

AML Tuesday's Session #41 on:

Evolving AML/CFT Risks

28 November 2023

Discussion Topics

01

Type of Money Laundering Emerging Risks

02

Emerging Risks in Terrorism Financing

03

How the Private Sector Can Identify Emerging Risks

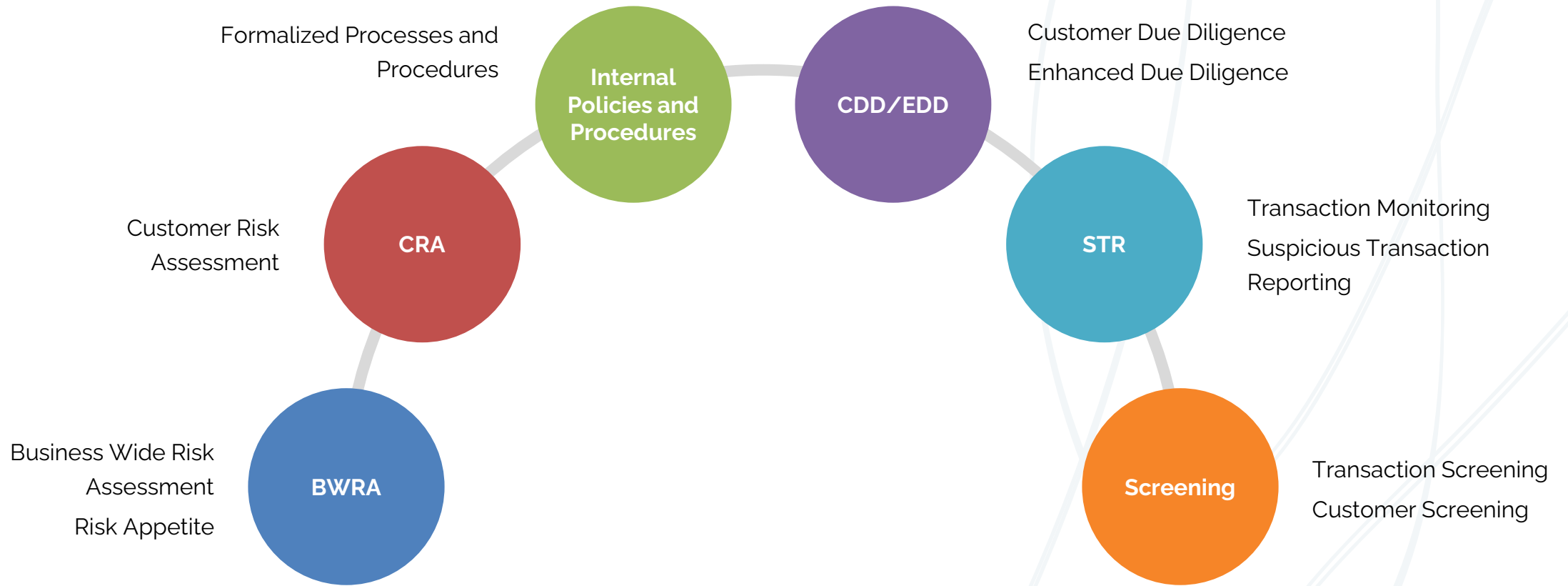
04

What to do in Practice

Characteristics of Emerging Risks

- Large scale events
- Often, arises from global trends
- Beyond our capacity of control
- Can cross geographic borders, industries, and sectors
- Difficult to quantify the impact
- Hard to predict
- Traditional risk management identification and assessment process may not work

AML/CFT Risk Management – Key Controls



Emerging Risks – Money Laundering



Technological Development



Ukraine – Russia Sanctions



EBA White Labeling



EBA Virtual IBANS



Environmental Crime Risks

Emerging Risk – Blockchain/Virtual Assets

High Transaction Speed

Global Reach

Principality

Anonymity

Possibility to bypass centralized regulators and law enforcement

Type of assets – privacy coins

Non-fungible Tokens NFTs

Crypto Assets

Russian Sanctions Evasion – Red Flags

- The Use of Pooled Investment Vehicles in CRE – Fin Cen Alert
- The use of a private investment vehicle that is based offshore to purchase CRE and that includes PEPs or other foreign nationals (particularly family members or close associates of sanctioned Russian elites and their proxies) as investors.
- Multiple limited liability companies, corporations, partnerships, or trusts are involved in a transaction with ties to sanctioned Russian elites and their proxies, and the entities have slight name variations.
- The use of legal entities or arrangements, such as trusts, to purchase CRE that involves friends, associates, family members, or others with a close connection to sanctioned Russian elites and their proxies.
- Ownership of CRE through legal entities in multiple jurisdictions without a clear business purpose.
- Private investment funds or other companies that submit revised ownership disclosures to financial institutions showing sanctioned individuals or PEPs that previously owned more than 50 percent of a fund changing their ownership to less than 50 percent.
- The purchase, sale, donation, or legal ownership transfer of high-value real estate in the name of a foreign legal entity, shell company, or trust, especially if the transaction: (i) is far above or below fair market value, (ii) involves all-cash transfers, or (iii) is funded by a third party with a known nexus to sanctioned Russian elites and their proxies.
- Transactions involving PMSJ trading companies, particularly in Asia, and firms with a nexus to sanctioned Russian elites and their proxies

Environmental Crime Risks

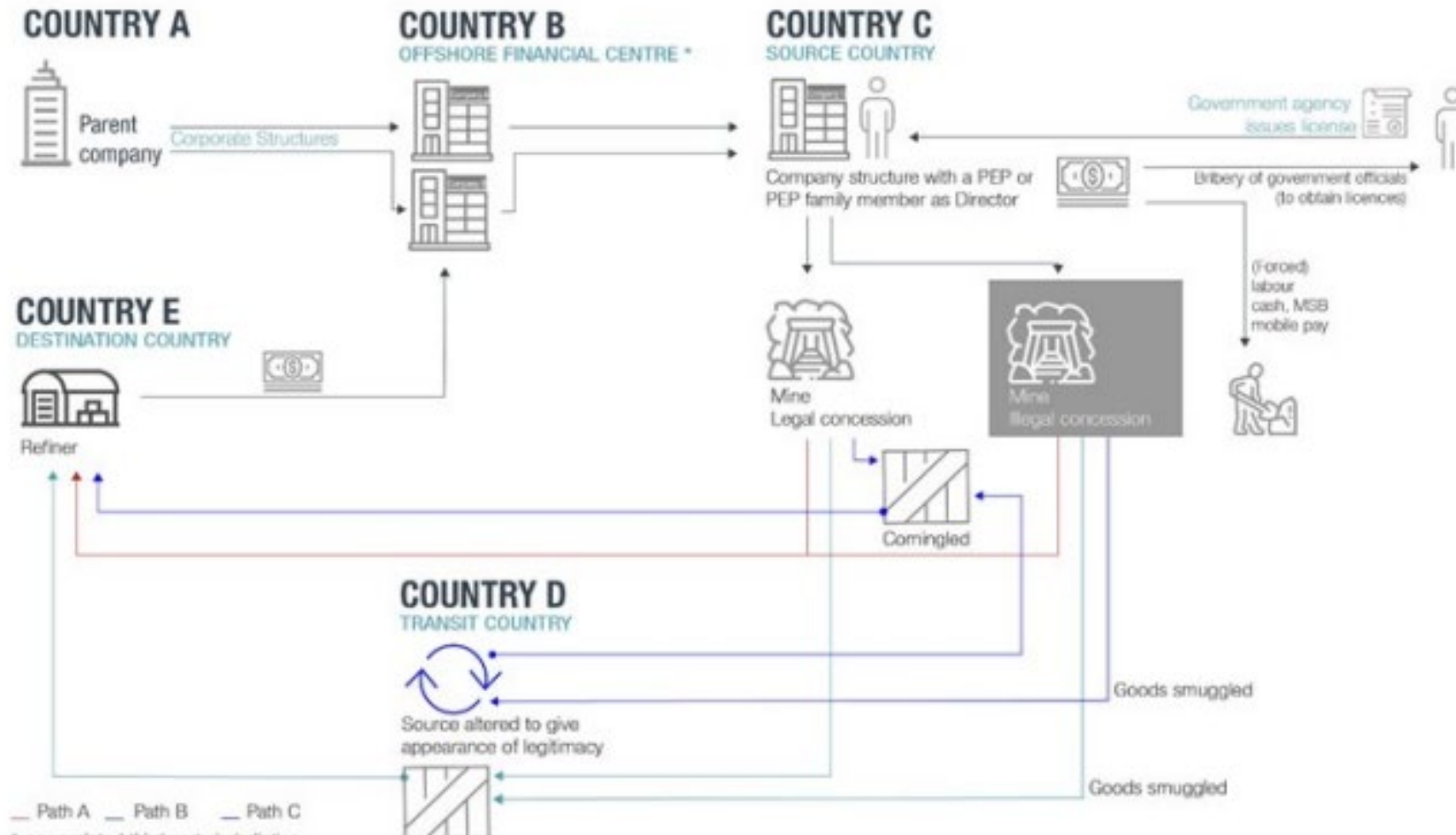
- There is no universal definition of environmental crime; it generally refers to criminal offenses harming the environment including illegal logging, illegal land clearance, illegal mining, and waste trafficking.
- Environmental crime is generating around USD 110 to 281 billion in criminal gains each year
- These activities become illegal when: (i) undertaken without state permission, (ii) when contracts and concessions are secured through corruption or intimidation, (iii) when services involve fraud (e.g., false treatment of hazardous waste), and (iv) for logging/mining, when extraction contravenes agreed terms, such as quotas or other requirements.

Environmental Crime Risks – Red Flags

- Use of Front Companies to Co-mingle Illegal and Legal Proceeds
- Use of Shell Companies to Hide Beneficial Owners
- Transfers from a country where the gold smelters are located to source countries for gold, and almost immediate cash withdrawal of the majority of the transfer.
- Companies operating in the logging sector with frequent transactions to offshore financial centers.
- Individuals and entities are cited in newspapers, NPO investigative reports or reports by international organizations (public and confidential) as being involved in bribery, corruption, environmental or other organized crimes.
- Customers with mining licenses operating in or around active conflict zones.
- Individual identified as a manager or director of several companies linked to environmental extraction.

Environmental Crime Risks

Figure 2.7. Example of Criminal Supply Chain for Illegal Mining



Emerging Risks - TF

Terrorism Financing

- Fundraising through social media
- Collecting terrorism-related funds through crowdfunding techniques
- Fundraising through virtual currencies
- Charitable organizations and foundations

Collection



- Transshipment of goods
- Cash smuggling
- Funds transfers from/to jurisdictions impacted by terrorism or considered terrorist hotspots

Movement

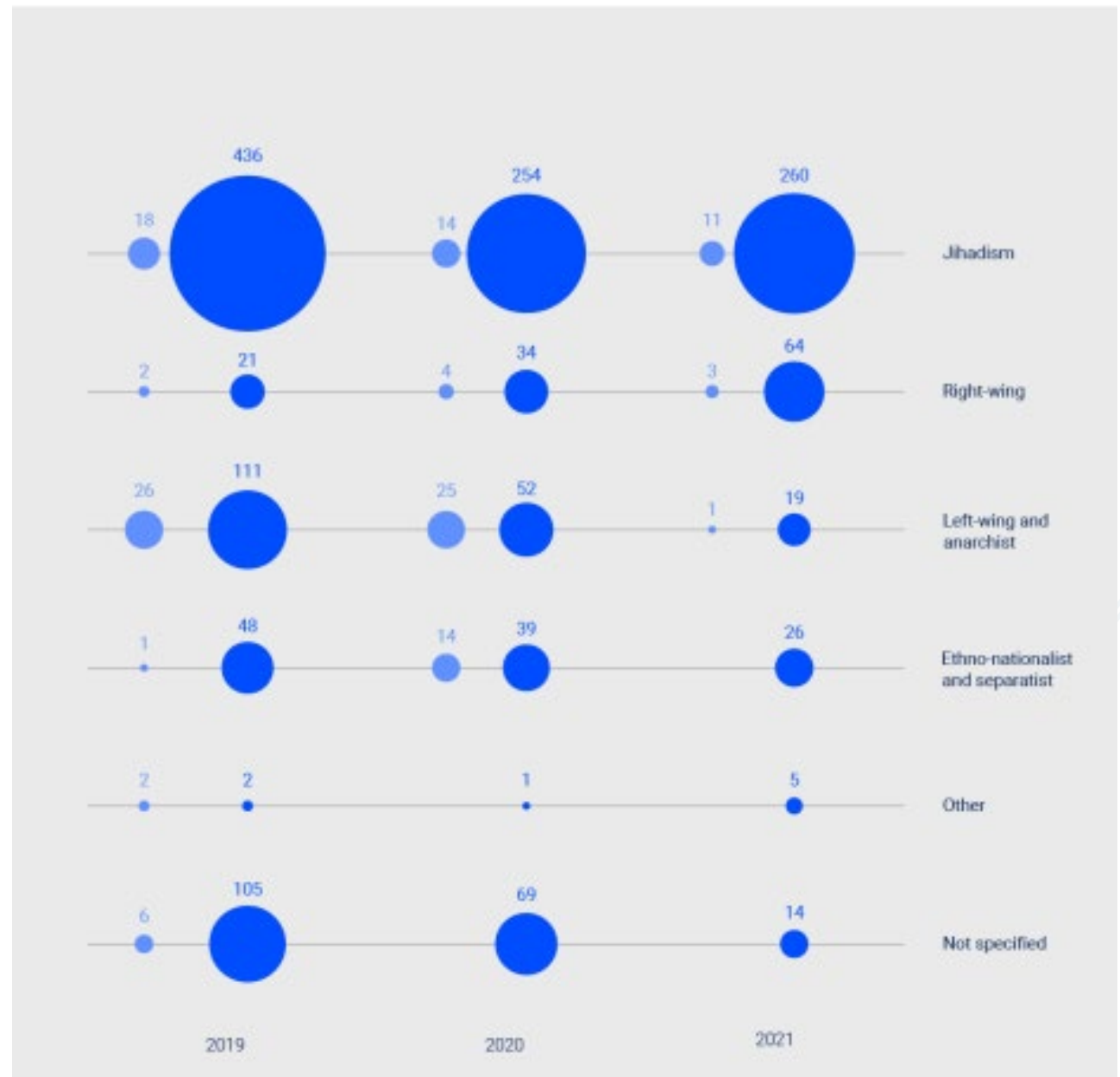


- Terrorist attack
- Maintenance of terrorist networks and infrastructure
- Investment of terrorism-related funds

Use



Terrorist Attacks Completed, foiled, failed, And arrests on suspicion of Terrorism in the EU per type of terrorism 2019-2021



Source: Europol, EU Terrorism Situation and Trend Report 2022

Emerging TF Risks

1

Social Media/Crowdfunding

Donating money through easy-to-access crowdfunding online campaigns set up for an actual real cause

Analyze

Online Wallet Activity,
Customers – Media Search

2

Virtual Currency

The use of digital currency, cryptocurrency and virtual assets service providers (VASPs) enables terrorist and extremist groups to increasingly misuse crowdfunding

Analyze

Virtual Activity in Terms of Customers and Transactions. VASP Customers

3

NPOs

NPOs in the past have been misused by terrorist organizations as conduits for TF or to conceal/obscure clandestine diversion of funds for terrorist purposes.

Analyze

NPO Activity, NPOs operating in border regions close to TF Risk Jurisdictions.

Terrorism Financing – Cases

- **Case of Ali Shukri Amin** - was sentenced to 11 years in prison to be followed by a lifetime for support to the ISIL. He admitted to using Twitter to provide advice and encouragement to ISIL and its supporters. Amin, who used the Twitter handle @Amreekiwitness, provided instructions on how to use bitcoin, a virtual currency, to mask the provision of funds to ISIL, as well as facilitation to ISIL supporters seeking to travel to Syria to fight with ISIL. Amin's Twitter account boasted over 4 000 followers and was used as a pro-ISIL platform during the course of over 7,000 tweets.
- **Crowdfunding** - On February 4th, 2022, GoFundMe closed a campaign supporting the [“Freedom Convoy”](#) due to concern it had become an “occupation” and amidst widespread reports of violence. Crowdfunding has also supported [Islamic State \(IS\) operatives](#) in Syria. In total the crowdfunding page raised 10 million dollars.

Emerging Risk – VA Red Flag Indicators

Transferring large amount of VAs to multiple foreign VASPs with High risk Jurisdictions

Incoming Transactions from many wallets in relatively small amounts

Entities that operate as an unregistered/unlicensed VASP on peer-to-peer exchange websites.

Receiving funds from or sending funds to VASPs whose CDD/KYC are weak, and are not subject to AML/CFT supervision

Emerging Risk – NPO Red Flag Indicators

Frequent use of cash

Donations for brothers/struggle/different words

Ambiguity about the purpose of NPOs or inconsistencies between the purpose and actual activities

Unnecessarily complex financial and transactional structures within NPOs, leading to the lack of transparency for the origin and or use of funds

Emerging TF Risks – Hamas Financing

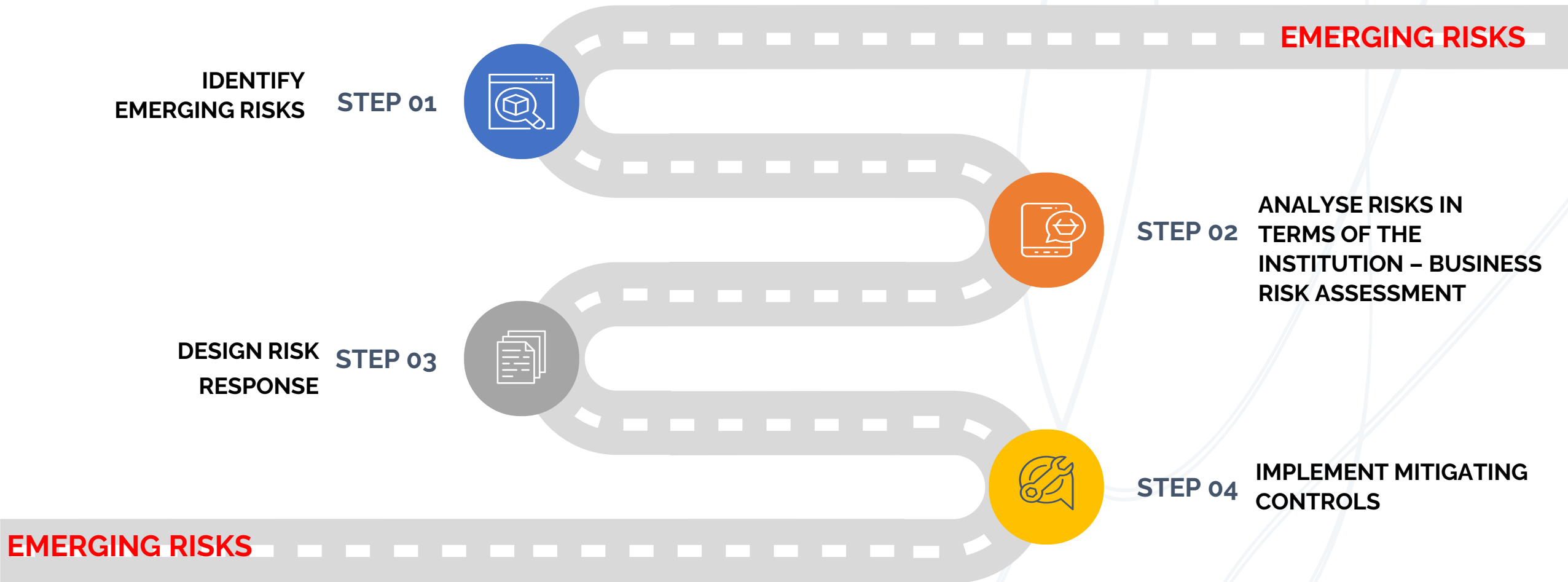
- On October 18th, OFAC Designated Hamas Operatives and Financial Facilitators
- Qatar Based financial facilitator managing secret assets of Hamas investment portfolio with close ties with Iran, Key Hamas Commander, and a Gaza-based virtual currency exchange.
- In addition to the funds Hamas receives from Iran, its global portfolio of investments generates vast sums of revenue through its assets, estimated to be worth hundreds of millions of dollars, with companies operating in Sudan, Algeria, Türkiye, the United Arab Emirates, and other countries.
- The companies in Hamas's portfolio have operated under the guise of legitimate businesses and their representatives have attempted to conceal Hamas's control over their assets.
- Hamas's Investment Office, held assets estimated to be worth more than \$500 million, including companies operating in Sudan, Turkey, Saudi Arabia, Algeria, and UAE.

Hamas Financing – FinCen Alert

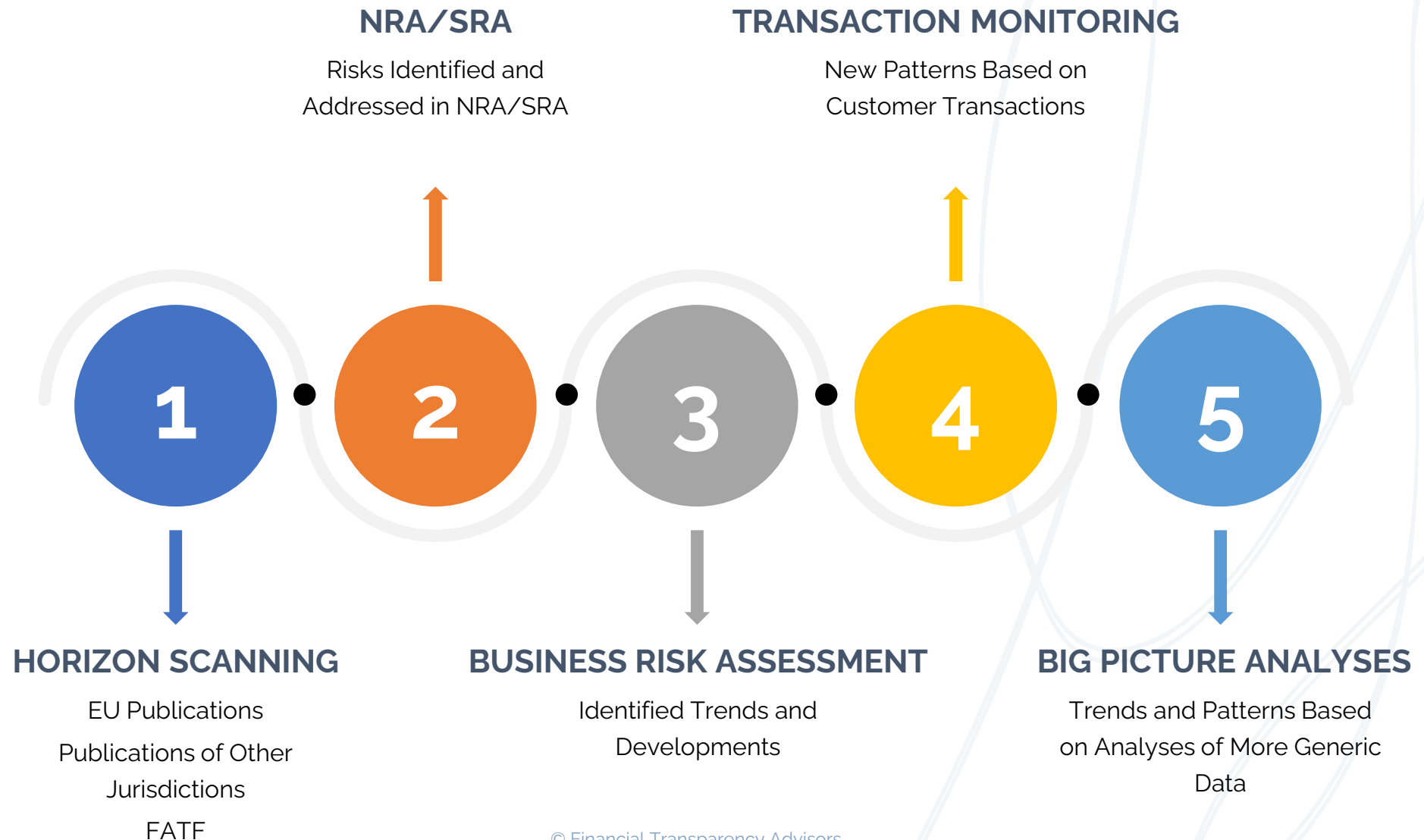
- A customer conducts transactions with a Money Services Business (MSB) or other financial institution, including one that offers services in virtual currency, that operates in higher risk jurisdictions tied to Hamas activity, and is reasonably believed or suspected to have lax customer due diligence (CDD) requirements, opaque ownership, or otherwise fails to comply with anti-money laundering/combating the financing of terrorism (AML/CFT) best practices.
- A customer conducts transactions that originate with, are directed to, or otherwise involve entities that are shell corporations, general “trading companies,” or other companies that have a nexus with Iran or other Iran-supported terrorist groups, such as Hizballah and Palestinian Islamic Jihad.
- A customer that is a charitable organization or nonprofit organization (NPO) solicits donations but does not appear to provide any charitable services or openly supports Hamas's terrorist activity or operations. In some cases, these organizations may post on social media platforms or encrypted messaging apps to solicit donations, including in virtual currency.
- A customer that is a charitable organization or NPO receives large donations from an unknown source over a short period of time and then sends significant wire transfers or checks to other charitable organizations or NPOs.

Emerging Risks – What we do in Practice.

What Should FIs and DNFBPs do with Emerging Risks?




How to Identify Emerging Risks




Risk Response




BRA Review
Based on Identified Emerging Risks Review BRA



Review CRA
Is there a need to adjust the methodology and introduce new risk factors

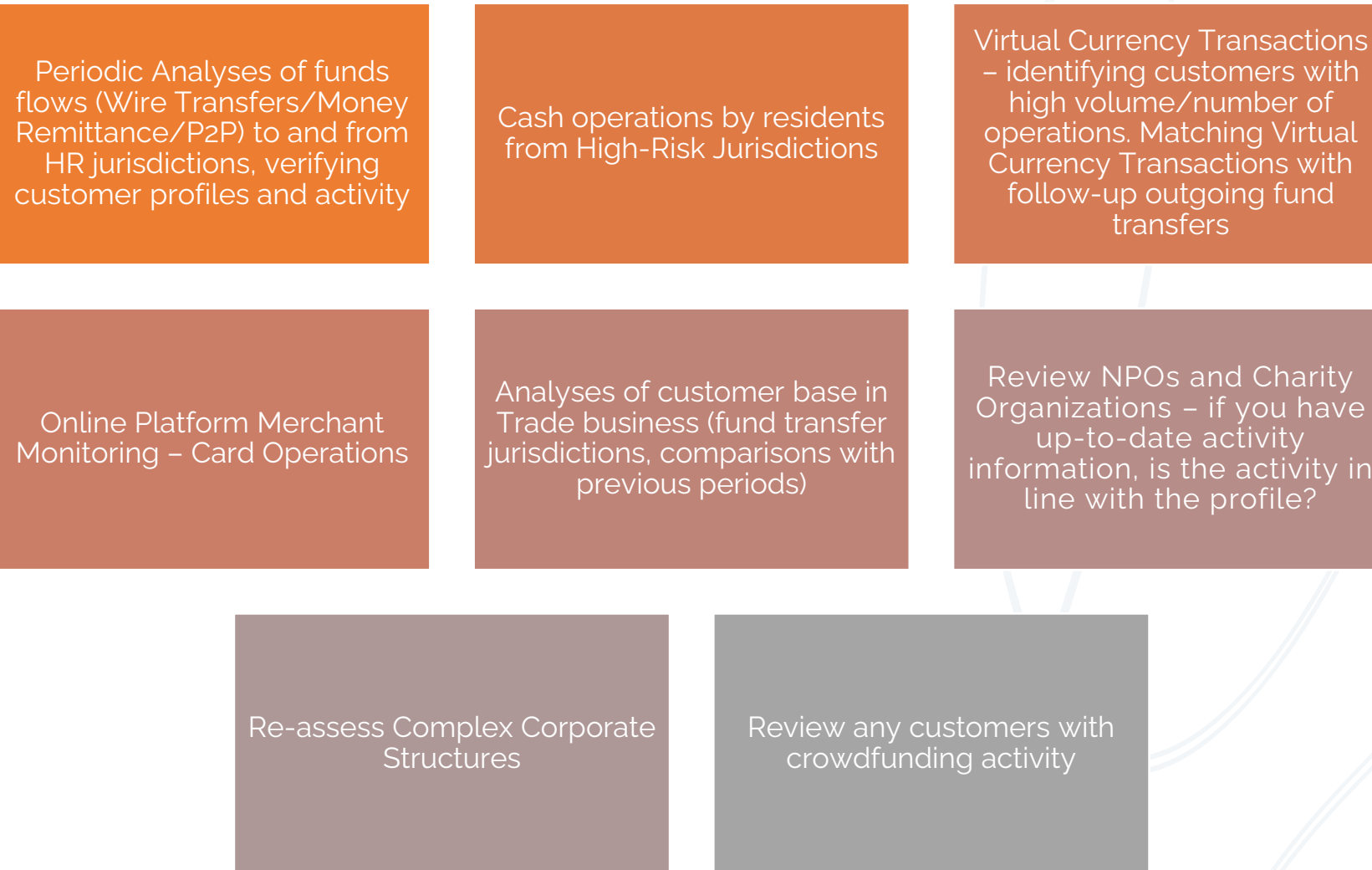


Review Transactions and Customers
Select Customer Profiles
Select Transactions based on Emerging Risks



Review Existing Controls
Are Controls in place to Address Emerging Risks

Risk Response



Implement Mitigating Controls



Risk Appetite

Review to Increase or Decrease



Enhance IT Controls

Introduce new TM Scenarios
Introduce new Real-time Checks



Process Enhancement

Strengthen CDD/EDD
Increase Periodic Review



*Thank you for your
time*

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Next Session:

12.12.2023

Topic:

Monaco's Follow-Up
Process with the FATF

Today's Host: Jan Bellenghi

Today's Presenter: Tamar Goderdzishvili