

**Financial Intelligence Unit**

New Zealand Police

# **Quarterly Typology Report**

## **Third Quarter (Q4)**

### **2014/2015**

(Issued August 2015)

# INTRODUCTION

This report is the fourth Quarterly Typology Report of 2014/15 produced by the Financial Intelligence Unit (FIU), part of the New Zealand Police Financial Crime Group. As the Quarterly Typology Report dissemination goes beyond law enforcement, the basics of money laundering, typologies and indicators will continue to be included to provide context to those new to the topic. **A list of typologies is contained in Annex 1.** This publication is comprised of open source media reporting observed within the last quarter. **Readers are strongly advised to note the caveat below.**

- **The open source nature of the material that this document is based on means that the veracity of the reports within this document may vary**
- **Views expressed within this document may not necessarily be those of the New Zealand Police or of any of its employees**
- **Reports within this document have been préciséd; additional information can be obtained via the hyperlinks if available**
- **The information contained within this document should NOT be taken out of context**

## Background

The Anti-Money Laundering and Countering Financing of Terrorism (AML/CFT) Act became law in October 2009. It is the result of a review of AML/CFT legislation and aims to assist in detecting and deterring money laundering, contributing to public confidence in the financial system and achieving compliance with the Financial Action Task Force (FATF) recommendations. The Financial Intelligence Unit produces the Quarterly Typology Report as part of its obligations under s.142 (b) (i) and s.143 (b) of the AML/CFT Act 2009.<sup>1</sup>

## Purpose

The purpose of the Quarterly Typology Report is to provide an accurate picture of current, emerging and longer term factors impacting on the AML/CFT environment. The Quarterly Typology Report is intended to do the following:

- ◆ Examine money laundering and terrorist financing methods used in New Zealand and overseas
- ◆ Provide indicators of money laundering and terrorist financing techniques
- ◆ Highlight emerging trends and topics and share information in relation to AML/CFT and financial crime in general
- ◆ Provide typology case studies
- ◆ Update suspicious transaction reporting and Asset Recovery Unit activity

## Scope

The Quarterly Typology Report is a law enforcement document. However, it does not include sensitive reporting or restricted information and is published on the FIU website. The Quarterly Typology Report is produced using a variety of sources and qualitative/quantitative data.

## Definition of Money Laundering

Under New Zealand legislation the money laundering offence is defined in s.243 of the Crimes Act 1961 and s.12b of the Misuse of Drugs Act 1975. The key elements of a money laundering offence are:

- ◆ Dealing with, or assisting in dealing with, any property for the purpose of concealing it, and
- ◆ Knowing or believing that such property is the proceeds of a serious offence, or being reckless as to whether it is the proceeds of a serious offence

## Definition of Terrorist Financing

Terrorist financing is criminalised in New Zealand under the Terrorism Suppression Act 2002. Under this legislation it is an offence to:

- ◆ Collect funds intended to be used for a terrorist act or intended for an entity known to carry out terrorist acts
- ◆ Knowingly deal with any property owned or controlled by a designated terrorist entity
- ◆ Make financial services available to a designated terrorist entity

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<sup>1</sup> S.142 (b) Financial intelligence functions of Commissioner: The financial functions of the Commissioner are to - produce guidance material, including: (i) typologies of money laundering and financing of terrorism transactions

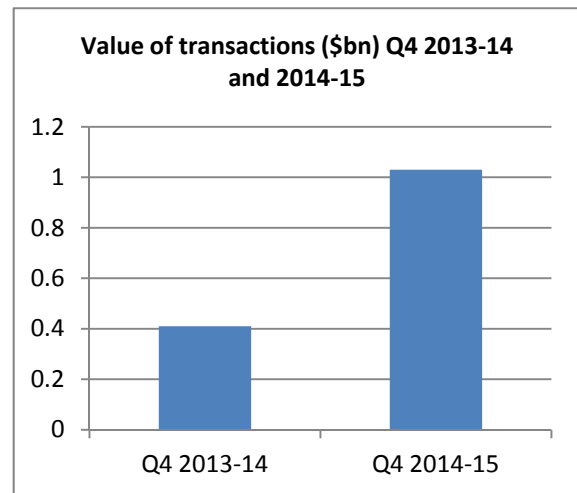
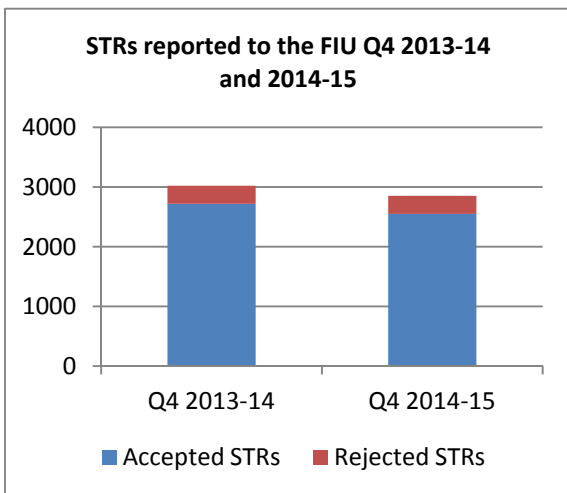
S.143 (b) Powers relating to financial intelligence functions of Commissioner: The Commissioner may - (b) share suspicious transaction reports, cash reports, suspicious property reports, and other financial information and intelligence with domestic and international authorities for the purposes of this Act and regulations.

# Financial Intelligence Unit and partner agencies - Updates

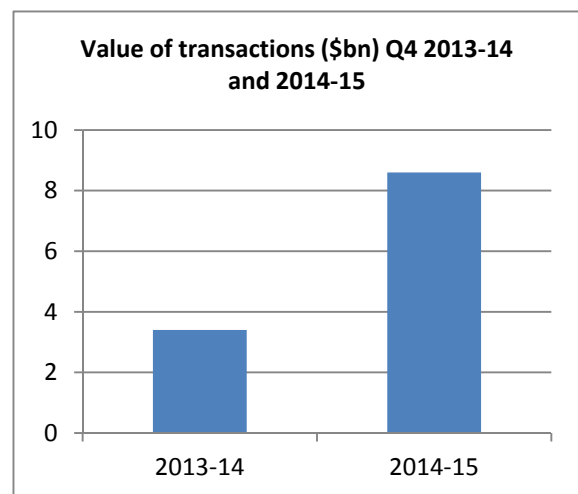
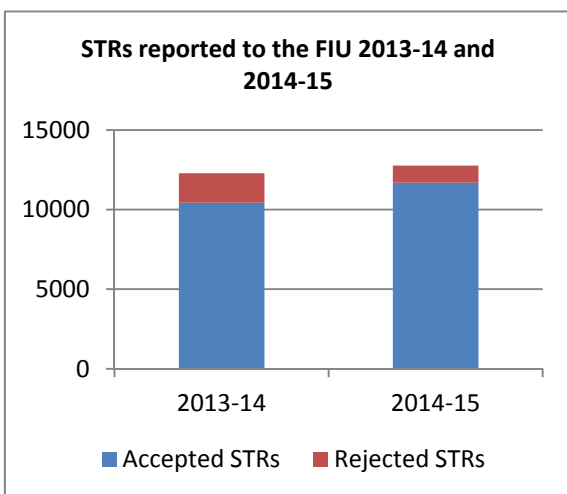
**NOTE: Information on the Financial Intelligence Unit is provided as a permanent annex (refer Annex 2).**

## FIU STATISTICS

The number of STRs reported to the FIU during the fourth quarter of 2014-15 was comparable to the same time last year (2250 accepted reports and 303 rejected compared to 2718 accepted reports and 303 rejected reports in 2013-14). However, while the number of STRs was comparable during both years (as was the total number of transactions at around 21,000), the total value of those transactions increased from \$410 million to \$1.03 billion.



Comparing the first two years of reporting to the FIU since the commencement of the AML/CFT Act on 30 June 2013 tells a similar story to the last quarter of both years. The total STRs has remained similar at around 12,000 per annum. However, the last 12 months has seen a significant reduction in the number of STRs rejected by the FIU, from 1850 in 2013-14 to 1078 in 2014-15, as STR reporting processes have bedded in and the quality of reporting has increased. The value of transactions in STRs has also significantly increased from \$3.4bn to \$8.6bn.



## **FIU CONFERENCE**

The 2015 FIU-ACAMS conference was held at Te Papa, Wellington on 9-10 July. The focus of this year's conference was: 'The Crime Prevention Value of AML' – presentations focused on criminal enterprises, their modes of financing, and AML/CFT compliance's role in preventing crime. The FIU received overwhelmingly positive feedback on the conference, and would like to thank attendees for their participation.

The FIU is currently scoping a 2016 conference and information will be sent out through the goAML message board as soon as possible. For more information, or to make comments or suggestions, please contact the FIU at [FCG.Seminar@police.govt.nz](mailto:FCG.Seminar@police.govt.nz)

## **RESEARCH BY THE ROYAL UNITED SERVICE INSTITUTE**

The Manager of the FIU attended a conference at the Royal United Service Institute (RUSI) in London on 26-27 May 2015. The conference was hosted and organised by RUSI, HSBC and the Egmont Group of FIUs and included participants from international financial institutions, law enforcement agencies (the UK National Crime Agency, the US Federal Bureau of Investigation, and the Australian Crime Commission), FIUs (Heads of FIUs of from US, UK, South Africa, Belgium and senior staff from FinTRAC (Canada's FIU) and several European FIUs) and several policy agencies (with a particularly strong contingent from the UK Home Office).

The conference's workshops were minuted by RUSI staff to form the starting point for research that will seek to propose a new model for multilateral information sharing to disrupt transnational illicit capital flows that underpins organised crime. The research is expected to lead to a paper that will be published by the end of 2015.

## **ORGANISED CRIME BILL**

The Organised Crime and Anti-Corruption Legislation Bill was referred back to the House by the Law and Order Select Committee. The Bill is an omnibus Bill and includes amendments to the AML/CFT Act to introduce reporting for international transactions (with a threshold of \$1,000) and for large cash transactions (with a threshold of \$10,000). Officials expect that the Bill will pass before the end of 2015, with a commencement date for reporting of 1 July 2017.

## **APG ANNUAL MEETING**

The Asia Pacific Group on Money Laundering held its 18th Annual Meeting in Auckland from 13 to 17 July 2015. The meeting was co-chaired by Mr Rajesh Chhana, Deputy Secretary, Policy, of the New Zealand Ministry of Justice and Commissioner Andrew Colvin of the Australian Federal Police. Over 380 delegates from APG members, observers and observer organisations, including the Financial Action Task Force and Eurasian Group, attended the APG's 18th annual meeting, including four staff from the Police Financial Crime Group.

Highlights from the typology work at the meeting included:

- Adoption of the joint FATF-APG report Money Laundering/Terrorist Financing Vulnerabilities Associated with Gold. The report, co-led by Australia and India, includes a series of case studies and red flag indicators, and identifies the many features of gold that make it attractive to criminals to use as a vehicle for money laundering;
- Adoption of the 2015 Yearly Typologies Report and agreement to review the APG typologies framework (2009) to ensure the APG's typologies work remains relevant to the needs of APG members and associated stakeholders;
- Confirmation that the 2015 APG Typologies Workshop to be held 16-20 November 2015, in Kathmandu, Nepal.

# Asset Recovery Units

The New Zealand Police Asset Recovery Units were established in December 2009 to coincide with the implementation of the Criminal Proceeds (Recovery) Act 2009 (CPRA). The CPRA established a regime for the forfeiture of property that has been directly or indirectly acquired or derived from significant criminal behaviour. It is intended to reduce the possibilities for individuals or groups to profit from criminal behaviour, to reduce the opportunities they have to expand their criminal enterprises, and act as a deterrent for criminal activity. There are four Asset Recovery Units (ARUs), based in Auckland, Hamilton, Wellington, Christchurch.

## ASSET RECOVERY UNITS: UPDATE - CORRECT AS AT 30 JUNE 2015

Since the CPRA came into effect the ARUs have investigated assets worth an estimated NZ\$417 million. At the end of June 2015:

- Forfeiture Orders for assets worth an estimated NZ\$59.6 million were in place (see key terms below).
- Restraining Orders were in place over assets worth an estimated NZ\$218.7 million pending further investigation and court action (see key terms below).

### Key terms

**Investigated assets:** These are...“assets that have been investigated since the Criminal Proceeds (Recovery) Act 2009 came into effect on December 1st 2009”. Figures reported in this category include subsequently abandoned cases and should not be confused with **restrained** assets.

**Restrained assets:** These are...“assets that have been taken from the control of alleged offenders and placed in the hands of the Official Assignee whilst further investigations take place”.

**Forfeited assets:** These are...“assets that, following their initial restraint, have been forfeited to the Crown”. The NZ\$ value of these orders does not represent the sum that will be returned to government accounts. Forfeiture Orders are subject to appeals and costs and third party interests must be paid out of the asset value.

**Profit Forfeiture Order:** This is an order made as a result of civil proceedings instituted by the Crown against a person in order to recover a debt due to it. The maximum recoverable amount, which is determined by calculating the value of any benefit received by criminal offending minus the value of any assets forfeited to the crime, is recovered by the Official Assignee on behalf of the Crown.

# Real Estate

Real estate remains an attractive option for money launderers, both in layering and integrating proceeds of crime. In particular, a scheme involving real estate may be attractive as:

- the ultimate goal of the laundering (ie to integrate proceeds as real estate to enjoy their use)
- sale of property may be used to explain the source of funds
- real estate transactions are large allowing large sums to be laundered through real estate vehicles;
- beneficial ownership may be hidden using gate keepers, legal structures such as trusts, nominees or companies. All of these techniques may appear to be normal legitimate practice and may not attract heightened suspicion
- real estate is a speculative market where values may be difficult to access – particularly in atypical properties. This may make under/over valuing possible to enable particular laundering techniques
- real estate transactions provide access to various financial vehicles, such as mortgages, through which to launder funds
- property, such as commercial property, rental property or farms may provide legitimate income with which to mingle illicit proceeds
- real estate, and/or real estate investment vehicles may be less conspicuous options for overseas investment.

The risk to launderers in placing cash in large transactions inherent in real estate may make real estate less attractive to placement of proceeds, particularly cash based proceeds. However, as with other financial sectors, placement of proceeds generated by fraud within the real estate sector may be inherent in the predicate offending.

## OPPORTUNITIES TO ABUSE REAL ESTATE FOR MONEY LAUNDERING

Real estate presents a number of methods, techniques, mechanisms and instruments for criminal abuse. The use of real estate to integrate and layer criminal proceeds is well established and in 2007 a FATF typology study on real estate identified the following areas of opportunity for launders:

- use of complex loans or credit finance (e.g. loan-back schemes involving financing real estate transactions through loans between companies controlled by the launders or back-to-back loan schemes involving use of criminal proceeds as collateral for loans from financial institutions)
- use of gate-keeper professionals, to access financial services, to facilitate transactions through client trust accounts, or to act as intermediaries in transactions
- use of corporate vehicles, such as off-shore companies, trusts, shell companies, and property management companies
- manipulation of the appraisal or valuation of property
- use of monetary instruments, notably using cash for rent/lease arrangements and use of “payable through accounts” funded by cash deposits or wire transfers which are then quickly paid into real estate investment
- use of mortgages, such as funding mortgages with proceeds of crime or schemes to use under/over valuation of property to mingle proceeds with money lend by financial institutions
- use of income generating property to co-mingle criminal proceeds.

## DOMESTIC OBSERVATION

Police has been aware for some time that the real estate holdings of gang members, their partners and associates often allude to the accumulated wealth of gang members. However, at a strategic level, the methods by which these gangs’ criminal proceeds have entered real estate have historically been opaque.

The FIU conducted analysis of 47 properties worth \$27,032,500 subject to criminal proceeds recovery action in 20 CPRA cases. Sufficient details of the value of criminal proceeds that has been directly laundered through the purchase of these properties was available from in 12 of the cases.

A total of \$8,166,850 criminal proceeds is known to have been directly laundered; the origin of the remainder of the funds used for the property purchase was often either not established by the ARU or found to have been funded by legitimate means such as a mortgage.

The methods seen in the 20 cases mirror the methods described in the 2007 FATF typology study on the abuse of real estate for money laundering. A breakdown of the methods used is shown in the table below:

Method	No. of cases
Cash to Real Estate Agent	0
Electronic transfer to Real Estate Agent	7
Electronic transfer to Lawyer	7
Cash to Lawyer	1
Ownership of the property is disguised	12
The property is purchased in the name of a third party	6
Loan Methods	3
Mortgage is paid from cash generated from criminal activity	7
Other	3

Analysis shows that hiding the ownership of the property (for example, by placing it in the name of an associate or a trust) is the most common laundering method and occurred in all the cases that were analysed. The next most common method was transferring the criminal proceeds to a lawyer or agent by electronic transfer. One case detailed \$300,000 cash being taken directly to a lawyer who subsequently deposited the cash into the lawyer's trust account via four separate deposits, (see case study below) although this method of placing does not seem to be the norm.

Seven cases (15%) involved property mortgages being repaid by criminal proceeds. Other less common loan methods involved:

- Using property as security for mortgage applications to acquire a portfolio of investment properties. In this case, the offenders deliberately applied for low mortgage amounts so that he did not have to reveal the source of illegal income. Criminal proceeds, disguised as rental income, were used to service the mortgage re-payments.
- Transferring a loan from the offender's business to a trust which purchased the property. The offender was a beneficiary of the trust.
- Transferring a loan from the offender's business to a lawyer in Australia to enable the offender to purchase a property there in his name.

The majority of cases involved drug offending. There was one fraud case; the fraud proceeds were laundered by paying for the cost of building a new house on a property owned by the offender who disguised their ownership of the property by placing it in their parents name.

#### INTERNATIONAL EXPOSURE AND USE OF STRUCTURES

Real estate is increasingly becoming an international business which creates the opportunity for complex transactions, and to layer real estate deals across many jurisdictions. The FATF found that most real estate money laundering schemes reported by members as part of its typology study involved some use of international wire transfers.<sup>2</sup>

<sup>2</sup> Money Laundering and Terrorist Financing Through the Real Estate Sector, FATF, 2007

The UK's National Crime Agency (NCA) and the UK Prime Minister recently made public statements relating to transnational money laundering through legal structures having a distorting effect on the London real estate market. In New Zealand, the FIU has identified use of legal structures as an area of vulnerability of the New Zealand system to transnational illicit capital flows.<sup>3</sup> The potential of movement of international proceeds of crime and real estate is another known vulnerability, which as above has been well used domestically.

However, there is no data to support the view that illicit funds are flowing into New Zealand real estate is occurring to the same degree as believed to occur in the UK. There are a few large ongoing cases involving funds believed to be illicit entering New Zealand investments through legal structures, and cases involving investment in real estate. However, in New Zealand cases and in STR reporting to the FIU, the use of associates appears to be more common means to hide beneficial ownership of real estate. In other cases, illicit funds appear to have been moved through legitimate businesses rather than shell companies.

### **STR REPORTING BY THE SECTOR**

STR reporting in the real estate sector is low. 41 STRs were received from Real Estate Agents between April 2002 and the end of 2014, with the majority relating to large cash payments used as house deposits. Figures on real estate transactions from other sectors is not readily available from FIU systems, although anecdotally it is relatively commonly reported by other reporting entities.

### **REAL ESTATE CASE STUDIES**

#### *Purchase using proceeds outside of banking system*

Exchange of high value goods and cash for property may allow criminals to integrate proceeds while avoiding the financial system, as indicated in this case reported in an STR by a vendor's lawyer. The vendor indicated to his lawyer that a NZ\$50,000 deposit for a rural property had been paid to him in cash by a purchaser. He then confirmed in writing to the lawyers that the purchaser had paid the NZ\$130,000 balance by way of an unknown amount of cash, the transfer of a boat, caravan and car (NZ\$10,000 for each vehicle) and offsetting debts owed by the vendor to the purchaser for building work completed by the purchaser (amount unknown). The vendor was unable to provide conclusive evidence to his lawyers that any money had been received from the purchaser, or that the money had been banked into his account.

Conducting the sale and purchase of property in this manner is highly unusual and the vendor's unwillingness to provide full information and evidence to his lawyers regarding the settlement suggests that he was attempting to conceal the true nature of intentions of the property transaction.

Subsequent investigation by Police established that the cash and the assets were the proceeds of methamphetamine dealing.

#### *Purchase using rent to own scheme to hide offender's interest in the property*

The rural home of the respondent in a drug supply case was the scene of the predicate offending and the subject of forfeiture order.

The property was listed in the sole ownership of an unrelated third party. Police investigation discovered that the effective control of the offender was hidden by a 'Rent to Own' contract between the offender and the owner of the property. This contract details the purchase of the property for the consideration of \$118,000.00.

The contract further states that as consideration for this option to purchase the buyer (the offender) shall pay the seller a fee of \$60,000.00 which was remitted by the transfer of a motor home/bus.

The contract then detailed the outstanding balance at the time of signing as being \$58,000.00. This was to be satisfied by a lump sum payment of no less than \$5,000.00 with a further \$200.00 per week, to be paid by automatic deduction from the buyer's bank account.

The rent to own agreement included a Residential Tenancy Agreement which provided for ongoing weekly rental payments of \$200.00 per week along with other tenancy obligations. The initial deposit on the house was \$50,000.00.

This deposit was paid in cash in a mixture of denominations including \$100s and \$50s. She also received a house bus valued at \$60,000.00. The effect of this arrangement was to allow the property to remain in the name of the vendor and

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<sup>3</sup> National Risk Assessment 2010 and Quarterly Typology Reports Q1 and Q2 2014/15



attempt to hide the true ownership of the property from any interested parties. There is no evidence that the vendor is part of the offending or the agents acting on her behalf.

#### *Trusts and accountant used to hide ownership and facilitate tax evasion*

In another case, beneficial ownership was hidden using a trust and the services of an accountant. The respondents borrowed significant funds to purchase their house. These funds were borrowed in the name of a trust and the ownership of the property was also put into the name of the trust. The first respondent then received about 1.5 million as a commission for consultancy work completed through a company she controlled. The funds were transferred through a number of accounts to finally be used to part pay for the asset the trust owned. Again the funds were transferred to an accountant with a view to minimise the tax that would be required to be paid on the funds. They were then returned immediately less the commission taken by the accountant and was then again deposited into the mortgage account of the Trust.

#### *Use of proceeds to repay mortgages*

Use of a mortgage to be repaid in cash appears to be a common method that allows structured cash placement. In one case, a family based crime syndicate used multiple real estate investments to place the cash proceeds of drug dealing. An initial flat was put into the name of the family trust. This property appeared to be purchased from legitimate sources in that it came from the estate of the deceased husband. Further flats were put in the name of a family trust and what appears to be legitimate finance was used to purchase them. The loans were paid back via the payments in the normal manner from bank accounts that were receiving large amounts of cash, which proved to be from the proceeds of drug dealing. But for the cash payments the respondents could not have funded their lifestyle and the repayments of the finance.

There were also two sections belonging to the son and business partner of the principal offender. These sections were transferred into the name of the mother for a nominal amount. It is suspected that these properties were transferred for an amount significantly lower than the market values to either satisfy a debt owed or to provide an asset base where the acquisition of assets can be justified given the low cost of the assets. These assets could be sold a later date for a premium which would then instantly provide the respondents with what appears to be legitimate funds to reinvest or use as equity for further property investment at a later date.

#### *Cash paid directly to lawyer*

In another case, a lawyer played a direct role in hiding the ownership of a property and the use of proceeds of crime to pay for the property. An offender met with the lawyer to discuss purchasing a section with a view to building a house on the section. The offender was bankrupt and owed the official assignee \$1.2 million dollars. The lawyer suggested establishing a trust where the offender would be a beneficiary of the trust and the lawyer and the offender's girlfriend would be trustees. This was an attempt hide assets from the official assignee.

Within a couple of weeks of this first meeting, the offender took \$300,000 in cash and gave it to the lawyer who subsequently deposited it into the lawyer's trust account in four separate deposits.

The lawyer filed an STR in relation to this cash transaction. However, the lawyer lied when completing the STR by writing that it was the offender's girlfriend who bought the cash in when in fact it was the offender himself.

The lawyer then transferred the funds electronically to the vendor's lawyer on settlement day.

A year later the offender took \$129,000 in cash and gave it to the lawyer who subsequently deposited it in two separate deposits into the lawyer's trust account. Two progress payments were then made from the lawyer's trust account to the company building the offender's house.

Further cash was deposited to the bank account of the offender's trust that the lawyer set up enabling the remaining payments totalling \$300,000 to be made to the company building the offender's house.

The offender took a further \$122,000 in cash and gave it to the lawyer who subsequently deposited it in two separate deposits into the lawyer's trust account. This money was to pay the offender's ex-girlfriend when the offender and the girlfriend separated. In total, the offender gave the lawyer \$578,000 in cash which was transacted on behalf of the offender.

# Recent FIU Case Studies – Cash Transactions

## Operation Yesterday

In August 2014, the Financial Intelligence Unit (FIU) sent the Wellington Covert Operations Group a financial intelligence report advising them that the target had recently banked money that smelt strongly of cannabis. Further investigations undertaken by the FIU identified that the target had a history of unusual cash transactions.

Later that week the Wellington Covert Operations Group received information from Customs that the target was importing LEC lights from China. The Wellington Covert Operations Group became suspicious that a significant cannabis cultivation and sales syndicate might be operating in the lower North Island. This led to the establishment of Operation Yesterday.

Operation Yesterday terminated in December 2014, with the execution of 14 search warrants spread from Whanganui to Wellington. Cannabis was found to be growing at five different residential addresses, including one property in Whanganui that had been set up solely as a grow house. This house alone contained more than 200 cannabis plants. There was also an industrial sized shed that was in the process of being set up for cultivation purposes. Cannabis seeds had been imported from Europe, along with the LED lights from China. These imports, along with the grow houses, provided evidence of cultivation on a commercial level. The operation had also identified that the target had used several false identities, and, by reverting to his true identity, had lived a subsistence lifestyle off the back of the proceeds of crime for around a decade.

Eleven people were arrested as a result of the investigation. All of these people are now before the courts and investigations are continuing, especially in relation to assets that have been accrued during the course of the offending.



Assets worth \$450,000 have, so far, been identified including two residential properties and a cash sum of \$25,000. Investigations are continuing towards restraining identified assets.

Operation Yesterday was an outstanding result and achievement, and has significantly impacted on the supply of cannabis in Whanganui and Wellington. It demonstrates the value of FIU intelligence reports and of taking a whole of government approach to investigations.

The FIU intelligence report not only helped to identify and prevent significant organised crime but also solved historic serious violence and domestic assault crimes bringing closure to victims who had been waiting ten years for justice.

### RED FLAGS:

- Cash deposits
- Indications of drugs (smell)
- Transactions with high risk jurisdiction



## Operation Gemini

In January 2014 the FIU received a Suspicious Transaction Report (STR) regarding the financial activities of the Wellington-based target. The STR identified that the target had sent a total of \$3,608 via a credit union to China over the past two months, purportedly for “business purposes”.

From August 2014 the FIU began receiving regular STRs on the target’s activities. The STRs showed the transfers to China were continuing and also revealed an extremely high level of account activity in the target’s accounts, with one STR reporting that he had deposited \$69K cash to one of his accounts during a three-week period. This activity was occurring on top of the target’s regular salary of approximately \$1,200 p/w.

Reporting entities’ concerns around this activity centred on the unknown reasons for the transfers to China, the large and unexplained cash deposits to the target’s accounts, and observations by bank staff that the funds deposited often had a ‘sweet smell’ to them, were sometimes ‘frozen’ (i.e. stored in the freezer), and were comprised largely of \$20 denominations.

By combining FIU intelligence with police database holdings, the FIU conducted an ‘initial assessment’ of the target’s activities and recommended the release of a report to the Wellington Organised Crime Squad under suspicion of involvement in serious drug activity. Two STR Content Reports were released proactively to Wellington Crime Squad in August and November 2014 respectively.

In early 2015 the Wellington Covert Operations Group (COG) advised the FIU that a joint Police / Customs investigation into the offender (OP GEMINI) was to be commenced. The following months saw a period of close liaison between the FIU and COG. As new financial information was received in relation to the target and his associates, it was assessed by FIU analysts, combined with police and external-agency database holdings, and released to COG to help inform its investigation.

OP GEMINI terminated on 11/03/2015, resulting in the arrests of the targets and three of his associates. They were charged with the importation and distribution of the class C drug, Alpha PVP. More than \$1 million worth of assets were restrained by police, including two residential properties, three motor-vehicles, a Harley Davidson motorbike, three trailers, the contents of a bank account, and over \$100,000 worth of bonus bonds.

### RED FLAGS:

- Vague reason for transactions
- Transaction size did not match reason given
- Unusually high value of cash deposited in multiple transactions
- Unusual condition of cash (frozen)



# Annex 1

## THE THREE INTERNATIONALLY ACCEPTED PHASES FOR THE MONEY LAUNDERING PROCESS:

Phase	Description	Example
Placement	Cash enters the financial system.	Proceeds of selling cannabis deposited into a bank account.
Layering	Money is involved in a number of transactions.	Money is transferred into other bank accounts that have been set up and international travel tickets are purchased.
Integration	Money is mixed with lawful funds or integrated back into the economy, with the appearance of legitimacy.	International travel tickets are cancelled, which results in a reimbursement cheque being issued to the suspect, minus cancellation fees. Money is used to buy goods, services, property or investments.

## TYOLOGIES - BASED ON THE ASIA PACIFIC GROUP ON MONEY LAUNDERING DEFINITIONS

- ◆ **WIRE TRANSFERS** — transferring proceeds of crime from one person to another via money remittance services.
- ◆ **PURCHASE OF VALUABLE COMMODITIES** — laundering proceeds of crime by purchasing valuable commodities, for example, precious metals or gems.
- ◆ **PURCHASE OF VALUABLE ASSETS** — laundering proceeds of crime by purchasing valuable assets, for example, property or vehicles.
- ◆ **SHELL COMPANIES** — registering companies which have no actual business activity. Internationally based directors/shareholders and offshore bank accounts are used to facilitate money laundering and/or terrorist financing by unverified beneficiaries. In addition, there is also the risk of exploitation of other corporate forms, particularly limited partnerships.
- ◆ **NOMINEES, TRUSTS, FAMILY MEMBERS OR THIRD PARTIES** — utilising other people to carry out transactions in order to conceal the true identity of persons controlling proceeds of crime.
- ◆ **TRADE-BASED MONEY LAUNDERING** — manipulating invoices, often in connection with international trade, by overstating the value of a shipment providing criminal entities with a paper justification to either launder proceeds of crime and/or send funds overseas to finance terrorism.
- ◆ **CANCEL CREDITS OR OVERPAYMENTS** — laundering proceeds of crime by overpaying, then requesting refund cheques for the balance.
- ◆ **ELECTRONIC TRANSFERS** — transferring proceeds of crime from one bank account to another via financial institutions.
- ◆ **CO-MINGLING** — combining proceeds of crime with legitimate business takings.
- ◆ **GATEKEEPERS/PROFESSIONAL SERVICES** — utilising "professionals" to establish seemingly legitimate business activities, for example, lawyers, accountants, brokers, company formation agents.
- ◆ **CASH DEPOSITS** — placement of cash into the financial system.
- ◆ **SMURFING** — utilising third parties or groups of people to carry out structuring.
- ◆ **CREDIT CARDS, CHEQUES, PROMISSORY NOTES** — instruments used to access funds held in a financial institution, often in another jurisdiction.

- ♦ **CASH COURIERS** — concealing the movement of currency from one jurisdiction to another using people, luggage, mail or any other mode of shipment, without declaration.
- ♦ **STRUCTURING** — separating large transactions into small transactions to avoid scrutiny and detection from financial institutions.
- ♦ **ABUSE OF NON-PROFIT ORGANISATIONS** — raising funds to finance terrorism using non-profit organisations (charities) to conceal the source and nature of funds, as well as to facilitate distribution.
- ♦ **INVESTMENT IN CAPITAL MARKETS** — laundering proceeds of crime by using any market in which securities are traded, for example, the stock and bond markets, as well as futures trading and currency speculation.
- ♦ **OTHER PAYMENT TECHNOLOGIES** — utilising emerging or new payment technologies to facilitate money laundering and/or terrorist financing.
- ♦ **UNDERGROUND BANKING/ALTERNATIVE REMITTANCE SERVICES** — transferring proceeds of crime from one person to another via informal banking mechanisms.
- ♦ **TRUSTED INSIDERS/CORRUPTION** — collusion, coercion or bribery of financial institution staff by customers, particularly high-profile individuals, for instance, government officials, business executives, celebrities or individuals known or suspected of being involved in serious crime.
- ♦ **CASH EXCHANGES** — exchanging low denomination notes for high (also known as refining) as a means to launder proceeds of crime, as well as reduce large volumes of cash obtained from serious crime.
- ♦ **CURRENCY CONVERSION** — converting one currency into another as a means to launder proceeds of crime, as well as reduce large volumes of cash obtained from serious crime.

## Annex 2

### Financial Intelligence Unit

The Financial Intelligence Unit is part of the Financial Crime Group, which is made up of four Asset Recovery Units, a core administrative/analytical team and the Financial Intelligence Unit. The Financial Intelligence Unit has been operational since 1996 and part of its core functions is to receive, collate, analyse and disseminate information contained in Suspicious Transaction Reports, Suspicious Property Reports and Border Cash Reports. It also develops and produces a number of financial intelligence products, training packages and policy advice. The Financial Intelligence Unit also participates in the AML/CFT National Co-ordination Committee chaired by the Ministry of Justice. It is also a contributing member to international bodies such as the Egmont Group of international financial intelligence units and the Asia Pacific Group. The FIU can be contacted at: [fiu@police.govt.nz](mailto:fiu@police.govt.nz)

## Annex 3

### Typology indicators

#### GENERAL INDICATORS

These indicators are present in many of the typologies used in money laundering and terrorist financing.

- ♦ Transactions involving locations with poor AML/CFT regimes or high exposure to corruption
- ♦ Significant and/or frequent transactions in contrast to known or expected business activity
- ♦ Significant and/or frequent transactions in contrast to known employment status
- ♦ Ambiguous or inconsistent explanations as to the source and/or purpose of funds
- ♦ Where relevant, money presented in unusual condition, for example, damp, odorous or coated with substance
- ♦ Where relevant, nervous or uncooperative behaviour exhibited by employees and/or customers



**WIRE TRANSFERS** — transferring proceeds of crime from one person to another via money remittance services.

*Possible indicators (specific)*

- ◆ Significant and/or frequent cash payments for transfers
- ◆ Transfers to or from locations that have poor AML/CFT regimes or high exposure to corruption
- ◆ Transfers to high-risk countries or known tax havens
- ◆ Transfers to numerous offshore jurisdictions with no business rationale
- ◆ Multiple transfers sent to same person overseas by different people
- ◆ Same home address provided by multiple remitters
- ◆ Departure from New Zealand shortly after transferring funds
- ◆ Reluctant to provide retailer with identification details

**PURCHASE OF VALUABLE COMMODITIES** — laundering proceeds of crime by purchasing valuable commodities, for example, precious metals or gems.

*Possible indicators (specific)*

- ◆ Customers requiring safe custody arrangements with financial institution
- ◆ Significant and/or frequent cash purchases of valuable commodities
- ◆ Regular buying and selling of valuable commodities that does not make economic sense

**PURCHASE OF VALUABLE ASSETS** — laundering proceeds of crime by purchasing valuable assets, for example, property or vehicles.

*Possible indicators (specific)*

- ◆ Purchase/sale of real estate above/below market value irrespective of economic disadvantage
- ◆ Cash purchases of valuable assets with cash and/or cash deposits for valuable assets
- ◆ Low value property purchased with improvements paid for in cash before reselling
- ◆ Rapid repayment of loans/mortgages with cash or funds from an unlikely source

**SHELL COMPANIES** — registering New Zealand companies with internationally based directors and/or shareholders in order to open bank accounts to facilitate money laundering and/or terrorist financing by unverified beneficiaries.

*Possible indicators (specific)*

- ◆ Large numbers of companies registered with the same office address
- ◆ Address supplied is a "virtual office"
- ◆ Accounts/facilities opened/operated by company formation agents
- ◆ Lack of information regarding overseas directors/beneficiaries
- ◆ Complex ownership structures
- ◆ Structures where there is no apparent legitimate economic or other rational

*Additional Indicators:*

- ◆ The same natural person is the director of a large number of single director companies
- ◆ The same person (natural or corporate) is the shareholder of a large number of single-shareholder companies
- ◆ Use of one of a small number of New Zealand 'agents' who undertake transactions with the companies register

**NOMINEES, TRUSTS, FAMILY MEMBERS OR THIRD PARTIES** – utilising other people to carry out transactions in order to conceal the true identity of persons controlling proceeds of crime.

*Possible indicators (specific)*

- ♦ Customers using family members or third parties, including the use of children's accounts
- ♦ Transactions where third parties seem to be retaining a portion of funds, for example, "mules"
- ♦ Accounts operated by someone other than the account holder
- ♦ Many transactions conducted at various financial institutions and/or branches, in one day
- ♦ Significant and/or frequent transactions made over a short period of time

**TRADE-BASED MONEY LAUNDERING** – manipulating invoices, often in connection with international trade, by overstating the value of a shipment providing criminal entities with a paper justification to either launder proceeds of crime and/or send funds overseas to finance terrorism.

*Possible indicators (specific)*

- ♦ Invoice value greater than value of goods
- ♦ Discrepancies in domestic and foreign import/export data
- ♦ Suspicious cargo movements
- ♦ Suspicious domestic import data
- ♦ Discrepancies in information regarding the origin, description and value of the goods
- ♦ Discrepancies with tax declarations on export declarations
- ♦ Sudden increase in online auction sales by particular vendors (online auction sites)
- ♦ Unusually frequent purchases between same buyers and vendors (online auction sites)

**CANCEL CREDITS OR OVERPAYMENTS** – laundering proceeds of crime by overpaying, then requesting refund cheques for the balance.

*Possible indicators (specific)*

- ♦ Casino gaming machines loaded with cash, credits cancelled and a refund cheque requested
- ♦ Casino chips purchased, followed by limited or no gambling, then a refund cheque requested
- ♦ Frequent cheque deposits issued by casinos
- ♦ Significant and/or frequent payments to utility companies, for example, electricity providers
- ♦ Frequent cheque deposits issued by utility companies, for example, electricity providers
- ♦ Significant and/or frequent payments for purchases from online auction sites
- ♦ Frequent personal cheque deposits issued by third parties

**ELECTRONIC TRANSFERS** – transferring proceeds of crime from one bank account to another via financial institutions.

*Possible indicators (specific)*

- ♦ Transfers to or from locations that have poor AML/CFT regimes or high exposure to corruption
- ♦ Transfers involving accounts located in high-risk countries or known tax havens
- ♦ Transfers to offshore jurisdictions with no business rationale
- ♦ Multiple transfers sent to same person overseas by different people

- ◆ Departure from New Zealand shortly after transferring funds
- ◆ Transfers of funds between various accounts that show no economic sense (i.e. multiple transfers incurring bank fees where one single transfer would have been sufficient)

**CO-MINGLING** – combining proceeds of crime with legitimate business takings.

*Possible indicators (specific)*

- ◆ Significant and/or frequent cash deposits when business has EFTPOS facilities
- ◆ Large number of accounts held by a customer with the same financial institution
- ◆ Accounts operated by someone other than the account holder
- ◆ Merging businesses to create layers
- ◆ Complex ownership structures
- ◆ Regular use of third party accounts

**GATEKEEPERS/PROFESSIONAL SERVICES** – utilising "professionals" to establish seemingly legitimate business activities, for example, lawyers, accountants, brokers, company formation agents.

*Possible indicators (specific)*

- ◆ Accounts and/or facilities opened and/or operated by company formation agents
- ◆ Gatekeepers that appear to have full control
- ◆ Known or suspected corrupt professionals offering services to criminal entities
- ◆ Accounts operated by someone other than the account holder

**CASH DEPOSITS** – placement of cash into the financial system.

*Possible indicators (specific)*

- ◆ Large cash deposits followed immediately by withdrawals or electronic transfers

**SMURFING** – utilising third parties or groups of people to carry out structuring.

*Possible indicators (specific)*

- ◆ Third parties conducting numerous transactions on behalf of other people
- ◆ Many transactions conducted at various financial institutions and/or branches, in one day
- ◆ Accounts operated by someone other than the account holder

**CREDIT CARDS, CHEQUES, PROMISSORY NOTES** – instruments used to access funds held in a financial institution, often in another jurisdiction.

*Possible indicators (specific)*

- ◆ Frequent cheque deposits in contrast to known or expected business activity
- ◆ Multiple cash advances on credit card facilities
- ◆ Credit cards with large credit balances
- ◆ Transactions inconsistent with intended purpose of facility



**CASH COURIERS** – concealing the movement of currency from one jurisdiction to another using people, luggage, mail or any other mode of shipment, without declaration.

*Possible indicators (specific)*

- ◆ Transactions involving locations with poor AML/CFT regimes or high exposure to corruption
- ◆ Customers originating from locations with poor AML/CFT regimes/high exposure to corruption
- ◆ Significant and/or frequent cash deposits made over a short period of time
- ◆ Significant and/or frequent currency exchanges made over a short period of time

**STRUCTURING** – separating large transactions into small transactions to avoid scrutiny and detection from financial institutions.

*Possible indicators (specific)*

- ◆ Many transactions conducted at various financial institutions and/or branches, in one day
- ◆ Small/frequent cash deposits, withdrawals, electronic transfers made over a short time period
- ◆ Multiple low value domestic or international transfers

**ABUSE OF NON-PROFIT ORGANISATIONS** – raising funds to finance terrorism using non-profit organisations (charities) to conceal the source and nature of funds, as well as to facilitate distribution.

*Possible indicators (specific)*

- ◆ Known or suspected criminal entities establishing trust or bank accounts under charity names
- ◆ Transfers to or from locations that have poor AML/CFT regimes or high exposure to corruption
- ◆ Transfers involving accounts located in high-risk countries or known tax havens
- ◆ Transfers to numerous offshore jurisdictions with no business rationale
- ◆ Entities that use third parties to distribute funds or have weak financial governance mechanisms

**INVESTMENT IN CAPITAL MARKETS** – laundering proceeds of crime by using any market in which securities are traded, for example, the stock and bond markets, as well as futures trading and currency speculation.

*Possible indicators (specific)*

- ◆ Securities accounts opened to trade in shares of only one listed company
- ◆ Transaction patterns resemble a form of market manipulation, for example, insider trading
- ◆ Unusual settlements, for example, cheques requested for no apparent reason, to third parties
- ◆ Funds deposited into stockbroker's account followed immediately by requests for repayment
- ◆ Limited or no securities transactions recorded before settlement requested

**OTHER PAYMENT TECHNOLOGIES** – utilising emerging or new payment technologies to facilitate money laundering and/or terrorist financing.

*Possible indicators (specific)*

- ◆ Excessive use of stored value cards
- ◆ Significant and/or frequent transactions using mobile telephone services

**UNDERGROUND BANKING/ALTERNATIVE REMITTANCE SERVICES** – transferring proceeds of crime from one person to another via informal banking mechanisms.

*Possible indicators (specific)*

- ◆ Significant and/or frequent cash payments for transfers
- ◆ Cash volumes and transfers in excess of average income of migrant account holders
- ◆ Transfers to or from locations that have poor AML/CFT regimes or high exposure to corruption
- ◆ Transfers involving accounts located in high-risk countries or known tax havens
- ◆ Transfers to countries that are not destination countries or usual remittance corridors
- ◆ Large transfers from accounts to potential cash pooling accounts
- ◆ Significant and/or frequent transfers recorded informally using unconventional book-keeping
- ◆ Significant and/or frequent transfers requested by unknown or intermittent customers
- ◆ Numerous deposits to one account followed by numerous payments made to various people

**TRUSTED INSIDERS/CORRUPTION** – collusion, coercion or bribery of financial institution staff by customers, particularly high-profile individuals, for instance, government officials, business executives, celebrities or individuals known or suspected of being involved in serious crime.

*Possible indicators (specific)*

- ◆ Customers regularly targeting the same employees
- ◆ Employees relaxing standard AML/CFT procedures to facilitate transactions
- ◆ Employees exhibiting sudden wealth and/or assets in contrast to remuneration
- ◆ Employees avoiding taking annual leave
- ◆ Sudden improvement in employee's sales performance
- ◆ Employees adopting undue levels of secrecy with transactions
- ◆ Customers regularly targeting young and/or inexperienced employees

**CASH EXCHANGES** – exchanging low denomination notes for high (also known as refining) as a means to launder proceeds of crime, as well as reduce large volumes of cash obtained from serious crime.

*Possible indicators (specific)*

- ◆ Significant and/or frequent cash exchanges from small to large denominations (refining)

**CURRENCY CONVERSION** – converting one currency into another as a means to launder proceeds of crime, as well as reduce large volumes of cash obtained from serious crime.

Current impact on New Zealand assessed as:

*Possible indicators (specific)*

- ◆ Significant and/or frequent New Zealand or foreign currency exchanges
- ◆ Opening of foreign currency accounts with no apparent business or economic purpose