MONEY LAUNDERING

AND TERRORIST ACTIVITY FINANCING WATCH

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Money Laundering and Terrorist Activity Financing Watch:

- Summarizes relevant group-based, activity-based and country-based money laundering (ML) and terrorist activity financing (TF) issues;
- Alerts readers to new developments that could possibly be exploited for money laundering or terrorist activity financing purposes in Canada.

The ML/TF Watch is a quarterly review of news articles compiled by FINTRAC's Macro-Analysis and Research unit. The articles provided in this issue range from April 2012 to June 2012.

Caveat

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Money Laundering

GROUP-BASED

U.S. District Court indicts 14 individuals for conspiracy to launder funds for Los Zetas drug cartel using American quarter horses: On June 12, 2012, a U.S. Department of Justice press release reported on an indictment charging 14 individuals for their alleged role in a money laundering scheme linked to key individuals in the Mexican Los Zetas drug cartel. According to court documents, the objective of the scheme was to launder U.S. currency obtained through drug trafficking by purchasing, breeding, training and racing quarter horses in the United States and Mexico. Defendants in this case include Zetas leader Miguel Angel Trevino Morales and his two brothers, Oscar and Jose Trevino Morales. Prosecutors allege that Jose Trevino Morales and his wife received bulk cash from the Zetas and used it to acquire, develop and sustain their quarter horse operation. American authorities claim that Jose Trevino Morales concealed and disguised the true ownership of the quarter horses by establishing a number of front companies and by using nominees or "straw purchasers" to buy the horses at auctions. According to an indictment filed in the U.S. Western District of Texas, the payments were typically made by cheque, cash or wire transfers. Court records also indicate that following the purchases, ownership of those horses was transferred from the nominees to Jose Trevino Morales or to front companies under his control. The *Canadian Press* reports that Jose Trevino Morales and his wife owned a total of 425 horses, many of which were re-sold to Morales' associates for prices above market value. As cited by the *Canadian Press,* the U.S. federal government asserts that the couple spent close to US$20 million since 2008 on the horse ranch and affiliated activities. The U.S. government investigation into this money laundering scheme began in 2010 after authorities received a tip on possible links between the horse ranch and the Zetas cartel. Jose Trevino Morales and his wife, along with five others, were arrested on June 12th; however, seven other suspects named in the indictment remain at large. *Thomson Reuters* reports that Los Zetas are among the largest drug cartels, with thousands of members spanning Mexico and Central America. Los Zetas are known for smuggling a variety of narcotics into the United States, as well as for kidnappings, extortion and other crimes.[1]

FINANCIAL ACTIVITY-BASED

Colombian drug cartels laundering money through U.S. securities markets: On April 10, 2012, *Moneylaundering.com* reported that Colombian drug cartels are using U.S. securities markets to facilitate the laundering of drug trafficking proceeds sent from the United States to Colombia. Manny Muriel, an Internal Revenue Service (IRS) Criminal Investigations representative, claimed that the cartels are working with Colombian brokerages to buy American depository receipts (ADRs) with illicit funds and then cancel the purchases, obtaining a refund. ADRs are a type of security that allows shares of a foreign firm to be traded in American dollars on U.S. securities markets. To trade ADRs, a client of a non-U.S. securities firm must first purchase shares of the desired company within the country that it is hosted. According to the article, the securities firm then works with one of four U.S. brokerages, such as JPMorgan Chase or Deutsche Bank, to offer the shares as ADRs on the U.S. securities market. While ADRs are traded in U.S. currency, the underlying shares are denominated in the local currency of the foreign firm and are held in a "custodial account" in that foreign country. Muriel explains that once ADRs are cancelled through U.S. brokerages, the drug cartels receive a refund from the Colombian brokerages through the release and sale of the Colombian securities that underlie the ADRs. The Colombian securities are subsequently traded on the Colombian market. According to *Moneylaundering.*com, the sales of the ADRs are usually deposited into the account of the Colombian clients in U.S. dollars, enabling the cartels to disguise the transfer of the proceeds of American narcotic sales into South America.[2]

Individual indicted for laundering proceeds of healthcare fraud: According to the *Toronto Sun*, on June 13, 2012 a grand jury in Miami indicted Oscar Sanchez on charges of conspiracy to commit money laundering, claiming he played an instrumental role in laundering US$31 million in proceeds from a U.S. Medicare fraud scheme. According to prosecutors, 70 medical companies from South Florida suspected of being involved in Medicare fraud received US$70.7 million in fraudulent claims reimbursements, which were deposited in their corporate bank accounts. Since the company names and corporate accounts were registered under straw owners, the healthcare fraud perpetrators turned to Sanchez to facilitate access to their funds. According to documents filed in the Southern District Court of Florida, Sanchez was able to act as financier for the Medicare fraudsters by taking advantage of a second operation that was set up to send money from the United States to Cuba, a country subject to U.S. financial sanctions. This "cash-to-Cuba" operation was established by individuals who used shell companies to open bank accounts in Canada and Trinidad, which served as pass-through accounts for funds moving from the United States to Cuba. The individuals initially set up their operation by purchasing over 20 boxes of money orders, depositing them into an account at the Royal Bank of Canada in Montreal. Funds would then be moved to several bank accounts at the Republic Bank in Trinidad before being wired to Cuban institutions. However, this method was deemed by the perpetrators to be "costly and time consuming" because funds needed to be moved in amounts below US$10,000 to avoid U.S. financial reporting requirements. To facilitate the movement of funds in larger amounts, the "cash-for-Cuba" operation also turned to Sanchez. According to prosecutors, the scheme was as follows: Sanchez received cash from the "cash-to-Cuba" operation, and passed on the funds to the healthcare fraud perpetrators. In turn, the healthcare perpetrators wrote cheques or wired funds to shell companies in Canada, owned by the "cash-to-Cuba" operation. This scheme granted healthcare fraud perpetrators access to funds, while moving money out of the U.S. financial system for the "cash-to-Cuba" operation in a more efficient way. As reported in the *Miami Herald*, Sanchez retained a 10 percent fee for his services. While prosecutors claim that approximately US$31million was laundered in this way, they indicate that over US$63 million may have been transferred from the United States into the Cuban banking system. If found guilty, Sanchez may face up to 20 years of imprisonment and may forfeit more than US$22 million in real estate and other assets.[3]

"Loan shark fraudsters" exploiting East Lancashire residents for money laundering: According to a news release published by the United Kingdom's national fraud reporting centre, *Action Fraud,* on May 11, 2012, a county in the United Kingdom has recently been targeted by fraudsters aiming to generate a profit and launder proceeds of crime. Based on the article, the "loan sharks" are defrauding some residents of East Lancashire through an advanced-fee scheme while using other residents to launder the proceeds. Reportedly, residents are being contacted by foreign individuals offering guaranteed loans. In order to get a disbursement, residents are first asked to provide an "advanced arrangement fee." Residents who followed this requirement reported never receiving the loan or reimbursement of the advanced arrangement fee. Conversely, other residents from that same county have been recruited to launder the proceeds of the fraud; in exchange for an undisclosed sum of cash, they received the arrangement fee and made a deposit to their own bank account before transferring the funds to the money lenders' foreign bank accounts.[4]

Former Nigerian governor sentenced over money laundering charges: On April 17, 2012, former Nigerian governor James Ibori was sentenced to 13 years in prison in the United Kingdom after he pleaded guilty to 10 counts of fraud and money laundering. *Thomson Reuters* reported that during his two terms as governor of Nigeria's Delta State, Ibori defrauded the public by embezzling an estimated 157 million pounds (CA$250 million) from the state. To conceal his illicit income from United Kingdom officials, Ibori used solicitors, bankers, financial advisors and trustees in the Channel Islands to launder the money, depositing up to 1.5 million pounds (CA$2.4 million) into six accounts at a Barclays Bank branch in Kingsbridge, London and US$1.5 million into a U.S. Citibank account in Maryland between 1999 and 2006. According to *Thomson Reuters,* Ibori also worked with Bhadresh Gohil, a money laundering reporting officer at Arlingtons Sharmas Solicitors, to launder the illicit money through the firm's client account. Gohil performed "false due diligence" around Ibori's payments into the account and facilitated other transactions such as a deposit of 500,000 pounds (CA$800,000) into an account in Denver, Colorado and the purchase of a US$20 million Challenger private jet. Despite an annual salary of 4,000 pounds (CA$6,400) as state governor, the *Guardian* and *Thomson Reuters* reported that Ibori acquired luxury assets and real estate during his eight year term, including six properties outside of Nigeria worth 6.9 million pounds (CA$11 million), a Mercedes worth 500,000 euros (CA$653,000), and a series of armoured Range Rovers. According to *Thomson Reuters,* Ibori pleaded guilty to fraud and money laundering charges in the amount of 50 million pounds.[5]

COUNTRY-BASED

Basel Institute releases first publicly available AML risk index: On May 3, 2012, the Basel Institute on Governance – a Swiss-based non-profit institution dedicated to issues of governance and compliance – released its first publicly available anti-money laundering (AML) and countering the financing of terrorism (CFT) risk index, which will be updated on an annual basis. Two versions of the *Basel AML Index* were released: a shorter edition that is available for free and a more sophisticated expert edition available for purchase. The *Basel AML Index* ranks 140 countries according to 15 independent indices to assess their relative risk to money laundering and terrorist financing (ML/TF) activities. Rather than assessing existing activities, the index is designed to forecast the likelihood of ML/TF activities occurring in each country by measuring the "existence and quality" of current AML/CFT laws, procedures and implementation strategies. Data used to compile the findings were generated by third-party sources, specifically: the Financial Action Task Force (FATF), World Bank, World Economic Forum, and Transparency International. According to the 2012 *Basel AML Index,* Iran was ranked as having the highest risk of money laundering and terrorist financing activity with a score of 8.57 out of 10. The United States, Canada and the United Kingdom had scores of 5.26, 5 and 4.66 out of 10, respectively, while Norway was ranked as having the lowest risk with a score of 2.67 out of 10.[6]

The FATF downgrades Ecuador, Vietnam and Yemen for not sufficiently addressing AML/CFT deficiencies; upgrades the Philippines' status: On June 22, 2012, the Financial Action Task Force (FATF) released a public statement announcing that Ecuador, Vietnam and Yemen had been added to a list of jurisdictions deemed to not be making sufficient progress in addressing strategic deficiencies in their anti-money laundering and countering the financing of terrorism (AML/CFT) regimes. The designation indicates that the countries have not taken adequate steps in rectifying their AML/CFT deficiencies. While all three countries were recognized for their commitment to improve their overall AML/CFT regimes, they have not yet made sufficient progress in implementing the action plans created to meet the FATF standards. These jurisdictions have ongoing deficiencies in the area of criminalizing terrorist financing as well as implementing sufficient measures to identify and freeze terrorist assets. All three also face problems in their supervisory capacity over their respective financial sectors. Ecuador, Vietnam and Yemen now join other countries such as Cuba, Nigeria, and Pakistan on the FATF's list of jurisdictions that are failing to adequately address identified strategic deficiencies.

In related news, the FATF updated the Philippines' status as a result of the country's significant steps taken to improve its AML/CFT regime. More specifically, the Philippines made amendments to its *Anti-Money Laundering Act* (AMLA) and is anticipating the enactment of a new CFT law. According to the *Canadian Press,* on June 18, 2012 the Philippines President Benigno Aquino III signed a law to criminalize terrorist financing. Previously, terrorist financiers were considered to be accomplices under the law. However, under the new act they can now receive up to 40 years in prison and be fined up to 1 million pesos (CA$23,255). Additionally, the new amendment permits the Philippines' AML Council to examine suspected terrorist and extremist group financiers' bank accounts and assets without a court order. Despite the recognition of progress, the FATF maintains that the Philippines has outstanding deficiencies that require attention, particularly with regard to implementing proper procedures to identify and freeze terrorist assets as well as effective methods of confiscating proceeds of crime. The FATF also encouraged the Philippines to enact a further amendment to the AMLA. According to the *Wall Street Journal,* this pending amendment to the AMLA would help increase the number of predicate offences included in the legislation and would expand the definition of money laundering.[7]

The United States monitors cheque processing for money laundering weaknesses: On April 23, 2012 *Thomson Reuters* reported that United States bank regulators have been monitoring weaknesses in electronic cheque processing, which may leave banks vulnerable to money laundering. The U.S. *Check Clearing for the 21st Century Act*, enacted in 2004, enables banks to implement a procedure called "remote deposit capture." This procedure allows banks to accept electronic images of cheques to process payments instead of traditional paper cheques, which need to be physically delivered to the bank. *Thomson Reuters* reported that electronic cheque processing could be exploited by money launderers because the process of depositing cheques electronically into U.S. bank accounts takes only a few seconds and is harder to screen for suspicious activity. According to *Thomson Reuters*, U.S. officials cited four banks – HSBC, Citigroup, Wachovia Corp. (now part of Wells Fargo & Co.) and Zions Bancorp – as having poor security in electronic cheque processing. Between 2005 and 2007, US$40 billion was transferred through Wachovia via remote deposit capture from foreign accounts without being adequately monitored for money laundering. In 2010, HSBC was also cited for weaknesses in its remote deposit capture, and in 2011 Zions Bancorp received a US$8 million civil penalty from the Office of the Comptroller of the Currency and the Financial Crimes Enforcement Network (FinCEN) for failing to monitor US$5.4 billion in cheque processing for foreign clients, including Mexican money services businesses, in 2006 and 2007.[8]

Terrorist Financing

GROUP-BASED

ETA leader Aitzol Iriondo Yarza designated under Executive Order 13224: The U.S. Department of State designated Mr. Iriondo, leader of the terrorist organization Basque Fatherland and Liberty (ETA), under Executive Order 13224, which identifies persons deemed as terrorists or in support of terrorists or terrorist acts. In effect as of June 21, 2012, the designation bans persons under U.S. jurisdiction from financially transacting with Mr. Iriondo. In addition, property subject to U.S. jurisdiction in which Mr. Iriondo has any interest must be blocked and any assets under U.S. jurisdiction frozen. According to a media note released by the U.S. Department of State, Mr. Iriondo is perceived as a threat to the United States' national interests due to his long-time involvement with ETA, for which he provided logistical support, facilitated recruitment and training, and conducted violent acts such as bombings. Mr. Iriondo is currently detained in France, awaiting extradition to Spain under accusations of terrorism and murder.[9]

Husband and wife sentenced to federal prison for planning a scheme to finance Hizballah: According to the U.S. Attorney's Office, on May 21, 2012, Hor Akl and his wife Amera Akl were sentenced to prison for 75 and 40 months, respectively, for their involvement in a scheme to transfer funds from the United States to Hizballah, a Lebanon-based group designated as a terrorist organization by both Canada and the United States. During the investigation, a confidential source hired by the FBI delivered US$200,000 to the Akls' home in Toledo, Ohio. The investigation then revealed that the couple intended to transfer the funds to Hizballah by concealing the cash in vehicle accessories secured inside a Chevrolet Trailblazer and shipping the car to Lebanon. Evidence also suggested that Hor Akl met with high-ranking members of Hizballah on a trip to Lebanon. *Thomson Reuters* reported that Hor Akl told an informant that he was aware the funds would be used to support a designated terrorist organization and help to target Israel. The Akls were arrested before they executed their plan to ship the car. Hor and Amera Akl both pleaded guilty to one count of conspiracy to provide material support and resources to a designated foreign terrorist organization, while Hor Akl pleaded guilty to an additional four counts of conspiracy to violate money laundering statutes, perjury, and two counts of bankruptcy fraud.[10]

FINANCIAL ACTIVITY-BASED

Seven arrested in the U.K. over suspicion of terrorist financing related to illegal khat trade: According to *Thompson Reuters*, on May 1, 2012, six men and a woman were arrested in three cities in the UK – London, Cardiff and Coventry – on suspicion of terrorist financing and money laundering through the smuggling of khat, a plant chewed for its stimulant properties, into Canada and the United States. *Thomson Reuters* reported that various agencies in the U.K. worked with the U.S. Homeland Security Investigations directorate to investigate the network, which was suspected of running a fundraising operation for terrorism overseas. While authorities have not revealed the origin of the khat or the name of the terrorist group that would have benefitted from the funds, an article in the *Guardian* suggested that there may be a link to Al Shabaab, a Somali terrorist group operating in the Horn of Africa. In 2010 a United Nations Monitoring Group indicated that Al Shabaab was able to gain nearly US$500,000 over a ten-month period by taxing khat exports leaving from the Mogadishu airfield in Somalia. As reported by the *National Post*, most khat originates from the Horn of Africa and passes through London, U.K., where it is legal, before being sent to Canada and the United States, where it is a controlled substance. According to the *National Post*, nearly 20,000 kilograms of khat are seized annually as it is smuggled into Canada concealed in golf bags, drums, mislabelled boxes, mail, and airline luggage. In Canada, consumers of khat are mostly found in Ontario, Quebec, Alberta and British Columbia.[11]

South American drug money linked to Al Qaida: On April 19, 2012, *Thomson Reuters* reported that two Malian nationals, Harouna Toure and Idriss Abdelrahman, pleaded guilty to conspiring to provide material support to a terrorist organization after obtaining help from Al Qaida-linked militants in an operation that aimed to ship South American cocaine from Mali to Spain via Morocco. According to the article, a U.S. Drug Enforcement Agency (DEA) informant posing as a member of the Revolutionary Armed Forces of Colombia (FARC) first met with the two men in Ghana in 2009 and requested that they secure a shipment of cocaine through an Al Qaida controlled smuggling route. Court documents show that Toure and Abdelrahman agreed to arrange for Al Qaida-linked militants to guard the shipment of South American cocaine in exchange for a fee of several thousand dollars per kilogram. The defendants confirmed that Al Qaida controlled the smuggling route and noted that the terrorist organization received a portion of the drug proceeds in exchange for providing security for the cocaine shipment. The two men were arrested in December 2009 and were transported to the United States to stand trial. If sentenced, Toure and Abdelrahman each face up to 15 years in prison.

In related news, the *United Press International* highlighted concerns of a growing link between Al Qaida and the illegal trade of South American cocaine in West Africa. According to the article, approximately 50 Colombian drug traffickers currently control the narcotics trade in Guinea-Bissau, which allegedly receives up to 2,200 pounds of cocaine every night by aircraft, in addition to an unknown amount through maritime routes. Once the cocaine from Colombia and Venezuela arrives in West Africa, it is divided and shipped to Europe. Smugglers move the cocaine from countries such as Guinea-Bissau, Guinea, Ghana, Benin and Nigeria northward into the Sahel region, where they then allegedly work with Al Qaida in the Islamic Maghreb (AQIM) and Tuareg tribesmen to move the drugs to the Mediterranean coast in Morocco and Algeria for shipment into southern Europe. AQIM allegedly uses proceeds from drug trafficking to purchase weapons and finance its attacks across the region.[12]

COUNTRY-BASED

UN Security Council announces that kidnapping and other crimes are increasingly being used to finance terrorism: On May 4, 2012, the United Nations Security Council indicated that terrorist groups are increasingly using ransom from kidnappings and illicit proceeds from crime to finance their activities. An article in the *Canadian Press* stated that the UN Security Council is warning that as terrorism transforms, terrorist groups will likely continue expanding their tactics to include more criminal activities. The UN Security Council named Al Qaida in the Islamic Maghreb as an organization that incorporates kidnapping for ransom as a tactic to finance its activities and gain political power. During her remarks on May 4th at the Security Council Briefing on Strengthening International Cooperation in the Implementation of Counter-Terrorism Obligations, U.S. Ambassador Susan Rice stated, "[K]idnapping for ransom is a growing threat to international peace and security and will pose significant challenges to the international community in years ahead."[13]

Nigeria continues to have difficulties implementing its AML/CFT regime: In a public statement released on June 22, 2012, the Financial Action Task Force (FATF) announced that Nigeria continues to face significant deficiencies in its anti-money laundering/countering the financing of terrorism (AML/CFT) regime. While acknowledging the country's political commitments to work with international and regional bodies to address these deficiencies, the FATF stated that not enough progress has yet been made. In particular, the FATF encouraged Nigeria to address issues related to criminalizing money laundering and terrorist financing, and hoped the country would move forward in implementing its action plan to address various other deficiencies. As stated by the Director General of GIABA, the Inter-Governmental Action Group against Money Laundering in West Africa, some of those deficiencies include the Nigerian Financial Intelligence Unit's (NFIU) inadequate management of suspicious transaction reports.

In May 2012, several Nigerian news agencies reported on the state of financial crimes in Nigeria, including corruption, money laundering and terrorist financing. The *Nigerian Tribune* highlighted the country's difficulty in tracking funds potentially destined for Boko Haram, a militant group in Nigeria, and in curbing terrorist financing in general. Similarly, another news source, *Allafrica.com*, reported on Nigeria's effort to implement legal amendments separating the NFIU from the Economic and Financial Crimes Commission in an attempt to make it more independent and better positioned to implement AML/CFT measures. These measures will reportedly serve to help disrupt Boko Haram's activity in Nigeria.[14]

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