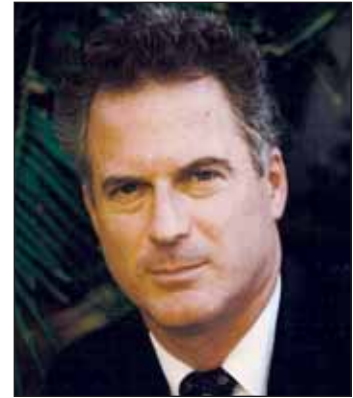


How money launderers target managed funds



By Kenneth Rijck

FINANCIAL CRIME CONSULTANT
FOR WORLD-CHECK

Today we shall discuss five tools employed by professional money launderers seeking to penetrate managed funds.

COMPLIANCE OFFICERS at managed funds, whether they be hedge funds, funds of hedge funds, commodity pool operators, alternative investments or other non-traditional asset classes, should consider these potential avenues for the placement of the proceeds of crime as elevated risks in their daily performance of compliance duties – especially customer identification procedures and source of funds inquiries. Remember, money launderers are inclined to clothe their illicit funds with all the trappings of legitimacy, and only when you establish a blanket rule that you have a heightened degree of awareness regarding these subjects can you ensure that risk is minimised.

Our first vehicle is the trust. While privacy and anonymity are necessary protections for the wealthy, the same benefits are easily employed by money launderers who wish to either conceal the identity of their criminal clients, or impart disinformation to compliance departments, so as to allay any suspicions or concerns which will result in the refusal to accept investment. As a Compliance Officer, I was constantly running into cases where the privacy card was being played when I requested the entire trust instrument, as well as details about the beneficiaries and the trustees. If they protest too much, raise a red flag. Also, insist that some licensed professional, preferably a lawyer in an onshore law firm, goes on record as certifying that the copy you received is a true and correct copy of the actual instrument.

Second, the private foundation. I know such clients are generally prized by managed funds as they make great marketing tools for your literature (if they let you). But carefully vet all such entities, as their lack of beneficiaries make them quite attractive to money launderers, particularly those incorporated in Panama. How long has the foundation been in

existence; what good works has it accomplished; what kind of long-term footprint does it have in the media? Answer these questions before you accept their funds or you may be taking not just dirty money, but terrorist financing funds.

Third is the class of other private investment vehicles, which includes a wide variety of companies. These can be proprietary entities formed solely for the purpose of deceiving your compliance division into believing that they are another legitimate non-bank financial institution. Again, check out the track record; demand notarised proof of beneficial ownership of the entity; and avoid those from offshore financial centres which you know have been utilised by organised crime groups. If the level of business presented justifies the cost, an unannounced visit in the field to the potential client by an investigator can often confirm the legitimate status of such entities. On the other hand, it can also verify the shell status of a firm that exists only to serve criminal customers.

Fourth, we have funds proffered by intermediaries from jurisdictions where there is little or no regulation of these semi-professionals. Many corporate service firms, company agents, firms offering services to absentee clients, notary publics, investment companies or other paraprofessionals are either totally unregulated or poorly regulated in certain regions of the world. Beware such intermediaries, and always verify that they are licensed and regulated, and that the jurisdiction has a record of disciplining errant companies and individuals.

Lastly, we have intermediaries in countries that do not meet Financial Action Task Force standards, or who did not do so until the FATF exerted pressure upon them, such as placing that country upon the non-cooperative countries and territories (NCCT) blacklist. I have found that a number of those nations

who have been removed from that list have never convicted anyone of money laundering, or that their financial intelligence units are ineffective, or that money laundering has just gone underground, into the accounts of local attorneys and accountants. Do not take self-serving statements about the dynamic operation of their national anti-money laundering laws from intermediaries from such countries without verifying the claims yourself through independent research. Ensure that such intermediaries are also thoroughly investigated, so as to uncover any unsavoury associations with clients that you do not want.

To sum up, remember that career money launderers will endeavour to construct fronts for their illegitimate clients, and they love to employ the same vehicles utilised by financial advisers to affluent legitimate investors. Expect them to present you with a well-planned entity that seems to be clean and tested by time. Just remember to work backwards in time, looking at the entity's track record, where it comes from, what it has accomplished, and where it is going. Don't let the money launderers fool you. □

Kenneth Rijck is believed to be the only former banking attorney-turned career money launderer who actively consults with law enforcement and the financial community. He has more than 25 years' experience in the field of money laundering, as a practicing 'laundryman', financial institution compliance consultant, and trainer/lecturer to law enforcement and the intelligence services of both the United States and Canada. After serving as a banking lawyer in an international law firm, he spent the decade of the 1980s as a money launderer and advisor to narcotics trafficking organisations operating in North and South America. Whilst serving a federal prison sentence for racketeering and money laundering, he assisted with the first joint Swiss-American money laundering investigation of bankers and lawyers, which resulted in a major seizure of the proceeds of crime. Kenneth writes a daily AML column. For more information visit www.world-check.com