



Asia/Pacific Group  
on Money Laundering

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[APG Yearly Typologies Report 2005 - 06]

The Asia/Pacific Group on Money  
Laundering (APG)  
Yearly Typologies Report  
2005 – 2006

Prepared by APG Typologies  
Working Group

Adopted by APG members

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# INTRODUCTION

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## **Background**

This is the sixth year that the Asia/Pacific Group on Money Laundering (APG) has produced a yearly typologies report on money laundering and terrorist financing trends and techniques in the Asia-Pacific region.

## **APG's mandate for undertaking typologies work**

The APG's typologies work describes and analyses the nature of money laundering and the financing of terrorism. Since its establishment in 1997, the APG has undertaken typologies work to develop a better understanding of the money laundering and terrorist financing methods, techniques and trends in the Asia/Pacific region.

The demand to better understand the nature of money laundering and terrorist financing remains strong. The APG consistently receives requests for case studies and analysis in relation to these issues, from members and observers, multilateral donor organisations, Anti-Money Laundering and Combating the Financing of Terrorism (AML/CFT) standards setting bodies and implementing agencies. Results of this typologies work are shared with law enforcement and regulatory agencies, as well as private sector officers involved in implementing AML/CFT countermeasures.

An important factor driving the continuing high demand for timely typologies information is the effect of the global pressure to implement the Financial Action Task Force (FATF) *40 Recommendations* and *Nine Special Recommendations*. An understanding of AML/CFT threats and vulnerabilities provides the necessary basis for informed policy decisions to assist jurisdictions with the effective implementation of the global standards.

## ***The Typologies Working Group***

The APG Typologies Working Group has been established to conduct a series of in-depth studies on particular typology topics, support a network of APG typology experts and provide practical advice on the APG typologies collection and analysis framework. APG Typologies Working Group Meetings are open to all APG member and observer jurisdictions. The Typologies Working Group currently consists of:

- New Zealand (Chair)
- Australia
- Canada
- Chinese Taipei
- Cook Islands
- Fiji
- Hong Kong, China
- India
- Indonesia
- Japan
- Korea
- Malaysia
- Pakistan
- Palau
- Philippines
- Thailand
- United States
- FATF
- IMF
- World Bank

## ***APG Typologies Workshop 2005-06***

Building on previous successful APG Typologies Workshops, Fiji hosted the 8th APG Typologies Workshop in Nadi over from 25 – 26 October 2005. It was attended by 155 participants, representing 30 member jurisdictions and nine international and regional organisations.

The 2005 Typologies Workshop was jointly chaired by Mr Sakiusa Rabuka, Chief Executive Officer, Justice, Ministry for Justice, and Mr Rick McDonell, Head of the APG Secretariat.

Presentations were given on a range of topics and breakout groups discussed specific issues in greater depth over two and a half days. Major topics included:

- Trade based money laundering
- Wire transfers
- E-payment systems
- Corruption money laundering issues
- Pacific-region case studies

The 2005 Typologies Workshop was successful and resulted in valuable lessons being shared through exchange of information on real cases conducted in the region by APG jurisdictions.

### **External typologies opportunities**

The FATF and the APG continue to cooperate in planning and conducting their respective typologies work and all APG members are invited to directly participate in the FATF's global typologies work in order to include the AML/CFT experience of the Asia-Pacific region. During 2005-06 there was a marked increase in participation by APG jurisdictions in FATF typologies projects.

In December 2005, the APG participated in and contributed to the joint FATF/GAFISUD (the South American FATF style regional body) 2005 Typologies Meeting in Brazil. The 2005 FATF/GAFISUD Typologies Meeting progressed a number of money laundering and terrorist financing typologies, including abuse of the insurance sector, human trafficking related money laundering issues, alternative remittance systems, drug trafficking and terrorist financing. The FATF Yearly Typologies Report 2005-2006 which summarises work on these topics is available for download at [www.fatf-gafi.org](http://www.fatf-gafi.org).

### **Further APG typologies work 2005-06**

The APG Typologies Working Group is scheduled to meet during the 2006 APG Annual Meeting to consider current tasks, future typologies projects, topics for the 2006 Typologies Workshop and ongoing co-operation with the FATF, the Egmont Group and other AML/CFT bodies.

The APG will hold the 2006 APG Typologies Workshop in late October 2006 in Jakarta, Indonesia. Further details of 2006 Typologies Workshop will be posted on the APG website when available.

## SECTION I

### SUMMARY OF REGIONAL METHODS AND TRENDS

#### Typologies Reporting Patterns

The APG Yearly Typologies Report 2005-06 is prepared based on typologies reports provided by APG jurisdictions this year. This introductory section gives an indication of the quality and consistency of reports to enable a clearer context to discussion of common methods and trends reported below.

Reporting by jurisdictions decreased slightly in both quantity and quality following the introduction of the pro-forma collection outline in 2003 for providing typologies information. The number of reports submitted roughly equalled the previous year, although there was a slight decrease in the number of jurisdictions that followed the prescribed format. These results are illustrated in the table below:

**Table 1: Number of typology reports submitted and number of reports that followed format**

	Number of Reports				Followed Format			
	Members		Observers		Members		Observers	
<b>2003</b>	19/26	73%	5/13	38%	8/19	42%	1/5	20%
<b>2004</b>	20/28	71%	2/11	18%	9/20	45%	0/2	0%
<b>2005</b>	20/29	69%	1/11	9%	10/20	50%	1/1	100%

The quality of the reports varied significantly, with some jurisdictions providing very comprehensive information, while others provided relatively little information outside of the prescribed format and the agreed definitions provided. Similarly, some jurisdictions applied their own terminology or did not clearly distinguish between categories of typologies as agreed in the Typologies Working Group.

In many jurisdictions, however, the necessary AML/CFT regimes are not in place yet and/or there is a lack of the necessary training and expertise to support effective reporting of typologies.

#### Common methods

The following examples are the most common money laundering and terrorist financing methods identified from the material provided by APG jurisdictions in 2005-06. Please note that wire transfers, trade-based money laundering and corruption-related money laundering are discussed separately in [Section II](#), [Section III](#) and [Section IV](#) respectively.

#### *Currency exchanges/cash conversion*

Four jurisdictions reported cases of currency exchanges or cash conversion as a method seen to launder funds. This is an increase on the number of cases reported in the previous year, however considering the number of cash-based economies in the APG region, this still appears to be a relatively low level of reporting.

From the cases reported, it appears that the currency exchanges were used to attempt to export, spend or deposit illicit funds without raising suspicion. Illegal funds obtained by fraud, for example, were converted or exchanged to a foreign currency to allow them to be exported and deposited into a foreign bank account.

### **Cash couriers/currency smuggling**

Because many jurisdictions have introduced strict *Anti-Money Laundering (AML)* controls on the formal financial sector, organised crime and terrorist groups appear to be increasingly reluctant to use regulated financial institutions to receive and transfer money.

Instead, these groups are turning increasingly to services that operate outside the formal financial sector, such as cash couriers, in order to minimise the risk of detection by authorities. Intelligence received shows that the more effective the controls are within formal payment systems, the more criminals will tend to resort to the physical movement of cash.

Over many years, APG typologies exercises have repeatedly highlighted the key role that cash smuggling often plays in money laundering operations. This year is no exception. From the analysis of typologies information available, it is clear that the geographic positioning of a jurisdiction has an impact on the use of this method.

It has been reported, for example, that cash can be smuggled out of the United States through 317 official entry ports, as well as a number of unofficial routes<sup>1</sup>.

The following four examples demonstrate how Thailand has seen the impact of geographic positioning on the use of cash couriers/smuggling:

#### **Thailand - Northern Border**

Cash has been smuggled out to neighbouring countries for the payment of drug trafficking. Foreigners may open bank accounts in Thailand for the transfer of drug money or use reliable Thais to open accounts as their nominee. This situation can be observed by a very unusual, high-volume of cash circulating at border towns. Suspicious Transaction Reports (STRs) are comparatively high in these areas. The trend is for Foreigners to move their bank accounts from border towns to Bangkok.

#### **Thailand - Southern Border**

Cash has been smuggled out to neighbouring countries for both drug money and the financing of terrorism.

#### **Thailand - Eastern Border**

Cash has been carried out by gamblers heading to various casinos in the neighbouring countries. Some of the income derived from these casinos is also couriered back to be deposited into Thai banks along the border provinces, as well as Bangkok. It is notable that there is a growing trend of drug smuggling in from Cambodia and also drug money being carried out.

#### **Thailand - North-Eastern Border**

Cash has been smuggled out to neighbouring countries as payment for drug money. In addition, United States currency has been smuggled in and exchanged into Thai Bahts and then deposited into the border provinces. There is an increasing trend of drug smuggling from Lao PDR.

<sup>1</sup> U.S. Money Laundering Threat Assessment: December 2005: Chapter 5: Page 34.

## **Structuring**

Structuring or *smurfing* was frequently reported as a method employed to move or introduce significant amounts of funds, with the misconception that this would not trigger any suspicion or threshold-based reporting to competent authorities.

An jurisdiction in Asia reported that structuring remains the most frequent reason for suspicious transaction reporting from financial institutions. Furthermore, the following example from Australia illustrates how the structuring of transactions assisted a drug importation investigation:

### **Australia**

An individual opened a bank account and structured a series of deposits, each transaction under the AU\$10,000.00 (US\$7,500.00) cash transaction reporting threshold, amounting to a total of almost AU\$100,000.00 (US\$75,000.00) in just six days. The activity aroused the suspicion of the bank and they reported a suspect transaction report (SUSTR) to AUSTRAC. The following day, another bank reported similar structuring activity involving a company account. Both the company and person were linked to the same address. Within three months of the SUSTRs being reported, a parcel containing 4.5 kilograms of ecstasy tablets was intercepted. The drugs had allegedly been sent from the United Kingdom to the address linked to the suspect. Further investigations of financial transaction reports data revealed another associate of the individual. The person was sentenced to seven years imprisonment for attempting to possess a prohibited drug. The associate was sentenced to eleven years imprisonment for importing prohibited imports.

### ***Use of credit cards, cheques, promissory notes etc.***

Use of credit cards in money laundering was reported in previous years as being the source of illicit funds, rather than a vehicle to launder those funds. In contrast, this year they were used to launder funds in the following ways:

- Proceeds of illegal activity being deposited onto the offender's credit card, upon which the credit card is used to buy luxury items:

### **New Zealand**

A recent drug operation revealed that approximately NZ\$75,000.00 (US\$46,700.00) cash had been deposited into a credit card and then used to facilitate household and luxury purchases, for example, vehicle modifications.

### **New Zealand**

Another drug operation revealed that approximately NZ\$120,000.00 (US\$74,600.00) had been deposited into a credit card over a ten month period. The credit card was then used to facilitate additional illicit goods and also to purchase luxury items, for example, expensive vehicles. Transfers were then made from the credit card into business and transactional accounts.

- Proceeds of illegal activity deposited onto a credit card followed by a request for repayment of the credit balance that had been built-up:

### **Canada**

An individual made substantial cash deposits on various credit cards and then withdrew the funds by requesting a cheque. The individual claimed that the reason why he made deposits onto the card changed, specifically, the cancellation of a trip, and withdrew the excess funds from the cards. The amount suspected of being laundered in this manner exceeded CA\$1 million (US\$897,100.00) over a period of two years.



**Canada**

An individual suspected of drug trafficking, regularly built-up a credit balance up to CA\$500,000.00 (US\$448,550.00) on credit cards and then used them to pay for goods and to get cash advances.

Cheques and promissory notes were reported in previous years as being used as instruments in the commission of the predicate fraud offence rather than to launder funds. In general, very few cases have been reported in the APG region mentioned the use of cheques or promissory notes as vehicle for laundering. This year, however, Canada reported the following case where cheques were used to launder drug proceeds:

**Canada**

A criminal organisation responsible for laundering drug money in Country A used students to purchase multiple cashiers' cheques. These cheques were then glued into magazines that were sent, via a courier service, to Country B. The reason provided by the students at the financial institutions/money service businesses was that the money came from a grant provided by a Country B company. A total amount of CA\$3 million (US\$2,691,300.00) went through the courier service using this technique.

***Purchase of valuable assets (real estate, race horses, vehicles etc.)***

In the case of *valuable assets*, where criminal proceeds are invested in high-value, negotiable goods, such as real estate, race horses and motor vehicles etc., reporting requirements are often reduced and the original source of funds disguised.

This year approximately one quarter of APG jurisdictions noted this method in their reports and the region continues to see these methods being used, as outlined in the following examples:

**Fiji Islands**

In July 2005, a group of individuals set-up a fictitious company and were successful in printing fake cheques totalling some FJ\$193,000.00 (US\$111,700.00). An expensive, top-of-the-range motor vehicle was purchased from a local motor vehicle company with FJ\$100,000.00 (US\$57,880.00) cash, which was withdrawn after the cheques were cleared by the bank. The motor vehicle was later sold at a much lesser price and the person who was allegedly the mastermind behind this scam supposedly absconded overseas using a fake passport. FJ\$80,000.00 (US\$46,300.00) has been restrained, as these funds were left in the bank account when this investigation started.

**Korea**

Person A smuggled dried red pepper from China and sold it in Korea, yielding criminal proceeds. Person A gave the proceeds to his wife and told her to deposit the funds into her bank account. In this way, Person A concealed a total of KWON 2.3 billion (US\$2.1 million) by having the criminal proceeds deposited into his wife's account, in 60 separate transactions, over five months. Person A, his wife and mother then withdrew KWON 800 million (US\$720,000.00) cash, in 16 separate transactions, and purchased an apartment and two cars, as well as repaying debt.

**Malaysia**

Mr Y, a senior government official, elicited corrupt money from various illegal businesses, such as illegal gambling operators, prostitution-related businesses and illegitimate VCD/CD-selling activities. Mr Y frequently received large amounts of cash deposits from various sources. The funds were deposited by third parties into his bank account. The money was immediately transferred to multiple accounts maintained with various financial institutions, including to the accounts held by his immediate family members and friends. It was then layered into other forms by acquiring local investment portfolios, unit trusts and multiple

investment scheme insurance policies. Some of the funds were also withdrawn to open fixed deposit accounts, which were in turn placed with commercial banks to secure credit facilities. These commercial banks granted him personal overdrafts and term loans or hire purchase facilities to part finance purchase of several properties and vehicles either in his or his family member's names. Mr Y fully repaid most of his loans within a short period.

### ***Use of wire transfers for money laundering and financing terrorism***

Please refer to [Section II](#) of this report.

### ***Trade-based money laundering***

Please refer to [Section III](#) of this report and the FATF typologies report at [www.fatf-gafi.org](http://www.fatf-gafi.org).

### ***Corruption-related money laundering***

Please refer to [Section IV](#) of this report

### ***Gambling activities (use of casinos, horse-racing, internet gambling etc.)***

Following on from previous APG Typologies Reports, the use of casinos to launder money was again seen this year as a good vehicle to launder illicit funds. The following examples illustrate this:

#### **Chinese Taipei**

In June 2005, Police broke the case on a kidnapping syndicate spanning over Chinese Taipei, China, Hong Kong, and Macao. The syndicate used the service of illegal alien smugglers and moved three Mainland Chinese assassins into Taiwan. With the help of another accomplice from Hong Kong, they kidnapped their victim. The syndicate then asked the victim's family, operating a business in China, for ransom of HK\$100 million to be paid offshore by wire transfer into a phoney account in Macao. The perpetrators also planned to launder the ransom at a local Macao casino. As a result of co-operation between Police from Chinese Taipei, China, Hong Kong, and Macao, the case was successful with 11 suspects being arrested.

#### **New Zealand**

Three associated Asian nationals have been reported to be transacting large amounts of cash and bank cheques at a major New Zealand casino. The amounts are between NZ\$10,000.00 (US\$6,400.00) and NZ\$400,000.00 (US\$255,650.00). Two methods of laundering through the casino have been used. Either the cash and bank cheques are deposited into the individual's account at the casino and later withdrawn or they are used to purchase chip vouchers that are later redeemed for cash or a casino cheque, without any gambling occurring. The casino has reported that sometimes the cash presented is cold as if it has been kept in a freezer.

#### **United States**

A major cocaine and heroin dealer played the US\$100.00 slot machines in Las Vegas and Atlantic City, wagering hundreds of thousands of dollars, in order to receive a casino cheque for his eventual winnings and an IRS Form W-2G to legitimise the income. The drug dealer also purchased Pennsylvania lottery tickets from winners in order to receive a state cheque and an IRS Form W-2. The individual eventually invested the laundered money into rental properties.

As well as casinos, the use of horse-racing gambling accounts to launder funds was also noted. In the cases reported, the gambling accounts were used to either layer the proceeds of crime or move funds to different geographic locations within the jurisdiction.

### ***Co-mingling (business investments)***

This year APG jurisdictions reported co-mingling used on a number of occasions. In some cases, the co-mingling of business and personal funds was seen as a way to evade taxation. There were also numerous cases, however, showing this method being used in an attempt to hide the original source of illicit funds, as outlined in the following examples:

#### **New Zealand**

A case currently with the New Zealand courts involves an owner of a consultancy business, who deposited the proceeds of illicit drug dealing into a business account, making the money look like income from clients.

#### **Palau**

An individual ran an illegal restaurant and prostitution business. She was using three different accounts (one owned by her, one owned jointly with her husband and one owned by her husband) to launder her illegal proceeds. The individual used the three accounts to give the appearance that the cash generated through her illegal activities was money earned by her husband as Senate Legal Counsel and by her through the business. Her husband would, periodically, deposit only a portion of his government cheque into his account and take the remainder in cash. Then, she would deposit her criminal proceeds into their joint account and into her sole account, claiming that the money was from her husband's pay.

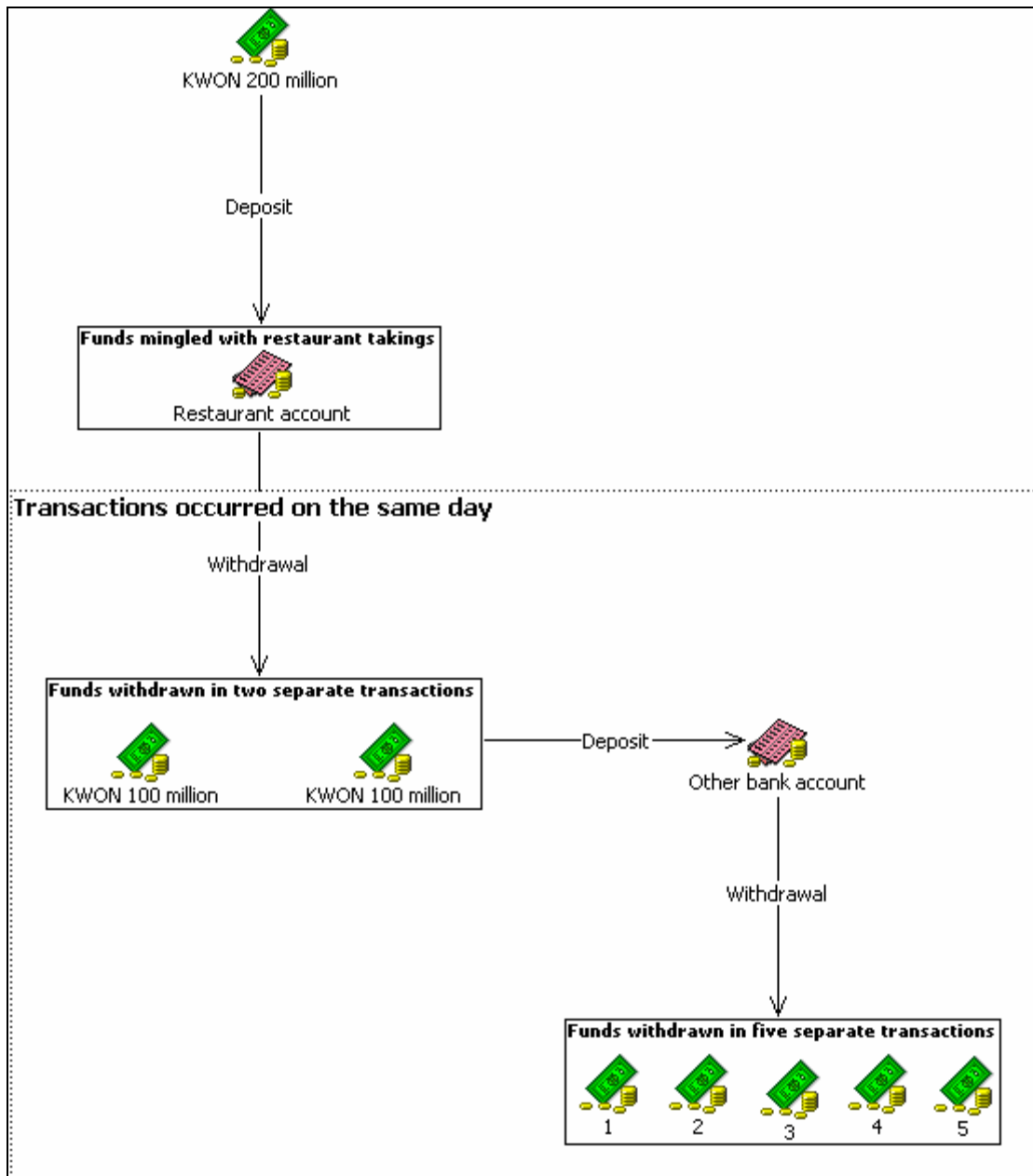
#### **Canada**

An investigation uncovered that the target was using his illegally obtained funds to make capital investments in the fitness/gym companies he owned, such as properties and fitness equipment.

#### **Korea**

PERSON A representing REGION ONE promised several persons, who intended to run for Mayor in several cities in REGION ONE, to help them to get a party nomination, and illegally received KWON 500 million in political funds from them. Among the funds, PERSON A remitted KWON 200 million (about US\$190,000.00) to an account of PERSON B who was running a restaurant near the National Assembly Building, using third party's name at a bank in REGION ONE. PERSON A seemed to try to mask the received illegal political funds as legal income of the restaurant run by PERSON B. The next day, PERSON B and PERSON C, chief secretary to PERSON A, visited a bank near the National Assembly Building, and withdrew the KWON 200 million in cash in two transactions. On the same day, they deposited the money into another bank account of PERSON B. Then PERSON C withdrew the KWON 200 million in cash again in five transactions.

The chart on the following page illustrates the above example:



### ***Use of shell companies/corporations***

In the 2004-05 year, jurisdictions saw this method as an emerging one. In the 2005-06 year, the use of shell companies and corporations was again seen as providing a façade of legitimacy to further distance the illicit funds from the predicate offending and consequently aiding in the cleansing process.

### ***Use of nominees, trusts, family members or third parties etc.***

This method appears to be quite common in the region and, as in previous years, has been widely reported on. Jurisdictions have reported multiple cases where nominees, trusts, family members or third parties are used to either to assist in the placement or layering phases or for protection of assets from confiscation laws.

#### **Malaysia**

Mr Y frequently received large amounts of cash deposits from various sources. The funds were deposited by third parties into his account. The funds were immediately transferred to

multiple accounts maintained with various financial institutions, including to the accounts of Mr Y and his immediate family members and friends. It was then layered into other forms by acquiring local investment portfolios, unit trusts and multiple investment scheme insurance policies. Some of the funds were also withdrawn to open fixed deposit accounts, which were in turn placed with commercial banks to secure credit facilities. These commercial banks granted him personal overdrafts and term loans or hire purchase facilities to part finance purchase of several properties and vehicles either in his or his family member's names. Mr Y fully repaid most of his loans within a short period. The financial transactions carried out by Mr Y did not fit his profile as a salaried government official. The financial intelligence gathered from the STR was disclosed to the relevant enforcement agency. Investigation shows that Mr Y elicited corrupt money from various illegal businesses, such as illegal gambling operators, prostitution-related businesses and illegitimate VCD/CD-selling activities. The investigation is ongoing. To date, however, approximately RM4.0 million (US\$1.1 million) has been seized.

#### **Hong Kong, China**

A bank made a disclosure to the Joint Financial Intelligence Unit (JFIU) when noting frequent and large amounts of transactions and remittances occurring on a customer's account. The transactions were conducted by an authorised signatory of the bank account, instead of the account holder. The amounts and frequency of the transactions involved were not consistent with the background of the account holder, reported to be a housewife. In the ensuing months, the bank made a number of further disclosures of the same nature, involving several bank accounts, although relating to the same authorised signatory. All account transactions were in large amounts and interestingly, all of the account holders were foreign nationals without residence in Hong Kong. They all reported the address of the authorised signatory as their correspondence address. Subsequent police enquiries revealed that the authorised signatory operated an unregistered remittance agency using the said bank accounts. He admitted using the foreign nationals to open the bank accounts to facilitate his remittance business. The authorised signatory was later prosecuted for operating an unregistered remittance agency.

#### **New Zealand**

A self employed helicopter operator operated a legitimate mining business extracting Pounamu (greenstone/jade). The helicopter operator was, however, extracting greenstone from illegal areas. Effectively he was stealing the Pounamu. Over a three year period, the business recorded sales of NZ\$526,336.00 (US\$337,107.00), most of which was from sales of the stolen greenstone. Trusts were used to conceal the illegal proceeds and to protect assets derived from criminal activity.

An effective counter-measure to this method appears to be enhanced *Know Your Customer* and *Know Their Business* procedures, together with enhanced customer monitoring to ensure that any inconsistent activity is detected.

#### ***Use of false identification***

The use of false identification to obscure identity proves to be a key facilitative activity in the reported cases of money laundering and terrorist financing. In the cases reported, it is evident that this method is used in all phases of the money laundering process. Analysis of the cases received over the last three years has indicated that enhanced *Customer Due Diligence (CDD)* assists in the detection and/or prevention of this method.

#### **Uncommon methods**

The following methods were not commonly reported, however the methods still warrant mention and consideration.

***Purchase of portable valuable commodities (gems, precious metals etc.)***

Only two jurisdictions reported cases where valuable commodities had been used to launder funds. In the two cases reported, the valuable commodities used to launder funds were airline tickets and valuable artworks.

***Commodity exchanges (barter/reinvestment into illicit drugs)***

This method was not generally reported during the period covered by this report.

***Abuse of Non-Profit Organisations (NPOs)***

This method was not generally reported during the period covered by this report.

***Investment in capital markets***

The reported cases for investments in capital markets were generally related to predicate activities, such as fraud and insider trading, rather than money laundering techniques.

***Use of offshore banks/businesses, including trust company service providers***

Only one case was reported in relation to use of offshore instruments or entities, which is generally in keeping with the results reported for the last two APG Typologies Reports. It may be that this method is not widely detected due to changes in the international AML/CFT standards resulting in the types of products now offered by offshore centres being less attractive for money launderers/terrorist financiers than was previously the case.

***Use of foreign bank accounts***

The use of foreign banks in order to obscure the identity of the person(s) controlling illicit funds and/or moving funds out of the reach of domestic authorities was not very commonly reported this year.

***Use of professional services/gatekeepers***

Previous typologies work has identified that professional service providers, such as lawyers, accountants, brokers etc., are excellent vehicles for laundering money. This method, however, was not widely reported during the period covered by this report.

***Use of internet (encryption, payment systems, online banking etc.)***

The case below was reported this year, illustrating the utilisation of an internet payment gateway to create a money laundering chain for concealing the source of criminal proceeds.

**Hong Kong, China**

MR Y, head of a pirated optical disc syndicate, exported infringing digital video discs from Hong Kong to his customers around the world. He also utilised a worldwide internet auction website to promote and sell the discs. The customers paid for the infringing digital video discs via an internet payment gateway. Credit card and direct transfer of funds were used as the main methods of payment into designated accounts held in the name of MR Y or overseas third party intermediaries registered with the internet payment gateway. Funds were then put into different nominated overseas bank accounts held in the name of MR Y or the overseas third party intermediaries by online instructions. Eventually, the funds were remitted back to the bank account held by MR Y in Hong Kong through normal bank remittance services. The investigation is ongoing.

Although only one case using the internet was reported, with the proliferation of the number and usage of online auction websites, an increase in the use of this method may be seen in future. This is due to high value goods, such as boats, vehicles and electronic equipment can also be bought and sold, with little known about the participants, apart from email and delivery addresses. The potential for money laundering, false invoicing and arranged trades that do not reflect true value is, therefore, unlimited.

### ***Criminal knowledge of and response to law enforcement/regulations***

No specific cases were reported of organised crime reacting specifically to existing AML/CFT measures.

### ***Underground banking services/alternative remittance systems***

Very few cases were reported of the misuse of *Underground Banking /Alternative Remittance Systems (UBS/ARS)* for money laundering/terrorist financing.

### ***New payment technologies***

A detailed presentation on the emerging technology of mobile telephone remittance systems and their vulnerabilities to money laundering and terrorist financing was given at the 2005 Typologies Workshop in Fiji. No cases using this method were reported during this typologies period. A detailed report on new payment technologies is being prepared by the FATF and will be available via the FATF website, [www.fatf-gafi.org](http://www.fatf-gafi.org).

### ***Other methods and emerging methods***

The use of the proceeds of crime to fund illicit *loan sharking* schemes was identified as a newly reported method associated with money laundering.

### ***Research or studies undertaken on money laundering methods/trends***

Jurisdictions were asked to provide information on research or studies on associations between particular methods and predicate offending, or emerging, continuing and declining trends occurring in jurisdictions.

Over the last year, almost one quarter reporting APG jurisdictions indicate that research on money laundering has been undertaken. This is a significant increase on the number of studies reported in the previous year in which just one jurisdiction stated that research had been completed.

The research carried out during this typologies year was completed by both government organisations and the academic research sector. The topics covered in research studies in 2005-06 included:

- Underground banking.
- Money laundering and tax evasion.
- Organised crime, money laundering and the use of gems and metals.
- Internet money laundering scams.
- Online betting exchanges and their vulnerabilities to money laundering.
- The vulnerabilities of Cash Passports to money laundering.
- Illegal money-lenders and the formation of shell companies.
- Money laundering enforcement.

- Money laundering threat assessment.

These topics give an indication of the types of money laundering issues affecting the Asia-Pacific region. It is encouraging that both the private and public sectors have invested resources to gain a better understanding of the issues.

In turn this research may later be used to formulate new strategies and policies or adjust existing ones to combating these particular money laundering trends.

### **Associations between particular methods and predicate activities**

Jurisdictions were asked to provide comment on any co-relations they had seen between types of predicate offending and the types of methods of money laundering/terrorist financing methods used. Almost 50% of the reports provided comments on this issue, with the following inferences made:

- Funds from cases of fraud and breach of trust by employees have often been laundered through third parties.
- White-collar criminals tend to send their illicit funds to another jurisdiction and then used gatekeepers to layer funds.
- Text messaging and the Internet are used for advance fee fraud.
- Funds from corruption payments are often disguised to appear as if they are from commissions or consultancy fees.

It should be noted that these comments were general observations made by a number of jurisdictions.

### **Emerging and continuing trends**

The emerging trends noted below reflect common methods seen by some of the jurisdictions and do not empirically reflect the overall situation in the Asia/Pacific region. Some emerging trends reported were:

- Using casino chips to pay for narcotic drugs and other contraband.
- Cash smuggling at airports and border crossings.
- Commodity exchanges.
- Use of modern communication techniques.

Some continuing trends noted were:

- Use of the Internet.
- Use of false identification.
- Use of third parties.
- Engagement of cash couriers.
- Use of gambling activities.

Jurisdictions did not report observing any declining or obsolete methods of money laundering or terrorist financing.

### **Counter-measures**

Jurisdictions were asked to report on the impact of various counter-measures imposed. The results are outlined below:



### ***The impact of legislative or regulatory developments on detecting and/or preventing particular methods and trends***

With the exception of one jurisdiction, all regions submitted a jurisdictional report advising that there had been some recent legislative, regulatory or policy development(s) in their respective AML/CFT regimes.

In general, these developments involved establishing and/or improving AML/CFT regimes to comply with the new FATF *40 + 9 Recommendations* as well as further involving the private sector. The reported fine-tuning included the following measures:

- Drafting or introducing new anti-terrorism legislation.
- Requiring reporting of cross-border cash movements.
- Establishing AML/CFT advisory councils or committees.
- Extending the range of predicate offences for money laundering.
- Extending the range of reporting parties for suspicious transaction reporting.
- Organising conferences/seminars on AML/CFT to raise awareness of risks and obligations.
- Introducing or revising guidance notes.
- Creating and distributing newsletters on AML/CFT including typologies information.

### **Statistics**

From the 21 jurisdictional typologies reports received, 14 (54%) reported figures on suspicious or unusual transaction reports. Five of the 14 reports (35%) that provided figures on STRs reported the number of STRs that eventuated in money laundering investigations. This may be due to difficulties differentiating between cases of investigating predicate offending or money laundering. In many cases the information contained within STRs enhances or confirms intelligence already held by law enforcement agencies.

On the whole, jurisdictions advised that the numbers of STRs received had increased from the previous year. This increase has been attributed to:

- Maturing compliance cultures.
- Additional outreach activities and widened coverage of reporting institutions.
- Awareness raising activities with reporting institutions.

One jurisdiction did report a slight decrease in the number of STRs, which prompted them to provide further feedback to stakeholders to encourage further reporting.

Given the varying level of implementation of AML/CFT regimes around the region, it is noted that rates of charges and/or prosecutions for money laundering charges varies considerably. In general, however, in jurisdictions that have a well established AML/CFT regime, the number of prosecutions reported was very similar to the previous year.

In jurisdictions with maturing systems, the number of money laundering prosecutions had increased noticeably, reflecting a growing level of awareness of money laundering issues.

Seven jurisdictions gave statistics on seizures/confiscations related to money laundering. A total value of confiscations cannot be assessed as a number of

jurisdictions did not provide any statistics. Also, the differing format of the statistics received makes it difficult to quantify a value for the 2005/06 year.

The table below sets out the statistics received to give an impression of the values of confiscations seen. All values have been converted into US dollars:

Jurisdiction 1	\$487,500 (5 x vehicles / 1 x boat).
Jurisdiction 2	\$2,500,000 since 1989.
Jurisdiction 3	\$35,000,000.
Jurisdiction 4	\$5,000,000 restrained; \$940,000 forfeited; no statistics specific to money laundering confiscations available.
Jurisdiction 5	\$23,000,000.
Jurisdiction 6	\$7,900,000 seized; \$434,600 confiscated.
Jurisdiction 7	\$12,000,000 over the last 5 years.

### **International co-operation and information sharing**

Jurisdictions have continued to enhance international co-operation and information sharing through various means. Continuing with APG processes, developing informal contacts, joining international organisations and signing new *Memorandums of Understanding (MOUs)* are just some of the activities that have contributed to this progress and are comparable with the responses reported last year.

Sharing typologies and implementation information through the APG jurisdiction reports is a vital aspect of international cooperation and information sharing. This report reflects the strength of that information sharing. Another key instrument for co-operation between jurisdictions was the signing of MOUs to support information exchange appears to have increased this year, when compared with the previous year. One jurisdiction also reported a number of bilateral extradition treaties.

Capacity building, training programs and database projects were just some of the reported examples of technical assistance support noted. Providing technical assistance featured as an important way of strengthening co-operation. In addition, technical assistance was reported in relation to both the establishment of *FIUs* and the creation of robust AML/CFT regimes.

There was a strong emphasis on mutual assistance in 2005-06, in terms of both enhancing existing and drafting new legislation. Other successful forms of international co-operation included sponsorship of FIU candidates for *Egmont Group* membership, as well as hosting AML/CFT forums and participating in APG meetings.

Difficulties experienced with information sharing included problems with mutual assistance legislation and the absence of FIUs in certain jurisdictions.

Overall, however, the reports indicated that the exchange of information has improved compared with the previous year, with several positive examples of intelligence sharing noted and many examples of sharing technical experience and expertise.

## Conclusions

The 2005-06 typologies jurisdiction reports varied considerably in quantity and quality, however they did provide a wealth of information on methods and trends of money laundering in the region as well as progress with countermeasures and international cooperation.

Analysis of the methods reported demonstrated that no particular technique was particularly dominant in the region and most reported cases involved a mixture of methods. The range of methods reported appeared to decrease.

There appears, however, to have been a significant increase in the amount of study and research carried out across the region by both the public and private sector over the year.

Comments have been made that money obtained through fraud is often laundered via third parties; white-collar criminals tend to send illicit funds to other jurisdictions; text messaging and the internet used for advanced fee fraud; corruption payments often disguised as commission or consultancy fees; structuring has been connected to the proceeds from illicit drugs; fraud from the sex/slavery trade and foreign bank accounts for cases involving tax evasion or fraud.

There were a number of emerging and continuing trends seen within the region. No declining or obsolete trends were observed. AML/CFT regimes within the Asia-Pacific region were at varying levels of maturity and the counter-measures they employed corresponded to this.

Jurisdictions reported fine-tuning their regimes, which included drafting or introducing new anti-terrorism legislation, establishing advisory councils and coordination committees and introducing or revising guidance notes and AML/CFT newsletters.

International co-operation and information sharing has continued to be enhanced via various means. International exchanges of information appear to have also increased compared to the previous year.

Membership of the Egmont Group, entering into bilateral MOUs or direct contact with law enforcement agencies in other jurisdictions were seen as ways to further enhance exchange mechanisms.

## SECTION II

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### USE OF WIRE TRANSFERS FOR MONEY LAUNDERING AND FINANCING TERRORISM

#### Introduction and background

The APG Typologies Working Group has undertaken an analysis of typologies involving the use of wire transfers for money laundering and the financing of terrorism in the Asia-Pacific region.

Case study material was sought from member jurisdictions in 2005 with ten countries providing information. A further request for additional material was made at the start of 2006 with nine countries providing information. Case studies reported in the 2004 and 2005 APG typologies jurisdiction reports were also included in the analysis.

#### General findings

While the majority of individuals and businesses use wire transfers for legitimate purposes in conducting their personal and business activity, there are abundant examples to show how individual criminals and members of organised crime groups use this facility in the process of carrying out their illegal activity.

Case studies have shown wire transfers being used at each stage of the money laundering process. These case studies have covered a wide range of illegal activity including narcotics, various types of fraud, embezzlement, tax and duty evasion, people smuggling, illegal gambling, vice/prostitution and trading in counterfeit goods.

With so many jurisdictions now instituting confiscation legislation, the criminals are being forced to move the proceeds of their activities out of the reach of law enforcement agencies. One of the quickest and most effective ways to do this is through the use of wire transfers. This activity may be conducted through large banks, smaller community banks or remittance agents, whether they are registered or unregistered.

Wire transfers have also been utilised by individual criminals and organised crime groups to purchase various commodities such as narcotics, firearms and counterfeit goods. Funds are either sent as a deposit with the balance being sent after the commodity has been sold, or are sent as payment in full.

Limited case studies and information was received in relation to the use of wire transfers to fund terrorist organisations and activities. From the information and material collected, there is an apparent decreasing reliance on the use of wire transfers by terrorist supporters in the Asia/Pacific region, with a preference being shown for the use of cash couriers as and when required.

In cases where wire transfers have been identified as being used by supporters of terrorist groups, the amounts are kept quite small and tend to be sent between family members. On occasion, large amounts of money have been sent by terrorist supporters utilising charity/NPO networks. These funds are subsequently withdrawn or transferred as and when required, again with a preference for the use of cash couriers.

Analysis of the case studies provided to the APG Typologies Working Group did not identify any patterns in the use of wire transfers which could be attributed to any one particular illegal activity or to entities located in a particular country.

Variations were noticed in the value of the wire transfer, type of currency used, type of entities involved, as ordering and recipient customers (individual person or business entity), location of ordering and recipient customers and the type of reporting entity utilised.

These variations could be attributed to the level of awareness of money laundering techniques by the entities involved, the amount of money required to be moved and the nature of financial regulatory regimes in the sending and receiving jurisdictions.

### **Use of large banks, community banks and remittance dealers**

The case studies reviewed did not identify any particular preference by criminals for the use of large banks, smaller community banks or remittance dealers to send their wire transfers.

The large banks provide a more secure environment to send the wire transfers, along with the ability to route the transactions through multiple hubs in an attempt to lose the money trail before funds arrive at their ultimate destination.

Community banks and remittance dealers provide a quick cost effective service, often with fewer questions asked about identity, purpose of transaction etc. The use of these institutions also removes the perceived or actual concerns people may have of corruption in the formal banking sector in some countries. Remittance dealers may also provide the ability for funds to reach more remote regions of some countries where other financial institutions may not operate.

### **Concealing the source of funds**

The main techniques identified to conceal the source of funds sent by wire transfer from the review of case studies included:

- Structuring: keeping the amounts below reportable limits.
- Smurfing: using third parties, not directly involved in the illegal activity (family members or strangers), to conduct transactions.
- Shell companies: sending and/or receiving funds under business names making the transaction appear to be business-related.
- Co-Mingling: mixing the proceeds from illegal activity with the proceeds from legitimate business activity.
- False invoicing: falsifying the amounts owed on commodities imported to provide a legitimate explanation for sending additional funds overseas.
- False identification: remitting funds and/or establishing and operating accounts locally or overseas using false identification.
- Charities or Non-Profit Organisations (NPOs): skimming a proportion of donated funds from the accounts to be used for unrelated purposes.

### **Suspicious indicators**

The case studies reviewed in this project involving wire transfers have identified a number of activities which could be used as indicators for future suspicious activity. These include:

- Structuring the amount of the transactions so that they fall just below reporting limits.
- Multiple customers sending funds to the same beneficiary customer.
- Funds sent to countries of interest to law enforcement, for example, known to be a source of narcotics or other illicit commodities, known as a tax haven or as having a poor financial regulatory regime.
- Transmissions of amounts inconsistent with business activity of the customer or the available wealth of an individual.
- Once funds are received and cleared they are immediately withdrawn in cash.
- Once funds are received and cleared they are immediately moved to another account locally or in another jurisdiction.
- Funds used to purchase high value goods such real estate, prestige vehicles, gold or precious gems.

## **Conclusion**

It is evident from the review of case studies that wire transfers are widely used by individuals and organisations involved in various areas of illegal activity to assist in the laundering of proceeds, to provide funding to purchase a particular commodity, or to support a particular cause.

Very few new or significantly changed indicators or 'red flags' have been identified through the APG's most recent work on red flag indicators and the indicators identified in this report are very similar to the findings documented by the FATF in the Annual Typology Reports and the Egmont Group in the report on *100 Sanitised Case Studies*.

A set of red flag indicators, as set out below, could be of some assistance to jurisdictions to proactively detect possible cases of the financing of terrorism or money laundering through:

- Educating reporting entities which convey wire transfers to assist them to identify this activity and submit STRs.
- Informing FIUs that collect wire transfer data in order to assist their monitoring and analysis of wire transfer data and detect anomalies.

## **Red flag indicators**

Amount of wire transfer not in keeping with financial profile of customer (whether a person or a business account).

- Structuring of transactions so that they fall below the reporting limit.
- Stated occupation of customer is not in keeping with the frequency of transactions, for example, students or unemployed sending multiple transactions.
- Multiple customers (either sending or receiving the wire transfers) sharing common identifiers, such as family name, street address, telephone numbers.
- Same customer using various addresses when conducting transactions.
- Transactions conducted by a group or cluster of customers on the same day, especially to a common beneficiary.
- Multiple customers send to a common beneficiary over a period of time.

- Regular wire transfers from customers (either person or business) who do not hold accounts with the institution where the transaction is being conducted.
- Regular wire transfers by a customer to a known country of interest, for example, a centre for illegal activity/commodity or centre of terrorist activity.
- Inactive accounts which suddenly receive multiple wire transfer deposits which are subsequently withdrawn as soon as the funds are available.
- Newly established accounts receiving multiple wire transfer deposits soon after opening which are subsequently withdrawn as soon as the funds are available.

Some of these red flags may individually detect possible suspicious activity or it may be necessary to combine two or more indicators to receive a more accurate picture. Regardless, these red flags are to be taken only as an indicator of being associated with possible illegal activity. Each case needs to be judged on its own merits and compared with other available intelligence and information to confirm the possibility of money laundering or financing of terrorism.

## SECTION III

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### TRADE-BASED MONEY LAUNDERING

#### Introduction

During 2005, both the APG and the Financial Action Task Force (FATF) identified trade-based money laundering as a priority topic for typologies study. In June 2005 the FATF commenced a global project to study trade-based money laundering techniques. From July 2005, partially in support of the FATF's work, the APG focused on the regional vulnerabilities from trade based money laundering.

The APG's interest in trade-based money laundering arose from a number of factors including a previously identified trend of trade transactions being used as settlement mechanisms for ARS; low levels of awareness and experience with customs-related money laundering techniques; and a regional priority to address trade security issues.

Trade-based money laundering is defined as the process of disguising the proceeds of crime and moving value through the use of trade transactions in an attempt to legitimise their illicit origins. This can be achieved through misrepresenting the price, quantity or quality of imports or exports. Trade-based money laundering techniques vary in complexity and are frequently used in combination with other money laundering techniques to further obscure the money trail.

During 2005-06 the APG directly contributed to the global typologies project led by the FATF to study trade-based money laundering. The APG contributed to FATF-led typologies study by holding a policy level seminar on the topic during the 2005 APG Annual Meeting and a workshop of enforcement and regulatory staff on the topic as part of the 2005 APG Typologies Workshop in Fiji. A range of APG case studies and experience was shared with the FATF project group and nine APG jurisdictions contributed detailed questionnaire responses on trade-based money laundering.

The FATF-led study concluded that trade-based money laundering represents an important channel of criminal activity and, given the growth of world trade, an increasingly important money laundering and terrorist financing vulnerability. Moreover, as the standards applied to other money laundering techniques become increasingly effective, the use of trade-based money laundering can be expected to become increasingly attractive.

The results of the FATF-led study on trade-based money laundering is available via the FATF website: [www.fatf-gafi.org](http://www.fatf-gafi.org), published in late June 2006. The report arising from the study includes a description of key trade-based money laundering techniques, illustrative case studies as well as identifying policy implications and possible future steps.

#### APG Background

Trade-based money laundering is a new area for APG typologies study, although a number of cases involving the technique have been reported in previous APG typologies work on related subjects. Trade-based money laundering mechanisms were highlighted by the APG Working Group on Underground Banking/Alternative Remittance Systems (ARS) which ran from 1999 – 2003. During that time the APG collected almost 100 detailed cases on ARS which included a number of significant



cases involving trade-based channels as the settlement mechanism in the remittance chain.

Since 2003 the APG Typologies Working Group has requested further cases studies on trade-based money laundering from APG members. Most of the cases returned by APG jurisdictions since 2003 focused on predicate tax fraud related to trade transactions, rather than stand-alone money laundering techniques.

### **APG Key Findings**

Key findings of the APG's work in this area are reflected in the full FATF study on trade based money laundering, which is available via [www.fatf-gafi.org](http://www.fatf-gafi.org).

Summary points from the APG's work conducting during 2005-06 on regional vulnerabilities from trade based money laundering include:

- Trade-based money laundering cases in the region often involve a complex mix of money laundering, fraud and tax evasion and such cases may represent significant losses of taxation revenue.
- Investigators, customs agencies and regulators require further guidance, technical assistance and training on how best to detect trade based money laundering – establishing accurate unit price analysis is difficult and 'red flags' are sought by customs and other agencies.
- APG jurisdictions are keen to pursue opportunities to improve trade data transparency (both sides of the trade), including international cooperation on reciprocal sharing of trade data through the establishment of trade transparency units to improve the investigation of trade-based money laundering.
- A number of regional partners are particularly interested in cooperating with APG jurisdictions to further study trade-based money laundering and to provide technical assistance. The APG is pursuing opportunities with the ADB, World Customs Organisation, the Oceania Customs Organisation and other bilateral and multilateral partners.

### **Cases – Trade-Based Settlement Systems for ARS**

#### **Casino remittance trade-based settlement system**

- ❖ A casino in Country A operated a marketing team entirely responsible for customers from Country B.
- ❖ This marketing team lent gambling money to customers from Country B in the form of coupons, rather than cash, so that the loan would be spent only for the purpose of gambling at the casino in Country A.
- ❖ The members of this team visited Country B to collect debts or made their relatives in Country B do so on behalf of them.
- ❖ The collected money was paid to trading companies in Country B for the goods that these companies sold to importing companies in Country A.
- ❖ The importing companies in Country A paid the amount to the casino.
- ❖ The identified case involved an estimated total remitted sum of US\$11,000,000.

#### **Trade-based remittance settlement involving a third jurisdiction**

- ❖ Residents of Country 1 wished to remit monies to Country 2.
- ❖ The remittance operator, once having accumulated sufficient funds from customers, wire transferred monies to the proprietor of an import/export company located in Country 3, but

which also had offices in Country 2.

- ❖ The proprietor of an import/export used the funds provided to purchase goods to export to Country 2.
- ❖ Once exported, the goods were sold in Country 2
- ❖ The proceeds from the sale of the goods was used to balance payments to beneficiaries in Country 2, as per the instructions from the remittance business operator.

## SECTION IV

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### CORRUPTION-RELATED MONEY LAUNDERING

#### Introduction

During 2005-06 the APG Typologies Working Group finalised its Scoping Paper on Corruption-Related Money Laundering Issues. The scoping paper identified three main areas of cross-over between corruption and money laundering, as outlined below:

- 1. Corruption generates enormous profits to be laundered.**
- 2. Corruption facilitates numerous money laundering and terrorist financing methods and supports predicate criminal activities.**
- 3. Systemic corruption undermines the effectiveness of legislative, regulatory and enforcement of AML/CFT measures.**

This summary from the APG Scoping Paper reflects input from all APG jurisdictions and highlights:

- The broad range of money laundering methods and trends associated with the proceeds of corruption in the Asia-Pacific region.
- The role that corruption plays in facilitating money laundering.
- A Number of challenges faced in effectively combating the proceeds of corruption and ensuring that anti-money laundering efforts are not undermined by corruption.
- Legislative framework by which APG jurisdictions combat corruption and pursue the proceeds of corruption.

#### Background

Over a number of years, APG members have highlighted corruption-related money laundering as a major threat to the Asia-Pacific region. In late 2003, the United Nations issued the *UN Convention against Corruption*, which includes specific requirements for tackling the proceeds of corruption.

In late 2003 the APG Typologies Workshop in Kuala Lumpur focused on a number of corruption-related money laundering issues for the first time. An APG typologies project group was formed, led by Hong Kong, China and Pakistan, under the auspices of the APG Typologies Working Group, work with all APG members to prepare a paper that would consider typologies of corruption-related money laundering; current measures to combat corruption-related money laundering; and Challenges and opportunities for combating corruption-related money laundering.

Between mid 2004 and late 2005 16 APG jurisdictions provided detailed information on existing legislative measures to combat corruption-related money laundering, as well as case studies of related typologies and examples of practical steps to implement effective AML/CFT measures.

In June 2005, the APG and FATF agreed to further explore co-operative work on the relationships between AML/CFT and anti-corruption efforts and in particular, ways in which corruption can undermine AML/CFT implementation. At that time the APG and

FATF commenced a joint project group to consider synergies between anti-corruption and anti-money laundering.

### **Methods and trends identified in the APG Scoping Paper on corruption and money laundering**

The following information provides a summary of APG jurisdictions' experiences of methods and facilitative activities related to corruption and money laundering.

#### ***Corruption as facilitative activity to support money laundering***

Successful money laundering schemes are often assisted and facilitated by corrupt officials in government organisations or the private sector. Corruption for illicit gain is a key step in money laundering by securing corrupt co-operation of officials, including bankers, accountants, law enforcement, government officials, remittance agents etc., for the purpose of obscuring laundering activities and ensuring access to funds and profits.

Some examples of corrupt assistance provided to *facilitate* money laundering included:

- Corrupted public officials providing identification documents, such as passports, driver licences or birth certificates that establish false identities. Such identities can be used to operate bank accounts and conduct other financial transactions.
- Corruption of money laundering investigations within enforcement agencies, including tipping off money launderers.
- Staff in financial institutions opening or operating accounts known to be in false names.
- Staff of financial institutions or other reporting entities assisting in the structuring of transactions or destroying records to avoid detection.
- Staff of financial institutions or other reporting entities ignoring requirements to submit STRs.
- Staff of financial institutions or other reporting entities tipping off customers under suspicion.
- Bribery of witnesses in money laundering trials.

The APG has noted that involvement of financial institution staff members in corruption-related money laundering can result in an increase in customers being defrauded by corrupt bank officials, widespread institutional corruption and ultimately possible institutional failure.

#### **Methods of laundering proceeds of corruption**

Laundering the proceeds of crime may be achieved in a myriad of ways, with methods varying from the very simple to the very complex. The APG has found that money laundering methods observed for proceeds of corruption were as diverse as those for other predicate crimes, including drug trafficking and other serious offences.

Given the positions of influence of corrupt officials, however, such criminals are able to perpetuate complex and sophisticated money laundering schemes. Since 2003, the APG has collected a range of case studies and typologies of methods of

laundering proceeds of corruption through a questionnaire to APG members and from discussions during APG Typologies Workshops.

The following methods were noted as being involved with laundering the proceeds of corruption:

- Cash is very commonly used for bribes, with proceeds of corruption remaining in the form of cash and concealed in homes or on business premises. This was noted as particularly common in predominantly cash economies.
- Cash proceeds of corruption is being exchanged into foreign currency, often to be smuggled abroad or deposited into domestic banks.
- Cash couriers are used to smuggle proceeds of corruption within and out of a jurisdiction to be subsequently integrated into the formal financial sector of the other jurisdiction. Such smuggled cash may be returned to the country of origin through the formal financial system.
- Structuring or smurfing the proceeds of corruption into bank accounts is occurring through the use of multiple deposit transactions of small amounts.
- Many cases reported simple placement of corrupt proceeds in domestic banks.
- Third parties are commonly used, including family members or affiliated companies to receive corrupt payments in a variety of forms and to subsequently deposit proceeds of corruption into financial institutions. Such third parties may be employees or other accomplices. Typologies include proceeds of corruption being falsely loaned back to the bribed recipient.
- False identities and false documentation are extensively used to hide the true beneficial ownership of financial assets deriving from proceeds of corruption. Typically names of dependants and personal employees are used.
- For accounts opened using false identities, proceeds of corruption are being transacted through internet banking or telephone banking to avoid face-to-face transactions.
- Wire transfers are being used to remit proceeds of corruption overseas and/or to relatives or third parties.
- The use of offshore bank accounts and offshore shell companies was common, with corrupt proceeds sent via wire transfers. This was undertaken to reduce the risk of detection and to avoid asset tracing to complicate evidentiary trails.
- Alternative remittance systems are being used to transfer proceeds of corruption to foreign jurisdictions. Such funds may be laundered overseas and used as seemingly legitimate loans granted to local entities connected to the corrupt person.
- Repatriation of laundered proceeds of corruption is occurring through the use of wire transfers and false declarations of dividends of non-existent foreign investments.
- Gatekeepers, including accountants and lawyers, are utilised to conceal the origin of corrupt payments, including the disguising of such payments as consultancy fees.
- Corrupt payments have been received directly in the form of valuable assets and luxury goods.

- Gaming, including horse-racing, is used through using proceeds of corruption to pay for winning tickets at a premium to disguise the origin of funds.
- Negotiable instruments, such as bearer bonds and negotiable certificates of deposits are purchased with proceeds of corruption in the private loan market to hide the beneficial owner.
- Gatekeepers are used to manage the subsequent investment of corrupt funds into assets including real estate, stocks and bonds or co-mingling within legitimate businesses.
- A number of cases highlighted laundering proceeds of corruption through investment in insurance products and financial market securities, often using third parties to obscure the beneficial owner.
- Cases highlighted proceeds of corruption being spent on luxury vehicles, jewellery and other luxury items.
- Proceeds of corruption are laundered using false business transactions or deliberately lost making transactions with a company owned by a relative of the corrupt official.
- Assets from corruption money are accumulated in commercial and residential real estate, often with the involvement of corruption officials or gatekeepers.

### **Legislation and the definition of corruption**

All reporting APG jurisdictions have criminalised corruption. Criminalisation is effected either through distinct anti-corruption legislation administered by a dedicated task force, such as *Hong Kong's Independent Commission Against Corruption* or as part of the general criminal code.

APG jurisdictions have a number of different ways to define corruption. Some jurisdictions do not provide a definition of corruption in their criminal code; others classify corruption in terms of acts that cause economic loss to the state. A common definition relates to the abuse of power for personal gain.

Corruption is commonly couched in terms of bribery and a number of jurisdictions ensure that criminality attached to the receipt of benefits obtained as a result of corruption are not limited to financial benefits but are extended to influencing behaviour to the detriment of third parties. This is also phrased as a prohibition against any material or social gains derived from illegal activities.

There is a general awareness that corruption extends to acts undertaken by individuals in the private sector as well as the public sector, although many jurisdictions do not have this enshrined in legislation. There is recognition by some jurisdictions of the need to establish anti-corruption regulatory bodies that operate independently from the government.

There is a need in many jurisdictions to improve cooperation and formal information exchange between specialist anti-corruption bodies and FIUs and other AML/CFT investigation units.

## **Problems, difficulties, perceived challenges and opportunities**

A common theme for APG members in relation to both preventing and identifying corruption is the problem caused by poor capacity and a lack of infrastructure. This manifests itself in at least two ways:

- ❖ Many government officials have very low pay and poor working conditions, leading to a fundamental vulnerability to accepting or soliciting for bribes.
- ❖ There is a lack of financial expertise in identifying corruption typologies, especially in the context of complex financial transactions.

A number of jurisdictions stated that a major challenge they face is the fact that they have cash-based economies, which makes it difficult to detect corrupt activities and difficult to detect money laundering arising from these activities. This is also related to the general difficulties faced by jurisdictions in being able to differentiate between funds from legitimate sources and those from criminal activities such as corruption.

An absence of a dedicated anti-corruption body or a watchdog is also cited by a number of jurisdictions as problematic, again linking into the need for greater expertise in this area. Closely linked to this issue was the need to have a strong and independent media to promote vigilance and to undertake investigations into corruption.

A number of jurisdictions indicated that there is a need for greater commitment by senior managers and the government to combat corruption. The lack of political will was cited as a serious impediment to implementing effective anti-corruption strategies and the need to install a strong anti-corruption culture by leaders was identified.

An issue closely related to this is that of *Politically Exposed Persons (PEPs)*. Jurisdictions identify concern about the potential influence PEPs can have on blocking AML/CFT regimes, influencing the effectiveness of suspicious transaction reporting by financial institutions and contributing to poor governance standards. Smaller jurisdictions identified common problems arising from the ability to keep investigations secret without *tipping off* perpetrators in small communities. Related to this were the challenges finding witnesses willing to inform on suspected corrupt officers.

It was noted that often law enforcement officers and prosecutors are primarily concerned with the pursuit of predicate offences and do not bother pursuing money laundering or corruption offences, particularly when a more serious offence can be successfully prosecuted and higher penalties obtained. An example is the prosecution for fraudulent activities rather than corruption. This has the possibility of distorting analysis of the effective implementation of AML/CFT regimes and the occurrence of corruption.

APG members highlighted that corruption-related money laundering is often transnational in nature and both funds and evidence may be in a foreign jurisdiction. Investigations of such proceeds of corruption may be complex, resource intensive and require co-operation and assistance from other jurisdictions. APG jurisdictions emphasised the need for international co-operation in relation to pursuing the proceeds of corruption, as well as the criminals involved in illegal activities.

Opportunities were identified in relation to improving the scope of *Mutual Legal Assistance (MLA)* between jurisdictions both to recognise foreign offences and to be able to trace and obtain proceeds of crime held overseas and to allow for the sharing of assets obtained from seizures and forfeitures by all jurisdictions involved.

## **Conclusion**

There is a clear need for training and guidance in relation to the issue of corruption-related money laundering. This training should focus on two key areas:

1. **TECHNICAL EXPERTISE:** APG members have identified difficulties in being able to prevent and detect corruption, as well as to successfully prosecute those responsible for offering and accepting bribes and laundering the proceeds.
2. **ANTI-CORRUPTION CULTURE:** there is a strong sense that more needs to be done to promulgate an anti-corruption culture. Such a culture would work to ensure the effective implementation of AML/CFT regimes by ensuring the highest level of probity in public office from the highest managerial and political levels effecting policy to the law enforcement officers dealing with the day-to-day issues. The best way to promote this would be to ensure that a jurisdiction's efforts to address corruption are considered when rating compliance against international AML/CFT standards.

The development of consistent mutual legal assistance regimes across the region will promote greater international co-operation through the ability of jurisdictions to pursue both the proceeds of crime and criminals, as well as the capacity to share assets.



## RECOMMENDATIONS

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### **Regional methods and trends**

APG jurisdictions should be encouraged to follow the pro-forma collection outline, including standardised terminology when submitting typologies reports.

Donors and providers of technical assistance should continue to support further research in relation to methods and trends of money laundering & terrorist financing.

The APG Typologies Working Group should continue to monitor and report on money laundering and terrorist financing trends occurring within the Asia-Pacific region.

### **Money laundering and terrorist financing issues – wire transfers**

Jurisdictions should share and raise awareness of the red flag indicators for the abuse of wire transfers highlighted in this report.

APG members should continue to report cases and typologies information related to the misuse of wire transfers.

### **Trade-based money laundering**

The detailed results and guidance materials contained in the FATF report on trade-based money laundering should be shared widely with border enforcement, regulatory and policy agencies to raise awareness of the key methods, typologies and policy implications identified in the report.

Using the report as a starting point, work with members of the APG Donor and Provider Group and observer organisations including the FATF towards the design and delivery of regional and jurisdiction-level training on trade based money laundering for enforcement and regulatory agencies.

Jurisdictions should utilise the analysis of key methods of trade based money laundering to identify vulnerabilities and possible counter measures to be applied.

Jurisdictions should take a stock-take of the prevalence of trade-based money laundering and counter-measures employed within each respective jurisdiction.

### **Corruption-related money laundering**

The APG/FATF joint project Group on Corruption is encouraged to use the findings of the APG Typologies work to continue to develop guidance material to develop synergies between AML/CFT efforts and anti-corruption efforts to support the implementation of the UN Convention against Corruption and provide training to the financial sector to enable the effective identification of corruption-related STRs.

Training and guidance in relation to combating corruption-related money laundering should be provided, with a particular focus on technical expertise and challenges to develop an AML/CFT compliance culture in conditions of high levels of corruption.