the time, the offences mentioned in the indictment, although criminal offences also in Malta, did not constitute a predicate offence in Malta and could not lead to the offence of money laundering in Malta.)

As a result of the information received, the nominees / trustees did not continue to perform any services for the individuals and entities in question. They took steps to ensure that no further activities are carried out by the companies / trusts concerned and that none of the assets are dispersed or returned to the beneficiaries. The nominees / trustees did not take any further instructions from their former clients.

The nominees / trustees, conscious of their responsibilities under Maltese law, conducted further comprehensive investigations in order to find out more about the activities of their former clients and the criminal proceedings they were undergoing. They engaged lawyers in Malta, in the USA and in the UK as well as a prominent international investigative firm. They also consulted within their own international organisation.

A comprehensive list of funds and other assets amounting to approximately USD 2 million belonging to the companies / trusts concerned and under the control of the nominees / trustees was made and submitted to the MFSC. By this time it had become evident that any transaction involving these proceeds or any act that would result in their return to the two persons concerned would expose the nominees / trustees to potential liability for money laundering in the USA.

After examining the situation, the MFSC instructed the nominees / trustees to exercise the maximum caution and vigilance and to freeze the situation regarding funds and assets belonging to the companies and trusts concerned. In particular the nominees / trustees were instructed to secure the integrity of the funds, including those situated outside Malta, by placing them into a specific bank account held in Malta under their control and not to make any payment out of the funds without the prior approval of the MFSC. The objective was to bring the assets under Maltese jurisdiction and to safeguard the interest of the Maltese and US governments in the funds in question, particularly in view of Maltese law provisions enabling the confiscation in favour of the Maltese government of the assets in question.

The MFSC also immediately proceeded to inform the Attorney General in Malta about the report it had received from the nominees / trustees. In turn the Attorney General communicated through the US Embassy with the US District Attorney involved in the case, offering all possible assistance to the US authorities within the parameters of Maltese law. Following the opening of this channel of communication between the Maltese and US authorities, information on the Maltese companies concerned and a copy of the report submitted by the nominees / trustees (who did not object) were forwarded by the MFSC to the Attorney General in Malta for onward transmission to the US authorities.

Meanwhile the nominees / trustees involved continued to monitor closely the situation from their side and to advise the MFSC of any developments that came to their attention on an ongoing basis. Continuous contact was also maintained between the MFSC and the Attorney General in Malta who in turn kept close contact with the US District Attorney. In this manner the Maltese and US authorities were able to exchange relevant information swiftly and to assist each other on this matter without the need of formal procedures.

In January 1998 the MFSC was informed that additional charges for other crimes including bail jumping, perjury, money laundering and customs smuggling were brought against one of the individuals involved in the investigations.

During 1998 the two individuals concerned entered into other plea agreements with the US District Attorney whereby they pleaded guilty to the charges against them and agreed to forfeit in favour of the US government all

funds and assets acquired as a result of their illegal activities. The forfeiture of the funds held in Malta to the US authorities necessitated further agreements between the individuals concerned and the nominees / trustees controlling the funds, which agreements were also subject to approval by the US District Attorney and the MFSC.

In terms of Maltese law the government of Malta had a right to confiscate the funds in question since they belonged to Maltese entities which were involved in criminal activity. Thus the forfeiture of the funds held in Malta to the US government necessitated the approval of the MFSC and the Attorney General. The Maltese authorities nevertheless acknowledged that crimes had been committed in the USA against US victims while investigations and prosecutions were also carried out in the USA. Furthermore the timely and successful conclusion of the case in terms of the plea agreements entered into by the US District Attorney required that the illegal proceeds be forfeited to the US government. Under the circumstances it was felt appropriate to release the bulk of the funds in favour of the US government.

Following brief discussions involving the MFSC, the Attorney General, the nominees / trustees and the US District Attorney it was agreed that the Maltese government would retain 10% of the funds in question in recognition of its rights in terms of law and to compensate for the time and resources used to bring the matter to a successful conclusion. It was also agreed that the nominees / trustees should receive payment of all outstanding professional fees due to them and reimbursement of all costs incurred following vetting and approval by the Maltese authorities. The remaining balance of the funds was to be transferred to the US authorities. The matter was successfully settled to the satisfaction of all parties in October 1999.

The following conclusions may be drawn from the manner this case was handled and resolved:

1. Notwithstanding rigorous due diligence and know your customer procedures and continuous monitoring of client activities, one can never exclude completely the possibility of criminal activity being carried out.

2. The nominees / trustees involved acted in a correct manner. They were alert enough to find out about the activities of their clients and they monitored closely developments and kept the Maltese authorities informed at all times. They acted with the utmost caution and prudence and fulfilled their statutory duties, co-operating fully with the Maltese and foreign authorities.

3. The MFSC played a crucial role in giving instructions and guidance to the nominee / trustees concerned, particularly in safeguarding the integrity of the funds held in Malta. It alerted the Attorney General in Malta about the case and passed on information held to the US authorities.

4. The Attorney General in Malta co-ordinated the entire co-operation exercise between the Maltese and US authorities without the need of any formal procedures.

5. Criminal proceeds were retained in Malta in virtue of instructions given by the MFSC based on specific statutory provisions and in virtue of the professional and responsible approach taken by the nominees / trustees who acknowledged their responsibilities and the importance of safeguarding the funds in the interest of the Maltese and US authorities.

6. Notwithstanding the absence of a formal asset sharing agreement between Malta and the USA, the funds were shared between the two countries.

7. The importance of having adequate statutory provisions requiring nominees / trustees to forthwith report to their licensing authority any illegal activities carried out by their clients and establishing the right of confiscation of illegal proceeds.

8. The case in question is an excellent example of international co-operation.

Malta Financial Services Centre
1st June, 2001

OoO

SLOVENIA

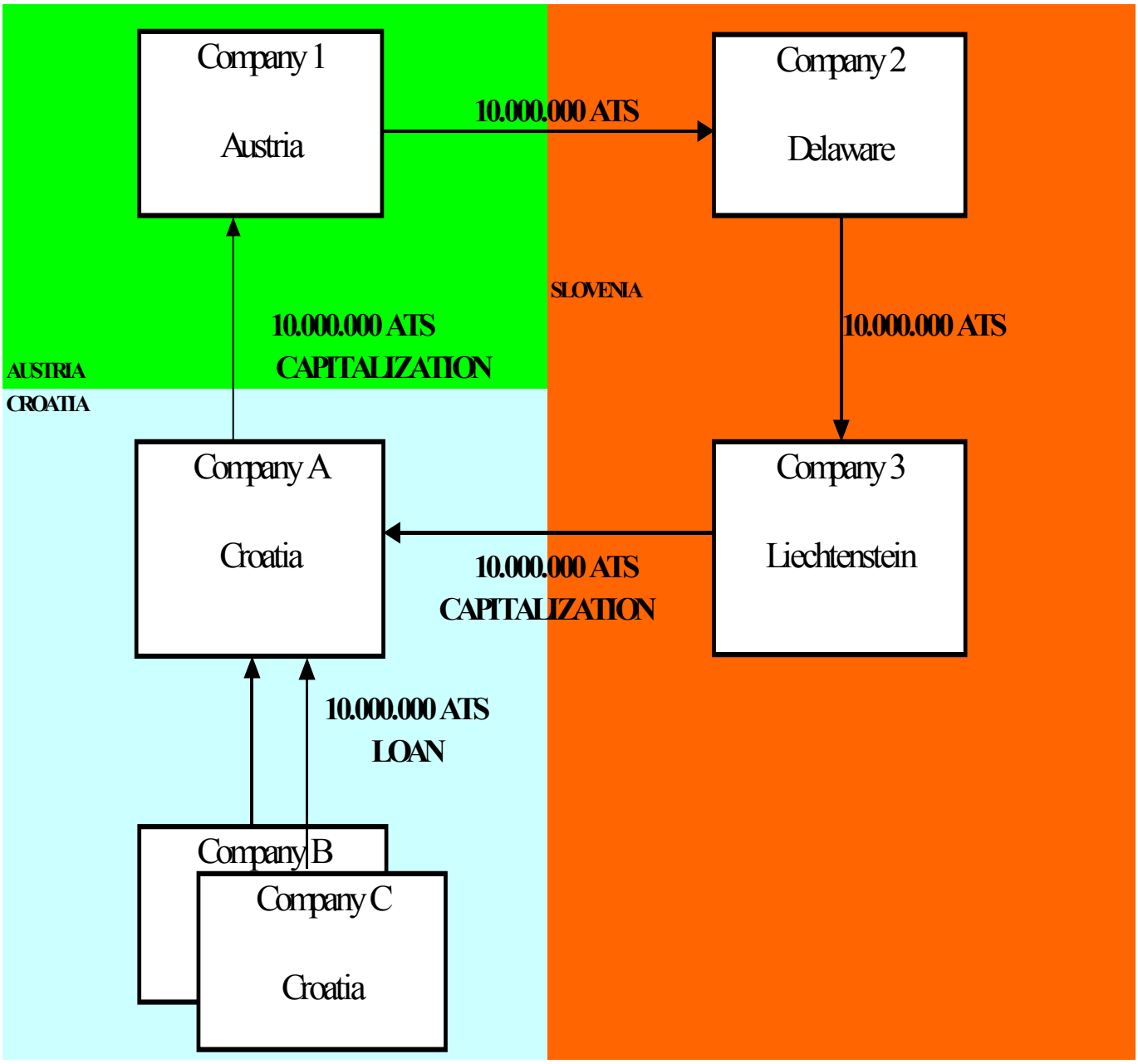
CASE STUDY PRESENTED BY THE SLOVENIAN DELEGATION

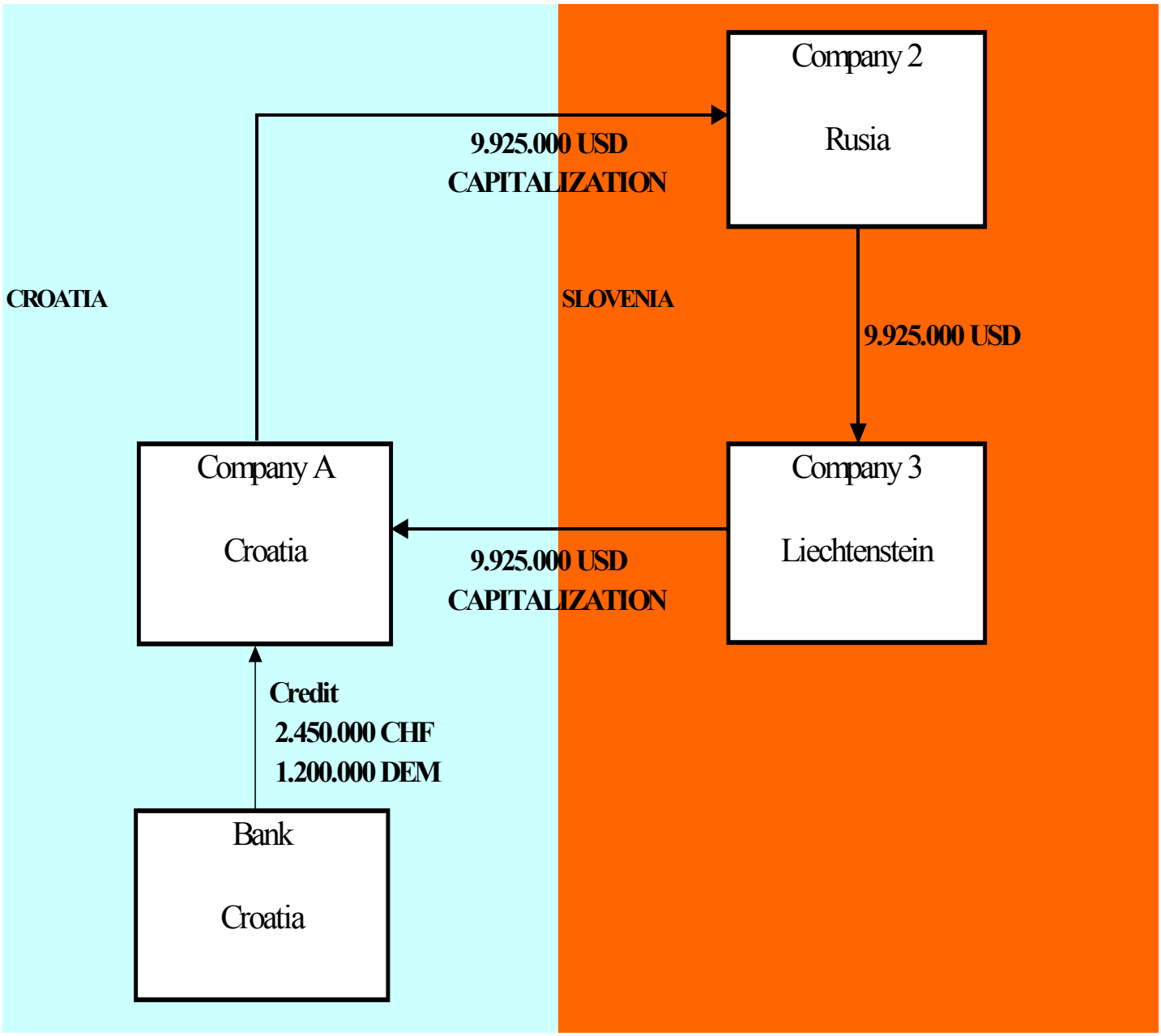
In the year 1999, the Office for Money Laundering Prevention of the Republic of Slovenia dealt with a case, connnected with several companies from Slovenia, Croatia, Russian Federation, Ukraine, Kazahstan, USA and Italy, which appeared as buyers and sellers of different goods in the period between 1993 - 1999. During the investigation, that lasted more than one year and in which also the representatives of the Croatian Office for Prevention of Money Laundering and Police took part, we discovered, that in the connection with mentioned import-export businesses also several economic criminal offences and criminal offence of money laundering have been committed. For the purpose of performing these criminal offences, suspects established 13 (thirteen) companies with headquarters in several off-shore countries, among them 7 (seven) in Liechtenstein and 3 (three) in Delaware. Each of these companies opened one non-residential account in the period from 1996-1998 in the same Slovene bank, while the authorized person on all these accounts was the same Slovene citizen.

In Slovenia, the person A performed transactions over non-residential accounts, connnected with the payments for legal export-import businesses and laundered dirty money. Several transactions were in this way connected with the money, that originated from the criminal offences of abuse of position and rights, tax frauds and corruption, performed in Slovenia, Croatia and in some former Soviet Union countries. The largest amount of laundered money (approximately, 17.000.000 USD, 1.000.000 DEM and 10.000.000 ATS) was connected with illegal capitalization of one of the largest companies in Croatia (Company A). As it can be seen from the continuation of the case study, in Croatia the suspects with the false documentation showed, that two off-shore companies from Liechtenstein capitalized the mentioned Croatian company A through accounts in Slovenia, even though the money (used for capitalization), actually originated from loans, which were raised in the Croatian banks by the Croatian company A itself and which is also paying them off.

During the investigation we discovered connections between all mentioned off-shore companies, because the same persons - Croatian citizens, appeared as their actual owners. All seven companies from Liechtenstein have had their headquarters at the same address in Vaduz and no employees. Among them three were founded as an "establishment" with minimal nominal capital of 30.000 CHF, while the other four were established as the "public limited companies" with nominal capital 50.000 CHF or 100.000 CHF. In all cases bearer shares were issued to the owners, while as the formal founder and manager the same Liechtenstein company or its authorized persons - residents of Liechtenstein, appeared. This company also issued and signed a Power of Attorney to the Slovene citizen for opening of unlimited number of accounts in the name of all 7 (seven) companies in an unlimited number of banks all over the world.

Mr Klaudijo STROLIGO
Office for Money Laundering Prevention/Slovenia


Company 1
Austria
10.000.000 ATS
Company 2
Delaware
SLOVENIA
10.000.000 ATS
CAPITALIZATION
10.000.000 ATS
AUSTRIA
CROATIA
Company A
Croatia
Company 3
Liechtenstein
10.000.000 ATS
CAPITALIZATION
10.000.000 ATS
LOAN
Company B
Company C
Croatia


Company 2
Rusia
9.925.000 USD
CAPITALIZATION
CROATIA
SLOVENIA
9.925.000 USD
Company A
Croatia
Company 3
Liechtenstein
9.925.000 USD
CAPITALIZATION
Credit
2.450.000 CHF
1.200.000 DEM
Bank
Croatia

UNITED KINGDOM

MONEY LAUNDERING CASES INVOLVING TRUSTEES AND OTHER "ELIGIBLE INTRODUCERS"

(POWERPOINT PRESENTATION)

KEY ISSUE

The introduction of business in the name of a trustee, or through a financial intermediary, can obscure the source and ownership of funds, and can block pursuit of the audit trail.

Need to distinguish between:

- Trustees;
- Intermediaries;
- Trust companies.

TRUSTS

- Core element of common law system;
- Permits separation of legal and beneficial ownership of an asset;
- Several parties involved: settlor, trustee, beneficiary, protector.

TRUST/TRUSTEES: KEY ISSUES

- Establish existence of trust;
- Identify various parties;
- Ability to change beneficiaries;
- Identify source of funds;
- Penetrate secrecy provisions;
- Overcome asset protection arrangements.

INTERMEDIARIES

- Act on behalf of clients;
- Ownership of asset remains with the client;
- Intermediary is the interface (and possible customer) in relation to financial institution.

"ELIGIBLE INTRODUCER"

A professional intermediary from whom a financial institution will accept business by placing reliance on the due diligence undertaken by the intermediary.

"ELIGIBLE INTRODUCERS": KEY ISSUES

- Who qualifies as "eligible"?
- Can financial institutions avoid all independent due diligence checks?
- How do financial institutions verify that proper due diligence is being undertaken?
  - Rely on regulators;
  - Enter into formal contract;
  - Undertake inspections.

"ELIGIBLE INTRODUCERS": KEY ISSUES

- Where are the customer identity records maintained?
- How do the financial institutions know whether any changes in control have taken place?

- Is the ability to identify suspicious transactions compromised?
- Is the audit trail weakened?
- Is their less scope for effective investigation by the FIU and the regulators?

Thank you

Mr Richard CHALMERS
Financial Services Authority
London/United Kingdom

OoO

APPENDIX I

PART II

COMPILATION OF THE WRITTEN CONTRIBUTIONS ON THE SUBJECT:

"MONEY LAUNDERING INDICATORS"

(PRESENTATIONS ON THE EXPERIENCE OF SOME PC-R-EV COUNTRIES & FATF CASE STUDY)

ANDORRE

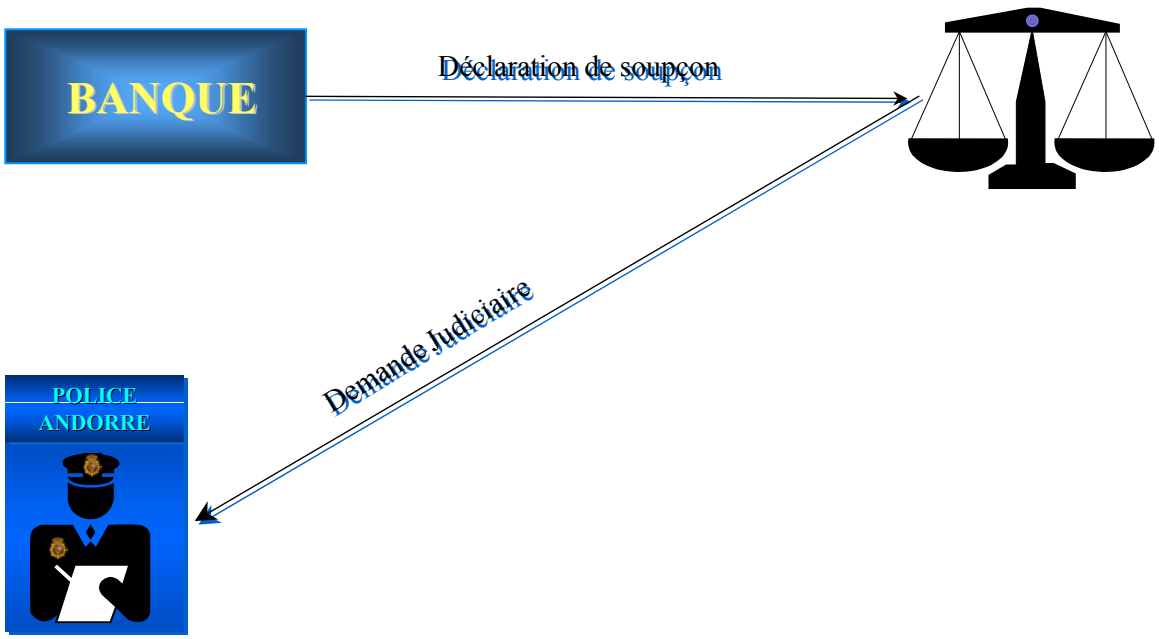
(PRESENTATION POWERPOINT)

POLICE D'ANDORRE
UNITE D'INVESTIGATION
SECTION DE BLANCHIMENT

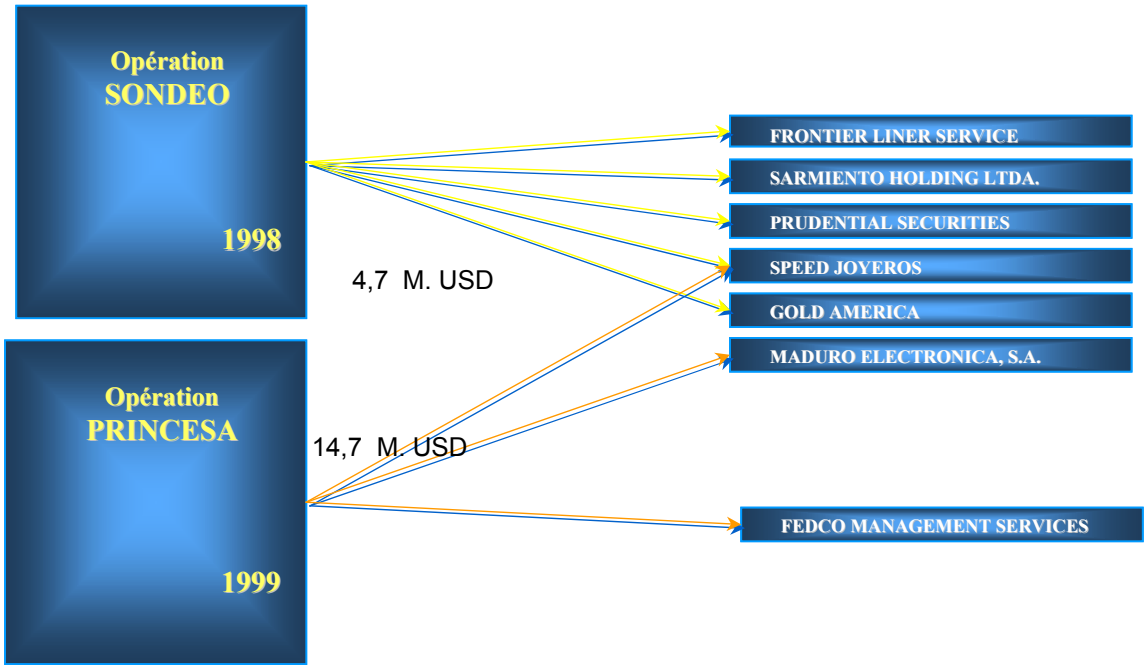
« OPERATION CARONT »
ANNEE 2000

A. ORIGINE DE L'INVESTIGATION,
B. ANTECEDENTS OPERATIONNELS ET EXPOSE DE L'OPERATION,
C. INVESTIGATION REALISEE
D. RESULTATS POLICIERS INTERNATIONAUX
E. CONCLUSIONS.

OPERATION CARONT



ANTECEDENTS OPERATIONNELS (1)



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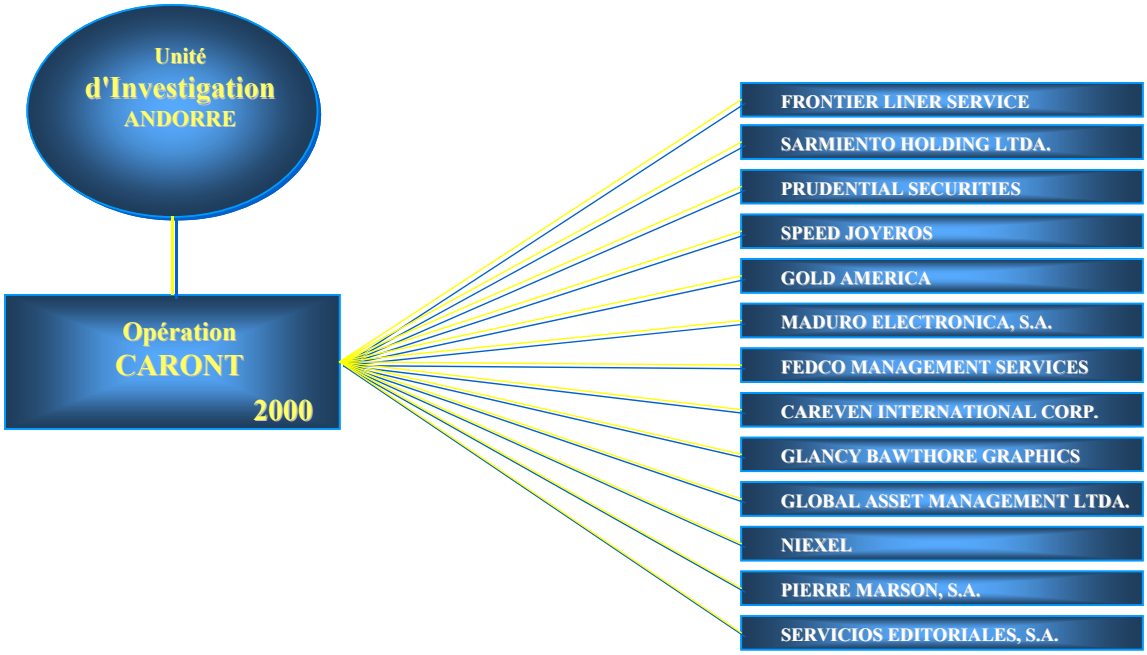
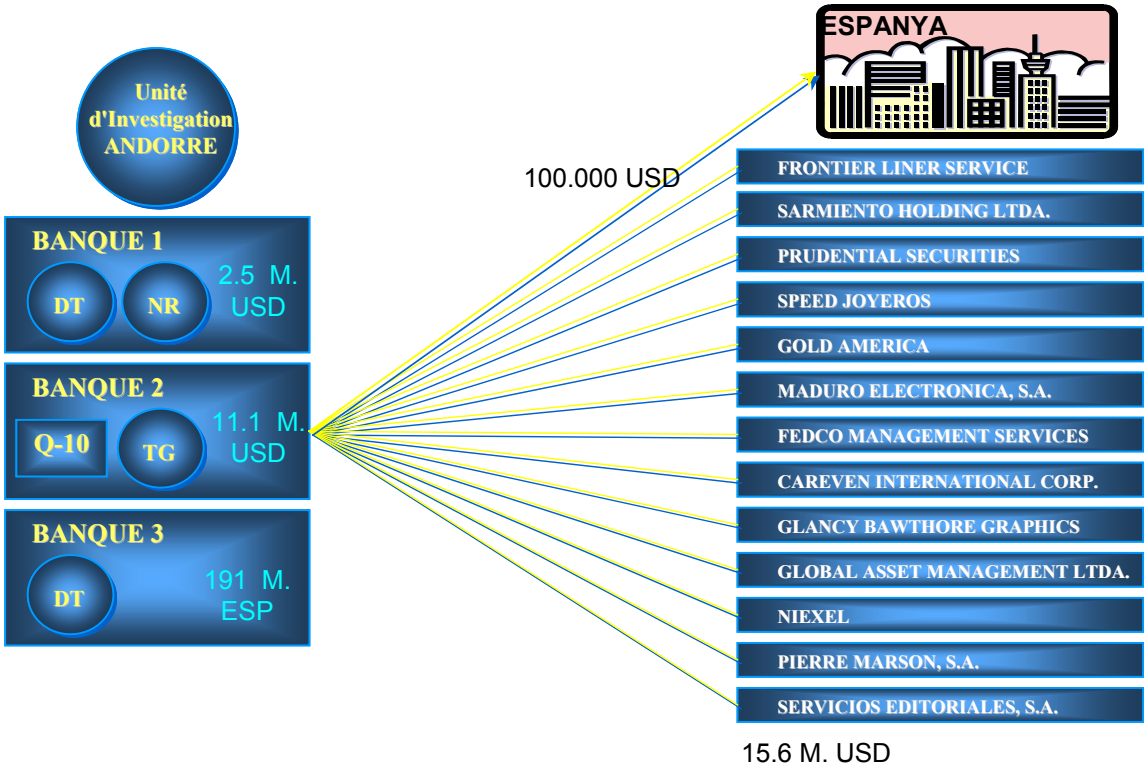
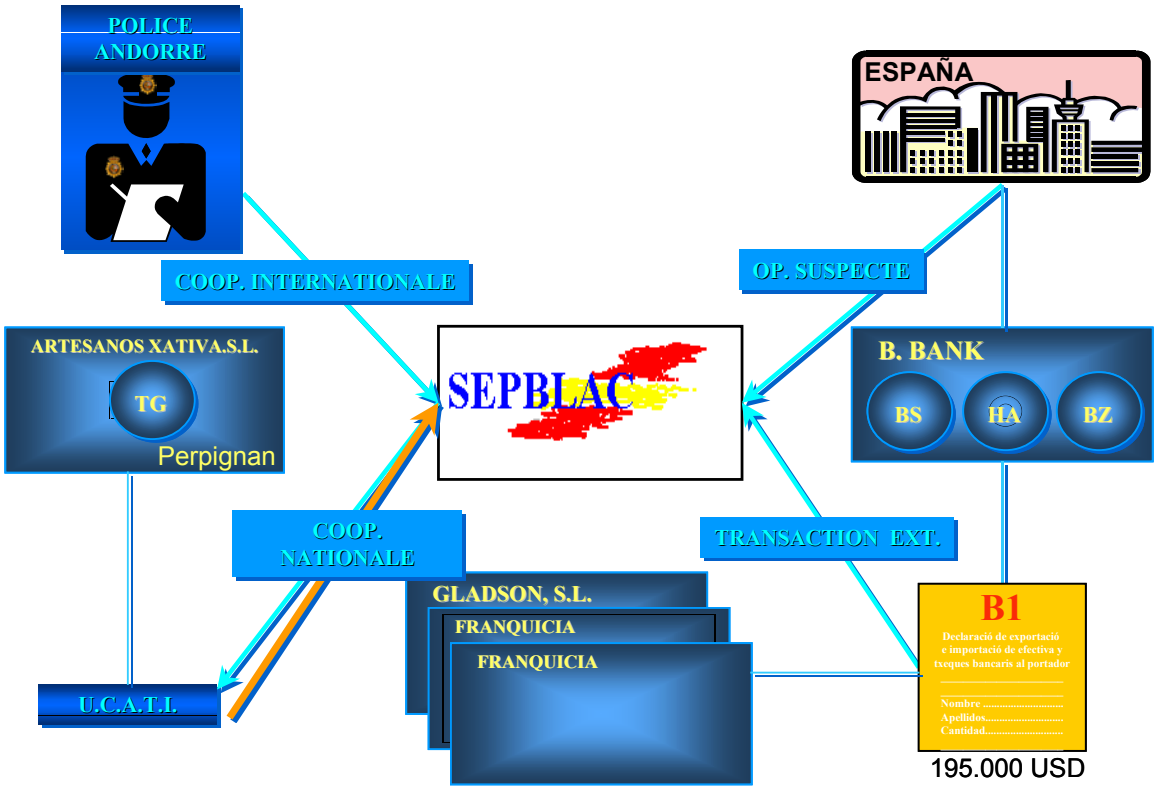


EXPOSE DE L'OPERATION (1)



EXPOSE DE L'OPERATION (2)



EXPOSE DE L'OPERATION
CARACTERISTIQUES DETECTEES

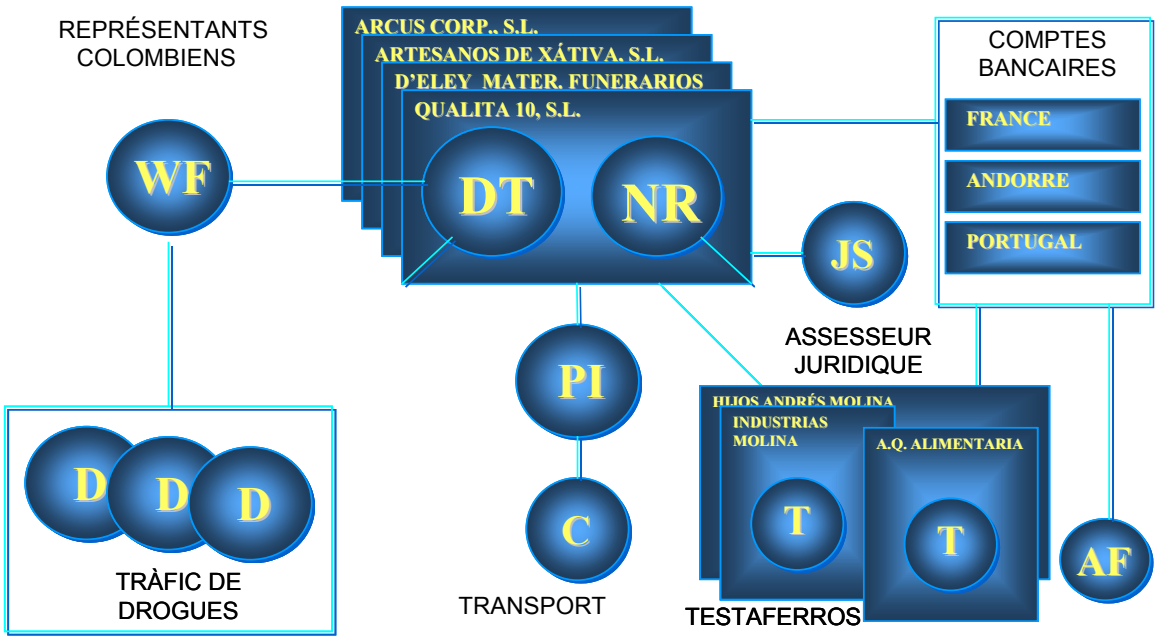
- Mouvements transfrontaliers de fonds.
- Versement des fonds sur des comptes bancaires.
- Simulation d'activité commerciale.
- Agissement hors du lieu de résidence.
- Transferts à l'étranger sur des comptes déjà connus.
- Usages de sociétés dites « écran ».
- Usages de « prête noms ».
- Ouverture de comptes bancaires.

INVESTIGATION REALISEE

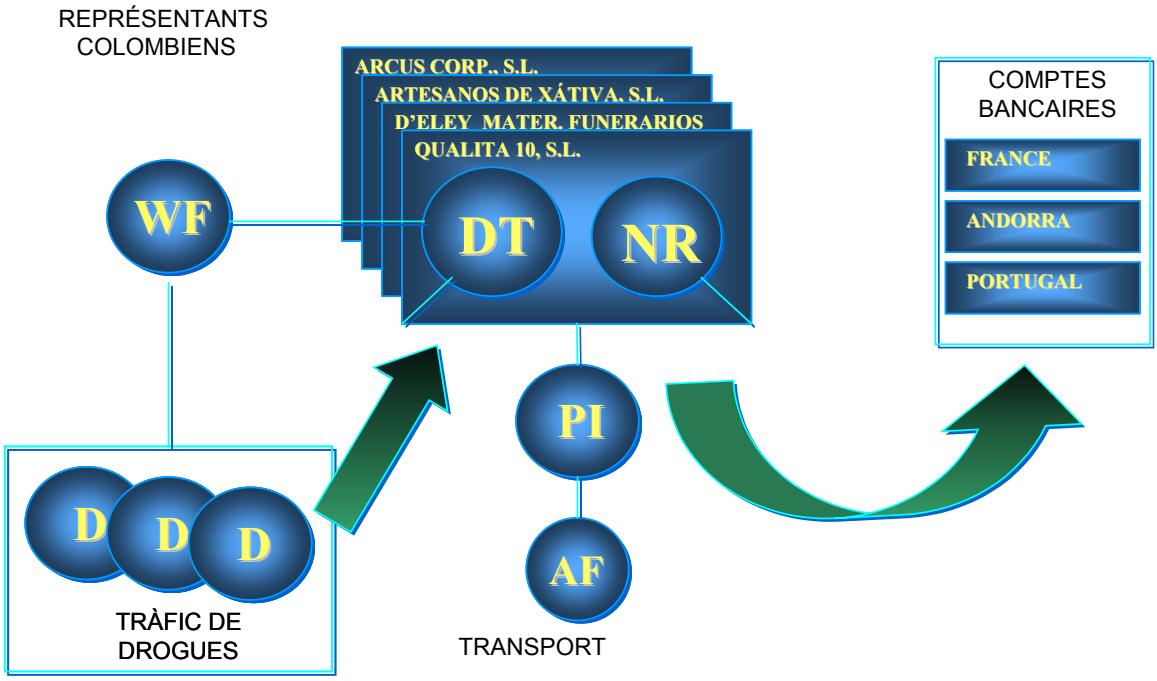
- QUI étaient les intégrants de l'organisation ?
- QUELLE activité réalisaient-ils ?
- OÙ ont été canalisés les fonds ?
- QUEL était le « modus operandi » du groupe ?

MÉTHODES DE BLANCHIMENT DÉTECTÉES.

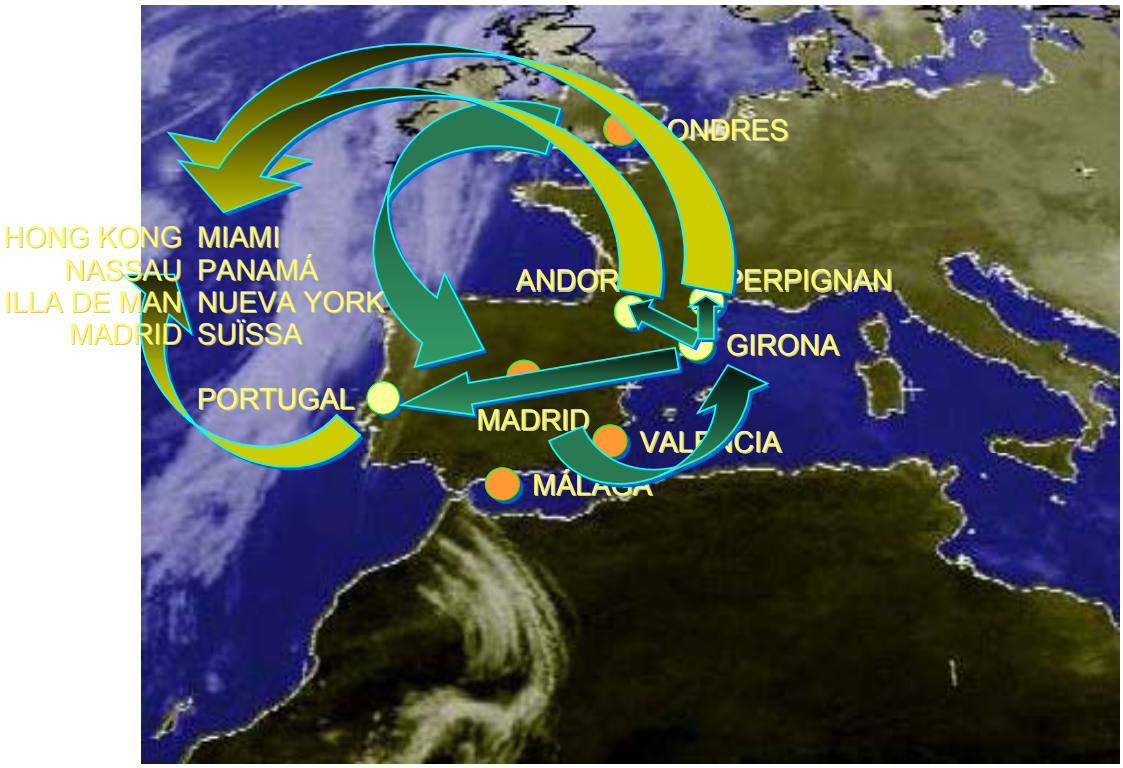
INVESTIGATION
QUI ETAIENT LES INTEGRANTS DE L'ORGANISATION?



INVESTIGATION
QUELLE ACTIVITE REALISAIENT-ILS ?



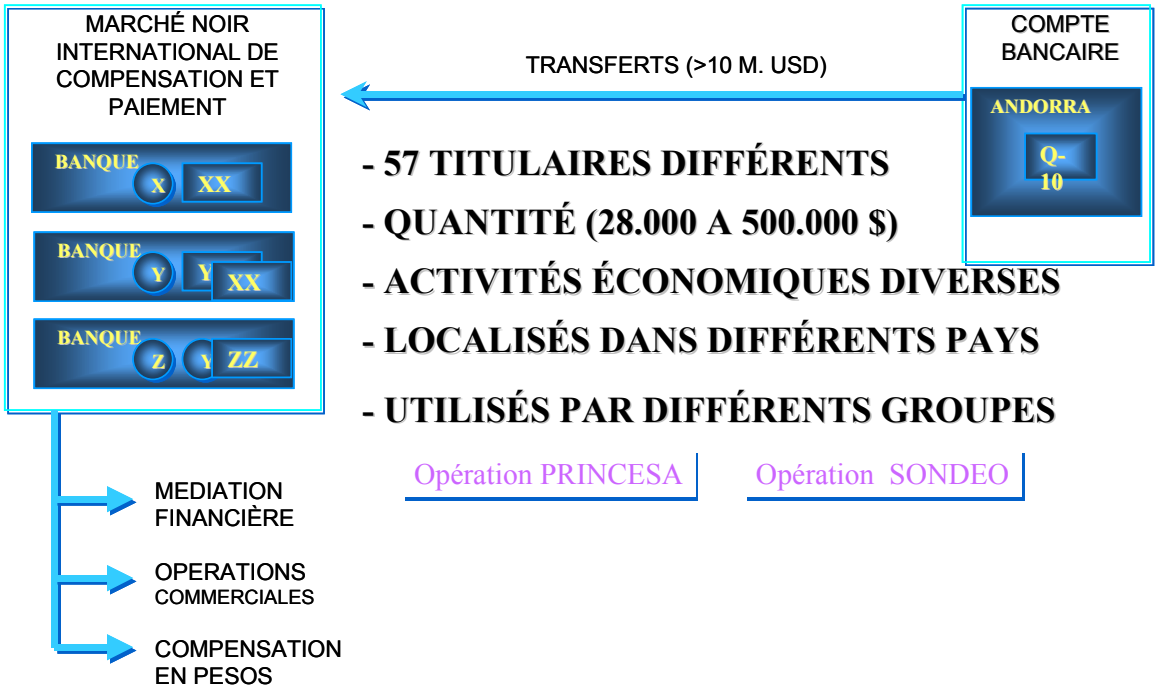
INVESTIGATION
OÙ ONT ETE CANALISES LES FONDS ?



INVESTIGATION
QUEL ETAIT LE « MODUS OPERANDI » DU GROUPE ?

1) Ramassage et transport de l'argent.
2) Utilisation du système bancaire.
3) Transfert des capitaux vers l'étranger.
4) Marché noir international de compensation et paiement.
5) Comptabilité et liquidation des opérations.
6) Intégration des capitaux blanchis.

RESULTATS POLICIERS
QUEL ETAIT LE « MODUS OPERANDI » DU GROUPE ?



RESULTATS POLICIERS INTERNATIONAUX (1)

- 11 personnes arrêtées et 20 accusées.
- 218 millons de pesetas (1,3 M. euros) en effectif intervenus.
- 280 millons de pesetas (1,6 M. euros) bloqués sur des comptes bancaires.
- Cocaïne, balance de précision, substances adultérées.
- Matériel informatique et impression (fausses factures).
- Documentation comptable de l'organisation sur les ventes de drogue et le blanchiment d'argent.

RESULTATS POLICIERS INTERNATIONAUX (2)

CONCLUSIONS

1° L'analyse des méthodes de blanchiment de capitaux découvertes, permet d'ouvrir de nouvelles voies d'investigations.

2° La coopération entre les investigateurs de différents pays, permet l'échange d'information et l'investigation simultanée dans des pays différents.

3° La méthode de blanchiment détectée fait naître des soupçons sur l'existence d'un MARCHÉ NOIR INTERNATIONAL DE COMPENSATION ET DE PAIEMENT.

OoO

CROATIA

MONEY LAUNDERING INDICATORS
CROATIAN EXPERIENCE

Established as an intermediary and administrative body, Croatian Anti Money Laundering Department (AMLD) has the obligation stipulated by Croatian Law on prevention of money laundering to gather, analyse, and disseminate the information received from disclosing institutions in Croatia.

Our system stipulates that obligated bodies, disclosing institutions (financial and non-financial sector), has to report all cash depositing transactions over the certain treshold, i.e. over 105.000,00 HRK, or cca 27.000,00 DEM or 12.000,00 USD. Hence, the cash transfer over the state border is also monitored, and the treshold is 40.000,00 HRK, or cca 5.000,00 USD, supervised by Customs which has to report to the AMLD about mentioned transfers or carryings. So AMLD monitors all cash payments, cash cros-border movements and cash depositing in bank accounts as set forth.

Other types of transactions, important as well, are reporting the non-cash transactions, of which, according to our Law, the majority we declare as suspicious, because we did not involve the definition of "unusual transaction". Therefore, our suspicious transactions includes several types of transactions, among which we recognize those with more or less degree of suspicion.

Nevertheless, even cash transaction may be classified as suspicious one, if they meet our internal rules or established and introduced a system of indicators.

We perform our activity for three and a half years. On the very beginning there was not a problem to implement the measures regarding cash reporting. But certain problems occurred in implementing the system of detection and recognising the suspicious one. So we tried to explain the articles of our Law to our partners - disclosing institutions regarding the issue and to evaluate and introduce a list of indicators to initially help the financial and non financial sector to detect essential types of suspicious transactions. To that aim, we on the very first beginning made a list of general indicators with the help of our foreign colleauges and available literature, and distribute them to all the obligated entities.

I have to lay out the fact that pursuant to our legislation, disclosing institution has to produce, evaluate, and utilize the indicators on its own, according to the particular business conducted. So the indicators are different for banks and for example for the real estate agents.

To quell this initial disarray, we organized several seminars, sent a number of explanatory letter, until we somehow put in the order a proper level of suspicious transaction reporting.

What are then, the Croatian experience in reporting the suspicious transaction?

First, we divided the indicators to the types of obligated entities. So we have indicators for banks - in international business, for banks in domestic business, for banks and savings houses in the savings and debit account business, then indicators for casinos, for exchange offices, for brokers etc. Of course these indicators are of general types and every entity has to further develop the list, as mentioned before.

Secondly, we divided the indicators in two types of ordering customers: physical persons and legal persons.

Let me present several major explanatory examples of indicator types:

Indicators for Physical Persons

- **Large cash deposits** in HRK or in foreign currency on every type of account, as the owner, as authorized person or else / the discretionary right to detect such transaction is upon the bank officer, who shall apply the "know your client" rule and who shall correlate the deposit sum with the yearly turnover and the possible financial strenght of the client. It is not such easy, but in general, the bank has take into account the date of the account opening, the regular business he is involved to, how often is he present on the account, does he

deposit one currency or several types, and which, and what are detected financial links of that account.

- **Significant deposits on non resident account** is the variant of the previous indicator, but with more important "assessed value" / it is important here the origin of the owner, his business in Croatia, currency type, and the amount. We estimate that regular foreigners as Croatian residents doing business in Croatia could be excepted on the basis of regularity - salaries, other type of business income (shares etc). The two mentioned indicators are very significant for prevention of money laundering and detection of it in the placement stage.

- **Foreign wire transfers** on various accounts under the ownership of Croatian citizens, or non-residents. This indicator is very important to monitor the attempt of money laundering in the layering stage. We advised our obligated entities to check out every transfer from abroad into the accounts of physical persons. Of course there are several exceptions: on the basis of regularity - salaries, pensions, rents or alike, then if the sum is insignificant, but with due diligence to smurfing, and if the sum correlates to regular activity of the client. Special attention is pay on payments from offshore zones. That does not mean that we open the case in AMLD on every transaction of the kind, but for sure we check it and put it in our database, for future monitoring.

Indicators for Legal Persons

- **Cash and non cash payments** to the account of legal person, by and from physical person, as a short term loans. This event shows vulnerability in the placement stage. It is carefully monitored by AMLD.

- **Wire transfers to abroad**. This indicator is sensitive one but extremely important for Croatian trade integrity, and important as indicator in the integration stage of money laundering. We have had several discussions with banks on the basis of what, whom, how and when, and definitely why. But we asses that there are major areas of money laundering possibility in the process of service payments abroad, credit links with foreign institutions and transfers to offshore centers. Although non of these activities are illegal, the majority of economic crime /but presumably organized crime as well/ is utilizing this technique to transfer the funds abroad, often on private accounts and later withdraw it in cash or use it freely worldwide. That activity is hard to prove as money laundering, but the size of funds involved here is tremendous.

- **Custom clearing misuse**. This indicator AMLD recommended to Customs, in order to avoid over-invoicing or under-invoicing of declared goods and on that basis, money laundering possibility. The variant is to import the goods which shall never be pay and to perform advance payment for the goods that shall never enter the country. Sometimes, there is a use of re-export, for the same reasons. Particular indicator of that kind is if the goods are imported from one country and the payment is to the other, often offshore.

- **Investments from abroad**. It is very sensitive but important indicator that stipulates the must of reporting of every attempt of investment or every strange or even suspicious investment from abroad, especially those from offshore centers, and of physical persons. The funds involved in the processes are very high and very dangerous for the economy if possibly dirty money enters the companies and banks. Croatia is in the process of privatization and restructuring and it could not be irrelevant is the prospective owner of an Adriatic hotel a respectable international hotel chain company or "mafia-type" unanimous fund from offshore.

The indicators which are under the rapid evaluation in Croatia, are indicators for EURO introduction, for e-banking, and electronic trade of shares.

Mr Igor BARAC
Croatian PC-R-EV Delegation

OoO

CYPRUS

MONEY LAUNDERING INDICATORS

The early recognition and reporting of suspicious transactions constitutes the backbone of a country's preventive measures against money laundering. The ultimate goal of a system of internal control procedures implemented by banks and financial institutions, is the identification and reporting of any unusual or suspicious activity which may be involving money laundering. Nobody disagrees that employees of financial institutions are required to play the most critical role in this context. But we should bear in mind that employees of financial institutions are not, at the end of the day, required to act as policemen and substitute the role of law enforcement authorities. Furthermore, nowadays, staff of financial institutions is required to complete on a daily basis a large workload and meet profitability and operational targets. These tasks are unconsciously receiving priority over their legal and moral duty to remain continuously observant and vigilant for spotting suspicious activity. It is therefore, important that management of financial institutions fully understands and appreciates the money laundering risks and sets among its primary objectives the prevention of money laundering and compliance with both the spirit and specific provisions of relevant laws and regulations. Standards of anti money laundering with regard to suspicious transactions' reporting should include the following:

1. Reasonable steps to identify customers and their activity.

2. Reasonable measures to enable suspicious transactions to be recognised.

3. The implementation of clear communication procedures and the issue of instructions to staff for reporting internally suspicious transactions, as well as reporting validated suspicions to the authorities.

Satisfactory "know-your-customer" procedures should form the foundation for recognising unusual and suspicious transactions. When a business relationship is established by opening an account or otherwise, it is important that the nature of the business that the customer expects to conduct should be ascertained at the outset so as to be able to judge afterwards whether a transaction or series of transactions are, firstly, unusual as being outside the normal course of business and warrant further investigation and secondly, suspicious and need to be reported internally to the Compliance Officer.

In order to be able to judge whether a transaction is unusual a financial institution must have a clear understanding of the legitimate business of its customers. Customers' activity must be monitored on a continuous basis and financial institutions should take steps to ensure that they are updated on developments and changes in the pattern of their customers' business operations. Staff should not hesitate to raise questions and conduct further investigations on transactions whose size is not consistent with the normal activities of the customer or are not in line with that customer's specific pattern of transactions or simply look unreasonable and do not make sense.

However, experience shows that the early recognition and detection of suspicious transactions is not an easy task. Financial institutions and their employees are always reluctant to report their customers , especially in small countries with a close society where everybody knows each other. Also the types of transactions which may be used by money launderers are almost unlimited. The transactions used by money launderers are equally used by customers conducting absolutely legitimate business. Hence, it is possible to have the same transaction which when performed by a money launderer should be suspicious and when performed by a legal entrepreneur should be absolutely clean. Employees of financial institutions are required to use their judgement which of course differs from one person to another. Suspicion is personal and subjective.

Supervisory authorities of financial institutions have a legal obligation to assist and provide sufficient guidance to employees of financial institutions to recognise potentially suspicious transactions. In Cyprus, as well as in other PC-R-EV member countries, supervisory authorities have issued extensive lists containing examples of what might constitute a suspicious transaction. Although such lists can not be all inclusive, they help employees of financial institutions to recognise the most basic ways which criminals are using to launder illicit money. Ideally, the examples of transactions cited in the list should reflect the social and economic realities of each country, the components and the stage of development of its financial system, the types of crimes considered to be the major source of illegal proceeds and should illustrate the types of transactions that criminals could possibly use to

launder money in that specific country.

In Cyprus, the money laundering indicators take account of the risks associated with the operation of the offshore companies' sector and the fact that this sector is more vulnerable to possible money laundering activities. Naturally, vulnerability of the offshore sector has received particular attention and banks in Cyprus are required to adhere to strict procedures and be more scrupulous when establishing relations and conducting transactions for international business companies. As offshore companies are required by definition to restrict their activities outside the jurisdiction, electronic payments (wire transfers / remittance activity) are considered to represent a higher money laundering risk than other payment methods (e.g. cash). Banks are required to apply extensive due diligence checks on electronic transfers and be vigilant on any indicators of possible money laundering activities (e.g. large inward and outward transfers not justified by the customers' business activities, or numerous wire transfers from the same originator or transfers from countries which apply inadequate anti money laundering standards). In this regard, I should also like to mention that in November, 2000 the Central Bank of Cyprus issued a guideline under which banks are prohibited from opening correspondent accounts for "brass plate" banks (i.e. without physical presence) set up in 20 jurisdictions which in the opinion of the Central Bank of Cyprus, apply inadequate banking supervisory and anti money laundering standards.

Another area where banks are required to take special care concerns the offshore companies' accounts opened or operated by professional intermediaries (lawyers and accountants). Banks are required to ensure that the professionals involved are of high reputation and that they have carried out themselves the appropriate due diligence checks on their customers. Such accounts are subject to a very close monitoring and banks are required to review and make a record of their activity at least twice every year.

Cash is very little used in Cyprus as a medium of exchange. Cash transactions with banks and financial institutions are very rare and when performed immediately draw attention. The identification of a large cash transaction (deposit or withdrawal) should prompt further investigation by seeking additional information and explanations as to the source of the funds.

I should also mention that in Cyprus, due to the Exchange Control restrictions which are still in place, there are no money transmission agencies or bureaux de change. These activities which are particularly vulnerable to money laundering, are exclusively performed by banks which are subject to strict supervision and are exercising stringent anti money laundering controls.

Finally, I should like to state that banks in Cyprus are required to submit a monthly prudential return to the Central Bank of Cyprus by which they report all their cash deposits in excess of US$10.000 and all their incoming and outgoing transfers in excess of US$500.000 and, on an annual basis, customers' accounts which exhibit a turnover in excess of US$2mn. At the request of the Central Bank of Cyprus, banks have adjusted their computerised accounting systems so as to be able to identify all cash deposits and funds transfers in excess of the specified limits for prudential reporting purposes. Such systems' generated exception reports enhance the ability of banks to identify and monitor transactions of a suspicious nature.

Concluding, I should like to state that the lists of money laundering indicators and suspicious transactions developed by supervisory bodies should form the basis for practical training of employees of financial institutions. They are the ones who are required, in their day-to-day work, to deal and meet with customers, execute their instructions and, more important, recognise and report suspicious transactions.

MS/etm

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CZECH REPUBLIC

MONEY LAUNDERING INDICATORS

The legal base for the combating against money laundering in the Czech Republic creates the Anti-Money Laundering Act from 15th February 1996. The amendment to this Act that came into force on the 1st of August 2001 have established in this Act general demonstrative enumeration of the examples of transactions that undoubtedly point at potential money laundering among others. They could be regard as a sort of general indicators.

These general indicators are following:

- Cash deposits and their immediate withdrawal or transfer to another account;

- Opening by one client of numerous accounts, the number of which is according to knowledge of financial institution in obvious imbalance with the client's business activities or wealth, and transfers among these accounts;

- Client transactions which according to knowledge of financial institution do not correspond to the scope or nature of client's business activities or wealth;

- Number of transactions effected in a single day or over several days is in imbalance with the usual flow of transactions of the given client.

These indicators hold for all financial institutions named in this Act. The aim of the introduction of these indicators was better application of this Act by financial institutions and greater legal firmness of respective parties.

The above mentioned amendment also introduce obligation of financial institutions to work out and to enforce system of internal procedures and control measures to prevent legalization of proceeds. These internal procedures shall comprise also among others detailed list o features of suspicious transactions. These features or indicators have to be work out and suit to a respective financial institution. This list of indicators has to contain situations in which typically legalization of proceeds in this kind of institution could take place.

According to the Anti-Money Laundering Act the Financial Analytical Unit has the obligation to control the compliance of the financial institutions with requirements stipulated in this Act. In the framework of this supervision we also check the existence a quality of such list of indicators. We mainly concentrate on this whether general indicators included in the Anti-Money Laundering Act are elaborated and applied to the appropriate subject of business of institution.

Financial institutions have according to the amendment the obligation to submit to FIU their internal procedures including list of features no later than 60 days after coming into effect of this amendment or 30 days later the establishment of such financial institution.

As far as FIU find out insufficiencies regarding the list of indicators or any other mandatory content of internal procedures firstly calls attention to these faults and seeks to explain the purpose and plan of appropriate legal provision; particularly in a period after entering of the amendment into force. Employees of FIU seek to do the same in the framework of training arranged for financial institutions.

Next to the FAU the control of the compliance with the requirements concerning prevention and combating of money laundering shall be also performed by Czech National Bank in relation to banks, by The Securities Commission in relation to investment companies and investment funds, securities traders, entities responsible for managing securities' market, The Securities Center and other legal persons certified to keep parts of the Securities Center database and perform its other activities and finally The Cooperative Savings Unions Regulatory in relation to cooperative savings unions.

Now let me turn to particular kinds of financial institutions and the most common and typical indicators used in particular branches.

Banks

As I have said, Department of the Banking Supervision of the Czech National Bank makes supervision over all banks regarding abidance by acts and so abidance by anti-money laundering legislation as well. In the framework of the methodical and control activity they press banks to exercise rules "Know Your Customer" and discretion regulations.

In the frame of this activity The Banking Supervision have issued exemplary list of indicators and makes banks for taking-over of them.

This list is divided into three parts – general indicators, indicators concerning cash transactions and indicators concerning wire transactions.

General

- Client is non-resident;
- Problems in the course of identification;
- Client ask for unusual conditions;
- Intended transaction – client tests the system of bank, when he encounters defensive mechanism of the bank he backs off intended transaction;
- Client is nervous;
- Client is accompanied by other person/persons.

Cash transactions

- Banknotes of small denomination;
- Special packing of banknotes (e.g. rolls);
- Cash is not counted in advance – client doesn't know how much he has and counts it even in bank;
- Repeated deposits below the limit for identification;
- Great number of deposits in cash followed by wire transfer;
- New client – every new client is in a way risk and it is necessary to apply to him rules "Know your customer";
- Requirement for transfer abroad.

Wire transactions

- There is not evident legitimate reason (e.g. payment is contrary to the subject of business);
- Significant variation of balance;
- Large disproportion between cash deposits and wire transfers;
- Various persons are acting on behalf of a client frequently.

Also associations of some kinds of financial institutions, as a Association of insurance companies, Association of investment companies, Association of leasing companies or Association of gambling houses, issue exemplary lists of indicators and in the course of training and methodical activity they try to persuade them to take over a exercise these indicators. These lists are not mandatory but have only commendatory character.

Investment Companies

- Domicile of a client is in off-shore zone
- Identification of a client is difficult or consumptive
- Reluctance to provide information when the contract is concluded, providing of minimum or false information;
- A client is watched by third person when acting with investment company;
- Highness of financial transaction doesn't comport with a purpose declared by client, with subject of his business, with his usual circumstances or with usual amounts involved in transactions carrying out by client currently or the way how to realize transaction doesn't comport with common national or international

standards;
- Repeated operation's close below threshold for identification;
- Transfers to bank without stating any information about recipient or to so called "numbered accounts" abroad;
- Investors were presented by banks, branches or other investors from countries traditionally producing or selling drugs.

Insurance Companies

- Payment of high sum of insurance premium for life insurance in cash or by transfer from several accounts or several banks, particularly from abroad;
- Proposal of policyholder to increase heavily of insurance amount (and corresponding increase of insurance premium) repeatedly in the course of 12 months particularly regarding life insurance;
- Denouncement of insurance contract until two months after it's conclusion;
- Requirement to pay off insurance fulfillment to different account from account of entitled person (except account of family member and the like);
- Conclusion of larger number of insurance contracts by one policyholder although his known incomes and financial situation are in apparent disproportion to given and paid insurance premium;
- Conclusion of several insurance contracts of life insurance by one policyholder to high insurance amounts particularly on behalf of persons that are not relatives and premium was paid in a single sum and insurance fulfillment shall set in in a short time after occlusion of insurance.

Casinos

- Client change amount exceeding 100 000 CZK for gambling counters and doesn't realize game and after it without playing asks for backward exchange of counters for a cash and at the same time asks for winning certificate;
- Disguisement of game by third person - client ask third person for change of cash amount exceeding 100 000 CZK for gambling counters and after it without playing asks for backward exchange of counters for a cash and at the same time asks for winning certificate.

Securities Traders

- Client make deposit into portfolio and subsequently direct for immediate withdraw from portfolio or for transfer to the account of a third person;
- Deposits to the account and withdrawals from the account of client that according to the knowledge of Securities Trader doesn't correspond with his/her business activity or assets;
- Deposit to portfolio by payment that is not notify in advance and isn't sent by given client takes place.

Real Estate Agencies

- Sale of real estate at a price much lower than it's appraisal or factual market value;
- Purchase of real estate at a price much exceeded it's appraisal or factual market value;
- Sale of real estate which client have bought during last three months at the price which significantly lower than the price for which he/she a real estate in question bought;
- Lease of real estate for a much lower rent than common rent of analogous estates in the same locality.

Entities Offering Financial Leasing

- Remarkable economic inexpedience of leasing operation for a leaseholder;
- Apparent incompatibility of subject of leasing with business activity of a leaseholder;
- Diversification of investments into several leasing on the base of leaseholder's request so as not to have identification obligation;
- Acquisition of property for leasing for a price that is fully disproportionate to common market value;
- Backward leasing and repurchase under unusual conditions offered by supplier spontaneously;
- Leaseholder or supplier ask for receipt or settlement of higher amounts in cash without any economic or practical reason;
- Leaseholder pays untimely or higher amounts without stating of any trustworthy reason;

- Leaseholder who without any trustworthy reason ask for termination of contractual relation already after a short time after conclusion of contract a make a payment of respective sum;
- Third person offers for buy up of contracts, credits and property in leasing a sums not comport to situation on the market.

Pension Funds

- Cash deposits when prepaying allowances for superannuation insurance for a period longer than one month when the amount hit on one month exceeds 2000 CZK;
- Wire system of payments with employers realized as a mass payment as far as average allowance increased repeatedly at least for 100%;
- Return of allowances by reason of payments sent by mistake; this return shall be made in favour of account different form account from which were allowances sent.

Entities Responsible for Managing the Securities' Market

- Substantial deviation from closing rate from previous day;
- Number of items in a close business representative large part of size of a whole emission.

The importance of money laundering indicators is possible to demonstrate on one case investigated by the Czech FIU recently.

The person X. came to a bank and opened at the same time personal accounts in CZK, USD, CHF and DEM. He state that he is a director of a company, representing a Swiss investor in the Czech Republic and advised that during next 30 days he would like to transfer to these accounts the amount of 15 millions USD. As a country of these funds he stated the South Africa. He also submitted to a bank two certificates confirming legality advised funds.

The bank reported this a suspicious transaction to FIU because a Swiss investor wasn't found out and there was a just presumption that this subject doesn't exist and further at least two indicators were filled – new client and transfer from country which didn't signed and ratified "the Strasbourg Convention".

During the investigation conducted by FIU was found out that these certificates were fraudulent and FIU lodged a complaint to this person for a fraud.

Done in Prague.

Ministry of Finance
Financial Analytical Unit

OoO

ESTONIA

MONEY LAUNDERING INDICATORS

ESTONIAN FIU EXPERIENCE

Estonian Money Laundering Information Bureau (MLIB), estabilished on 1-st of July, 1999 as part of the Estonian Police Board has the obligation stipulated by Money Laundering Prevention Act (MLPA) to collect, analyse, and disseminate information received from disclosing institutions in Estonia.

By MLPA obligated bodies, credit and financial institutions, undertakings the principal or permanent activity of which is transactions with real estate or the organization of gambling or lotteries, and undertakings which operate as intermediaries in such areas of activity and other undertakings which carry out or act as intermediaries for transactions of at least involving a sum of more than 200 000 croons or a cash transaction involving a sum of more than 100 000 croons, have obligations:

1. to identify all persons for whom an account is opened or clients, and representatives of such persons;

2. If, upon carrying out a transaction, *they identifies a situation which might be an indication of money laundering*, the institution or undertaking shall promptly notify the Money Laundering Information Bureau;

3. to preserve information for at least five years after the end of a contractual relationship with a client.

It means, that they must identify a situation, which might indicate money laundering to notify the MLIB promptly and inform them of all suspicious and unusual transactions. As main indicators to recognise suspicious and unusual transactions are situations, described in List of Suspicious and Unusual Transactions given in Regulation No. 20 of the President of the Bank of Estonia of 9 July 1999:

1. a deposit of an unusually large amount of cash by a client who usually uses cheques and other similar instruments in the client's business activities;

2. a significant increase in cash payments into the account of a client without a clear reason, especially if the amounts paid in are deposited in the account for a short period of time or if the accounts to which they are subsequently transferred cannot be linked to the usual activities of the client;

3. several deposits by a client, the individual amounts of which are small and insignificant but the total value of which corresponds to the amount specified above;

4. cash transactions performed by legal persons – both deposit and withdrawal of cash – although normal business activities would require non-cash transactions;

5. regular cash payments by clients in order to carry out transfers and settle invoices or pay for other financial instruments;

6. transactions by clients with a view to exchanging a large amount of banknotes of low denomination for banknotes of higher denomination;

7. regular exchange of cash for foreign currency;

8. deposit transactions during which counterfeit money or other forged instruments are discovered;

9. large deposit transactions made through automatic teller machines;

10. circulation of the funds (money) of a client between different banks and accounts without economic grounds;

11. investment transactions by a client in foreign currency or securities, the sources of which are unknown or not in accordance with the economic potential or usual business activities of the client;

12. purchase or sale of securities without clear reason or in an unusual situation;

13. payments by a large number of persons into one and the same account without a satisfactory explanation;

14. payments into the account of a client if the payments are received from accounts held in banks or financial institutions in foreign states where active drug trafficking is likely to take place;

15. regular or frequent payments in amounts exceeding the threshold specified above to (or from) the account of a client from (or to) states where active drug trafficking is likely to take place;

16. frequent transactions with traveller's cheques without clear economic or legal grounds;

17. unexpected repayment of a problematic or bad loan;

18. proposals to take a loan, the collateral for which is property of unclear or unknown origin;

19. investments in objects or instruments which are not logically linked to the previous business activities of the client;

20. turnover in the account of a client which is not in proportion to the client's usual economic activities;

21. short-term deposits by a client who is a resident of a foreign state, if the money is withdrawn from the account after the expiry of the term of the deposit;

22. a deposit transaction made from a foreign state into the account of a local client, if the deposited funds are subsequently withdrawn from the account.

We perform our activity for two years and in practice we find out some more indicators to recognize suspicious one. Some of them are similar to above-mentioned situations, but with more clear description.

Account Opening

1. Opening account of off-shore company by a suspicious person (who clean forms with help somebody, doesn't know real activity of company, from list of men of straw, called in Estonia as tank drivers);

2. Opening account of company by deficient documents;

3. Opening account of company by representative, who doesn't know real owners of the company.

Transactions

1. A single deal accounts (long time staying accounts and those with one or few large transactions into and from the account in short time);

2. A cash machine (regular payments into account by one or few companies and regular drawing out of cash by credit/debit card);

3. Using off-shore Internet banks (we closed some of them in Estonia);

4. Transactions to and from FATF black list territories.

Others

1. Cross-border movement of large amounts of cash money without real reason or without declaration;

2. Cash payment of large amounts of taxes to custom or tax authorities;

3. Cash payment for expensive works of art, cars or real estate;

4. Purchase and sale real estate with substantially lower or higher price as in real market;

5. Suspicious investors in privatization process;

6. Purchasing of wins in casino;

7. Regular wins in one gambling company.

Mr Arnold TENUSAAR
Head of Estonian FIU

OoO

POLAND

MONEY LAUNDERING INDICATORS POLISH EXPERIENCE

The act on counteracting introduction into financial circulation of property values derived from illegal or undisclosed sources (Journal of Laws of 2000 No. 116 item 1216) was passed on 16th November 2000. The Act constitutes an attempt to put order into the existing up until now, highly ineffective, system of combating the most difficult type of organized crime, i.e. legalization of income derived from criminal activities. Structure of the Act is based on the European Community Council Directive of 10th June 1991 on protection of the financial system against its use for money laundering, using experience of Western Europe and the USA. The Act shall be enforced in its entirety on 23rd June 2001.

Art. 43 of the Act introduces changes in description of the money laundering offense of Art. 299§1 Criminal Code. The new Art. 299§1 Criminal Code receives the following wording:

Whoever accepts, transfers or sends abroad tender, securities or other foreign exchange values, property rights, chattels or real property, assists in the transfer of the title or possession thereof, or undertakes other activities which may prevent or significantly impede stating of their criminal sources or place of location, their disclosure, seizure or declaring their forfeiture, shall be subject to a penalty of deprivation of liberty of from 6 months to 8 years.

The Office of Organized Crime at the National Prosecution Authority presently supervises 65 investigations in cases of the money laundering offense. Each of those investigations refers to more than a single financial transaction. The investigations are at various stages of progress, almost all are in the *in rem* procedure phase, many have been suspended waiting for issue of expert opinions in the filed of finance, conducting tax control, waiting for performance of international applications for rendering legal assistance. The Office has recorded three cases of submitting indictments of committing money-laundering offenses. A not yet legally binding guilty verdict has been issued in one of the cases, where money laundering was associated with fraud.
Experience and practice of those investigations show that in the still now existing legal framework investigations are performed based on notifications of suspected money laundering offenses by banks, submitted under the still applicable (until 23rd June 2001) Banking Law.

Below given are several exemplary allegations in different cases, which had induced the banks to notify of suspected money laundering:

1. An customer regularly deals with an amount of USD 100,000 in the following manner: cash deposit, term deposit for the shortest possible period, next, withdrawal in cash combined with permission for sending cash abroad;

2. The same customer rents a safe-deposit box; cash when not deposited is held in the safe-deposit box;

3. Rate of depositing and withdrawing cash from bank accounts (daily interval);

4. No movements on account from establishing of the account several months ago;

5. After a "sleep" period, amounts ranging hundreds thousand PLN flow in single payments over a short period of time;

6. Account owner drawn funds from account in cash, only, submitting no instructions for transfers from such account, e.g. to the Tax Office or Social Security;

7. Repeated "sleep" period;

8. Correspondence sent to company address came back with note that the company does not exist;

9. Transfers only from one company were paid to the customer's account;

10. The owner contacted the bank personally or by telephone and withdrew cash in the cash desk, not submitting any transfer orders;

11. Contrary to the bank account agreement, account owner issued funds transfer instructions using only copies of invoices, without submitting originals of invoices, as required;

12. The company is represented by one person - President of the Management Board/company owner, having exclusive rights to operate the account;

13. Referring the above examples of circumstances/factors, which had induced the banks to notify of suspected money laundering offenses, one could conclude that the notifications were made when there was no economic justification for the instructions issued, or internal procedures showed that the customer had breached the agreement executed with the bank, e.g. using fraudulent documents.

The presently existing, quite limited practice of initiating proceedings based on notifications made by banks is not the best available. Such model imposes starting investigations from the end (top) requires actions to determine the basal offence, constituting a source of the revenues. This makes it much more difficult to find evidence required by courts, and fails in many situations.

Therefore, in my opinion its is of utmost importance to adopt a criminal procedure model such that investigation of basal offenses would involve undertaking of procedural activities aimed at proving commission of the money laundering offense at the same time, as well as activities that could deprive criminals the income from offenses. Only then will we be able to say that combating organized is effective.

Mr Jerzy IWANICKI
Office for Organized Crime
National Prosecution Office

OoO

POLOGNE

LES INDICES DE BLANCHIMENT D´ARGENT - EXPÉRIENCE DE LA SUPERVISON BANCAIRE POLONAISE

Le processus à travers lequel l´argent obtenu par des moyens illégaux devient légitime, ou réussit à masquer ses origines illégales, constitue, actuellement, l´un des problèmes majeurs sur le plan international. Ce phénomène connu sous le nom de blanchiment d´argent ne recouvre pas seulement les bénéfices obtenus avec le commerce illicite de la drogue, mais aussi l´évasion des capitaux, la fraude fiscale, la corruption, la contrebande et toutes les activités qui tendent à échapper au contrôle et à la réglementation du gouvernement des états nationaux. Dans le processus du blanchiment d´argent, l´économie illégale atteint son point de bifurcation, laissant derrière elle sa condition illégale et entrant ainsi dans l´économie licite. Ceci est possible grâce à l´alchimie réalisée par les systèmes bancaire et financier, qui transforment l´argent sale en argent propre à travers des opérations numériques et certains jeux de déplacements géographiques.

Certains aspects du processus de globalisation bancaire jouent directement sur l´amplification de l´échelle et la prolifération des mécanismes de blanchiment d´argent. Ce sont entre autre:

- La croissance du volume, des flux et des espèces de capital à court terme circulant sur les marchés financiers,
- La déréglamentation des systèmes d´achat et de vente d´argent, de crédit ou de papiers financiers,
- Les innovations technologiques dans le secteur de l´informatique et des télécommunications permettante la transmission rapide et bon marché de l´argent éléctronique, d´information et une plus grande facilité d´accès à des marchés géographiquement dispersés.

Ensemble, ces aspects permettent l´élargissement du champ de manoeuvre pour le blanchiment d´argent par des organisations qui exploitent le commerce de drogues illicites ou n´importe quelle autre activité illégale, avec la multiplication de niches pouvant être utilisées pour des opérations de ce genre.

En Pologne le délit de blanchiment des capitaux est etendu aux infractions qui ne sont pas liées uniquement à la drogue. Depuis l´entrée cette année en vigueur de la loi sur le blanchiment des capitaux la portée des mesures de prévention du blanchiment s´est étendue à d´autres groupes d´entreprises et institutions, afin d´assurer une couverture plus large des institutions financières non bancaires vu l´ampleur potentielle des fonds transitant par ce secteur.

La Pologne a renforé ses mesures de lutte contre le blanchiment d´argent. La loi sur le blanchiment des capitaux, du 16 novembre 2000 soumet les intermédiaires financiers – entre autre les banques – à de nouvelles obligation de diligence. À cet effet une nouvelle autorité à été crée – L´inspecteur Général de L´information Financière. Le parlement polonais a fixé l´entrée en vigueur de cette loi au 6 janvier 2001. Rattaché au Ministère des Finances, L´inspecteur Général de L´information Financière est chargé de collecter les informations sur les transactions superieurs à l´équivalent de 10.000 EURO ainsi que les transactions présumées suspectes. C´est à cet organisme que les intermédiaires financiers vont annoncer, dès le 23 juin 2001, les transactions suspectes. Lorsque celui-ci présumera, sur la base de soupcons fondés, que les éléments constitutifs du blanchiment d´argent sont remplis, il transmettra les informations utiles aux autorités de poursuite pénale.

Le trafic de stupéfiants et la criminalité financière restent encore les sources les plus importantes de revenus illicites. Néanmoins la fraude à l´investissement et à la TVA annoncent un déplacement de certaines activités de blanchiment du secteur financier traditionnel. La diversification des techniques de blanchiment rend ainsi difficile la création d´un catalogue d´indices de blanchiment fiable.

C´est dans ce contexte difficile qu´il nous faut aborder le problème qu´est la définition d´indices de blanchiment de capitaux. La création d´un catalogue clos d´indices de blanchiment d´argent étant impossible, nous soulignons le rôle du savoir et de l´intuition des employés de banque restant en contact direct avec ses clients.

Concient des difficultés d'interprétation des indices, la question, comment ces difficultés peuvent être résolues, reste ouverte.

Néanmoins des observations générales peuvent être faites en ce qui concerne les tendances actuelles dans le secteur bancaire. La majorité des banques polonaise a introduit dans ses programmes internes de lutte contre le blanchiment d´argent des listes de référence d´indices de blanchiment. Nous pouvons citer ici les indices principaux:

- Le versement de sommes importantes en argent liquide,
- L´observation d´operations sur comptes concernantes des montants plus importants que ceux auxquels on pourrait s´attendre compte tenu de la nature prétendue de l´activité du titulaire du compte en question,
- La superposition complexe de transactions depourvues d´explication logique faisant intervenir des comptes multiples au nom de multiples personnes, entreprises ou sociétés,
- La presentation de documentation fausse ou déficiente à l´appui des transaction,
- L´existance de liens suspects entre les parties à la transaction,
- Le transfert de sommes importantes entre des comptes ouverts et utilisés par des particuliers ou des entreprises ayant des liens avec l´ex Union sovietique et des comptes établis dans des centres financiers *offshore*,
- Le fractionnement des transactions,
- La situation où le titulaire du compte n´est constitué en société ou inscrit en registre de commerce que depuis peu.

En conclusion nous pouvons affirmer que malgré le développement des systèmes de paiement dématérialisés une grande partie des produits de la criminalité reste générée sous forme d´espèces. De ce fait l´indice le plus important restera l´utilisation par les entreprises ou individus de grande quantité d´espèces n´ayant pas de liens apparent avec leur activité habituelle.

M. Przemysław W. RABCZUK
Bureau D´inspection de L´inspectorat General de la Supervision Bancaire
Banque Nationale de Pologne

OoO

SLOVAKIA

APPROACHING AN UNUSUAL BUSINESS TRANSACTION IN TATRA BANKA, A.S.

Tatra Banka, a.s. is a commercial, Slovak bank, active at a Slovak banking market since 1990. Its biggest shareholder is an Austrian Raiffeisen Zentral Bank (72,3 % shares), and Tatra Holding, GmbH (14,1 % shares). Tatra Banka is a medium-sized bank, with 72 branches and sub-branches, and approximately 2000 employees, throughout the Slovak Republic.

Since 1994, there is a legislation in Slovakia that is aimed against "dirty" money laundering. Since October 1st 1994, Law no. 249/1994 of the Coll. "On fight against legalising incomes from the most serious, especially organised, forms of criminal activity, and on changes of several other laws" has become effective; and – on July 1st 1997 – an Executing Regulation to this law – the Interior Department of the Slovak Republic regulation no. 181/1997 of the Coll. "On suspicious bank transactions" has become effective.

On January 1st 2001, a new law no. 367/2000 of the Coll. "On protection against legalising incomes from a criminal activity, and on changes and amendments of some laws" has become effective.
What are the basic differences between the above-mentioned laws?

LAW 249/1994	**LAW 367/2000**
1. Suspicious bank transaction	**Unusual business transaction**
2. Reporting obligation for banks	**Reporting duty for obliged entities (banks, insurance companies, stock exchanges, casinos, betting agencies, auditors, posts, leasing, etc.)**
3. Record-keeping was not determined	**Record-keeping determined for 10 years**
4. Financial police authorities – low	**Financial police authorities – high** - **levy a fine on an obliged entity** - **initiation to withdraw the entity its license for performing particular business activities**
5. Retain a suspicious bank transaction was not determined by law	**Retain an unusual business transaction Was determined for 48 hours**
6. No possibility to levy a fine	**Sanctions at eluding the law - fines**

Revision of the Law on banks introduced an obligatory identification at all transactions, including transactions with bearer passbooks and securities.

On May 17th 2001, the National Council of the Slovak Republic passed an amendment of the Civil Code, effective from July 1st 2001 that cancels bearer passbooks - § 782; from that date on, banks can offer only registered passbooks as their products.

How are unusual business transactions treated in Tatra Banka, a.s.:

The bank annually provides employees with training on "dirty" money laundering. We train new employees of the headquarters and branches at their very beginnings in the bank. We have created a working procedure "Activity program aimed at protection against legalising incomes from a criminal activity in Tatra Banka, a.s.". This document comprises an overview of valid international standards incorporated in the existing legislation in Slovakia, bank procedures valid for bank-client relationships, a list of unusual business transactions, a list of the so-called offshore countries, i.e. non-cooperating countries, and so on. Our employees follow the rule "Know your client".

In our bank, the Internal Audit Department is responsible for the agenda of "dirty" money laundering; and as the last place, it reviews unusual business transactions. All branches, sub-branches and divisions are connected by an intra-bank electronic mail system – lotus notes. Within this system - lotus notes, there is a folder called "Suspicious Bank Transactions" where the employees enter data connected with clients suspicious of some unusual business transaction. Urgent cases are reported straight – by phone – to the mentioned department. Only two people in the bank have the access to this folder, these people are responsible for the agenda of "dirty" money

laundering. Apart from this restriction, there is a measurement that controls logging into this folder, thus finding out if an unauthorised person entered this folder. All unusual business transactions are recorded in a special database that stores all basic information on a client, links to other clients, and so on. The Internal audit Department holds also a written documentation arranged by certain criteria (by physical entities, legal entities, companies established in offshore countries, frauds, and so on).

This department also maintains a list of unusual business transactions. This list is being maintained and updated for more than 4 years, it comprises business transactions that occurred in the bank, or other banks.

This list includes the following unusual business transactions:

- cash deposits and their immediate withdrawals (the next day);
- cash deposit and its subsequent transfer to another account (within our or a different bank);
- frequent deposits of large amounts of banknotes in a small nominative value;
- frequent change of cash into another currency without its depositing on an account;
- conversion of the foreign currency to the Slovak one with its subsequent deposit into a leased safety box;
- frequent incomes of cash via Western Union service from various places of the world;
- transfer from one account to another one with a subsequent withdrawal of cash;
- transfer from one account to another one with subsequent gradual withdrawals from an ATM;
- frequent cash deposits that led to a significant deposit amount that was withdrawn in cash or transferred to other accounts within or outside the bank, or abroad;
- client activities connected with opening of several accounts the number of which is clearly inadequate to the business area, and transfers within these accounts;
- transfers of large financial sums between physical accounts;
- physical entities´ accounts used for business purposes – an unusual big number of turnovers on the account, payments for invoices, and so on;
- transfers from business accounts to passbooks;
- foreign payments (inbound or outbound) declared as a present;
- big cash deposits on current accounts and subsequent transfers abroad (present, heritage, etc.);
- accounts opening on the basis of registrations of the so-called "offshore";
- finances transfer from a current account to a current account in a bank of the "offshore" zones;
- big account activities inadequate to the business area;
- opening a current account using falsified documents (Business Registry statement, identification card);
- purchase of a big amount of securities from a current account on which finances were deposited in cash;
- submitting false bills, false guarantees upon the bills;
- submitting false bank guarantees on a company paper;
- false authorisation – notary verified - for disposing with an account.

All these data are being collected, assessed, and – in case an unusual business is suspected – reported to the financial police. The bank Board of Directors appoints the person who is in charge of reporting the unusual business transactions.

In 2000, the Internal Audit Department received in total 1052 reports of unusual business transactions from all the bank divisions, 39 of them were reported to the Financial Police. However, the number 1052 includes double reports on the same clients, but from various divisions.

Bank clients are grouped into several categories (customer groups). In total, there are 8 categories (category 1 – common clients, category 8 - VIP clients). The client category is the first information on client creditworthiness for the bank employees. All bank offices are connected on-line, i.e. all employees have this information at their disposal. As required by law, the bank must identify every client at every business transaction. The bank follows this regulation, in case the identification card seems to be unreliable (it is controlled by a UV lamp), the bank employee must ask for another identification document. Several times, we experienced situations when the client said he/she would get the document from their cars and never returned. When we passed the incriminated identification documents to the police, we found out we were dealing with stolen or falsified documents. Clients–

legal entities must - at an account opening - submit a statement from the Business Registry to the bank (this must be at maximum 3 months old); then they must submit their regulations, or eventually a social contract, and an identification card of the person who is about to represent the company. Clients who open their accounts by using foreign Business Registry statements are required to provide super-legalisation. We have as well already experienced problems with clients who were acting on behalf of third parties (usually lawyers - attorneys). By a condition, we require complete information on such a client, along with a photocopy of the identification card, and a notary proved authorisation document. If the client is not willing to provide such information and documents, we simply do not open an account for such a client. There are problems especially with clients who have their companies registered in the so-called offshore centres. If we open accounts for such clients, we regularly watch the activities on these accounts. If it is possible to check these clients, for example by using bank information, we do this. Once we had to deal with a Hungarian Republic citizen who had a company registered in Virgin Islands. When we asked him to specify the field he would like to do business in, in Slovakia, he was not able to state it clearly. We thanked the client, and did not open an account. Of course, we informed immediately all the branches and sub-branches, and entered the information into the bank information system.

The headquarters of the bank monitors all the cash and non-cash transactions. We call this department "a fraud centre". We use a special – internally developed – software for watching transactions entered via clearing and SWIFT. The bank has always used a special system for watching payments to passbooks. In Slovakia, there is still the possibility to open a bearer passbook. And the banks were not obliged to identify a client when using this bank product till December 30th 2000. Tatra Banka, a.s. introduced already in 1997 the obligation (the law did not impose such a duty on banks) to identify the client at withdrawals from bearer passbooks. We use the same method for watching payments coming via telebanking, internet banking, and transactions performed via service that is called "Dialogue". When it comes to the system of international payments, till December 31st 1999, we had to document the foreign payments with invoices or contracts. At present, we are no longer obliged to ensure these documents, however, we still can ask the client for the invoice or contract. We employ this possibility in case we do not know the client, or suspect a case of "dirty" money laundering.

At present, the EDP employees work on a software support - a so-called Data Warehouse. It is a database that holds all information on clients, as well as on transactions performed by these clients. It is possible to get information on credit and debit transactions, on incoming and outgoing payments (how many payments, and in what amount came from a particular bank, or a particular account), etc. This software is being developed for about 2 years, and is gradually used by the Internal Audit Department for identifying unusual business transactions.

When it comes to the cooperation with other banks in Slovakia, it is taking place at a very general level – changing experience acquired in particular cases. Such a situation is caused due to the necessity to keep the bank secret. The Law on banks defines very exactly what information and to whom, and on what conditions, we can provide. At present, it allows only very general information. Nevertheless, the Parliament is about to handle an amendment of the Law on banks, according to which the bank would be obliged - at every transaction over 100.000,- SKK - to question the ownership of finances used by the client for the business. It should be ensured in a form of statutory client proclamation in writing in which the client would state if the finances are of his/her own, and if the business would be performed on an own account.

As for the cooperation with the Financial Police, it is at a very good level.

At the end of my speech, I would like to mention the existence of cooperation with our major shareholder. This shareholder elaborated - for all its subsidiaries - a so-called "Compliance Manual" that deals in some part with the "dirty" money laundering. Regarding the fact, every country has its own legislation, the manual states basic principles how to avoid the "dirty" money laundering.

I think, all the banks in Slovakia try to fight against "dirty" money laundering, and to keep a good reputation - both at home, and abroad.

Tatra Banka, a.s. is one of the credible banks in Slovakia. We try to disclose mean clients at their very first visits in the bank. We refuse to establish a business contact with clients showing speculative intentions. Our carefulness and information checking resulted in disclosures of many "dirty business". This fact makes our bank a trustworthy institution; its permanent expansion is a good proof.

Mrs Iveta UHRINOVÁ
Tatra Banka, a. s.
Slovak Republic

OoO

SLOVENIA

PROCEDURES FOR ADOPTING THE LISTS OF INDICATORS FOR RECOGNISING SUSPICIOUS TRANSACTIONS IN THE REPUBLIC OF SLOVENIA

I. The Current Situation

Pursuant to Article 16, paragraph 2, of the Law on the Prevention of Money Laundering (Official Gazette of the Republic of Slovenia, Nos. 36/94 and 63/95) and Article 21, paragraph 1, of the Law on the Government of the Republic of Slovenia (Official Gazette of the Republic of Slovenia, Nos. 4/93 and 23/96), the Government of the Republic of Slovenia issued a Decree on the Methodology of Internal Control in Organisations Under Article 2 of the Law on the Prevention of Money Laundering, which entered into force on 23 November 1996.

The above-mentioned Decree set out the methodology for internal control in organisations, which are obliged to carry out the provisions of the Law on the Prevention of Money Laundering (hereinafter organisation) by determining:

- the method of carrying out internal control in these organisations;
- the position and powers of the authorised person (compliance officer) in an organisation;
- the method of storing and protecting data on transactions and the method of keeping records of transactions.

This Decree requires that in its internal regulations each organisation sets out the tasks of employees with regard to the detection of suspicious transactions, the procedures to be followed in the event of the discovery of a suspicious transaction, the method of professional training of employees, and the procedures for informing of the management of the organisation in connection with the prevention and detection of money laundering.

The Article 9 of this Decree obliges each organisation to compile a list of indicators for recognising suspicious transactions, which shall be an integral part of its general act. It is stated that each organisation shall continually adapt the list of indicators of suspicious transactions to new forms of money laundering which emerge in time. The Decree maintains also that the Office for Money Laundering Prevention and other state bodies and organisations may cooperate in the compilation of the list of indicators for recognising suspicious transactions. Concerning organisations, which are grouped in the form of associations, such associations and their expert services may also cooperate in the compilation of the list. In banks, saving banks and bureaux de change the Bank of Slovenia may also cooperate in the compilation of the list.

The organisations were allowed to bring their internal regulations in line with this Decree within 90 days of it coming into force and to compile the list of indicators for recognising suspicious transactions under Article 9 of this Decree within one year of it coming into force.

The work on the preparation of the list of indicators for recognising suspicious transactions started in early 1997 by looking for what has already been done abroad. The fist decisions were made to work exclusively through the associations whenever possible. The working versions of the lists were prepared by the Office for Money Laundering Prevention, allowing each association to include their own proposals and discuss it bilaterally. As a discussion material a working list was prepared in the Office, which consisted of an introductory text and two kinds of indicators: related to transactions and related to persons. This working material was sent to all associations and they were given some additional time to prepare their comments or their own lists. The majority decided to work on our proposal since it was a new topic for them and they only added some indicators related to their particular line of business and typical activities. Banks, savings houses and the Agency for payment systems decided to enlarge the existing working document and compile their own version. Meetings were arranged and each particular indicator was discussed. Associations prepared final versions, which were approved by the Office. Additional seminars and lectures were organised for the employees on the use of these lists.

The Office based their meetings on the sectorial approach: banks, insurance companies, members of the Stock Exchange, Agency for Payments, casinos, savings and credit houses, the Stock Exchange, bureaux de change, tourist agencies, real estate brokers, securities clearing house, savings houses, the Post Office, leasing agents/companies, investment companies and traders in gold and precious stones (including goldsmiths).

II. The Future

At this time the new proposal of the Law on Prevention of Money Laundering is waiting for the second reading in the Parliament, just this week. Since no additional arrangements are expected concerning the better regulations for the adoption of the list of indicators for recognising suspicious transactions and the third reading has been moved already to the end of June 2001, we can describe the new ideas incorporated there.

Up to now, the list of indicators for recognising suspicious transactions was not regulated by the Law on Money Laundering Prevention but by the under statutory act - the above mentioned Decree. In the new proposal the obligation for organisations to compile the list of indicators for recognising suspicious transactions is regulated in the Article 12. The Office participates in the preparation of the list (Article 24). The auditing companies, auditors and accountants also have to prepare the mentioned lists (Article 28). The Bank of Slovenia, the Agency for the Securities Market, the Agency for Insurance Supervision, the Office for Gaming Supervision, the Slovene Institute of Chartered Accountants and the body responsible for the supervisions of tax advisors (supervisory authorities) assist the organisations at the preparation of the list of indicators for recognising suspicious transactions (Article 30). The Minister of Finance may prescribe an obligatory inclusion of a particular indicator into the list of indicators for recognising suspicious transactions (Article 40). The administrative penalty provided for a legal person when an organisation does not compile a list of indicators for recognising suspicious transactions in the specified time limit or in the specified manner (does not include the obligatory indicators) is a monetary penalty ranging from 1.000.000 Slovene tolars and up to 10.000.000 Slovene tolars (Article 46).

One may notice this obligation has been dealt with in many different aspects and legally on a higher level. No direct administrative sanction was possible if an organisation did not compile a list under the current law, the new proposal directly allows this. The supervising authorities also have not been active except the Bank of Slovenia, if the new proposal is accepted they will take an active part in the preparatory process of the compilation of the lists of indicators for recognising suspicious transactions. In our past experience we have noted that some indicators were not included by some of the organisations in their list, even though they were strongly supported and encouraged to include them by the Office. With this purpose the Minister of Finance will have the right to decide to include some of these indicators, if necessary, as obligatory in their lists.

One of the interesting arguments to consider is also the easier proof of the elements of negligent money laundering. Since the list of indicators for recognising suspicious transactions is regulated by law and obligatory for all the organisations, which are obliged to carry out their activities in accordance with the Law on Prevention of Money Laundering, the "should or could have known" standard is already given by law.

III. The Working List of the Office for Money Laundering Prevention (A) and the List for Banks, Savings Houses and Agency for Payments (B)

A) The working list of the Office for Money Laundering Prevention

Introduction

The Article No. 9 of the Decree on the Methodology of Internal Control in Organisations Under Article 2 of the Law on the Prevention of Money Laundering (Official Gazette of the Republic of Slovenia No. 62/96) defines that the list of indicators for recognising suspicious transactions is a constituent part of the internal regulations and shall be regularly adapted to the new forms of money laundering. The list of indicators for recognising suspicious transactions is based on two main principles: know your customer and know his operations.

The two above mentioned principles represent the basis on which the forming of conclusions that reasons for suspicion that a criminal offence of money laundering, in accordance with the Article 252 of the Penal Code of the Republic of Slovenia, was committed, concerning a particular transaction or transactions, exist. The reasons for suspicion are fulfilled concerning all transactions which are not in accordance with the customers' usual operations or when the customer is unknown, the indicators concerning transactions should be considered.

While assessing, whether reasons for suspicion concerning certain customer's operations exist, it is important to consider each particular indicator *per se* and at the same time more indicators together (when possible). One indicator *per se*, showing that a certain transaction is suspicious, may sometimes already satisfy the reasons for

reporting, yet sometimes it may only be a warning sign that a certain transaction or customer should be studied carefully and some other indicators may be applied.

1. Indicators Concerning Transactions

- a transaction has no economic or legal reasons and can not be connected to the customer's occupation or activities or with his habits or personal characteristics;
- unusual nature of a transaction or unusual circumstances, which accompany such a transaction;
- transaction has the characteristics of economic or other criminal offences;
- he offer of a unreasonably high commission or other unusual conditions for the execution of a transaction;
- executing many transactions under the identification limit;
- frequent exchange of cash into other currencies;
- frequent exchange of small denomination notes into large denomination notes and *vice versa;*
- sudden increase in size and frequency in cash transactions without a reasonable explanation which is not in accordance with the usual operations of this customer.

2. Indicators Concerning the Customer

- the use of unusual, suspicious, forged or stolen identification documents;
- the customer is unwilling to provide data for his identification or gives wrong information;
- the customer cancels a transaction when he learns of the identification requirements;
- the customer behaves unusually (is unusually tense etc.);
- the customer appears accompanied by suspicious individuals;
- the customer was already sentenced or indicted for criminal offences (known from the media or from the notices of the Office for Money Laundering Prevention);
- the customer is from a country known for production of drugs or tax heaven or he operates transactions from and to these countries.

B) The List for Banks, Savings Houses and Agency for Payments

1. Money Laundering Using Cash Transactions

a.) Unusually large cash deposits made by an individual or business whose ostensible business activities would normally involve cheques or other money instruments.

b.) Substantial increases in cash deposits of an individual or a business customer without apparent cause, especially if such deposits are subsequently transferred within a short period out of the account and/or to a destination not normally associated with the customer.

c.) Deposits of cash at numerous but various instances or into numerous accounts where each deposit is negligible, but the total amount is significant.

d.) Corporate account(s) where deposits or withdrawals are primarily in cash rather than in forms which are more usual in connection with account holder's business (e.g. checks, other money instruments).

e.) The constant pay-in or deposit of cash to cover requests for bankers drafts, money transfers or other negotiable and readily marketable money instruments.

f.) The exchange of large quantities of low denomination notes for those of higher denomination.

g.) The exchange of large quantities of cash into other currencies without apparent economic reason, especially when customer seeks to do so more frequently.

h.) The presentation of cash for deposit or exchange containing an unusually high number of counterfeit notes or other money instruments.

i.) The customer deposits in notes packaged/wrapped in a way that is unusual (uncharacteristic) for this type of customer.

j.) Incoming or outgoing transfers of large amounts with instructions for payment in cash.

k.) Customers who make deposits of large amounts into (overnight) safety deposit box or automatic cash-teller machine and he obviously avoids to come into usual direct contact with bank employees.

l.) Customers who conduct large cash transactions in local or foreign currency or clients who are obviously accompanied by third parties who stay in the background (watchdog guarding figure-head).

2. <u>Money Laundering Using Bank Accounts</u>

a.) A customer, having numerous accounts, makes cash deposits into his accounts where each deposit is negligible, but the total amount is significant.

b.) An account that shows virtually no normal personal banking or business related activities, but is used to receive or disburse large sums which have no obvious purpose or relationship to the account holder and/or his business or is showing a substantial increase in turnover without apparent reason.

c.) Reluctance to provide normal information at the intake when opening an account, presenting counterfeit documents in connection with identification, providing minimal or fictitious information or information that is difficult or expensive to verify.

d.) Matching of large outgoing transfers with sums paid in by cash on the same or previous day, when the nature of accountholder's business or financial situation of accountholder does not justify such activity.

e.) Large cash withdrawals from a previously inactive account, or from an account which has just received an unexpectedly large transfer for the credit of this account from abroad.

f.) Customers who together, and simultaneously, use separate tellers to conduct large cash transactions in local or foreign currency.

g.) Greater use of safe deposit facilities. The use of sealed packets deposited and withdrawn.

h.) Customers (or representatives of corporate clients) who obviously avoid direct personal contact with bank.

i.) Substantial increases in deposits of cash or negotiable instruments by a professional firm or company, using client accounts or in-house company or trust accounts, especially if the deposits are promptly transferred between other client company and trust accounts.

j.) Customers who decline to provide information that in normal circumstances would make them eligible for credit or for other banking services that would be regarded as valuable.

k.) Customers who insufficiently use the normal banking facilities, though that would be in the best interest for customer's business (e.g. avoidance of high interest rate facilities for large balances).

l.) A large number of persons making payments in cash into the same account of a third party without an adequate reason or explanation.

3. <u>Money Laundering Using Investment Related Transactions</u>

a.) Purchasing of securities to be held by the financial institution in safe custody, where this does not appear appropriate given the customer's apparent standing.

b.) Requests by customers for investment management services (either foreign currency or securities) where the source of the funds is unclear or not consistent with the customer's apparent standing.

c.) Larger or unusual settlements of securities in cash form.

d.) Buying and selling of a security with no discernible purpose or in circumstances which appear unusual.

e.) Requests for unusual receipts on the safe custody of securities or investments' managements, which would represent the basis for other services of the bank.

4. Money Laundering in International Operations

a.) Customer comes from a country where production of drugs or drug trafficking may be prevalent.

b.) Use of letters of credit and other methods of trade finance to move money between countries where such trade is not consistent with customer's usual business or usual use of banking instruments in international operations.

c.) Customers who make regular and large payments that can not be clearly identified as bona fide transactions to, or receive regular and large payments from countries which are commonly associated with the production, processing or marketing of drugs or are known as tax-heavens.

d.) Building up of large balances in account not consistent with the known turnover of the customer's business and subsequent transfer to account or accounts held abroad.

e.) Frequent requests to transfer the money to accounts held abroad without mentioning an ultimate beneficiary.

f.) Unexplained electronic fund transfers by customers on an in- end/or outgoing basis in particular when the customer requests not to route the funds through his account.

g.) Frequent requests for travelers cheques, foreign currency drafts or other negotiable instruments to be issued, especially if such requests are uncharacteristic for the nature of customer's business.

5. Money Laundering Involving Bank Employees

a.) Unexplainable changes in employee characteristics (lavish life styles. avoiding taking holidays, mixing of business and personal relationships of an employee with a certain customer(s)).

b.) Failure by an employee to report suspicious clients or transactions to the competent management although facts known to the employee give every reason to report these suspicions.

c.) Intentional infringement by employee of internal policies, procedures or regulations regarding the prevention of money laundering.

6. Money Laundering by Secured and Unsecured Lending

a.) Customers who repay problem loans unexpectedly with funds from an unknown source.

b.) Requests to borrow against assets held by the bank or a third party, where the origin of the assets is not known.

c.) Requests by a customer for the bank to provide or arrange finance where the source of the customer's financial contribution to the arrangement is unclear or the assets are unusual for the customer's regular financial situation.

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SPAIN

OPERATION PRINCESA

1. **OPERATIVE BACKGROUNDS KNOWN IN THE B.I.D.M. (MONETARY OFFENSES INVESTIGATIONS POLICE UNIT).**

2. **OPERATION *PRINCESA* MAIN OUTLINES.**

3. **COURSE OF THE OPERATION. THREE PHASES:**

   1st phase: Discovery of the money laundering group.
   2nd phase: Drug trafficking activities.
   3rd phase: Currency forging.

4. **RESULTS OBTAINED.**

5. **CONCLUSIONS.**

This operation was concluded by the B.I.D.M. on july 1999 in collaboration of Barcelona Special Police Unit against drugs and organize crime and Polices of two towns of the catalan country: Reus and Seo de Urgel (this last border with Andorra), and the Police of Andorra, against money laundering coming from cocaine trafficking profits

B.I.D.M. is an operative police unit depending from SEPBLAC (short name of spanish Financial Intelligence Unit which long name is "Executive Bureau of the Commission for the Prevention of Money Laundering).

1. OPERATIVE BACKGROUNDS KNOWN IN THE B.I.D.M.

It is well known the relation between cash movements througt borders and the activities carried out by organise crime groups.

Spain has a very important tool in the Foreign Transactions Rules, which enforce to declare cash currencies and bank drafts movements through borders over 6.010 euros *per person* and travel filling a form called B-1. The non-compliance of this administrative rule allows the authorities to confiscate the money, when the Custom Services discover the funds hidden in the luggage or clothes of the traveler. Such discovery can be a track that conduce us to a money laundering organisation.

B.I.D.M. concluded in 1996 an important operation called *Operation Mezquita* acting against a group involved in money laundering coming from haschish sales in the United Kingdom and cigarettes smuggling. It was observed that members of the group collected sterling and irish pounds in a place near London airports - Heathrow and Gatwick - in lots arround 500.000 pounds each. The money was transported by plane to Spain, filling the obligatory declaration mentioned above, indicating that the funds were originated in gold dealing. Declarations were examined at SEPBLAC and followed the tracks and destination of the money imported; concluding that pounds were deposited in banks of Córdoba in accounts holded by a manufacturing metals company. In this accounts were changed to pesetas for paying to Morocco citizens who worked in haschish trafficking.

2. OPERATION *PRINCESA* MAIN OUTLINES

The experience of *Operation Mezquita* showed the way in which launderers used the oficial declaration for cash currecies imports to Spain (Model B-1) to make easy the introduction of foreign currencies in the Spanish Banking System. Another precedent of a fraudulent use of this form was detected in the investigations about the currency exchange black markets in the city of Melilla (north-Africa).

Operation Princesa started with a comunication off suspicious transactions in wich a spanish bank disclose operations of cash deposits made in non-resident accounts holded by different persons, opened at the same

time in the same bank in a spanish town beside Andorra. Money was change into dollars and immediately ordered money transfers destinated to USA, Switzerland, Panamá, Grand Cayman and other countries. One of the cash employees participated in the reception of the funds and formalized the money orders, accepting B-1 forms as regular documents which proved the legal origin of the funds imported from Andorra.

A first analysis of the money orders showed a coincidence between the beneficiaries of them and those who appear in some transferences studied in another police operation against drug trafficking carried out that year: wich arise suspicions about the possible intervention of figureheads working for the same group.

The operation was called *Princesa* because the head of the group was a woman and everybody call her "princesa".

The objectives that the operation pretended to reach were:

- To know the origin of the money deposited in the bank accounts enclosed with B-1 forms, trying to find other possible ways of introducing the money and trying to determine the total amount handled.

- To discover and investigate people involved in this money laundering circuits: components of the group, relations between them, possible hierarchic structures, tasks assigned to each one and grade of implication of a bank employee.

- To discover and investigate a probable organised group which carried out the activities which originate the founds to be laundered.

- To carried out policial actions against group members for arresting and bringing them before the Court.

3. COURSE OF THE OPERATION

1st phase: Discovery of the Money Laundering Group

The information disclosed by the bank showed, in a first analysis, that in the relation of beneficiaries of the money orders appeared the name of some companies, holders of accounts in banks of Miami, which names appeared also as beneficiaries of money orders in two previous police operations carried out by the B.I.D.M. some months ago called *Operation Sondeo* - in which were confiscated 303 kilograms of cocaine and 102 of haschish - and *Operation Travel* developed by the Central Judicial Police Unit.

The money laundering system was conducted by a woman, with the contribution of two brothers, using five people as figureheads. All of them were citizens from Andorra. The group received instructions from Colombia, through the accountant of an organisation linked with cocaine trafficking.

Its members received the cash in public places, from commission merchants and carriers of the funds to Andorra, in amounts between 10 and 80 million pesetas (60.000 and 480.000 euros).

In Andorra the laundering process began filling the declaration B-1 for presenting it to the Spanish Custom Services enclosed with the money transported to Spain. In fact, funds were delivered to one of the figureheads, who carry them to the Custom Office between Andorra and Spain (La Farga de Moles). There was waiting an employee of a spanish bank office in the border with Andorra, who proceed to fill the B-1 form; this man was a well known person in the place that helped to comply all the procedures without arising suspicions.

Money was deposited, enclosed with the filled and sealed form, in a non-resident - the figurehead - account opened in the bank of the employee or in other banks of the town. Transferences were ordered immediately in favour of companies or bearers of accounts in banks of Miami, New York, Panamá, Geneva and other places, following the instructions given from Colombia.

A copy of the SWIFT form was used as document to prove that the operation has been done, and was sended by fax to the Colombian organisation accountant, enclosed with a liquidation expressing the amount transfered, the exchange rates applied, the bankcharges and the commission earned by the member (around 10 per cent).

The analysis of 86 money transferences ordered at one of the banks, showed that they were sended to 55 different beneficiaries, probably people recruited by the cocaine trafficking organisation in order to receive the money and continue the laundering process, trying to add links to the chain and making more difficult the knowledge of the real origin of the funds. Even is probable the use of laundering operations between the money received and other goods or services lent by the account holders who are out from the drug trafficking circuits, but collaborate in the money laundering process, by using a system of international black market of payments.

2nd phase: Drug Trafficking Activities

On spring 1999 several members of the cocaine trafficking group were arrested. At that moment, cash deliveries stopped and the activities of the money laundering group leadered by "La Princesa" did only two operations with italian liras.

The decline of the money laundering process and the contacts that "La Princesa" had with people involved in cocaine trafficking, move her to prove new activities, passing from money laundering of the profits to drug trafficking activities. Through members of the organisation who operate in Colombia - well known by the woman - arranged a meeting in Madrid where she came with one of her brothers. There, she took five kilograms of cocaine that moved and sold in Barcelona. The profits obtained in one operation were bigger than profits obtained from money laundering activities in several operations.

3rd phase: Currency Forging

This was not the only step that *La Princesa* did after the decline of the money laundering process. She also contacted with a criminal group from Camerun who offered her a method for forging spanish 10.000 pesetas (60 euros) banknotes.

The method used photographic paper, with similar texture as banknotes paper, which incorporate the negative of the spanish note ready for developing by using certain chemical solutions. The *method of the negative* was shown to *La Princesa* in the villa that she owned near the Mediterranean Sea, which was protected by a strong vigilance. The price offered was the 15 to 20 per cent of the bill value.

Delivery of the negatives and the chemical products was arranged in a high class hotel in Barcelona, but it was not possible because this police operation was concluded with the arrest of all the people that were at the hotel room.

Additionaly, the police action avoid the greedy *La Princesa* to be swindled by the group, because the banknotes production method results to be a complete fraud, in which the photographic paper was a simple black paper and the developing substances were a mixture of alcohol, ammonia and acids.

4. RESULTS OBTAINED

This Police action concluded with the arrest of nine people who participated in the different criminal activities detected and the confiscation of two handguns, 4.732.000 pesetas (28.440 euros) in cash, the equipment for the supposed manufacture of the bills, and different kind of documents that, in the subsequent analysis, were very important to determine several money laundering operations done by this group through spanish and portuguese banks, in which it was estimated that 14.700.000 dollars were laundered.

5. CONCLUSIONS

The development and culmination of *Operation Princesa* has been very useful for adding new data to the knowledge of the *modus operandi* used in money laundering processes. Those are:

1º. The obligatory declaration of cash movements through borders (B-1 form) appears to be useful by the following reasons:

- *It allows a preventive action and confiscation of the funds when the person carry the money without declaring the movement by filling B-1 form.*

- *The forms are registered in SEPBLAC and allows to search in the database looking for suspicious transactions or transactions that are not normal.*

- *The fraudulent use for justify the origin of the money imported could be an important risk for the launderers, because they probably know that the documents will be registered, with a valuable information, in SEPBLAC.*

2º. Launderers use well-known methods of money laundering, but try to set new trends and elements in order to make more difficult to determine the real origin of funds to the anti money-laundering authorities. The result of this is the presence of complex laundering methods composed by consecutive steps linked one to each other. This elements are:

- *The use of commission merchants, called "comisionistas" operating between the drug dealers and the launderers.*

- *The irregular transport of cash through borders without B-1 form.*

- *The use of B-1 form filled by a non-resident.*

- *The intervention of figureheads.*

- *The contribution of bank employees participating in the laundering process, getting a good commission.*

- *The use of a non-resident account, in order to avoid having information about the real activities underlying.*

- *The subsequent use of money orders destinated to accounts in other countries, titled by figureheads previously recruited by the drug trafficking organisation.*

- *The clearing between the amounts deposited and services or goods payed in colombian pesos to the figureheads, establishing then two operations without any conexion.*

3º. Money laundering groups have information circuits, good contacts and personal and material support that allows to pass from one criminal activity to another. And, usually, people who carry out money laundering activities coming from drug trafficking don´t seem to have any ethical problem to pass directly, if problems arise with the other activity, to the pure drug trafficking.

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APPENDIX II

PROGRAMME

DAY 1

9.15 – 9.45 **Opening of the Seminar**: Welcoming address by:

- **Mr Juan Antonio Aliaga Méndez** - FATF Presidency (Spain)
- **Mr Luciano Guglielmini** - ICPO - Interpol
- **Dr Silvio Camilleri** (President of PC-R-EV, Deputy Attorney General, Malta)
- **Mr Marc Forné Molné** (Head of the Government, Andorra)

9.45 – 11.15 **PLENARY DISCUSSION – MONEY LAUNDERING CASES INVOLVING TRUSTEES AND OTHER "ELIGIBLE INTRODUCERS"**

Facilitator: Mr Richard Chalmers, FSA (UK)

- Presentation on key issues
- PC-R-EV Case-studies: **Slovenia, Cyprus, Malta, Liechtenstein, Bulgaria**

11.15 – 11.45 Coffee break

11.45 – 13.00 **PLENARY DISCUSSION – MONEY LAUNDERING CASES INVOLVING TRUSTEES AND OTHER "ELIGIBLE INTRODUCERS"**

- Other presentations, if any; Continuation of discussion on case-studies

13.00 – 15.00 Lunch break

15.00 – 16.30 **PLENARY DISCUSSION – MONEY LAUNDERING INDICATORS**

Facilitator: Mrs Celia Ramos (Portugal)

- Presentation on key issues:
- PC-R-EV experience: presentations by **Slovenia, Slovakia**, **Cyprus**, **Croatia, Andorra, Czech Republic**
- FATF Case-study: **SEPBLAC (Spain)**

16.30 – 16.45 Coffee break

16.45 – 18.00 **PLENARY DISCUSSION – MONEY LAUNDERING INDICATORS**

Other presentations, if any; Continuation of discussion on case-studies

21.00 **DINNER OFFERED TO THE PARTICIPANTS BY THE ANDORRAN AUTHORITIES IN THE PRESENCE OF THE ANDORRAN MINISTER OF FINANCE AND MINISTER OF THE INTERIOR (RESTAURANT EL MOLÍ DELS FANALS - SISPONY (LA MASSANA) – TEL: 835 380 SITUATED AT 4 KM FROM THE CROWN PLAZA HOTEL / TRANSPORT BY BUS, DEPARTURE AT 20.30).**

DAY 2

9.30 – 13.00 **TWO WORKING GROUPS:**

WORKING GROUP 1

Discussions to examine in detail the specific problems of applying due diligence principles (e.g. "Know Your Customer") to trustees and other eligible introducers. Issues which may be covered could include:

- What minimum obligations should be imposed on trustees/eligible introducers before entering into a business relationship with clients?
- Difficulties for law enforcement in this area and how they are best overcome.

WORKING GROUP 2

Discussions to examine in detail the utility and/or reliability of money laundering indicators (checklists) for reporting suspicious or unusual transactions. Issues which may be covered could include:

- How indicators are drawn up across PC-R-EV countries?
- Should indicators be similar across PC-R-EV countries?
- Difficulties in interpreting indicators for front-line staff and how they can be overcome.
- Should indicators be updated by a central coordination body?

13.00 – 15.00 Lunch break

15.00 – 18.00 Continuation of meetings of Working Groups

DAY 3

9.30 – 10.15 **PLENARY DISCUSSION. FEEDBACK FROM WORKING GROUP 1 – GENERAL DISCUSSION**

10.15 – 11.00 **PLENARY DISCUSSION. FEEDBACK FROM WORKING GROUP 2 – GENERAL DISCUSSION**

Facilitators: Dr Silvio Camilleri (Malta) and Mrs Vida Šeme Hočevar (Slovenia)

11.00 – 11.30 Coffee break

11.30 – 12.30 **SUMMARY OF CONCLUSIONS**
PC-R-EV Secretariat and Scientific Experts.

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APPENDIX III

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