



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 ML or TF 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 2013 to June 2013.

After 23 editions published since January 2008, this will be the last issue of the ML/TF Watch.

We appreciate your readership, and encourage you to explore the range of other publications offered on FINTRAC's website.

Caveat

The content presented herein is a summary of news articles and does not include any FINTRAC analysis. The views expressed are those of the original authors. FINTRAC is not responsible for the accuracy, currency or the reliability of the content. References to the respective articles are provided at the end of this document.

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Money Laundering

GROUP-BASED

Former UPS driver from Chandler, Arizona convicted of drug trafficking and money laundering. On April 9, 2013, *Thomson Reuters* reported that Robert Gene White was found guilty of conspiracy to possess with intent to distribute marijuana and cocaine, conspiracy to commit money laundering and three counts of “transactional money laundering” on behalf of a drug trafficking organization. According to a United States Attorney’s Office press release from the District of Arizona, the drug trafficking organization received drugs from Mexico via “backpackers”, repackaged the marijuana into parcels, and shipped them through UPS. White knowingly received these packages and facilitated their movement into the UPS mail-stream to be delivered to customers in New York, Ohio and Virginia. In return, the drug trafficking organization had customers address money parcels ranging from US\$20,000 to US\$30,000, to real addresses on White’s delivery route. These addresses had fictitious business names and suite numbers that did not exist to conceal to whom the money was being sent. White then redirected the money parcels to the drug trafficking organization, receiving as much as US\$50 for each pound of marijuana that was transported in his UPS vehicle.

The press release stated that Nadunt Chibeast, of Tempe, Arizona, also conspired to launder money for the drug trafficking organization. Bank accounts in each of the purchasers’ states were created in his name and were then used to siphon deposits from drug purchasers. Chibeast then transferred the money to the drug trafficking organization’s bank accounts or withdrew the cash to provide it physically to other drug trafficking organization members. He was also accused of driving a suspected

drug load and helping to package the marijuana.

Court documents state that in 2009, White spent US\$15,000 of his own profit from the proceeds to pay off his vehicle loan, and the following year deposited nearly US\$17,000 in cash into his account at Arizona Federal Credit Union. Both White and Chibeast are awaiting sentencing.¹

16 men arrested for laundering proceeds of a cigarette-smuggling ring. On May 16, 2013, the New York State Office of the Attorney General announced that 16 men are being charged with enterprise corruption, money laundering, and related tax crimes for their roles in a New York-based cigarette smuggling ring. The ringleader, Basel Ramadan, was arrested with US\$1.5 million cash in his residence, as well as three handguns. In this scheme, Ramadan purchased illegal cigarettes with bulk cash from a Virginian wholesaler, Cooper Booth Wholesale Incorporated. Group members made several trips to pick up approximately 20,000 cartons per week that were being stored in a public warehouse in Delaware and then distributed to resellers across New York. In total, the group laundered US\$55 million by splitting funds and depositing them into small financial institutions for investment around Ocean City, Maryland. Details of where the funds have been placed are still under investigation. In all, the sales tax revenue lost to New York State is estimated to exceed \$80 million. It is also estimated that the smuggling ring made at least \$10 million in profits. The investigation is ongoing, and has not yet been brought before a court.

Other charges could be laid as the investigation continues and law enforcement uncovers more information on where the illicit funds have gone. Some of the defendants

allegedly have ties to Hamas and Hizballah, as well as to other individuals associated with counterfeit baby formula scams, hate crimes and the 1993 World Trade Centre bombing. In the past, Hamas and Hizballah have used similar smuggling rings for fundraising purposes, according to the New York State Attorney General.²

Two leaders of Los Zetas convicted of money laundering through horse racing. On June 12, 2012, a United States government press release stated that the leader of the Los Zetas drug cartel, Miguel Angel Trevino Morales and his two brothers, Oscar and Jose Trevino Morales were charged for their role in laundering drug proceeds through the purchase, training and breeding of American Quarter horses in the United States (first summarized in *ML/TF Watch: April to June 2012*). In addition to these charges, the two men are now being convicted in absentia of laundering money derived from drug trafficking and horse racing. On May 13, 2013, *Thomson Reuters* reported that since 2008, Miguel and Oscar Trevino Morales deposited cash proceeds from selling drugs and horses, combined with winnings from races into bank accounts held in the names of companies linked to the racing industry to disguise the money and make it appear legitimate. The two brothers structured bank deposits in amounts under the US\$10,000 reporting threshold to prevent the filing of large cash transaction reports. They also directed bulk cash from illegal drug sales to a third brother, Jose Trevino and his wife, Zulema Trevino, for training, breeding and racing Quarter horses. The leader of the cartel, Miguel Angel Trevino Morales, was captured on July 15th, 2013. No sentencing date has been scheduled for the other two brothers, as authorities are seeking their apprehension.³

FINANCIAL ACTIVITY-BASED

Eight New Yorkers charged with laundering and participation in US\$45 million international cybercrime. On May 9, 2013, the United States Attorney's Office announced the arrest of seven New York members of an international cybercrime organization; an eighth fugitive was found dead. The defendants were charged under a four-count federal indictment with two counts of money laundering, conspiracy to commit access device fraud, and money laundering conspiracy. Between December 2012 and February 2013, the New York members extracted US\$2.8 million in two ATM scams. The rest of the US\$45 million was extracted by cells located in at least 24 other countries through tens of thousands of ATM transactions. According to the United States Department of Justice, computer hackers from an unknown location infiltrated the internal system of ElectraCard Systems and Enstage, which are the Indian-based processing companies for MasterCard and Visa. The hackers targeted prepaid debit cards issued by the National Bank of Ras Al-Khaimah in the United Arab Emirates and the Bank of Muscat in Oman. They extracted the card data and eliminated withdrawal limits, along with account balance information. The stolen card data was then sent to crime cells worldwide, whose members loaded the information onto cards, and made physical ATM withdrawals in two short, but intensive time periods, the first lasting only two-and-a-half hours and the second lasting ten hours. Both heists were remotely monitored by hackers to ensure full payout from each cell. The United States Department of Justice stated that the speed and precision of these attacks required months of planning.

After the heists, the New York cell members reportedly deposited criminal proceeds totalling US\$150,000 in a single bulk cash transaction

into a Miami bank account held by their local group ringleader, Alberto Yusi Lajud-Pena, leading the bank to report suspicious activity. Pena was later found dead while attempting an escape to the Dominican Republic with US\$100,000 in cash derived from criminal activity. American officials have also seized other proceeds in the form of fine jewellery and several luxury vehicles from the arrested parties, in addition to bulk cash. The Organized Crime and Corruption Reporting Project stated that the identity of the mastermind behind the entire international operation and further information regarding other crime cells are now subjects of interest. At least 12 of the other nations involved currently have open investigations.⁴

United States financial institutions are requiring more information for Omnibus accounts. In 2008, the Office of Foreign Assets Control (OFAC) published guidance which stated that financial institutions would still be held responsible if they provide services to blacklisted entities through omnibus accounts. As a result, there has been ongoing debate as to how much effort would be required to mandate stringent “intermediary’s information” laws because the nature of these accounts is to remain secret.

Omnibus accounts exist in Europe, the United States and a few other countries; however, they do not exist in Canada. These accounts are held by stock brokers who manage money on behalf of multiple parties; however, financial institutions are not obliged to know the names of these individual investors. Some financial institutions currently screen for names or addresses of sanctioned entities, while others require assurances from their omnibus clients that they are not acting on behalf of sanctioned companies and individuals. However, even with these preventative measures, companies can still disguise illicit funds. For example, in 2009,

Credit Suisse AG, used code names to disguise the names of sanctioned persons in its omnibus bank accounts. This resulted in a US\$536 million plea agreement. Some firms have started declining people unless they disclose their underlying clients. Overall, OFAC recommended that banks should obtain beneficial ownership data, as well as percentage levels of ownership, and details of how often the information is updated.⁵

West Coast drug ring uses funnel accounts to launder millions. On April 18, 2013, the United States Department of Justice unsealed an indictment, charging 13 California defendants with 29 counts of conspiracy to manufacture, distribute, and possess with intent to distribute controlled substances, along with conspiracy to structure cash transactions totalling US\$3.4 million. Nine of the thirteen defendants have been arrested, while four remain fugitives. Between October 2008 and April 2013, the defendants recruited people to obtain and have prescriptions filled for oxycodone, hydrocodone, and marijuana. The defendants transported drugs to Washington State, Massachusetts and Louisiana for sale and deposited proceeds into funnel accounts - which were created specifically for the proceeds of crime, at Wells Fargo Bank, JPMorgan Chase Bank, United States Bank and the Bank of America. The defendants structured transactions to avoid the US\$10,000 reporting threshold and eventually transferred US\$3.4 million dollars into these accounts. Shortly after being deposited, the money was withdrawn and only US\$400,000 remained in the accounts upon investigation. In the United States, structuring is also an offence under the *Bank Secrecy Act*; in Canada, the act of structuring is not itself a money laundering offence.⁶

COUNTRY-BASED

Canada signs G8 data sharing agreement in an effort to challenge tax havens. On June 18, 2013, the *BBC* reported that G8 world leaders, including Canada's Prime Minister, Stephen Harper, have agreed to challenge shell companies and expose international beneficial ownership, strategies which are currently used to evade taxes and launder money. The commitment to halt tax evasion and associated money laundering crimes comes from the newly ratified G8 Open Data Charter that focuses on getting information from many sectors including, but not limited to: education, health, environment, crime, research, and companies. The charter is founded on five strategic principles that form the basis for increased information access: open data by default, quality and quantity, usable by all, data for innovation, and data for improved governance.

Prime Minister Harper plans to first consult with the provincial governments before committing Canada to a public registry of beneficial ownership that was discussed at the summit. Other actions to combat tax evasion that made it on the Canadian agenda include a formal risk assessment of money laundering and terrorist financing in Canada, the continued implementation of existing money laundering and terrorist financing laws, and public consultations on corporate transparency. Many of these programs have already begun in Canada. The end goal is that international agreements will prompt action and amplify the difficulty of operating shell corporations for the purpose of concealing taxable assets.⁷

Money laundering damaging legitimate businesses, preventing Colombia from reinventing its economy. On May 28, 2013, *Thomson Reuters* reported that an estimated US\$17 billion each year is being laundered

from the proceeds of trafficking drugs, arms and human beings in Colombia. In particular, a variety of contraband that is smuggled into Colombia is part of multi-billion dollar money laundering industries that harm legitimate businesses and stop Colombia from reinventing itself as a thriving economy. Last year, about US\$128 million worth of contraband was seized by authorities; however, this accounts for less than ten percent of the amount estimated to enter Colombia. Trade-based money laundering is used to bring in drug proceeds from overseas dealers in the form of goods that are often shipped with legitimate merchandise. These goods are then sold in Colombia and a sales receipt is given, thus "cleaning" the drug money. Cash from international drug sales also enters the system through exports when fake paperwork is created for overseas sales that do not exist. The paperwork is then filed at a customs office.

These illicit activities account for at least five percent of the Colombian GDP, which is sufficient to inflate perceived real growth by altering reference prices. In the end, this phenomenon undermines Colombia's development strategy and contributes to the prolonged poverty of its citizens. Laundered goods are usually sold below-market value, eliminating competitors, limiting growth and destroying opportunities for legitimate businesses. Price bubbles are also created where criminals pay excessive amounts for farms, or bill excessively through restaurants and stores.

According to the article in *Thomson Reuters*, Colombia's financial system is among the most rigorous and successful against money launderers, due to the controls they have in place. However, this has caused another set of problems since it facilitates a cash-based economy that enables money launderers who

just work outside the system. They are also coming up with new ways to deceive authorities, making it increasingly difficult for Colombia to combat money laundering.⁸

Vatican Bank improves transparency measures. On May 22, 2013, *Thomson Reuters* reported that the Vatican Bank in partnership with the Vatican Financial Information Authority (FIA) announced that it will undertake new measures to align the bank with international anti-money laundering and counter-terrorist financing standards. The Vatican Bank is hoping its efforts will help it recover from past and present scandals related to corruption and money laundering. Part of the Vatican Bank's reform effort includes an information-sharing agreement signed on May 7, 2013 with the United States Financial Crimes Enforcement Network (FinCEN) to increase collaboration. The FIA also published a summary of the bank's financial accounts in an annual report for the first time in May, encompassing activities for 2012. Other measures include increasing vigilance towards identifying and acting on suspicious transactions. The new bank president, Ernst von Freyberg, stated that he is committed to turning around the bank's image. He claimed that he will personally review all suspicious transaction reports at the end of each week, as well as follow updates through the system for due diligence. Further, bank employees are combing through each of the 19,000 accounts at the rate of approximately 1,000 per month in an effort to pinpoint all account owners and those with signing authority. To oversee the Bank's anti-money laundering initiatives, Pope Francis has launched an inquiry into the anti-money laundering and counter-terrorist financing reforms. The Vatican hopes for a successful evaluation by Moneyval in the future, as its recommendations are used by the OECD to decide which nations are complying

with international standards on money laundering and terrorist financing.

Since the announcement of these new measures, money laundering scandals have continued at the Vatican Bank. On June 28th, Monsignor Nunzio Scarano, a Vatican accountant, was arrested for avoiding customs and bulk cash smuggling of €20 million from a Swiss bank account into Italy. Then later, on July 1st, the bank director Paolo Cipriani, and his deputy, Massimo Tulli, announced their resignation from their positions just one day after Pope Francis' inquiry announcement.⁹

New Zealand enacts the *Anti-Money Laundering and Countering Financing of Terrorism (AMLCFT) Act*. The New Zealand government's 2009 *AMLCFT Act* came into full effect on June 30, 2013, according to *The New Zealand Herald*. These new laws will align with international efforts and best practices against money laundering and terrorist financing. Reporting entities are aware there will be no additional grace period before full compliance is expected and all penalties issued will be immediately proportionate to the offence, as they have had more than three years to prepare for the changes. Defined reporting entities in New Zealand are responsible for: (1) conducting risk assessments of money laundering and financing of terrorism that could reasonably be expected to arise in business operations; (2) creating procedures to detect, deter, manage and mitigate money laundering and terrorist financing; (3) instituting a compliance officer responsible for administering and maintaining AMLCFT programs; (4) bank due diligence in customer identification; as well as (5) reporting suspicious transactions and annual reporting systems. The new annual reporting requirements include information about bank locations, employees, customers, and products offered. In comparison, Canada does not

require its reporting entities to provide annual reports. Another new AMLCFT requirement for all reporting entities is external audits to be conducted every two years. The new AMLCFT regime is jointly monitored and enforced by a number of government actors including the Reserve Bank of New Zealand, which supervises banks, life insurers, and non-bank deposit takers; the Department of Internal Affairs, which has jurisdiction over casinos, non-deposit taking lenders, money changers, and various other financial service providers; and the Ministry of Justice, which is responsible for drafting and administering the *AMLCFT Act* and regulations.¹⁰

TERRORIST ACTIVITY FINANCING

GROUP-BASED

The United States designates four Hizballah supporters in West Africa. On June 11, 2013, the United States Treasury announced the designation of four Lebanese Hizballah supporters for their strategic roles in the recruiting of new members and organizational fundraising efforts in West Africa. Ali Ibrahim al Watfa, Abbas Loutfe Fawaz, Ali Ahmad Chehade, and Hicham Nmer Khanafer each led Hizballah cells in different West African nations. The funding activities were conducted through legitimate profit-generating businesses such as Fawaz's supermarket chain in Senegal and Khanafer's weekly fundraising events he conducted in his community. Khanafer also hosted recruiting drives at a mosque in Gambia. Each of the four charged were also recruiters looking to expand the Hizballah support network in lieu of decreased funding from Iran, as a ninth round of United States sanctions were put into effect. From April to June, the United States took significant steps to slow down Hizballah's financing network worldwide during this crucial time of high-cost military activity in Syria. In line with the

designation, all assets held by these four individuals in the United States jurisdiction are now frozen.¹¹

Four Minnesota men sentenced to prison for conspiring to resource Al Shabaab. On May 14, 2013, *Thomson Reuters* reported that four men raised money for approximately 20 other men in Minnesota to fight for Al Shabaab in Somalia. According the United States Attorney's Office, the four men went to local malls and apartments to ask for money that they said would be used to build a mosque or assist with humanitarian relief efforts in Somalia. The money, however, was used to pay for the recruits' airfare and travel expenses. Omer Abdi Mohamed, one of the four men sentenced to prison, also facilitated travel by helping recruits to obtain plane tickets. He also helped one recruit obtain a false itinerary to mislead his family about the purpose of this travel. Mohamed has been sentenced to 12 years in prison on one count of conspiring to provide material support to three men who intended to murder, kidnap or maim Ethiopian and Somali government troops.

Two other men, Abdifatah Yusuf Lsse and Salah Osman, traveled to Somalia where they joined Al Shabaab forces. While in Somalia, Lsse also participated in fundraising calls back to Minnesota to garner money to purchase his own rifle. A third, Ahmed Hussein Mahamud, stayed in Minnesota, but electronically transferred money to a co-conspirator in Somalia, knowing that these funds would be used to purchase weapons or otherwise support Al Shabaab. Each of the three men were sentenced to three years in prison.¹²

FINANCIAL ACTIVITY-BASED

Lebanese exchange houses launder US\$27 million. On April 23, 2013, the United States

Treasury Department announced in a press release that it has moved to designate two Beirut currency exchange houses, Halawi Exchange and Rmeiti Exchange, for helping a drug trafficking organization in Lebanon launder the proceeds of narcotics trafficking to fund Hizballah initiatives. The drug trafficking organization began using Halawi and Rmeiti to launder their money after a 2011 case compromised its US\$150 million laundering operation with the Lebanese Canadian Bank. Between 2008 and 2012, money launderers traveled with bulk cash derived from narcotics sales, via air transport from Cotonou, Benin to Beirut, Lebanon, where they deposited funds into the two exchange houses. The exchange houses then used electronic funds transfers to move the illicit money through intermediary countries such as China, Singapore and the United Arab Emirates, before sending them to car dealers' accounts in the United States for the purchase of used cars. Vehicles purchased were then shipped to West Africa and resold, with proceeds finally returning to Lebanon. Rmeiti electronically transferred US\$27 million and Halawi US\$4 million in illicit funds to the accounts of American car dealers. Another US\$224 million was slated for laundering through Halawi for used cars in the future.

FinCEN has issued orders for American financial institutions to promptly report any transactions or attempted transactions by Rmeiti and Halawi for 120 days, after which FinCEN can finalize the proposed rules. Rmeiti and Halawi are also under review for accepting bulk cash without requesting information on the personal identification of those completing the transactions, and for not inquiring about the origins of the funds. The Treasury Department expressed that this is the first instance that section 311 of the *USA PATRIOT Act*, which requires reasonable steps to obtain customer information (account owners and beneficiaries),

has been applied to non-bank foreign financial institutions.¹³

COUNTRY-BASED

Supplying arms to Syria may present a risk amidst possible terrorist resourcing. On May 29, 2013, *The Associated Press* reported that Israel's Defence Chief, Moshe Ya'alon, warned Russia that selling advanced weapons to the Syrian Armed Forces is a risk because of Syria's close association with Hizballah and other hostile groups. If Russia supplies the Syrian Armed Forces, the technology could also fall into the hands of Hizballah. The weapon posing the largest threat if Russia fulfills its supply contract is the S-300 anti-aircraft missile. Israeli Minister Uzi Landau stated that the Russian arms supplies "promote instability in the middle east [sic] [and] anyone who provides weaponry to terror organizations is siding with terror".

While the Syrian Armed Forces is fighting alongside Hizballah, the opposition contains members from the designated terrorist organization, Al-Nursa - an Al Qaida affiliate. *The Guardian* reports that the Free Syrian Army (FSA) members and Al-Nursa members desert back and forth to each other depending on who is best resourced and who is "winning" regionally. The United States has allegedly responded to the FSA resourcing shortage by offering weapons and other military support. According to the *BBC*, no matter who supplies Syria, weapons sent will be at risk of transfer to Hizballah, Al Qaida or Al-Nursa fighters. Despite these concerns, the *BBC* reported that the UN has lifted an arms embargo against transmitting weapons to Syria. Although the resourcing situation is increasingly complicated for Russia and the United States, both are considering all options, including the encouragement of peace talks.¹⁴

Emerging Issues of Interest

A digital currency service and seven of its affiliates were charged with laundering US\$6 billion. On May 29, 2013, *Deutsche Welle*, one of Germany's international news broadcasters, reported that digital currency exchange, Liberty Reserve, processed 55 million illicit transactions worldwide for one million users, and involving US\$6 billion since 2006. Practically all of its business was related to criminal activity, with the exchange being a means by which cyber-criminals around the world distributed, stored and laundered the proceeds of illegal activities. According to a United States Department of Justice press release, the system worked using a currency unit called an "LR". Users first created an account with Liberty Reserve by inputting basic information such as a name, address and date of birth. These identities were never verified. Users could then receive transfers of LR from other users' accounts and transfer LRs from their own accounts to other users or merchants. When transferring funds, users could pay a "privacy fee" of 75 cents to make the transfer untraceable. Users could not withdraw or deposit funds directly from their accounts, but had to go through third-party exchange houses instead. According to an indictment unsealed by the United States Department of Justice, Liberty Reserve masked users' identities by avoiding collecting any banking or transaction information from these third-party exchange companies. It also assured anonymity by allowing users to hide their Liberty Reserve account numbers when making transactions. The company has now been seized by the United States Global Illicit Financial Team, and has been charged along with seven of its principals and employees with money laundering and operating an unlicensed money transmitting business. Five of the seven men charged in the case were arrested on May 24, 2013 and two remain fugitives. Prosecutors

have also seized 45 bank accounts and five domain names allegedly used for the operation.¹⁵

Recent developments in Bitcoin. In the past year, Bitcoin, an increasingly popular digital currency, received mounting media and government attention. These are some of the highlights during April and May: On **April 9, 2013**, the *Business Times* reported that Bitcoin's value spiked to US\$266. On **April 11**, that spike was followed by a sharp decrease that brought Bitcoin trade value back down to around US\$100. On **April 24**, PayPal announced on *Bloomberg TV* that it was exploring ways to integrate Bitcoin into its payment network. On **April 26**, *CBC* reported that the Canada Revenue Agency had clarified that there are two tax rules applying to the electronic currency: the barter transaction rule, when Bitcoins are exchanged for goods and services; and transactions in securities rule, when Bitcoins are bought or sold like commodities. On **May 9**, a *Forbes* journalist reported that she managed to live on Bitcoin for a week. On **May 14**, the Department of Homeland Security halted all of Mount Gox's United States-based transactions for operating without a United States Money Service Business (MSB) license. Mount Gox is an exchange company that transfers digital Bitcoin currency, and trades it for real currencies. On **May 28**, Bitcoin trade value increased in response to the forced closure of Liberty Reserve by the United States government. On **May 29**, Mount Gox announced it will require more user information in order for customers to use its exchange services. This move was made to avoid a complete shutdown like the one experienced by Liberty Reserve. On **May 30**, *Bitcoin Magazine* announced the launch of a new easy-to-use Bitcoin search engine. Businesses accepting Bitcoin can advertise themselves to Bitcoin holders by

listing their business in order to strengthen the Bitcoin network.¹⁶

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