

# AML Tuesday's Session #28 on:

Sector-Specific STR Typologies and Red Flag Scenarios applied in Practice  
for the Real estate & Yachting sectors

September 3, 2024

# Discussion Topics

**01**

Reporting obligations

**02**

Typologies, including new and emerging typologies

**03**

Red flags indicators

## Typologies

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Methods and trends associated with  
ML/TF/PF/C

**Traditional** typologies  
**New and emerging** typologies

Awareness of typologies (worldwide, in the region, country, for the sector), can **help understand risks** to which the reporting entity's business is exposed and prevent abuse of the business by criminals and their associates

## Red flags/Indicators

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Warning signs that ML/TF/PF/C  
may be taking place

Based on **unusual behaviour or profile** of the customer/BO, source of funds, transaction, etc.

Indicators must always be considered in **context** - the presence of an indicator does not necessarily directly raise suspicion of ML/TF-P-C, but may **prompt closer examination** to determine whether there are **grounds to file an STR**.

Both documented in publications of **global bodies** (e.g. FATF, Egmont Group, UNODC), regional bodies (e.g. EUROPOL, EC) and **national authorities** (e.g. AMSF guidance, FIU annual reports); media & NPO reports



**01**

# Reporting obligations

# FATF International standards on combating ML and TF

## Recommendations 20, 21, 23 & interpretive note:

- If an obliged entity **suspects or has reasonable grounds to suspect** that funds are the proceeds of a criminal activity, or are related to terrorist financing, it should be required, by law, to **report promptly** its suspicions to the financial intelligence unit (FIU).
- The reference to **criminal activity** refers to all criminal acts that would constitute a predicate offence for money laundering.
- The reference to **terrorist financing** refers to the financing of terrorist acts and also terrorist organisations or individual terrorists, even in the absence of a link to a specific terrorist act or acts.
- **All suspicious transactions, including attempted transactions**, should be reported regardless of the amount of the transaction.
- Obligated entities, their directors, officers and employees should be **prohibited by law from disclosing (“tipping-off”)** the fact that a suspicious transaction report (STR) or related information is being filed with the FIU.

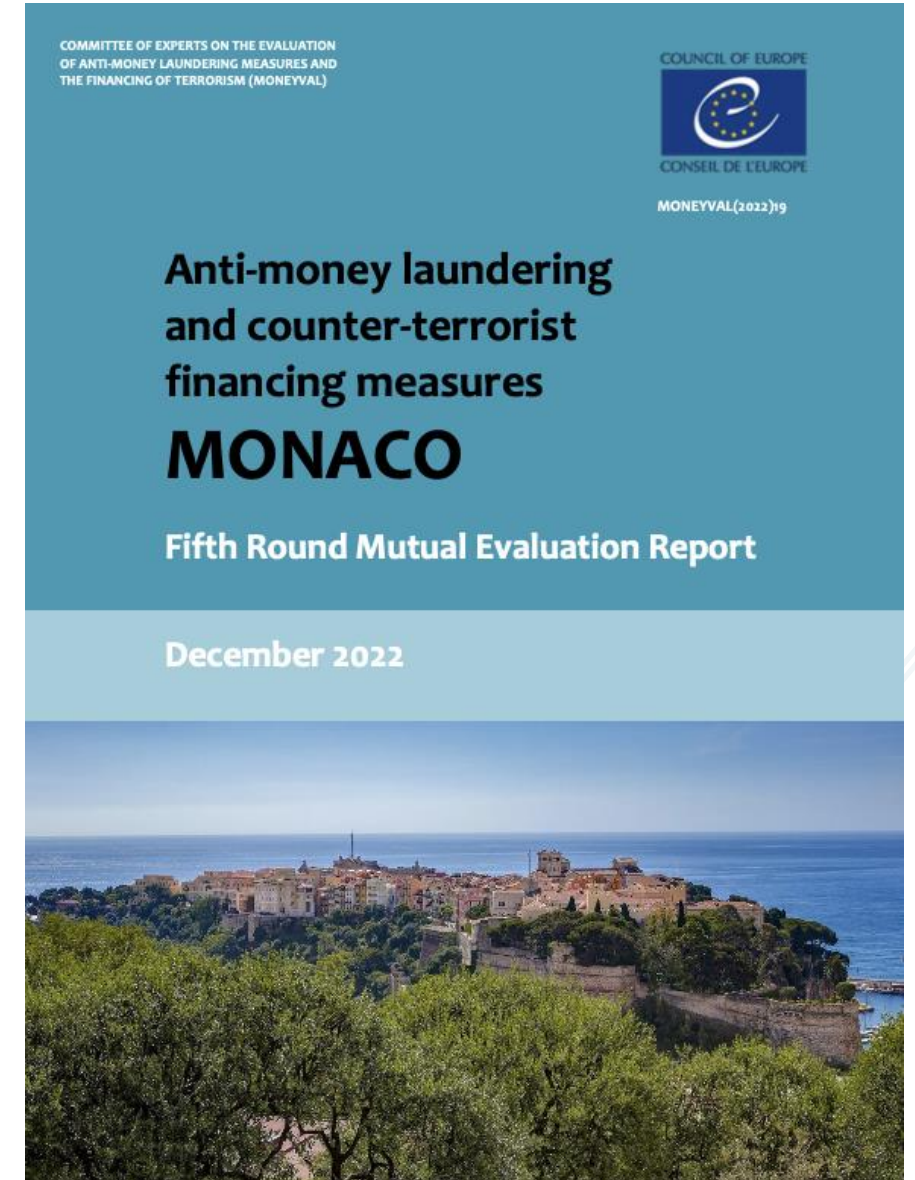
# Monegasque legal framework

- The relevant legal obligations relating to the analysis and reporting of suspicious transactions for all reporting entities, are set out in:
  - **Art. 14 of the Law 1.362 (special examinations)**
  - **Chapter V (Art. 36 to Art. 45) of the Law 1.362 (STRs & mandatory reporting)**
  - **Art. 31 & Art. 36-2-1 of SO 2.318 (internal controls on reporting & form of reporting)**
- Professionals must file **confidentially and without delay** all transactions or attempted transactions involving sums or funds that they know or suspect to be derived from a predicate offence for money laundering or are related to terrorist financing or corruption offence, **before** the transaction is executed.

# 2022 MONEYVAL evaluation

Recommended action:

"The authorities should take measures to **improve the quality of STRs**, in particular by providing **guidance** and additional **red flags indicators**, by further developing the **typologies**. Ensure that the reporting entities **understand** and **timely fulfil** their STR obligations and that the internal audit and control departments **monitor** their sustainable implementation."

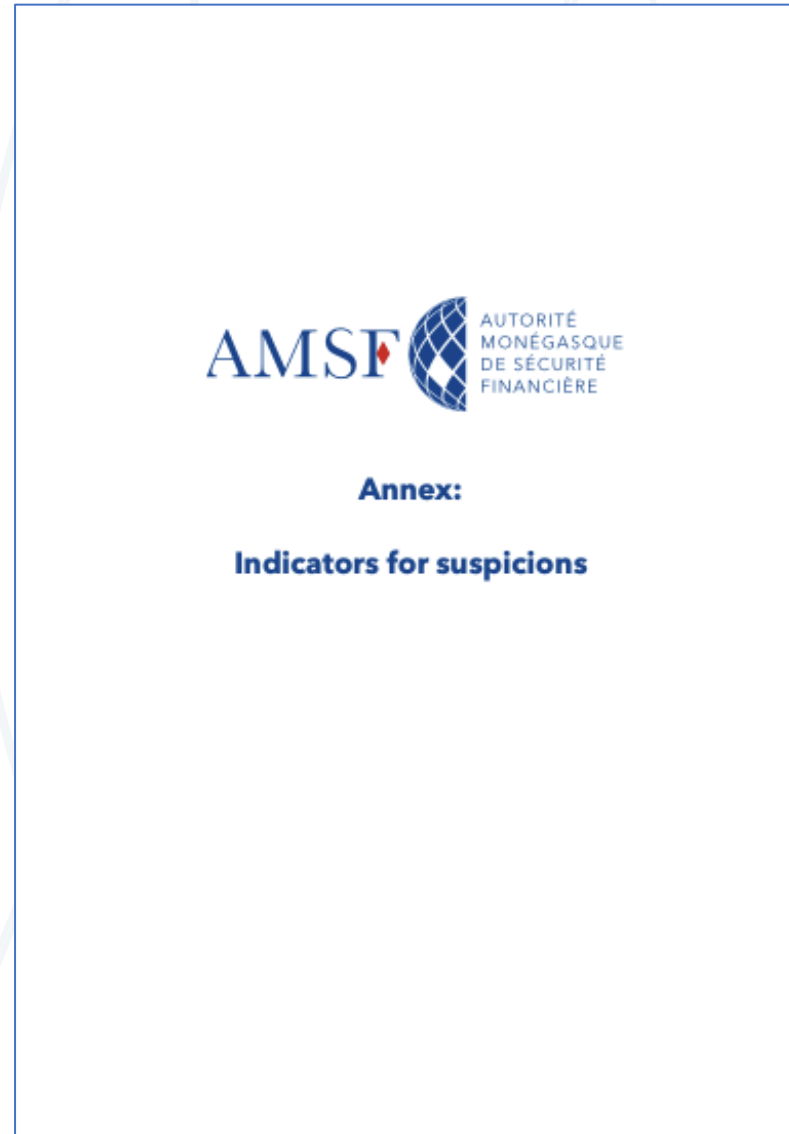
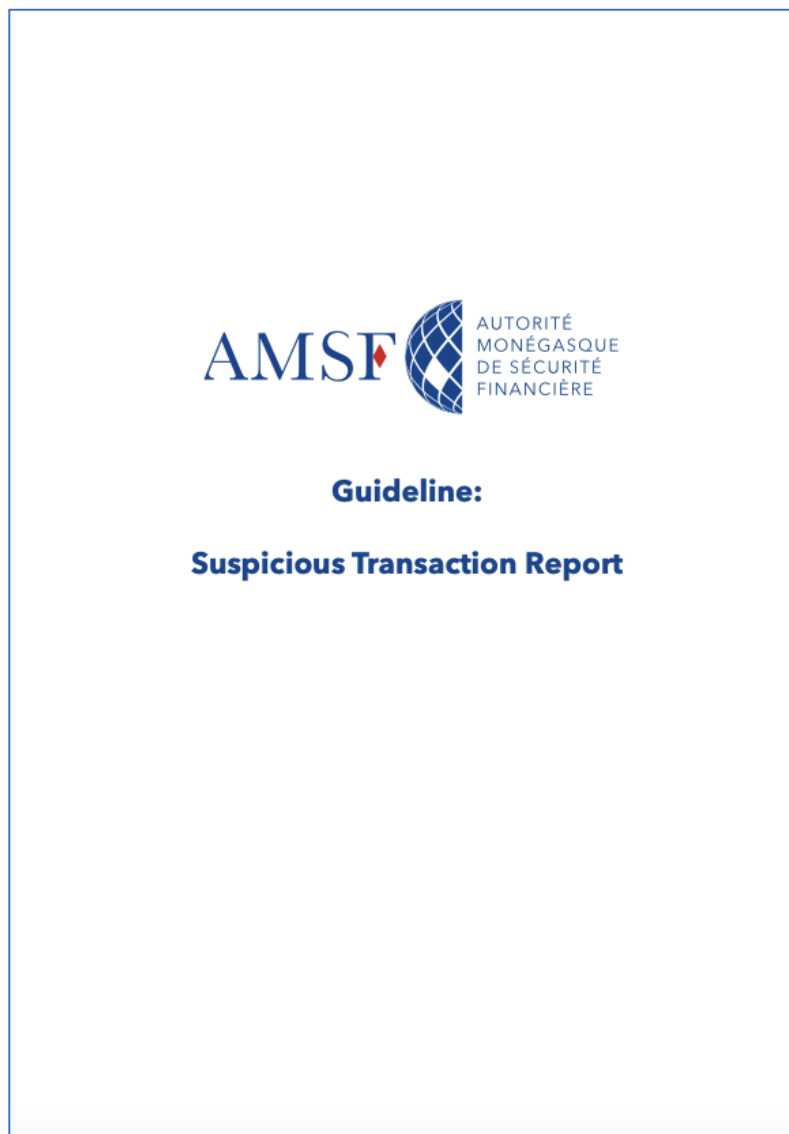
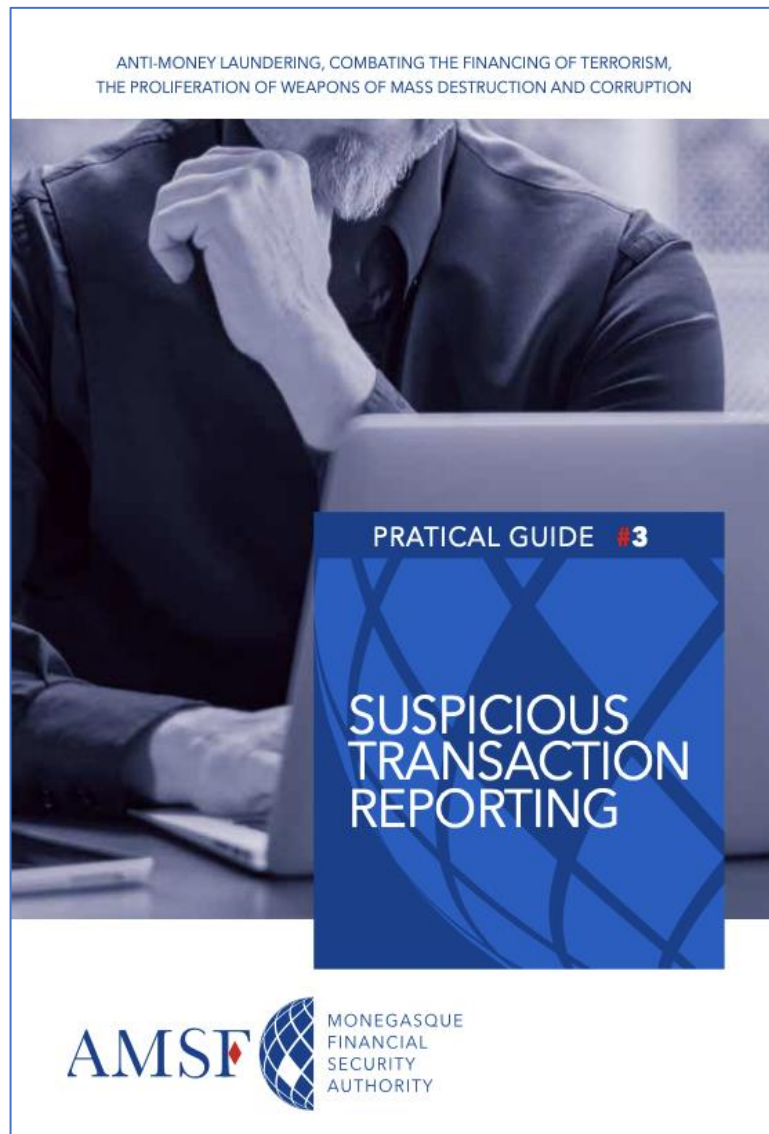


# Examples of actions taken pursuant to MONEYVAL Recommendation

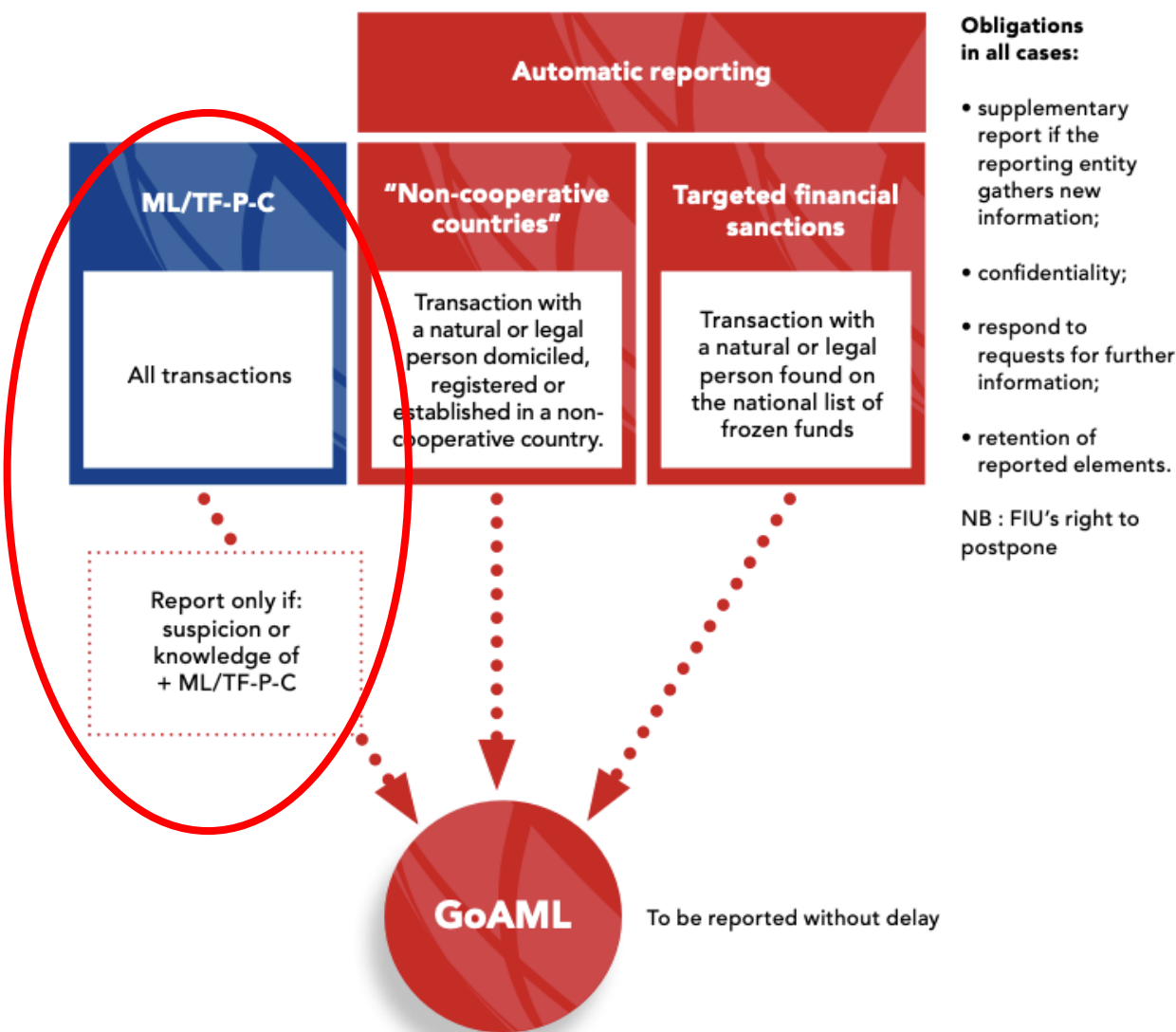
- Implementation of **GoAML platform** for STR reporting
  - Relevant instructions and training slides on the use of GoAML are published on [this AMSF webpage](#)
- **AMSF publications** providing guidance on STR obligations and red flags indicators:
  - Short Practical Guide on STRs, providing a brief global overview of reporting obligations
  - Detailed Guideline on STRs, containing more detailed explanations of reporting obligations as well as an Annex with Indicators for suspicions
  - Guidance on PEPs, in light of exposure of Monaco to proceeds of offences of corruption and influence peddling & Guidance on Private Banking and Wealth Management, in light of high-risk exposure of these sectors, including specific red flags indicators related to these areas
  - All of these publications are available in French & English at [this AMSF webpage](#)
- **Training** organised by AMSF & FTA, including:
  - 2023 AML Tuesdays sessions on STR reporting and Typologies & Red flags relating to TFS, TF and PF
  - In-person training on "Effective STR reporting" from 13-16 November 2023



# Guidance on STR obligations and red flags indicators



# Some key points on STR obligations



# June 2024: Monaco grey-listed by FATF

To be removed from the list, the FATF expects to see the **effects of these efforts** and to note **improvements in the quality and timeliness of STRs filed in practice**:

## MONACO

In June 2024, Monaco made a high-level political commitment to work with the FATF and MONEYVAL to strengthen the effectiveness of its AML/CFT regime. Since the adoption of its mutual evaluation report (MER) in December 2022, Monaco has made significant progress on several of the MER's recommended actions including by establishing a new combined financial intelligence unit (FIU) and AML/CFT supervisor, strengthening its approach to detecting and investigating terrorism financing, implementing targeted financial sanctions and risk-based supervision of non-profit organisations. Monaco will continue to work with FATF to implement its action plan by: (1) strengthening the understanding of risk in relation to money laundering and income tax fraud committed abroad; (2) demonstrating a sustained increase in outbound requests to identify and seek the seizure of criminal assets abroad (3) enhancing the application of sanctions for AML/CFT breaches and breaches of basic and beneficial ownership requirements; (4) completing its resourcing program for its FIU and strengthen the quality and timeliness of STR reporting; (5) enhancing judicial efficiency, including through increasing resources of investigative judges and prosecutors and the application of effective, dissuasive and proportionate sanctions for money laundering; and (6) increasing the seizure of property suspected to derive from criminal activities.

**AML Tuesdays session of 17/09/2024** will provide further information on the FATF's decision to grey-list Monaco and the ICRG follow-up process and actions to be implemented to exit the list



## Typologies, including new and emerging typologies

# Common typologies involving high-value property

Common, “**classic**” **ML techniques** in scenarios reported worldwide whereby criminals and their associates (incl. corrupt actors) use transactions in real estate or other high-value properties such as yachts (see also **Monaco NRA 2**, p. 103 & p. 115):

## 1. Techniques related to the financing of the transaction:

- Direct acquisition of the property without any financing from a regulated financial institution
- Use of (complex) loans: loan-back schemes; pay loan off with illegal funds
- Use of mortgages: use front men to obtain mortgage; obtain inflated mortgages; pay off with illegal funds
- Use of investment schemes: infiltration by criminals as co-investors/managers of property investment funds

## 2. Techniques related to the parties involved in the transaction

- Use of non-financial service providers: use gatekeepers (TCSPs, lawyers, etc.) as introducers, nominees or escrow
- Use of corporate vehicles to conceal end user/BO: SCIs, offshore/shell companies, complex structures (e.g. trusts)

## 3. Other techniques

- Manipulation of the appraisal or valuation of a property: under- or overvaluation; successive sales chains, property flipping
- Use of monetary instruments: use of cash (for part of the price – “under the table”), use of transit accounts
- Use of properties to conceal money generated by illegal activities: to pay rent, pay charter fees, exploit business

# Example of loan-back scheme for purchase of property

**Loan-back schemes:** A criminal borrows their own criminal money, simply by creating a loan agreement between themselves or their representative and an apparent “third party”. **Foreign offshore corporations** controlled by the criminal are most commonly used as the **“third party lender”**.

Example of how a loan-back scheme (combined with ML by the use of property) could work in practice:

- Dirty money, derived from criminal activities of Criminal A in Italy, has been deposited into a foreign bank account of Corporation B in the Bahamas.
- In Italy, a new company C is incorporated. Criminal A is appointed as a director of Company C.
- Company C borrows money from the foreign company B in order to finance a **real estate or yacht purchase** in Monaco.
- Once it has been purchased, the real estate is rented / the yacht is chartered to third parties.
- With the funds generated by the rent/chartering, combined with other funds derived from criminal activities, Company C pays off the loan to Corporation B, and also pays a high salary to Criminal/Director A.
- Criminal A now converted his dirty money in legal funds.

# New and emerging typologies

- Global and regional bodies such as FATF periodically publish **reports describing new and emerging ML/TF typologies** observed worldwide
- Reporting entities should keep themselves informed about such publications and determine which typologies can be **relevant in the context of their own geography, sector, business, customer profile and activities**
- The reporting entity should monitor evolving risks on a continuous basis to determine whether there is a need to update its policies and procedures in order to adapt to the risks, e.g. whether there is a need to **add new red flags to its internal list of indicators** for potentially suspicious activity on the basis of such typology reports



# Example of recent publication on typologies



- CBI/RBI programmes attract an array of clients, many of whom have gained their assets legitimately and have benign intentions.
- However, they can also be abused by criminals who seek to launder and conceal proceeds of crime or commit new offences, undermining these programmes' intended objectives.
- As the popularity of investment migration programmes has grown, the **risk of illicit actors utilising these programmes to their advantage has also increased.**
- CBI programmes are particularly vulnerable, because they allow illicit actors more global mobility and possibilities to disguise their true identity by obtaining new ID documents
- High-risk individuals can also use a frontperson (family member or associate) to make the application for CBI/RBI. This typology is particularly salient in the case of **PEPs/corrupt actors/sanctioned individuals.**



# Misuse of CBI/RBI - observed typologies in Europe

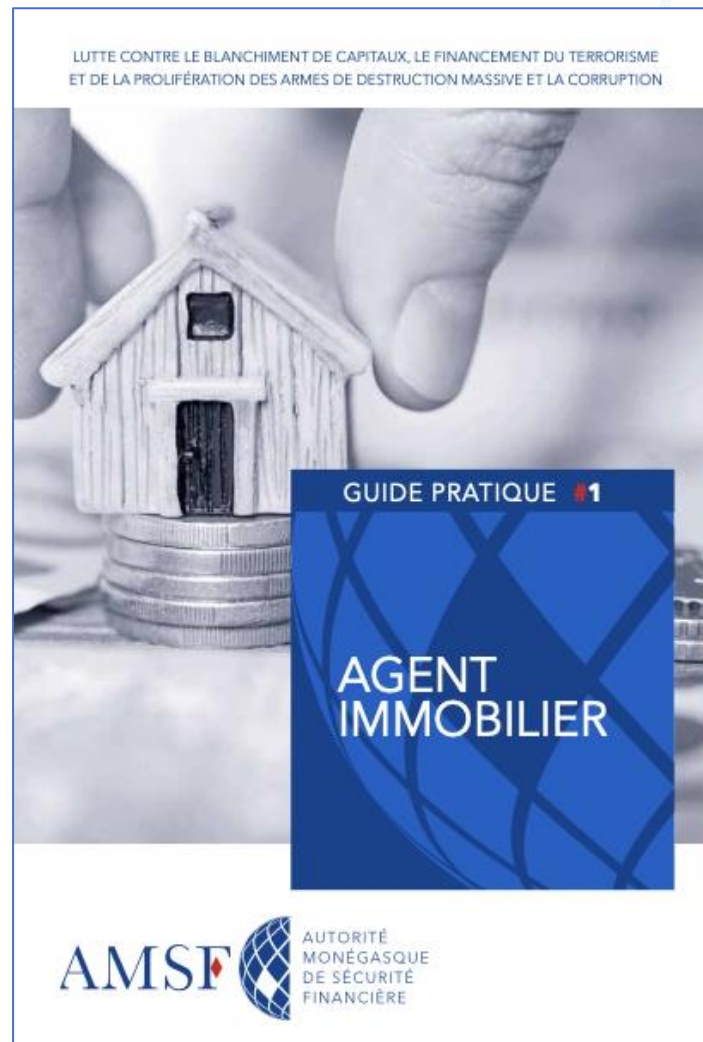
From **European Commission's 2022 supra-national risk assessment (sNRA) for ML/TF**, chapter on CBI/RBI risks:

- The sNRA cites numerous examples of jurisdictions with **CBI schemes that have attracted wealthy people known or suspected to be involved in money laundering schemes**, including Malta, Cyprus, and Caribbean jurisdictions. In the EU, only Malta still operates investor citizenship schemes.
- Since the imposition of EU and U.S. economic sanctions, visa bans and asset freezes on Russia following its invasion of Ukraine in 2014, there has been **a surge in Russian applications for investor citizenship schemes worldwide**; this has given rise to the **risk of sanctions evasion** in addition to the potential laundering of illicit funds:
  - **Malta** suspended its scheme for Russians & Belarussians in March 2022, but many Russians are known to have benefitted from the scheme before that date.
  - A journalist investigation into **Cyprus's** investor citizenship scheme revealed several Russian nationals on US or EU sanctions lists who allegedly obtained Cypriot citizenship before the programme was suspended/abolished.
- **Proliferation financing/sanctions evasion risks:** North Korean nationals have also previously managed to obtain alternative passports (notably in **Caribbean countries**), which they use to conduct business worldwide.
- The EC concludes that the estimated risk level of ML for CBI/RBI schemes is **VERY HIGH**.

# Misuse of CBI/RBI programmes – enhanced vigilance and red flags

- The OECD maintains an [overview of jurisdictions](#) with high-risk CBI/RBI schemes
- The EU sNRA also provides examples of jurisdictions with schemes that are controversial or known to be exploited (see previous sheet)
- Reporting entities should subject customers with citizenship/residency from jurisdictions with high-risk CBI/RBI schemes to **enhanced checks**, e.g. to determine:
  - whether they benefited from CBI/RBI schemes;
  - whether they have changed their identity in the course of the CBI process;
  - ensure that all their names, nationalities and passports are disclosed as part of CDD etc., and **closely monitor/scrutinize the transactions of persons who benefited from such schemes**
- ▶ A customer benefited from a foreign CBI scheme or a RBI scheme in a foreign jurisdiction with limited transparency, screening and monitoring measures for investors

# AMSF resources containing sector-specific typologies and case examples



# Typologies observed in ML cases in Monaco involving real estate and yachts

- Real estate and yachting sectors are both **high-risk sectors** for abuse for ML in Monaco – see **NRA 2**.
- The analysis of ML case studies (STR disseminations and law enforcement investigations) analysed for the **2023 National Threat Assessment** identified that real estate transactions feature frequently in the cases and that yachting transactions also feature in multiple cases.
- Examples of features of ML cases involving real estate or yachting sectors:
  - Acquisition of property by **organised crime actors** connected to mafia groups in Italy and the Balkans
  - Acquisition of property by **Russian oligarchs** or persons connected to them, including through Monegasque businesses
  - Transactions in properties by Monegasque residents funded by foreign transfers from **offshore companies** or through unsubstantiated sources of funds (e.g. uncorroborated claims of inheritances, family loans)
  - Loans between different companies connected to the suspects (possible **loan-back scheme**)
  - Transactions involving **SCIs**, including SCIs with bank accounts in Monaco



03

## Red flags indicators



## POINTS TO WATCH

Reporting entities must adopt their own indicators in the light of their activity and risk profile.

The mere presence of an indicator is not necessarily grounds for suspicion of ML/TF-P-C, but may prompt surveillance and closer examination. Conversely, a number of indicators may be grounds for suspecting ML/TF-P-C.

Indicators must always be considered in context.

Indicators are points of attention that arouse suspicion or allow the reporting entity to detail its suspicions about a given transaction. The AMSF proposes a **non-exhaustive list** of indicators, which can be consulted on its website.



The next slides contain **non-exhaustive examples of indicators**

**Reporting entities** should develop their own internal lists of red flags, tailored to their **own activities and profile**: products and services, customer base, transaction sizes, etc.



**Annex:**

**Indicators for suspicions**

**Summary**

I. Cross-sectoral indicators.....	3
General indicators .....	3
Specific indicators for terrorist financing .....	6
Specific indicators for corruption and laundering of proceeds of corruption.....	8
II. Indicators for financial sectors .....	10
Retail banks .....	10
Private banking .....	12
Asset management companies .....	13
Life insurance brokers & agents.....	16
Bureaux de change .....	17
Pawnbrokers .....	18
III. Indicators for DNFBP sectors .....	19
Real estate sector.....	19
Casino sector.....	22
Legal professionals and accountants .....	24
TCSPs .....	29
Business centers .....	30
Dealers in Precious Metals & Stones, Jewellers and Watchmakers .....	31
Yachting/chartering sector and Motor vehicle sector.....	32
Arts & antique dealers and Auction houses .....	32
Sports agents .....	33

# General red flags indicators across sectors

Indicators relating to  
**customers**

Indicators relating to  
**transactions &  
payment methods**

**Geographical** indicators

Indicators relating to  
**distribution channels**



Examples of indicators relating to customers, particularly **customer behaviour**:

- ▶ The customer offers to pay a higher price for unusual services or in exchange for more discretion
- ▶ The customer is highly reluctant, refuses to provide information, or provides minimal, unclear or inconsistent information, or seemingly fictitious information, in relation to his/her identity, the identity of BOs, their business activities, etc.
- ▶ The customer tries to persuade the (representative or employee of the) reporting entity to not keep records of any documents that it has shared



# Corruption red flags indicators

Indicators relating to **PEPs** *(see also the indicators in the PEP guidance)*

**Other** indicators relating to corruption

Examples of indicators relating to **PEPs**:

- ▶ Customer or beneficial owner is a PEP who receives a modest official salary, but who seeks to purchase substantial assets/high-value goods, without any apparent legitimate additional income (business interests, inheritance etc.)
- ▶ Use of family members or close associates as legal owners of companies related to PEPs
- ▶ Transactions involve funds moving to and from countries with which the PEP do not appear to have legitimate ties

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<i>Life insurance brokers &amp; agents</i> .....	16
<i>Bureaux de change</i> .....	17
<i>Pawnbrokers</i> .....	18
III. Indicators for DNFBP sectors .....	19
<i>Real estate sector</i> .....	19
<i>Casino sector</i> .....	22
<i>Legal professionals and accountants</i> .....	24
<i>TCSPs</i> .....	29
<i>Business centers</i> .....	30
<i>Dealers in Precious Metals &amp; Stones, Jewellers and Watchmakers</i> .....	31
<i>Yachting/chartering sector and Motor vehicle sector</i> .....	32
<i>Arts &amp; antique dealers and Auction houses</i> .....	32
<i>Sports agents</i> .....	33

# Indicators for the real estate sector

Indicators related to  
trades and value of the  
property

Indicators related to  
customer/customer  
behaviour

Indicators related to  
financing arrangements

Indicators related to  
structures holding the  
property

*Note: many of these  
indicators can **also be  
relevant for other  
sectors** involving high-  
value properties,  
including **yachting***

# Examples of indicators

## Indicators relating to **value of the property**:

- ▶ The property has been traded multiple times in a short period of time, without an acceptable explanation
- ▶ Profit margins of previous trades of the property have been unusually high
- ▶ Customer is involved in frequent transactions without having a background in real estate trading
- ▶ Sellers seek to sell a property or buyers seek to purchase a property for values which are not proportionate to the real value of the property (either too high or too low)

## Indicators relating to **structures to hold property**:

- ▶ A transaction involving a company, when there does not seem to be any relationship between the transaction and the activity carried out by the company
- ▶ A transaction involving a company with no business activity
- ▶ A transaction involving recently established entities
- ▶ The property involved is (to be) held by a domestic or foreign vehicle for which it cannot be confirmed and corroborated that it has declared beneficial ownership in the jurisdiction of incorporation in spite of a legal obligation to do so, and this situation is not rectified in a timely manner

# Additional indicators for the yachting sector

- ▶ Customer seeking to purchase or rent a yacht for a disproportionately high price compared to their business profile or revenues
- ▶ Request to register the yacht on a different name than the name of the person leading the negotiation of the purchase, especially where the person in whose name the property must be registered has not been physically present at any time during the negotiations or where there is no clear relationship between the two persons
- ▶ Request to send the invoice to another party than the customer
- ▶ A customer seeks to return or exchange a recently purchased yacht or vehicle without a clear reason
- ▶ Indicators of structuring transactions, e.g. request to split one transaction into multiple transactions or the amount of the money paid in cash remains just below the maximum threshold for cash payments (Monaco: EUR 30.000) or just below the threshold for the application of due diligence for occasional transactions (Monaco: EUR 15.000).

# Indicators observed in STRs submitted in Monaco, involving real estate or yachting sectors

- Unexplained changes in third parties paying the rent for a property
- Unexplained closure/changes of bank account used to pay rent
- (Attempted) transactions by family members of foreign PEPs (subject to corruption allegations)
- High-net worth foreign individuals using SCIs
- Links to Russian oligarchs and sanctioned individuals or entities
- Funds coming from/flowing through high-risk offshore jurisdictions from tax perspective

## Fictionalized case study: Application of red flags scenario in practice

*Note: the features of this fictionalized case study are applied in this example to a real estate transaction – however, they could just as well be applied to the purchase of a yacht*

- Real estate agency ABC is approached by Mr. X, a French businessman, resident in Monaco, who seeks the agency's help to find and acquire an apartment in Monaco as an investment to rent out.
- The apartment is to be held by a recently created Monegasque SCI. Mr X has no previous track record of purchasing luxury real estate as investment objects.
- After having visited some premises on the market, Mr X expresses his interest to acquire a property of > €20 million and instructs ABC to proceed with the negotiations to secure the deal.
- During the CDD process, the agent notices that the value of the property appears high compared to Mr X's declared and corroborated sources of income. Upon questions, Mr X mentions that the source of financing for the acquisition is to come partly from direct contributions by Mr X, partly through a mortgage of a bank, and partly from a loan from a BVI investment company.

## Fictionalized case study (*continued*)

### Red flags immediately identified by the reporting entity:

- ▶ Property to be held by a recently created civil-law partnership (SCI)
- ▶ Value of the property appears somewhat disproportional to the declared and corroborated income of the customer and customer has no track record in real estate investments of this scale
- ▶ Multiple-sourced financing arrangements, including a loan from an unregulated entity from an offshore jurisdiction posing high risks in relation to tax regime and corporate transparency
- ▶ No clear apparent link between the apparent UBO of the transaction (France/Monaco)/the object of the transaction (Monaco) and the location of one of the financiers (BVI)

Hence, on the basis of the real estate agency's internal procedures, the agent decides to quickly escalate the case to the compliance department for a **special examination**, without tipping off the prospective customer.



## Fictionalized case study (*continued*)

The compliance department instructs the agent to **collect further CDD information**, resulting in the following findings:

- The shareholding structure of the Monegasque SCI is straightforward and shows that it 50% owned by Mr X and 50% by his wife.
- Mr. X has vague responses in respect of questions from the agent on the BVI investment company. Mr X only mentions that the company is owned by a Maltese business acquaintance of his, Ms Y, who made her wealth in the US and Malta healthcare business and is seeking to diversify her investments, including through the financing of real estate portfolios in luxury markets.
- Mr X repeatedly fails to provide any details or documentation on the intended mortgage from a bank, saying that he is still negotiating with multiple banks to obtain the best deal. He tries to reassure the agent that all will be made in order quickly once the deal will go through and that, should he fail to secure a mortgage, the BVI company may also be willing to increase their loan.

## Fictionalized case study (*continued*)

At the same time, ABC carries out a **detailed analysis of open-source and media information** on all parties and entities to be involved in the transaction.

No adverse information is identified on Mr X and his wife. However, the following information is identified on Ms Y (UBO of one of the financiers):

- Ms Y comes from a wealthy, well-connected Indian family, has Maltese citizenship, and is the director (and possibly one of the UBOs) of the Maltese healthcare company DEF
- DEF is subject to adverse media in Malta, notably allegations of collusion between public officials deciding on the privatisation and the winning company's UBOs. DEF reportedly obtained important contracts for the private operation of three Maltese hospitals a few years ago, shortly after it was set up, with no prior track record in healthcare business.
- DEF is reported to have an opaque ownership structure with various legal entities involved, including in offshore jurisdictions, and the journalists did not manage to identify the UBOs

## Fictionalized case study (*continued*)

### Additional red flags identified through the special examination:

- ▶ The customer is reluctant or unable to provide clear information on the financing sources and supporting documentation. The delay in providing clarity on a loan/mortgage from a regulated entity (bank) may be due to CDD concerns also being present on the side of the banks.
- ▶ The confirmed, non-regulated financier is an offshore legal entity controlled by the director of a foreign company, which has been awarded a major public contract shortly after its establishment (= red flag for corruption), who may be a PEP and who may have benefited from a high-risk CBI programme
- ▶ Adverse media in relation to corruption on the foreign company associated to the unregulated financier.

Hence, following the special examination, before going ahead with any further business with Mr X, the real estate agency decides to **file an STR with the FIU, describing all of the red flags identified**, as well as sharing all of the relevant CDD information, on the basis of the suspicion that part of the funds intended to be used to purchase the property derive from foreign corruption and that Mr X may be colluding with the perpetrators, in an attempt to help launder the proceeds of their crimes through the Monegasque real estate market.

*Thank you for your  
time*

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## Next Session:

17.09.2024

## Topic:

ICRG Discussion

Today's Host: Tamar Goderdzishvili

Today's Presenter: Suzanna van Es