

ANALYSIS OF MONEY LAUNDERING SCHEMES

Part 1

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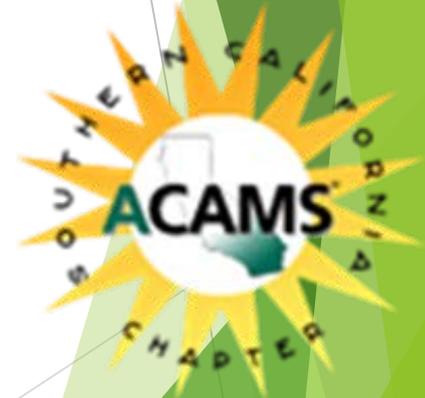
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The State of Money Laundering

- ▶ The global banking system is being targeted frequently for money laundering
- ▶ The global demand for U.S. dollars by drug cartels, terrorists, criminal enterprises, politically exposed persons and tax evaders means that U.S. financial institutions will continue to be used as a conduit for exchanging the currency of ill-gotten gains into U.S. dollars



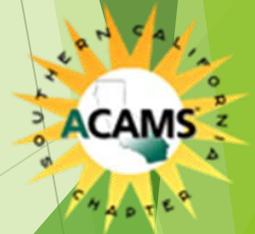
The State of Money Laundering (cont'd)

- ▶ While the ultimate beneficiaries of a money laundering scheme may be overseas, oftentimes the schemes take place within the U.S.
- ▶ Money launderers are extremely creative developing new schemes every day
- ▶ There is an increased use of U.S.-based smaller and medium size banks for money laundering



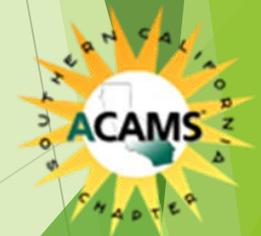
The State of Money Laundering (cont'd)

- ▶ Financial institutions must be on guard for a constantly changing environment
- ▶ The disclosure of the Panama and Paradise Papers highlight the complex use of limited liability corporations from various countries to disguise the ultimate beneficiaries of the scheme. It also underscores the role that lawyers and other professionals play in assisting in money laundering.
- ▶ New beneficial ownership regulations highlight the concern of the Treasury Department.
- ▶ In addition, the increased use of sanctions by the White House means that the subjects of sanctions will attempt to bank their money in the U.S. through money laundering schemes.



Money Laundering Schemes To Be Analyzed

- Use of Company Accounting
- Use of Overseas Accounts and Correspondent Banks
- Use of Professionals
- Use of Delaware, Wyoming, and Nevada Corporations
- Using Real Estate to Launder Money
- Alleged Manafort Money Laundering
- Alleged 1MDB Money Laundering
- North Korean money laundering schemes
- Trade Based Money Laundering
- Mirror (Konvert) Trading
- Moldovan Loan Scheme



Use of Company Accounting

- Money launderers may use companies they own or control to launder funds
- Funds will be placed in a company in a variety of ways to launder money
- False inventory purchases/invoice schemes



Use of Company Accounting (cont'd)

- False export/shipping documents
- False documents to banks/financial institutions
- Another method is to use the funds to provide extremely high compensation to the business owner that appears to be way above normal



Use of Company Accounting (cont'd)

○ Balance sheet laundering:

- Money is included in the revenue of the company
 - Money is placed in the company bank account
 - Many times, this is done using cash-based businesses
- ▶ Telltale sign: when the company has extremely high and unexplained profit margin



Use of Overseas Accounts and Correspondent Banks

- ▶ “Placement”: funds to be laundered are placed in an overseas account
- ▶ “Layering”: funds will be transferred to bank accounts in another foreign country. Usually a country that has strong bank secrecy laws
- ▶ “Integration”: funds are then transferred back into the U.S.



Use of Overseas Accounts and Correspondent Banks (cont'd)

- ▶ The funds may be added to a company's revenue particularly if it's a cash-based business
- ▶ Tax evasion: U.S. taxpayer hides money in foreign bank account and transfers it back into the U.S. via correspondent bank relationship



Use of Professionals in Money Laundering

- ▶ Professionals, particularly lawyers and accountants, are becoming involved in money laundering operations
- ▶ Professionals will help set up offshore companies. Some “full service” professionals will also set up bank accounts or even launder the money through the law firm’s bank accounts. These professionals will develop relationships with specific bankers.
- ▶ Global Witness undercover sting of New York lawyers (profiled in January 31, 2016 *60 Minutes* segment):
 - ▶ www.globalwitness.org/shadyinc/
 - ▶ <http://www.cbsnews.com/videos/anonymous-inc-greenland>



The Panama Papers

- Disclosure of over 2.6 terabytes of data (11.5 million documents) from the Mossack Fonseca law firm of Panama
- The use of offshore companies to hide beneficial ownership from 1977 to 2015. This included creating layers of corporations.
- Lawyers, accountants and bankers, help individuals conduct money laundering and disguise their ownership of funds.



The Panama Papers (cont'd)

- Clients include PEPs, celebrities, financial institutions
- *Suddeutsche Zeitung* stated (regarding Americans), “Just wait for what is coming next.”
- UK and Swiss bank regulators have commenced investigations

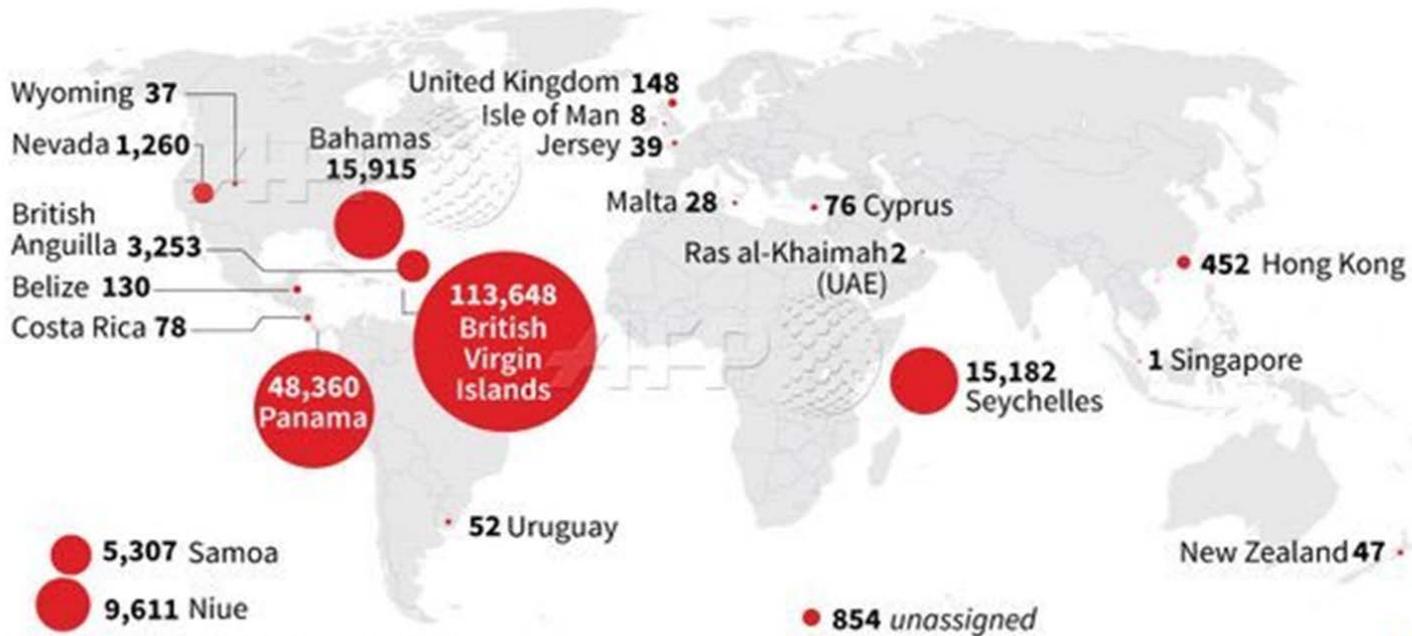


Panama Papers: Offshore Companies Set up by Country (disclosed as of January 31, 2017):

▶ British Virgin Islands	113,648
▶ Panama	48,360
▶ Bahamas	15,915
▶ Seychelles	15,182
▶ Niue	9,611
▶ Samoa	5,307
▶ British Anguilla	3,253
▶ Nevada	1,260
▶ Hong Kong	452
▶ United Kingdom	148
▶ Wyoming	37



Offshore firms created by Mossack Fonseca



Source: Sueddeutsche Zeitung, Panama Papers

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The Paradise Papers

- Disclosure of over 1.4 terabytes of data (13.4 million documents) from the Appleby law firm of Bermuda and Asiaciti Trust, a corporate services provider.
- Clients include Apple, Nike, Bono, Madonna, The Queen of England as well as other numerous current and former heads of state.
- Governments worldwide are still conducting investigations into tax avoidance and potential reforms based on The Paradise Papers.



Use of Delaware, Wyoming and Nevada Corporations for Money Laundering

- ▶ Delaware, Wyoming, and Nevada limited liability corporations have become vehicles for laundering money.
- ▶ They are frequently used by PEPs, drug dealers, organized crime, tax evaders, and terrorist groups.
- ▶ These LLCs are appealing because incorporation can be done very quickly and simply and no information on actual ownership is required when registering a corporation. Many times, a lawyer or accountant will be the only person listed (the “nominee”).



Delaware, Wyoming, and Nevada Corporations (cont'd)

- ▶ Brokers will register corporations and then resell them to clients who wish to use the U.S. to launder money. They are used in many of the schemes we will analyze.
- ▶ Frequently, in order to disguise the true owner, the launderer will create an offshore Caribbean corporation that in turn owns the Delaware, Wyoming, or Nevada corporation. This is known as “layering.”
- ▶ This has been recognized as an issue by FinCEN, the FBI, and Congress. Treasury has said that it intends in the future to investigate attorneys, bankers, accountants, real estate firms, and other professionals that form LLCs.

