

A Guide to Counter Threat Finance Intelligence



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Other works by Marilyn Peterson:

Applications in Criminal Analysis: A Sourcebook (1998, Praeger)

A Guide to the Financial Analysis of Business and Personal Bank Records (1996, 1998 & 2002, National White Collar Crime Center)

A Guide to Understanding and Analyzing Bank Secrecy Act Records (2002, National White Collar Crime Center and Federal Bureau of Investigation)

Intelligence-Led Policing: The New Intelligence Architecture (2004, US Department of Justice)

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I. Introduction

Threat finance is the covert movement of the profits of illicit acts or of funds that will support illicit acts. Counter Threat Finance (“CTF”) incorporates efforts to stop money that funds terrorism, proliferation, narcotics networks, espionage, WMD networks, trafficking in persons, weapons trafficking, precursor chemical smuggling, and other activities that generate revenue through illicit trafficking networks.¹ A former International Monetary Fund managing director estimated that volume of illicit money moving annually to be between \$600 billion and \$1.8 trillion.²

In order to generate counter threat finance intelligence, we collect and analyze bits of data that relate to financial activity—e.g., bank records, business records, travel records, communications records and surveillance reports—to determine what the financial activity indicates and how it relates to the threat. Intelligence is defined as distinct from raw data or information, as Mark Lowenthal noted in 2006:

“Information is anything that can be known, regardless of how it is discovered. Intelligence refers to information that...has been collected, processed and narrowed to meet the needs (of policy makers).”³

The generation of threat finance intelligence has not been prioritized across the intelligence community until the recent past. The *Monograph on Terror Financing* written after the 9/11 terror attacks noted that the intelligence community did not understand al-Qa’ida’s methods of raising and moving money because it “devoted relatively few resources to collecting the strategic financial intelligence that policymakers were requesting or that would have informed the larger counterterrorism strategy.”⁴

Counter Threat Finance in DoD

Today, threat finance is being emphasized. Counter Threat Finance policy requires all Combatant Commands (COCOMs) within the Department of Defense to “establish a dedicated CTF capability that integrates intelligence and operations, analyzes financial intelligence and coordinates and executes CTF activities...”⁵ This realization has come slowly, over several years. An earlier draft of CTF policy in 2005 stated: “Financing permeates every aspect of the threat posed by an adversary against US interests and as such is a critical priority for DoD.”⁶ The lack of doctrine addressing threat finance was noted in a 2006 Joint Advanced Warfighting School paper.⁷

This monograph is intended to augment training on counter threat finance by the Department of Defense and incorporates lessons from earlier works on financial analysis/intelligence. It focuses primarily on the analysis of counter threat finance related information gleaned from the systems that are used (banks, money services businesses, etc.) to covertly move illicit money or value. It also focuses on the application of financial analysis techniques to the specific financial threats noted.

II. Threat Finance

The covert movement of money is the underlying facilitator of all threat activity. The common denominator of most crime is profits and those profits must be hidden. Historically, criminal profits have been “laundered” to hide their illegal source or destination. Additionally, the USA PATRIOT Act, Section 376, modified the U.S. money laundering statute (18 U.S.C. § 1956) to include providing “material support” to terrorists as money laundering.⁸ Since financing attacks is a precursor to the attacks themselves, we have the ability to prevent terror attacks by removing the needed finances from the equation. Threat finance can be valuable as a warning indicator of an impending attack. Williams (2007) noted this is so because:

Finance is a critical part of attack preparations,
Money connects “a known part of the terror network with an unknown part”, and
Changes in finance patterns may signal terror acts or indicate a new set of targets.⁹
Thus we can hope to prevent acts of terror through following and stopping the money flow.

A. Sources of Threat Finance

There are two primary sources of threat finance: illegal and legal. Illegal sources are the range of criminal acts that generate significant funds. One estimate stated that, within terrorism, 2/3 of the money used is generated from criminal activity, while 1/3 is from ‘legal’ sources (donors, charities, etc.)¹⁰.

Criminal activity that serves as a source of funds to threat groups includes:

- Extortion and protection rackets
- Smuggling
- Kidnapping
- Prostitution rings
- Human trafficking
- Credit card fraud and identity theft
- Counterfeiting currencies and pharmaceuticals, cigarettes, alcohol and other goods,
- Pirating videos, compact discs, tapes and computer software¹¹

There is also much discussion on the nexus between narcotics trafficking and terrorism

Other illegal activity engaged in to support the threat groups’ activities can include bribery, murder, arms trafficking, and a variety of frauds.

This range of criminal activity is reflected along the numbers of terror attacks that have been seen since 1993. The Madrid railway station bombings in 2004 were supported by the sale of counterfeit CDs.¹² Supporters of Hezbollah were arrested in the U.S. after they purchased cigarettes in North Carolina and then re-sold them in Michigan at a discount, where state cigarette taxes are much higher and the price discrepancy can net smugglers up to \$2 million per truckload.¹³

Some ‘legal’ sources include government sponsors, private donors, charities and non-government organizations (NGOs). Government sponsors of threats have included state sponsors of terrorism such as Cuba, Iran, Sudan and Syria.¹⁴ Wealthy individuals, including Osama bin Laden, have been shown to fund terror activity.¹⁵ Money may also be donated in smaller amounts from business people, or even salaried individuals who want to support the cause.

Charities and non-government organizations (NGOs) have been identified as sources of terrorist funding. A number of charities have been designated by governments as providing support to terror

groups. They include al-Haramain, the International Islamic Relief Organization, the Holy Land Foundation, Benevolence International Foundation, the Palestinian Relief and Development Fund, The Global Relief Fund, the Somali International Relief Organization, and the Afghan Support Committee.¹⁶

Although the source of threat finance resources is not always illicit, the steps taken to cover the trail of threat funding are often the same as those used in money laundering. Known money laundering schemes, provide some insights into threat finance.

B. Traditional Steps of Money Laundering

There are three steps to money laundering: placement, layering and integration. The placement stage is required primarily when the money is in currency form. Drug profits, for example, are often collected in small (\$5s, \$10s, \$20s) bills. Likewise, bribery, extortion, or espionage can generate cash payments.

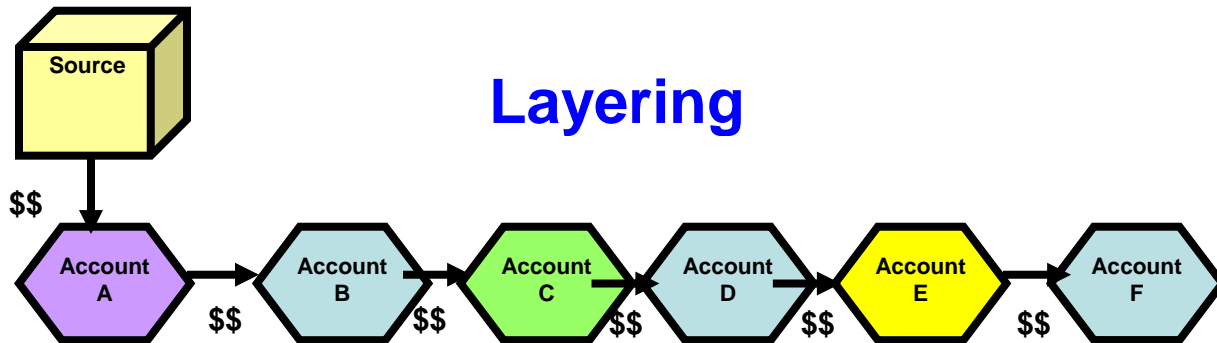
To be successfully laundered, this cash needs to be put into the financial system, that is, deposited into an account or used to purchase a monetary instrumentⁱ or asset that might be handed on. Even if the money has been generated from a non-currency based crime (such as insurance fraud), the placement step may still be needed as the deposit of a large check may be noticed by banking personnel as being out of character for 'normal' account activity. One method to 'place' money into a bank system is through 'structuring' or 'smurfing', in which one or more accounts are accessed by one or more individuals ('smurfs') in such a way that the deposits or withdrawals fall well below the \$10,000 threshold in the United States for currency transaction reporting.¹⁸



On March 15, 2008 Mexican authorities raided a villa in Mexico City and found \$205 million in cash, most of it in \$100 bills. Total weight of all that cash: at least 4,500 pounds. Also seized were 200,000 euros, 158,000 pesos, eight luxury vehicles, and a small arsenal. Officials say the money is tied to Chinese and Indian suppliers of raw materials for methamphetamine, which is produced in Mexican superlabs and then exported to the United States.¹⁹

Layering is when the money is moved through varied accounts or companies for no legitimate business purpose other than to obscure the trail and make it more difficult for investigators to follow. These may be business or personal accounts, they may even include some conversions to cash (where a check or other monetary instrument is cashed) to cover the trail. This layering may occur within the same geographic area or it may be countrywide or worldwide. The deposits to the accounts may be in the form of wire transfers, checks, or structured cash.

ⁱ Common monetary instruments are bank or postal money orders, cashier's checks, or traveler's checks.



Integration is when the money's trail has been obscured enough that it may appear to be from a different source than its real source and thus may be used by the receiver without concern that it may be traced back to illegal activity (and thus be open to seizure and forfeiture) or other activity with which it does not want to be associated. The money may come in as a business payment, a loan, a repayment of a loan, a commission or other movement that appears legal. An example of integration could be taking drug profits of \$1 million, smuggling them offshore, depositing them into a business account offshore secretly controlled by the drug lord, then having the business "loan" \$1 million to a business owned by the drug lord in the home country. That money could then be used openly.

C. Methods of Moving Money

There are several systems that are most often used to finance threats or launder money:

- Smuggling the currency around or through border controls
 - By personal carry
 - In shipped goods
 - Hidden in vehicles
 - By mailing the currency or monetary instruments
- Wiring through alternate remittance systems
- Moving value through informal value transfer systems (underground banking)
- Moving value through trade based transactions
- Using front companies and/or nominees
- Moving through banking systems
- Using money service businesses including check cashers, and/or currency exchange houses (casas de cambio) ²⁰
- Using any combination of the above.

Bulk currency smuggling is a popular way to move money out of the United States. According to the National Money Laundering Threat Assessment 2005, "Law enforcement resources are limited. As of October 2004, Customs and Border Patrol had only 17 currency detector dogs assigned to assist in interdiction efforts.: ²¹ Personal couriers are considered a trusted and anonymous way to receive money, as no paper trail is generated as it would be through transferring electronically or by check.

One example of this was that a courier delivered \$50,000 of the \$150,000 needed to fund the Istanbul terror bombings in November 2003.²² Those synagogue bombings killed 27 people and injured 300.

In the case of narcotics proceeds, sometimes the same hiding places in vehicles used to bring narcotics across borders to the sales area may also hide the profits being taken back to the drug manufacturer. In other instances, cartons of money orders, which are easily negotiable, were shipped from the U.S. to South America to repatriate narcotics profits.

Alternate remittance systems include money remitters who most often serve the diaspora community in sending home money to support their families and villages. Some countries, such as the Philippines, require their citizens who work in other countries to send money home. Money remittance systems run the gamut from large international companies such as Western Union™ and Moneygram™ to small, ethnic brokers who work between particular geographic areas.

Case Study: Wire Remitters Move Narcotics Profits

US Customs officials saw that certain money remitters in the New York metropolitan area moved more than \$800 million to Colombia in one year.²³ As a result, beginning in August, 1996, certain licensed money transmitters in the New York metropolitan area and their agents were subject to an order requiring them to report information about the senders and recipients of all cash-purchased transmissions to Colombia of \$750 or more. The Geographic Targeting Order, or 'GTO,' was issued pursuant to a provision of the Bank Secrecy Act (BSA). GTOs are temporary measures, and can be authorized for no more than 60 days at a time. The GTO initially impacted 16 licensed money remitters with 1,200 agents. The GTO was extended and expanded and by April 1997 included 23 licensed money remitters with over 3,500 agents. The GTO caused an immediate and dramatic reduction in the flow of narcotics proceeds to Colombia through New York City money transmitters. The targeted money transmitters' business volume to Colombia dropped approximately 30%. In the aftermath of the GTO, Customs observed a marked increase in currency interdiction and seizure activity at the borders -- over \$50 million in the 6 months after the GTO went into effect, approximately four times more than in prior years.²⁴ The USA PATRIOT ACT extended the amount of time a GTO can be in place to 180 days.



Whereas wire remitters send money from one area to another, the informal value transfer systems, such as 'hawala', may move value. 'Hawala' is the Arabic word for 'transfer' which has also come to mean 'trust' and occurs between two trusted individuals called 'hawaladars.' These are individuals who may have other businesses (e.g., merchants selling rugs, gems, sold or other commodities) but also move value from one to another, settling accounts with fellow hawaladars on a regular basis.

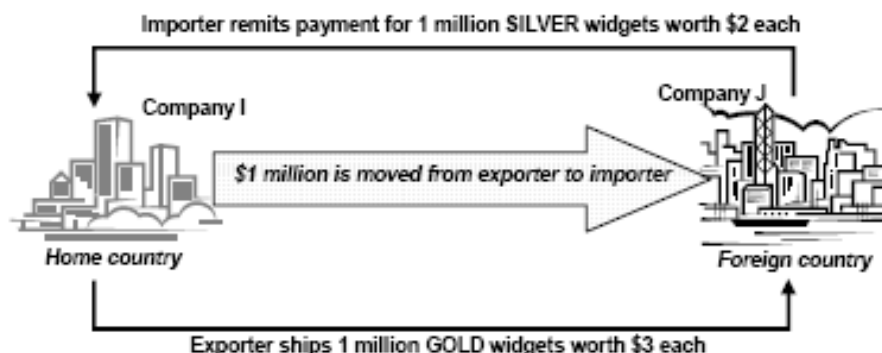
Hawalas do not exist solely in the Middle East. For example, a Pakistani national living in Glen Burnie, MD pleaded guilty to conspiracy in operating a money laundering scheme. Saifullah Ranjha was sentenced in 2008 for transferring \$2.2 million in government funds through a hawala. Cooperating

witnesses posed as drug smugglers, cigarette smugglers and other criminals, and in one case as a terrorist who wanted to send money to al-Qaida.²⁵

These types of money movement are not intrinsically illegal, but can be used by those wishing to hide the movement of funds. While the United States requires all money remitters, including hawaladars, to register as 'money service businesses' and file requisite currency transaction and suspicious activity forms,²⁶ not all countries require registration or licensing. Even countries which do require registration have both registered and unregistered hawalas. In Afghanistan, for example, in February 2009 108 money service providers were registered with the central bank, Da Afghanistan Bank²⁷ although there are hundreds believed to be present in that country. For example, Western Union's web site lists at least 50 locations within Afghanistan, while the providers registered with the central bank do not reflect any Western Union sites.²⁸

Trade based money laundering does not move money at all, but rather moves goods that are worth the value of the money that would otherwise be moved. The Financial Action Task Force defines trade based money laundering as "the process of disguising the proceeds of crime and moving value through the use of trade transactions in an attempt to legitimise their illegal origins or finance their activities."²⁹ These goods may be over- or under-invoiced to hide their real value and thus move the value covertly. Or, the weight or quantity of the goods moved may be mislabeled. This activity requires the falsification of trade and customs documents and the complicity of those receiving the mislabeled goods. Another method of trade based money laundering is purchasing goods in one locale with their total worth being equal to the amount of money owed to an entity in another locale. The goods, however, may be worth considerably more in the second locale, thus the recipient make additional profits from their sale.

Case Study: Trade Based Money Laundering



In the above example, Company I exports \$1 million of gold widgets worth \$3 each to Company J in another country. However, Company I provides an invoice for 1 million silver widgets worth \$2 each in response to which Company J remits payment of \$2 million to Company I. Company J thus has \$3 worth of goods for which it has only had to pay \$2 million. As a result, Company I has moved \$1 million in 'value' in addition to \$2 million in goods. (FATF)³⁰

Shell companies have been used by persons laundering money for decades. These companies are created on paper and bank accounts are opened on their behalf, but they do no business other than moving laundered money through their accounts. Nominees may also be used who are relatives or associates whose names are used to purchase assets or move money on behalf of the individual with illegal funds. Countries with corporate privacy laws and/or low corporate tax rates are chosen to domicile these

companies. Off-shore banks are chosen for the accounts to make accessing account records more difficult for investigators. The paper ownership of assets by nominees or corporations make the true owner harder to uncover and also are an attempt to shield the assets from seizure because of that ownership.

In addition to paper companies, “front” companies are also used to hide illegitimate activity within the legitimate trade or business. One example of the use of a front was the Massachusetts company, Ptech, which was accused of serving as a front for terrorist activities. Its secret owner was a Saudi millionaire who was on the U.S. Treasury designation list for funneling millions to al-Qaida through the Muwafaq Foundation.³¹

In another example of the use of fronts, it was reported that Iran was using fronts to get American electronics in support of its weaponry program. Between 2007 and 2009, Iran acquired banned items that are used to make sophisticated IED (improvised explosive devices) using Dubai and Malaysia companies as fronts. Since it is easy to create a new front company to replace a known one, even investigations may not stop this activity as the new fronts will typically not be discovered until long after the sale.³²

TIP: Banks are required to acquire back-up information on corporations that have bank accounts opened. Banks must have a Corporate Resolution on file, signed by the officers, agreeing to having the account opened and a certificate of incorporation may also be provided. Both these provide helpful information to investigators.

Banks have been used to move money from criminal profits and move money used in terror acts. One example on the money laundering side was Bank of America (‘BAC’), which underwent a two year investigation by the Manhattan District Attorney’s Office and federal authorities in Brazil. The investigation revealed that, from May 2002 to April 2004, over \$3 billion flowed through a Uruguayan money remitter’s account at BAC; most of this money originated from offshore shell companies chartered in Panama and the British Virgin Islands and controlled by Brazilian money service operations. BAC was ordered to pay \$6 million to U.S. and state governments and pay \$1.5 million in legal fees.³³ In another example, Lloyds TSB Bank was fined \$350 million for disguising wire transfers so they did not appear to be for the benefit of countries on the state sponsors of terrorism list. Iran, for example, benefited from the movement of \$200 million. The activity continued over 12 years, through Iranian front companies.³⁴

The 9/11 Commission’s *Monograph on Terror Finance* detailed how the hijackers opened bank accounts in U.S. banks, received wire transfers at the banks, used debit cards off the accounts, and aggregated the leftover funds to wire them back to the Middle East days before the planes struck New York and Washington.³⁵ It did not give any indication of witting support by the banks of the terrorists’ efforts, but did make us aware that the safeguards against money laundering in place at the banks were not stringent enough to uncover terror finance. According to Ehrenfeld, in 1999 the US government had identified the Dubai Islamic Bank as having laundered money for Osama bin Laden.³⁶

Money service businesses, including check cashers, traveler’s check sellers, and *casas de cambio* (money exchange houses), have supported both money laundering and terror finance. Check cashers receive a fee in return for converting checks to cash. While their general use is for ‘unbanked’ persons who cash small paychecks, businesses also use them when they are in need of currency to pay employees, suppliers and the like. They may also be used by companies who need immediate access to money owed to them, thus they cash the check and put the proceeds in their account so that checks written on the account will be covered immediately, rather than the normal bank waiting period of several days.

Various forms of white collar crime (most notably investment fraud and other frauds) have been uncovered by the review of check casher records. In one instance of this, Medicaid fraud in California was uncovered on the East Coast due to large (several hundred of thousands of dollars) checks being cashed from the California Medicaid agency in a small New Jersey store . Those involved were successfully prosecuted for Medicaid Fraud and money laundering (\$15.5 million).³⁷

TIP: In some states, check cashers are required to file Currency Transaction Reports (CTRs) and Suspicious Activity Reports (SARs) with state government as well as federal. Thus, investigators may access the data at the state level. The money service businesses may also be required to provide backup information on those transactions to the investigators without a subpoena.

Casas de cambio, or money exchangers, have been best known for their role in the Black Market Peso Exchange (see p.19 for a graphic of this value laundering scheme.) It is important to note that while the role of these agencies typically is limited inside the United States to changing one form of currency into another, in other countries they act as informal banks and provide many services to their customers. One example of a money exchanger involved in money laundering was when a New York money exchanger was used by an individual who had fraudulently billed insurance companies for tests not administered and deposited large sums of money with the New York exchanger so the funds could covertly be moved to South America from which they were then accessed.

Emerging ways of moving illicit funds include using internet systems such as Paypal™, making payments via mobile phones, and loading large sums of money onto stored value cards which can then be easily transported to other regions. Some have suggested that online games may also be used to move value covertly.

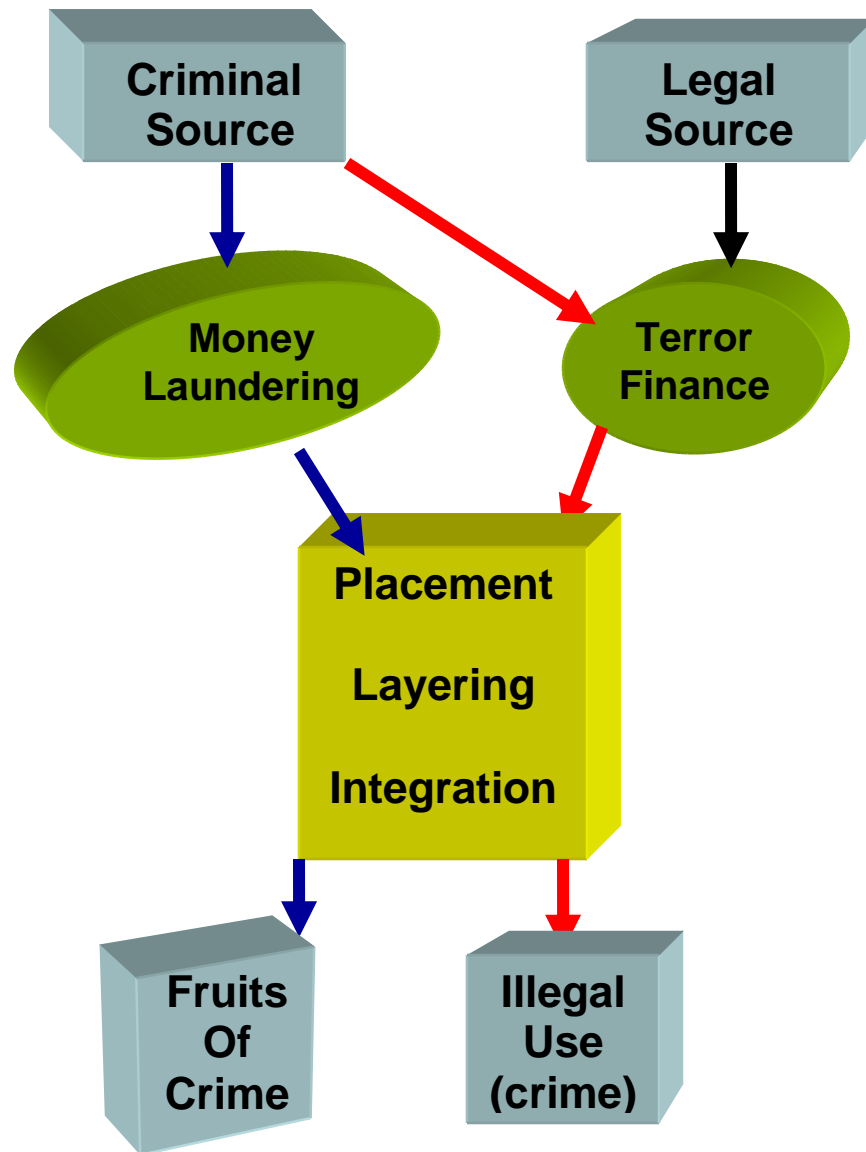
D. Threat Finance and Money Laundering: Similarities and Differences

Are there any differences between how money is covertly moved in support of threat finance versus how it is moved in money laundering? Both use the same monetary and trade systems to move money or value. The schemes used to covertly move value have been the same or similar. Both have used the same routes to move value.

The primary difference seems to be the destination or use of the funds. Criminals use money to gain legitimacy and further their lifestyle, but the monies they use are the ‘fruits of crime’. Terrorists use money, which may be from crime or legitimate donors to commit terrorism. The intermediate steps of layering and obscuring the trail are the same in both instances.

The following graphic reflects this.

Money Laundering vs. Terror Finance



This graphic shows that while the sources and destinations of fund in money laundering and terror finance may be different, the methods of moving illicit funds are similar.

E. Indicators of Threat Finance/Money Laundering

Many indicators of money laundering and threat finance have been developed and a significant number are similar. Below are two listings: (1) indicators of threat finance/money laundering and (2) indicators of trade based money laundering.

Threat Finance/Money Laundering Indicators

- Use of wire remittance services by persons or companies with formal banking relationships
- Smurfing/structuring (deposits or withdrawals just under reporting threshold)³⁸
- Use of cash/body couriers (often for large sums)
- Unusual or suspicious identification that cannot readily be verified.³⁹
- Use of underground banking structures (hawalas, etc.)
- Large cash withdrawals from a business account that are not consistent with business practice (that is, the business has no need for cash on hand and primarily deals in credit or monetary instruments)
- Same day transactions at depository institution using different tellers but having transactions involving the same or similar accounts⁴⁰
- Addresses shared by individuals that are also business locations used by depositors⁴¹
- Structuring of money order purchases at various locations (and/or intent to circumvent MSB internal regulations by purchasing several money orders in small amounts)
- Use of sequentially numbered money orders (indicating several were purchased at the same location)⁴²
- Use of multiple accounts at a single or multiple institutions⁴³
- Use of import export businesses, travel agencies or other businesses doing business over country borders as an unlicensed money remitter for wire transfers
- Individuals serving as intermediaries in money remittances (hawaladars)
- Customer purchases a number of open-ended stored value cards for large amounts⁴⁴
- Unusually large number of beneficiaries receiving funds transfers from one company⁴⁵
- Financial activity shown is:
 - inconsistent with stated purpose of business
 - not commensurate with stated occupation
- Importation of high dollar currency and traveler's checks not commensurate with stated occupation
- Use of false identification documents or those of illegal migrants or victims of trafficking.
- Purchase of real estate, vehicles and other tangible objects by nominees
- Investments in legal cash based business activities (bars, restaurants, etc.)
- Atypical or uneconomic or unjustified fund transfers.
- Depositing money in small amounts but where the totals are large in a short time.
- Transfers followed immediately (the same day) by important and repeated cash withdrawals.⁴⁶
- Multiple high-value payments or transfers between shell companies
- Transfers in round hundreds or thousands amounts⁴⁷
- Wire transfers following cash deposits⁴⁸
- Mix of cash deposits and monetary instruments
- Significant deposits to personal account by suspect business owner
- Use of account that would not generate number of wire transfers, in and out, under normal circumstances
- Charity/Relief organization linked to transfers⁴⁹
- Multiple accounts are used to collect funds and funnel them to small numbers of foreign beneficiaries, both persons and businesses, in high-risk locations⁵⁰

Trade Based Money Laundering Indicators

- Items shipped that are inconsistent with the nature of the customer's businesses
- Customers conducting business in high-risk jurisdictions

- Customers shipping items through high-risk jurisdictions, including transit through non-cooperative countries
- Customers involved in potentially high-risk activities, including activities that may be subject to export/import restrictions
- Obvious over-or under-pricing of goods and services
- Obvious misrepresentation of quantity or type of goods imported or exported
- Transaction structure appears unnecessarily complex and designed to obscure the true nature of the transaction
- Customer requests payment of proceeds to an unrelated third party
- Shipment locations or description of goods not consistent with letter of credit
- Documentation showing higher or lower value or cost of merchandise than that which was declared to customs or paid by the importer
- Significantly amended letters of credit without reasonable justification or changes to the beneficiary or location of payment.⁵¹
- Significant discrepancies between the value of the commodity on the invoice and the fair market value of the invoice
- Size of shipment is inconsistent with the normal business pattern of the shipper or receiver
- Shipment does not make economic sense
- Transaction involves the use of front or shell companies⁵²
- Carousel transactions: the repeated importation and exportation of the same high-value commodity
- Packaging inconsistent with commodity or shipping method
- Double-invoicing⁵³

Additional indicators may be found online in the following locations:

Financial Action Task Force:

www.fatf-gafi.org

Financial Crimes Enforcement Network

www.fincen.gov

Office of the Comptroller of the Currency

www.occ.treas.gov

BSA Compliance Manual

International Monetary Fund

www.imf.org

F. Counter Threat Finance Tools

1. Bank and Money Service Regulation

Beginning with the Bank Secrecy Act of 1970, the United States has attempted to regulate the movement of currency and other monies that may be tied to criminality. Those regulations established the \$10,000 threshold for currency transactions and mandated reporting for those transactions above the threshold, whether bank deposits or withdrawals, payments to businesses, or cross-border money movement.

Suspicious Activity Reporting began to be filed in 1996 and require banks to report any of a listing of suspicious financial activities on amounts greater than \$5,000.⁵⁴ This reporting was expanded to casinos, money service businesses, securities and futures brokers, and other entities since 2001, with different thresholds and possible suspicious activities listed. SAR formats can be seen at: www.fincen.gov/forms/files/f9022-47_sar-di.pdf.

Reporting expanded from the U.S. to other countries through the Financial Action Task Force and the Egmont Group. The Financial Action Task Force assembled listings of 40 recommended activities to counter money laundering and nine against terror finance.⁵⁵ Summarized, the nine are:

1. Each country should take immediate steps to ratify and to implement fully the 1999 United Nations International Convention for the Suppression of the Financing of Terrorism.
2. Each country should criminalize the financing of terrorism, terrorist acts and terrorist organizations. Countries should ensure that such offences are designated as money laundering predicate offences.
3. Each country should implement measures to freeze funds or other assets of terrorists, those who finance terrorism and terrorist organizations in accordance with the United Nations resolutions relating to the prevention and suppression of the financing of terrorist acts.
4. If financial institutions, or other businesses or entities subject to anti-money laundering obligations, suspect or have reasonable grounds to suspect that funds are linked or related to, or are to be used for terrorism, terrorist acts or by terrorist organizations, they should be required to report promptly their suspicions to the competent authorities.
5. Each country should cooperate with other countries in connection with criminal, civil enforcement, and administrative investigations, inquiries and proceedings relating to the financing of terrorism, terrorist acts and terrorist organizations. Countries should also take all possible measures to ensure that they do not provide safe havens for individuals charged with the financing of terrorism.
6. Each country should take measures to ensure that persons or legal entities, including agents, that provide a service for the transmission of money or value, including transmission through an informal money or value transfer system or network, should be licensed or registered and subject to all the FATF Recommendations that apply to banks and non-bank financial institutions.
7. Countries should take measures to require financial institutions, including money remitters, to include accurate and meaningful originator information (name, address and account number) on funds transfers and related messages that are sent, and the information should remain with the transfer or related message through the payment chain.
8. Countries should review the adequacy of laws and regulations that relate to entities, particularly non-profit organizations, that can be abused for the financing of terrorism.
9. Countries should have measures in place to detect the physical cross-border transportation of currency and bearer negotiable instruments, including a declaration system or other disclosure obligation.⁵⁶

The FATF developed a listing of non-compliant countries and worked to bring those countries into compliance. One of the required components is the ability to collect and analyze data on suspicious transactions. The Egmont Group, a list of currently 107 countries that has agreed to work against money laundering and terror finance, all established financial intelligence units (FIUs).⁵⁷ Each of these countries

has agreed to collect and analyze suspicious financial transactions and, in some cases, large cash transactions.

2. Designations

In 1999, the United Nations Security Council established an al Qaida and Taliban Sanctions Committee by Resolution 1267 that allows the Committee to designate individuals and entities as having ties to terrorism.⁵⁸ This lengthy listing includes individuals, businesses, and ‘charitable’ organizations and cautions businesses from having relationships with them. It states that countries should:

- freeze funds and other financial assets or economic resources of designated individuals and entities,
- prevent the entry into or transit through their territories by designated individuals and
- prevent the direct or indirect supply, sale and transfer from their territories or by their nationals outside their territories, or using their flag vessels or aircraft, of arms and related materiel of all types, spare parts, and technical advice, assistance, or training related to military activities, to designated individuals and entities⁵⁹

The United States designation program, based upon several Executive Orders (12334, 13382, 12978, etc.), covers terrorism, narcotics kingpins, Cuba, nuclear proliferation, Iran, Iraq, North Korea, and ten other countries. The U.S. Treasury Office of Foreign Asset Control (OFAC) is responsible for administering the lists and making them available to the public.⁶⁰ One example of the nature of these lists is seen in the Specially Designated Nationals List.⁶¹ U.S. persons are prohibited from engaging in any transaction or dealing in property or interests in property of designated entities and from engaging in any transaction that evades or avoids the prohibitions.

3. Border Security – Trade Transparency Units

With bulk currency smuggling and couriers being a preferred method to move money covertly, border security is an important tool.

The "Hands Across the World" initiative, led by U.S. Department of Homeland Security bureaus Immigration and Customs Enforcement (ICE) and the Customs and Border Protection (CBP), begun in 2007, now includes the exchange of bulk currency smuggling information, including cash declaration data, between ICE, CBP, and foreign law enforcement agencies. Since 2005, its predecessor, Operation Firewall, is credited for more than \$124 million in seizures; \$45 million taking place internationally, including seizures in Mexico, Colombia, Panama and Ecuador.⁶²

Immigration and Customs Enforcement has also been involved in establishing Trade Transparency Units (TTUs) between the U.S. and other countries including Colombia, Argentina, Brazil, Paraguay, and Mexico. Under the agreements on which these TTUs are based, the countries agree to share trade documents for comparison purposes to determine if discrepancies exist between what is shipped and what is claimed to have been shipped. At the core of the TTU concept is the computer system formerly known as the Data Analysis & Research for Trade Transparency System (DARTTS) and now known as Leadminer™, which is designed to analyze import/export and financial data of the United States and its foreign partners for the purpose of identifying trade anomalies and financial irregularities. These anomalies and irregularities often serve as indicators of money laundering, customs fraud, contraband smuggling, and even tax evasion (e.g. value added tax, income tax, duty, tariff).⁶³

III. The Role of Finance in Major Threats

To investigate or understand threat finance, some knowledge of how money works is required. Section IV of this monograph covers financial analysis techniques and methods; this section reflects the roles money plays in threat activities. Rafael Perl noted that “the man with the money is more dangerous than the man with the gun.”⁶⁴

A. Counterterrorism

This millennium began with the threat of terrorism coming home to the United States. As a result, the efforts of many have been devoted to the detection, prevention and mitigation of terrorist acts.

Although the attacks by terrorists against the U.S. and U.S. interests have been relatively low-cost (between \$2,000 at the lowest and \$400,000 at the highest), supporting the terrorist way of life is not; one estimate put the costs of pre-9/11 al-Qaida at \$30 million per year.⁶⁵ According to Napoleoni, the money generated by all armed terror groups around the world prior to 9/11 was \$500 billion.⁶⁶ Hamas’ annual budget was estimated in 2006 to be between \$30 and \$90 million annually.⁶⁷

Some of the activities that need to be funded include:

- Training
- Recruitment
- Living expenses
- Travel
- Communications
- Operations
- Weapons and materiel
- Safehouses/safehaven
- Bribes
- Transportation/vehicles
- Forged identification and travel documents
- Intelligence gathering
- Media time/advertising
- Paid demonstrations⁶⁸
- Payments to families of soldiers and martyrs

One example of terror finance was in 2007 when “Operation Cash-Out” charged a defendant with concealment of terrorist financing, and 44 others with money laundering, conspiracy to bribe, operating unlicensed money transmitters and failing to file Currency Transaction Reports. The joint investigation by US Customs, FBI, IRS and other agencies sought a total of over \$5 million in criminal forfeiture and interest in convenience stores in Snow Hill, MD. Defendants ranged from the US to Spain, Canada and Belgium.⁶⁹

Operation Green Quest, a joint terror financing task force operation including the Postal Inspection Service, FBI, Secret Service, Naval Intelligence Service and the Coast Guard arrested nine individuals in March 2003 and seized \$120,000 in California, Minnesota, New York, Michigan and New Jersey. Authorities intercepted more than 270 money orders totaling nearly \$136,000 that one individual was shipping to Beirut via private parcels. Authorities also said that a business named Manhattan Foreign Exchange had moved \$33 million to Pakistan over 18 months; the money was said to be from drug sales.

In another instance, nearly \$157,000 in cashiers' checks were sewn into the lining of a handbag that was to be taken on a flight to Lebanon.⁷⁰

B. Counter Narcotics

Narcotics profits, often in currency, were one of the reasons that the Bank Secrecy Act of 1970 was passed. The requirements of currency transaction reporting were to shed light on the 'underground' cash economy. These reporting requirements related to deposits and withdrawals from banks, money moving in and out of the country, and cash purchases of more than \$10,000.⁷¹

The annual profits from the wholesale level of narcotics distribution were estimated at \$320 billion in 2005 by the United Nations Office of Drug Control.⁷² This amount must move covertly to distance the profits from their illegal source. Commonly used methods include bulk currency smuggling, the Black Market Peso Exchange and other trade based money laundering methods.



(US Customs⁷³)

The line between counter narcotics and counterterrorism can be fine. In testimony before the U.S. Senate Committee on the Judiciary in 2003, Congressional Research Service specialist Raphael Perl noted that six groups on the Department of State's Foreign Terrorist Organization list were linked to drug trafficking activity:

- The National Liberation Army (ELN)
- The Revolutionary Armed Forces of Colombia (FARC)
- The United Defense Forces (AUC)
- Hizballah
- The Kurdistan Workers Party (PKK)
- Aum Shinrikyo (Japan)⁷⁴

In 2008, Matthew Levitt and Michael Jacobsen claimed that 19 of the 43 organizations on the Foreign Terrorist Organization list were tied to the global drug trade.⁷⁵

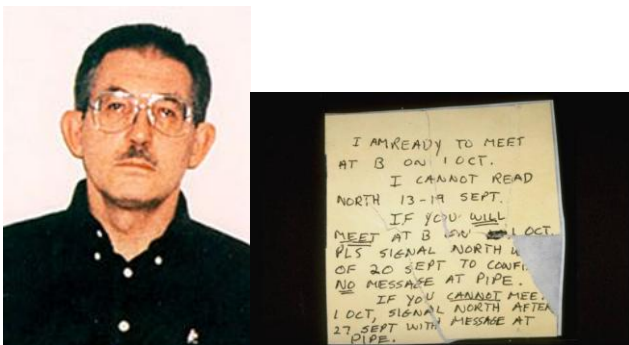
In Afghanistan alone, the narcotics trade adds \$2.5 billion to the country's economy and accounts for about one-third of all economic activity in that country.⁷⁶

In New Jersey, a Certified Public Account and a major cocaine trafficker were indicted for importing cocaine from the Dominican Republic and using two corporations to launder the financial proceeds. The two companies, Diamond Builders of New Jersey LLC and Bacardi Oil LLC were legitimate businesses. Couriers were used to deliver money in the \$500,000 range. Another defendant was structuring bank deposits in order to purchase real property with cash. One of the defendants was seen to spend \$5 million in cash over seven years.⁷⁷

In Madrid, Spain, police arrested 24 members of organizations involved in heroin trafficking and money laundering. The drug-trafficking ring used a money-laundering network of Pakistani origin to launder the profits from its illicit activities. Those taken into custody in January 2009 used a "hawala" to move their money. Seven suspects were from Turkey, Holland and Guinea Bissau. In the six searches carried out, 1 million euros (\$1.2 million) were seized along with 2 1/2 kilos (5 1/2 pounds) of heroin.⁷⁸

C. Counterintelligence

A primary motivation of those who engage in espionage is profits. Foreign governments pay money for secrets. One clear example of this was the case of Aldrich Ames, the Central Intelligence Agency employee who had made \$1.8 million between 1982 and 1989 selling CIA data to the Soviets. Ames bought a house in Arlington, VA for over a half million dollars with cash, claiming it had been an inheritance through his wife's family in Colombia or was a gift from her uncle.⁷⁹ He also bought two Jaguar automobiles within a few years.⁸⁰ Ames was arrested in 1994, after 12 years of being a Soviet spy.



Aldrich "Rick" Ames Note found by FBI in 1993 in trash concerning a meeting with his KGB contact in Bogotá, Colombia (© Life)

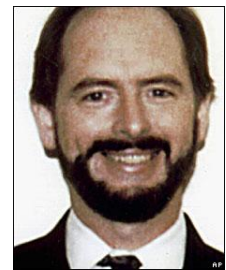
He made a number of deposits into two accounts at two banks in Virginia, each under the \$10,000 Currency Transaction Report (CTR) threshold. He also deposited money into Swiss bank accounts.⁸¹ In spite of these 'red flags', Ames' espionage activity spanned nine years. CK According to the CIA Office of Inspector General report on the Ames investigation, the CIA was hesitant to ask for financial help from other components within CIA, or the FBI, because of the sensitivity of the investigation.⁸²



Robert Hanssen and \$50,000 paid him by the Russians.
(FBI website)

Although Robert Hanssen, the Federal Bureau of Investigation spy, was not as conspicuous a consumer as Ames, he also made significant profits from his illegal activity. He became a Russian spy in 1985 and continued with this effort until his FBI career ended in 2001. Over the period, he systematically transferred highly classified national security and counterintelligence information in exchange for diamonds and cash worth more than \$600,000.⁸³

Convicted (1997) CIA spy Harold Nicholson, who is serving a 23 year term for espionage, was indicted in early 2009, along with his 24 year old son, Nathan, for espionage and money laundering. The jailed Nicholson was directing Nathan to travel to California, Peru, Mexico and Cyprus to pick up payments from Russian officials and channel information to them.⁸⁴



Harold Nicholson (AP)

D. Counter Proliferation

Nuclear proliferation has been identified as an industry in which illicit finance plays a significant role. There are several financial and trade devices that are used in proliferation including:



Front companies (to arrange for the trade or export of goods by witting or unwitting companies)⁸⁵

Letters of credit

Brokers and factors

Transshipment centers/free trade centers

Diversion of goods through third country with re-addressing to eventual address

They also break down their purchases to evade detection and purchase dual-use goods that they can argue will be used for other than proliferation. Some dual use goods include: centrifuges, composites, mass spectrometers, pressure gauges, ignition, and vacuum pumps⁸⁶

Proliferation networks work to conceal the end-user of traded goods, the goods themselves as well as the entities involved and associated financial transactions.”⁸⁷

Proliferators may use cash or barter situations to avoid financial systems. They do, however, have access to international financial systems to trade with reputable firms. One issue with the purchasing of these potentially illicit goods is a guarantee to the supplier that they will be paid. To do this, proliferators use standard financial systems and attendant devices including correspondent bank accounts and letters of credit.

An example of proliferators use of financial devices was written up by the FATF in a case study. Asher Karni, a principal in an import/export business, was acquiring 200 triggered spark plug gaps from a Company in MA and wanted them shipped to South Africa, where he would re-export them to Pakistan. Triggered spark plug gaps are high speed electrical switches that are capable of sending synchronized electronic pulses and can be used as nuclear detonators. The shipment was financed by a letter of credit opened by a Pakisani, Khan, at the National Bank of Pakistan with the Standard Bank of South Africa. In October 2003, Karni's company sent the spark plug gaps to Islamabad via Dubai, UAE. He was arrested in January 2004 in Colorado and detained. He was sentenced to 36 months in prison in August 2005.⁸⁸

E. Arms and Human Trafficking

Transnational crime groups can use similar routes and methods for trafficking in arms, humans, other contraband, and currency. Arms proliferation has increased within conflict regions and "states with limited capacities for effective governance."⁸⁹

One example of arms smuggling, terrorism and money laundering is the role played by Russian Viktor Bout. In January 2002 the United Arab Emirates was hosting money laundering and arms trafficking operations for Al Qaeda and the Taliban which included Bout and with Afghan-based militants in the emirate of Sharjah, where, as recently as early 2001, a company called Flying Dolphin, flew shuttles twice a week to the Taliban headquarters in Kandahar.⁹⁰ In March 2008, Bout was the target of a U.S. government 'sting' in which DEA agents posing as representatives of the left-wing Colombian group, the FARC (also a designated terrorist organization) discussed how he would sell 700-800 surface-to-air missiles; 5,000 AK 47 rifles; 3 m rounds of ammunition; landmines, and some 'ultralight' airplanes that could be equipped with grenade launchers and missiles, with a down payment of \$15 to \$20 million.⁹¹

Another example of weapons smuggling profits was that of Ukrainian Leonid Minin, who was arrested in 2000 with \$150,000 in cash and a half million dollars worth of African diamonds. He is involved in small arms with sub-Saharan Africa. He had just delivered 113 tons of small arms to Africa.⁹²



In January 2009, U.S. Customs officials arrested an El Paso, TX man and a Mexican national who were conspiring to smuggle 11 AK-47s from the U.S. into Mexico.⁹³

Human trafficking brings large profits to those who engage in it. The Department of State has estimated that it is a \$9 billion industry worldwide, at a minimum with some estimates as high as \$32 billion.⁹⁴ About 80 percent of the victims of human trafficking are female and up to 50 percent are minors.⁹⁵ According to State, it has been suggested that this problem will continue unless the economic factors are eliminated, that is until the profits have been removed. They suggest using financial crimes experts to deconstruct the crimes and follow the money.⁹⁶

In 2005, a Korean human trafficking ring was uncovered in Los Angeles, CA that also served locations in Northern California, Texas and Colorado. Brothels were housed in spas, chiropractor offices, massage parlors and acupuncture clinics. Forty six undocumented workers were taken into custody who worked at the brothels. Authorities seized more than \$1.8 million in cash and checks recovered at the businesses as well as bank accounts.⁹⁷

F. Corruption

The ability to corrupt government officials has been key to the success of ongoing criminal activity. Arrests are pointless if criminals have the ability to buy their way out of jail. The rule of law is ineffective if those who swear to uphold it instead use it for personal gain.

Money is a core driver in the ability to corrupt. Those who attain power know that their time in that office will end; illegal enrichment funds are hidden away in off-shore accounts against the day when they must leave that power behind.

In one example of money laundering by a country's leader, the former leader of Panama, Manuel Noriega, was convicted in the U.S. of drug racketeering and money laundering and served 19 years after a reduced sentence. In January 2009, he was still incarcerated in the U.S. while France wanted to extradite and try him on charges of laundering \$25 million in cocaine profits through major French banks and using drug cash to invest in three posh Paris apartments. Panama was trying to extradite him after convicting him *in absentia* in of murder, embezzlement, and corruption and sentenced to 60 years in prison.⁹⁸

The top six countries for corruption in 2008, according to Transparency International, were Somalia, Myanmar (Burma), Iraq, Haiti, Afghanistan and Sudan.⁹⁹

Tip: Exposed persons, high value targets and others involved in corruption may have a financial profile, that is, recognizable patterns of spending their ill-gotten gains that can be ascertained through analyzing their income and expenditures. In two methods developed by the U.S. Internal Revenue Service, Net Worth Analysis and Source and Application of Funds Analysis, their financial history over three or four years is laid out to see if they are spending more than they reported as income. These are very helpful techniques to use when compiling data on individuals with large incomes. The use of this technique has been accepted as evidence in U.S. courts.

IV. Financial Analysis Methods

A. Source Evaluation

Evaluation of the source of the information we use is critical to any type of intelligence analysis. Financial analysis is done on a range of data that might be found in open sources, from data given by knowledgeable financial personnel (ranging from bank tellers to Certified Public Accountants or involved parties), to captured financial documents, to government or corporate filings.

There are a number of ways in which someone can evaluate information, including by the reliability of its source, by the validity/quality of the data, and by its relevance.¹⁰⁰ Typically, human source information tends to be assigned lower reliability than documentary evidence, although data provided by banking experts might rate higher than that of a general human source. Too, the level of documents at hand may be placed into gradients of validity: would handwritten notes of a hawaladar have the accuracy of formal banking records? Would banking records be considered always valid or accurate? How close was the source of the data to the actual transaction or occurrence? If an analyst is to develop inferences based on the data and is to place some level of probability on those inferences being true, then each piece of financial information should be evaluated.

Much of the financial data we may receive can be piecemeal, indirect, and must be put together like a jigsaw puzzle with many of the pieces missing. The job of the analyst is to find as many as pieces as possible, integrate them into a logical, coherent whole and derive meaning from them. This may be the greatest challenge to the analyst.

B. Databasing/Marshaling Evidence

Placing financial data into a spreadsheet or database allows the analyst to organize it, sort it, and report it out as needed. So long as all the information from the financial records is included, the analyst can develop a range of comparisons and reports that will allow new insights into the material.

The data to be placed into the computerized format varies among types of records; it is wise to look at what types of data are in the records before the format is developed. For example, if **checks** are being analyzed, the types of information that would be put into a database or spreadsheet might include:

- Name of bank on which check was written
- Check number
- Date check was written
- Payee
- Amount of check
- Memo line information
- Signatory
- Account number
- Endorser on the back of the check
- Bank at which check was transacted
- Date check was transacted
- Other information on back of check (may include secondary endorsements, identification numbers such as a driver's license number or credit card number, bank routing numbers)

Bank statements today have at least three sections. The first shows a summary of deposits, withdrawals and balances. The second has the details of the deposits and withdrawals, by date and has:

- Date check was transacted
- Amount of check
- Electronic banking data (i.e., date of transaction, date transacted was posted, location, amount)
- Deposits
- ATM Withdrawals
- Wire transfers (date, beneficiary, transacting bank, amount, beneficiary account number)

The third has pages of small facsimiles of the checks that were transacted. These check facsimiles have replaced the return of checks in most cases and data should be extracted from them. Account holders with both regular and money market or savings accounts might have these both reflected in a consolidated account.

Tip: if you are analyzing bank information, it is best to use the date a check was written (as opposed to the date it was transacted) to represent that check. Otherwise, you may be assuming the check was written considerably later than when it was, particularly if the recipient held on to the check for weeks (or even months) before transacting it.

Credit card statements have:

- Date of transaction
- Date transaction was posted to account
- Amount of transaction
- Business name
- Business location
- Transaction number
- Payments made on the account

Credit card companies may also have the application submitted to open the account which may reflect numbers of varied bank accounts as well as debts and assets of the applicant.

Money remitter (wire transfer company) records include:

- Date of transaction
- Amount of transaction
- Name and identifiers of transactor (if over legal threshold) ⁱⁱ
- Cost of transaction
- Transaction number
- Person for whom transaction is destined
- Destination
- Type of currency

Hawala records

Hawala records vary widely by hawala and area. Some of the types of information that has been seen on informal hawala records include:

- Date

ⁱⁱ In the United States, federal laws require the identification information for the sender and recipient be captured by the financial entity if the amount is over \$3,000. Other countries' laws vary. Some money remitters require this type of information for amounts smaller than \$3,000.

- Transaction Number
- Name of recipient
- Address of recipient
- Amount of transaction
- Conversion to local currency

In order to conduct business over regions including international borders, hawaladars often have bank accounts. These records could also be analyzed to determine the level and scope of activity of the hawaladar. Many hawaladars also have businesses (often shops that generate cash). The business records of the hawaladar may have to be reviewed thoroughly to cull out the hawala transactions.

It is entirely possible that an analyst might have either several differing types of financial records or pieces of information from different types of financial transactions or movements. Thus, it is important that the analyst create a database or spreadsheet that is easily adjusted to support several types of information and can be sorted on any bit of information held.

C. Summarizing

Summary statements provide an overview of the activity in the financial data. One model of a summary includes the beginning and ending date of the financial records, the amounts in and out (as appropriate), and starting and ending balances, where appropriate.¹⁰¹ If there is a longer time period involved, the period might be broken into years, quarters or months, with subtotals. Breaking the records down into months or quarters allows the analyst to see trends and anomalies more clearly. Showing the information in a line graph allows the temporal aspects of the financial data to be seen and patterns to be discerned.

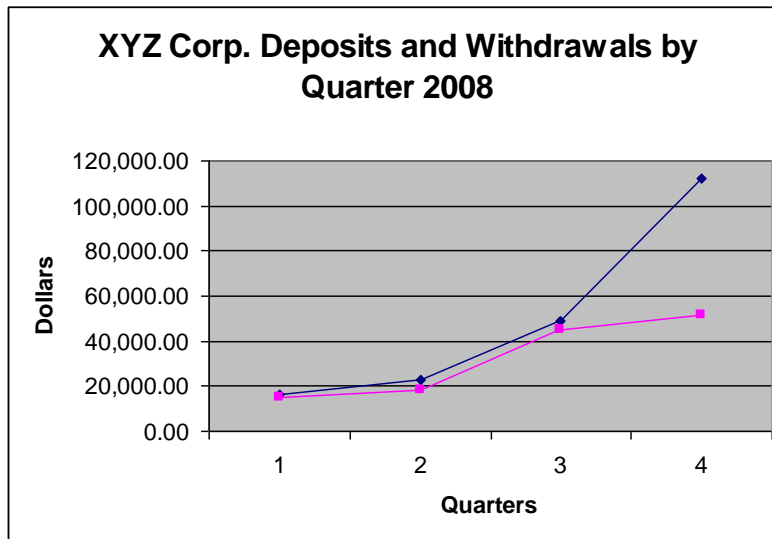
Summary Example

XYZ Corporation National Bank A/C #123456789 Year: 2008					
Quarter	# Deps	Deps Total	# W/D	W/D Total	End Bal
Start BAL 1/1/08					\$1,256.93
1 st Quarter	14	\$16,245.87	13	\$15,231.67	\$2,271.13
2 nd Quarter	12	\$22,622.51	13	\$18,497.20	\$4,125.31
3 rd Quarter	15	\$48,926.01	14	\$44,985.06	\$3,940.95
4 th Quarter	12	\$112,435.89	15	\$51,338.54	\$61,097.35

In this example, the first and second quarter have the smallest dollar totals of deposits (Deps) and withdrawals (W/D), while the second quarters have more than double earlier dollar totals. Ending balances (End Bal) reflect the impact of that activity on the account. The first three quarters show almost

as much going out as was brought in while the fourth quarter reflects a doubling of income with no concomitant doubling of outgo.

Below is an example of a line graph showing summary financial data. While numeric summaries bring us the accuracy of specific numbers, the graphic representations are easier for some to understand.



This line graph shows the same data as in the above table. It dramatizes the shift in the fourth quarter in which withdrawals plateau in spite of doubled deposits.

D. Pattern and Anomaly Identification

A pattern is something that occurs and re-occurs, grows or lessens, or happens in cycles. A pattern can be temporal (time related), seasonal, geographic, quantifiable, or factor-driven.

Patterns can be found in all types of data, but financial data is particularly rich. Financial data is usually related to date, amount, and sometimes location. It may include a source and destination, a reason for the transaction, and sometimes details about the transaction. For example, if you make a 'point of sale' (POS) purchase, the date, amount, name of the vendor and location will be present; in some cases, the specifics of what was purchased and the time may also be included.

If you have a series of checks, you not only have amount, payee and date, but also the check number, the bank the check was written on, who signed and endorsed the check, the location and date it was transacted. The purposes of the payments may be on the memo lines. Explanatory notes may be written on their faces or their backs.

Credit or debit card records can likewise be analyzed. They can give us a sense of purchasing patterns, lifestyle, and travel.

Credit Card Record Pattern Example

	Posting Date	Transaction Date	Reference Number	Account Number	Amount
Payment 9/28					1,000.00 CR
The Home Depot Denver CO	25-Sep	23-Sep	2713	2017	97.57
Sunoco SVC Station Aurora CO	26-Sep	25-Sep	7083	2017	53.01
Safeway Aurora CO	26-Sep	25-Sep	8430	2017	168.32
IKEA Denver	27-Sep	25-Sep	9853	2017	550.66
US Airways 03723245600 Denver CO	1-Oct	29-Sep	5720	2017	15.00
Olive Garden Sacramento CA	1-Oct	30-Sep	6324	2017	38.20
Applebee's Sacramento CA	2-Oct	1-Oct	3265	2017	29.32
Tony Roma's Sacramento CA	3-Oct	2-Oct	7361	2017	43.86
Holiday Inn Express Sacramento CA	4-Oct	3-Oct	8456	2017	724.91
US Airways 033714895793400 Sacramento CA	4-Oct	3-Oct	5830	2017	15.00
Wahlgreen's Aurora CO	5-Oct	4-Oct	4219	2017	39.00

In this example purchases over a 12-day period are shown. The first and last payments are in the Denver, CO area, which may indicate that is the location of the individual's residence. That hypothesis is borne out by the types of purchasing done (food, pharmacy, household supplies/furniture, etc.) On 29 September, the individual flies from Denver to Sacramento on US Airways (ticket probably purchased in earlier month), checking one bag (\$15 charge by US Airways). While in Sacramento, the person stays at the Holiday Inn Express and possibly charges daytime meals to the hotel bill while eating out in three different restaurants during the period. From this, we have seen that the individual may be involved in projects around the house or may have recently moved or is redecorating and lives somewhat modestly on an out of town trip. The patterns of purchases are seen by date, by amounts, and by locations.

An anomaly would occur if something totally out of keeping with the past activity of the entity under review took place. Using the above records, if on a subsequent trip to Sacramento, the individual began purchasing food, furniture and other household supplies in large quantities in Sacramento, this would be abnormal to the previously developed pattern. If the type of place the individual stayed in or restaurants eaten at doubled or tripled in price that would be a noticeable 'blip' that might cause us to ask what had happened to his financial situation such that he was spending at a much higher rate.

Tip: It is important to collect records for not just the period under review, but for several months prior to the period. This can provide a 'baseline' of typical activity by the individual or business, against which you can compare the activity during the time period in question. Knowing the historical patterns of financial transactions will allow you to see anomalies.

E. Trend Identification

A trend is an observable pattern over time that may impact on the future. For example, if in the above credit card record we saw the trips from Denver to Sacramento repeated every month, or every three months, we might expect that in month four, the same trip would take place. Alternately, if in

months four, five and six, we saw similar trips to Los Angeles, we might expect a shift to a third city in months seven, eight and nine.

Trends are more easily seen in the past than can be forecasted into the future. This is because there are many variables that come into play. For example, if we saw a person depositing \$5,000 in currency into an account every week for ten weeks, we would believe it to be a trend and expect to see similarly in week eleven. But we might see (a) no money deposited that week, or (b) much less or (c) much more deposited. There could be reasons to support each possible scenario. In alternative (a), the total required (e.g., \$50,000) may have been reached. In scenario (b), the total required may have been \$52,300 and has now been reached by a final deposit of \$2,300. In scenario (c), profits may have risen, causing \$9,000 to be deposited rather than \$5,000. And, there are a million other possibilities that may have arisen and impacted on the amount deposited. Thus trends can alter quickly and for a number of reasons.

History is not always the best predictor of the future, thus trends should not be counted upon as harbingers of tomorrow. In the simplest terms, a toothache, flat tire or hurricane can impact on our immediate plans; likewise unexpected events can change our plans for months or years. So while we may point out the trends in the past and present, it is risky to assume they may continue. We must consider the likelihood of a change event occurring in any forecast.

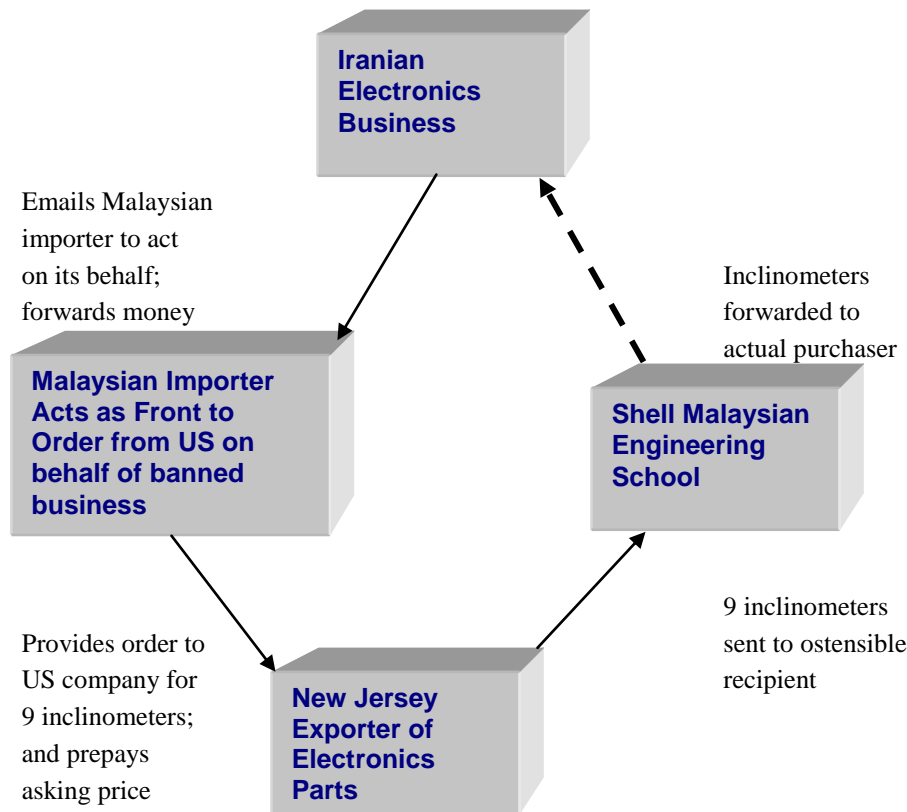
F. Commodity Flow Analysis

Commodity flow analysis is a necessary part of a financial analysis. It is the analysis of the flow of goods or currency among persons or businesses/entities to determine the meaning of that activity and may give insights into the nature of a conspiracy, a hierarchy of a group, or the workings of a distribution network.¹⁰² Commodity flow information is taken from materials gathered from a variety of sources (surveillance reports, interviews, financial records, communications, etc.). The data is placed into an easily sortable format (usually an ExcelTM spreadsheet or AccessTM database) that includes the transaction activity, the entities involved, the date, what was transferred (type of instrument and amount), and any other relevant data.¹⁰³

If multiple accounts are involved in an analysis, then a commodity flow chart can be done. The chart may show the flow of money, monetary instruments, or other commodities through entities and individuals.¹⁰⁴ The chart is comprised of boxes (or any desired shape) and lines. Inside the boxes are the names of the individuals, entities, or locations from which or to which the commodity is flowing. Along the line connecting the shapes, the amount, type of conveyance (wire transfer, check, money order, etc.) and date are shown. Arrows are used to show the direction in which the commodity is moving.¹⁰⁵ In some instances, a commodity flow matrix is also done which can clarify the movements among several people or entities such that the analyst can identify which entity had the most profits at the end of the movements.

An example of a commodity flow chart is seen below, along with an explanation.

Commodity Flow Chart



In this example of a commodity flow chart in a proliferation scenario, money, orders and inclinometers are flowing among the four entities inside the boxes. The arrows show the direction of the flow; the dashed arrow line shows the actual recipient of the goods.

G. Indicator Development and Matching

Indicator analysis is the compilation, review and analysis of an activity to develop a model of what occurrences may be used to predict the presence of that activity in another location, situation, or timeframe.¹⁰⁶

Pages 13 – 15 of this monograph contain varied indicators of threat finance/money laundering and trade based money laundering. Using the same (or similar) methods and techniques over time to move money covertly is not unusual. People learn what works and they continue the practice. Also, they become more sophisticated in their activity, learning from experience, and refine their techniques. Illicit

money movement is also opportunistic, that is, it takes advantages of holes in enforcement/regulation as they occur and moves away from tightening enforcement/regulation.

Indicators are the basis for ‘flagging’ systems in which potential investigations can be identified. Flagging systems are based on matching certain behaviors with previously known patterns of similar behaviors and their results. For example, the U.S. Internal Revenue Service looks at deduction claims in particular areas to determine if their might be need for an audit of a given tax return.

Within the financial analysis domain, indicators might be derived from the review of thousands of records submitted over a period of time, or dozens submitted over a shorter period. Looking at these records and noting the similarities among them gives a basis for beginning to develop indicators. Testing out those noted similarities as indicators is further done, and they are refined. The indicators are then used against data sets.

In one example, thousands of Currency Transaction Reports filed by check cashers in the State of New Jersey were reviewed. It was seen that the average report filed was for a transaction of under \$20,000, was in odd dollars and cents and was from an entity which did not frequently have recurring transactions of this type. As a result, transactions over \$50,000 which were in round thousands or tens of thousands and occurred with a weekly (or less) frequency were flagged. This much smaller subset of transactions would be more likely to reflect some illegal activity. This approach was the basis of strategic targeting of illicit behavior, initiating the investigation from the money end of the activity and working back to the underlying crime.¹⁰⁷

H. Inference Development and Critical Thinking

Analysts sometime think that financial data speaks for itself, but all that can be gained from summarizing financial data is what are termed “deductive” inferences. These are inferences in which no risk is taken and nothing new is seen. “Inductive” inferences, on the other hand, go beyond what is known and produce new information. For example, if we know that four payments of \$50,000 were made to a border guard rumored to be corrupt, deductively we can infer that he received \$200,000 over a particular period. Inductively, we might hypothesize that the \$200,000 were payments for him turning a blind eye to illegal activity and that he was corrupt. We cannot definitely know that the guard is corrupt unless we observe him engaging in illicit activity. There is risk in our hypothesis until it receives further testing.

Investigators make inductive inferences often. However, they may not realize they are and may believe they are ‘sticking to the facts’. Time after time, people have incorrectly identified their inferences as deductive when in fact they were not. The key is that if you express a reason something has happened, an opinion about something, or an ‘answer,’ you are thinking inductively. There is nothing inherently wrong with inductive reasoning, but we must remember that there is risk involved. Financial cases often involve what is called ‘indirect evidence.’ From this, inductive inferences can be made. Further investigation to disprove or prove the inferences is needed.

Critical thinking has been shown as key to solid analytic work.¹⁰⁸ Thinking critically requires us to question evidence in such a way that we do not take the data at face value, but look into its source, motivation, accuracy, and purpose.

Dressel and Mayhew identified five skills for critical thinking in the 1950s which have not significantly changed since then:

1. The ability to define a problem
2. The ability to select pertinent information for the solution of a problem
3. The ability to recognize stated and unstated assumptions.
4. The ability to formulate and select relevant and promising hypotheses.
5. The ability to judge the validity of references and to draw solid conclusions.¹⁰⁹

Today, as analysts we go through this process each time we are asked to do an analysis and financial analysis is no different.

Some critical questions to ask of financial data might include:

Who profited from the illicit activity?

In what form(s) were the profits received? (cash, check, commodities)

Who made the payments?

What was the frequency of the transactions?

Did the transactions cross borders?

What was the total amount of the transactions?

What was the nature of the illicit activity?

Did the illicit activity occur in the same area as the financial transactions?

Were financial systems used in the transactions? If so, which?

Were the profits shared with any individuals or companies?

How were the profits spent?

Were assets purchased with the profits, directly or indirectly?

Were nominees or front companies used to hide the profits?

Were any illegal profits reported for tax purposes?¹¹⁰

Additional questions, based on the data set at hand, could also be fruitful. Key is that analysis is most often done on incomplete information; anything we can do to fill the intelligence gaps before us will be beneficial.

I. Net Worth Analysis

Net Worth Analysis is a technique devised by the U.S. Internal Revenue Service to be used in cases where the investigators and prosecutors wanted to prove illegal income but did not have direct proof. It takes all that is known about the finances of an individual and tries to determine if that individual has spent considerably more than was reported as being earned. The investigator compiles data from over three years and places it into a format that allows the change in net worth to be seen. An estimate of expenses is added to that change to determine outlay for the year. An example of the Net Worth Analysis format is seen below.

Net Worth Analysis Exercise

Andrew Rogers

	<u>12/31/2004</u>	<u>12/31/2005</u>	<u>12/31/2006</u>
Assets			
(+)			
Residence	\$128,000	\$128,000	\$128,000
2007 Mercedes	\$0	\$0	\$78,000
2006 Jaguar	\$0	\$80,000	\$80,000

2006 Jeep	\$0	\$45,000	\$45,000
Jewelry	\$35,000	\$50,000	\$59,500
Furs	\$10,000	\$27,000	\$48,000
Artwork	\$0	\$54,000	\$122,000
Boats	\$47,000	\$152,000	\$152,000
Checking account	\$16,789	\$14,754	\$20,675
Totals:	\$236,789	\$550,754	\$733,175

Liabilities (-)

Mercedes Loan	\$0	\$0	\$10,500
Jeep Loan	\$0	\$18,300	\$11,350
American Express	\$0	\$0	\$0
VISA	\$3,500	\$2,800	\$500
Mastercard	\$2,900	\$3,580	\$900
Totals:	\$6,400	\$24,680	\$23,250

Net Worth (A-B)	\$230,389	\$526,074	\$709,925
------------------------	-----------	-----------	-----------

Change in Net Worth		\$295,685	\$183,851
----------------------------	--	-----------	-----------

Total Expenses	(+)	\$95,000	\$105,000
-----------------------	-----	----------	-----------

Total Outlay	(=)	\$390,685	\$288,851
---------------------	-----	-----------	-----------

Reported Income	(-)	\$106,230	\$112,480
trade-ins		\$40,000	\$35,000
subtotal		\$146,230	\$147,480

Income from Unidentified Sources	(=)	\$244,455	\$141,371
---	-----	------------------	------------------

J. Alternate Scenario Development

In any situation one is investigating, it is beneficial to look at alternate possibilities. With financial activity, the underlying question might be, “could there be any possible legitimate reason for this financial transfer?” “Is there any activity this transfer could indicate other than the movement of funds for illicit purpose?” Businesses, for example, transfer money across borders with a daily, if not hourly, regularity. The business might be making a legitimate investment, or may be participating in a tax shelter, rather than moving it to hide illegal proceeds or finance terrorism.

By asking these questions of the data and familiarizing yourself with the kinds of money movement that reflect legitimate activity (or at least not threat finance), you can avoid an assumption of wrongdoing.

In the above net worth analysis example, we see that Rogers spent \$244,455 in 2005 and \$141,371 in 2006 that were not from reported tax sources. If we have been investigating Mr. Rogers, we may suspect that this income was obtained illegally. But what other alternative sources could that money

have? Could he have come into inheritances which were not taxed nor did they need to be declared as income on his taxes? Could savings from previous years have been used? Could he have been working in a situation where he received tax-free income? These are alternatives to the initial 'criminal profits' inference. All the possibilities must be explored and set aside when they have been disproven.

K. Geographic Analysis

The locations of individuals and entities and how the commodities and currency flows to and from those locations is important within the financial analysis and can be charted using maps. This allows the viewer to see typical routes of money flow and locations involved. Additionally, the analyst

can prepare a multi-dimensional graphic that can have the network or a commodity flow chart superimposed on a map to highlight the geographic spread of the activity.



This particular graphic from DEA shows how the Colombian Black Market Peso Exchange worked to move dollars, commodities, narcotics and pesos between the U.S., Europe, and South America.

International trade and cross-border travel are key ingredients in money laundering today and using maps to show their means of operation can be very helpful.

Drug Enforcement Administration

V. Other Structured Analysis Methods to Which Financial Data Can Be Applied

While the eleven techniques covered in Section IV of this monograph are the most often used in analyzing threat finance, financial records can play a crucial role in supporting other types of analysis as well. The application of the three methods below--network analysis, timelines and causal loop analysis—may each benefit from the inclusion of financial data.

A. Network Analysis

Network analysis, also called link analysis or association analysis, is a time-honored tradition in the analytic field. It has been taught since the 1970s. It became an integral part of many analytic products with the advent of easy-to-use software in the 1990sⁱⁱⁱ and is possibly the most-used technique today. It has been described as “a method to gain analytic insight by visualizing social, business and activities-related connections among people and groups as well as infrastructure, logistics, and production chains.”¹¹¹ It also depicts the relationships among entities in a way that the analyst can more fully understand the nature of the organization, its strengths and its vulnerabilities.¹¹²

The information explosion caused by the availability of so many types of records via the Internet and both public and proprietary databases has caused an exponential explosion in the amounts of data available for network analysis. Likewise, the understanding that all types of associations (not just criminal) might be of interest has resulted in the use of ‘social network analysis’ tools, which define associations more broadly than it was during previous decades. Network analysis can reflect greater than links among individuals. It can also show links to activities, places, organizations and businesses.

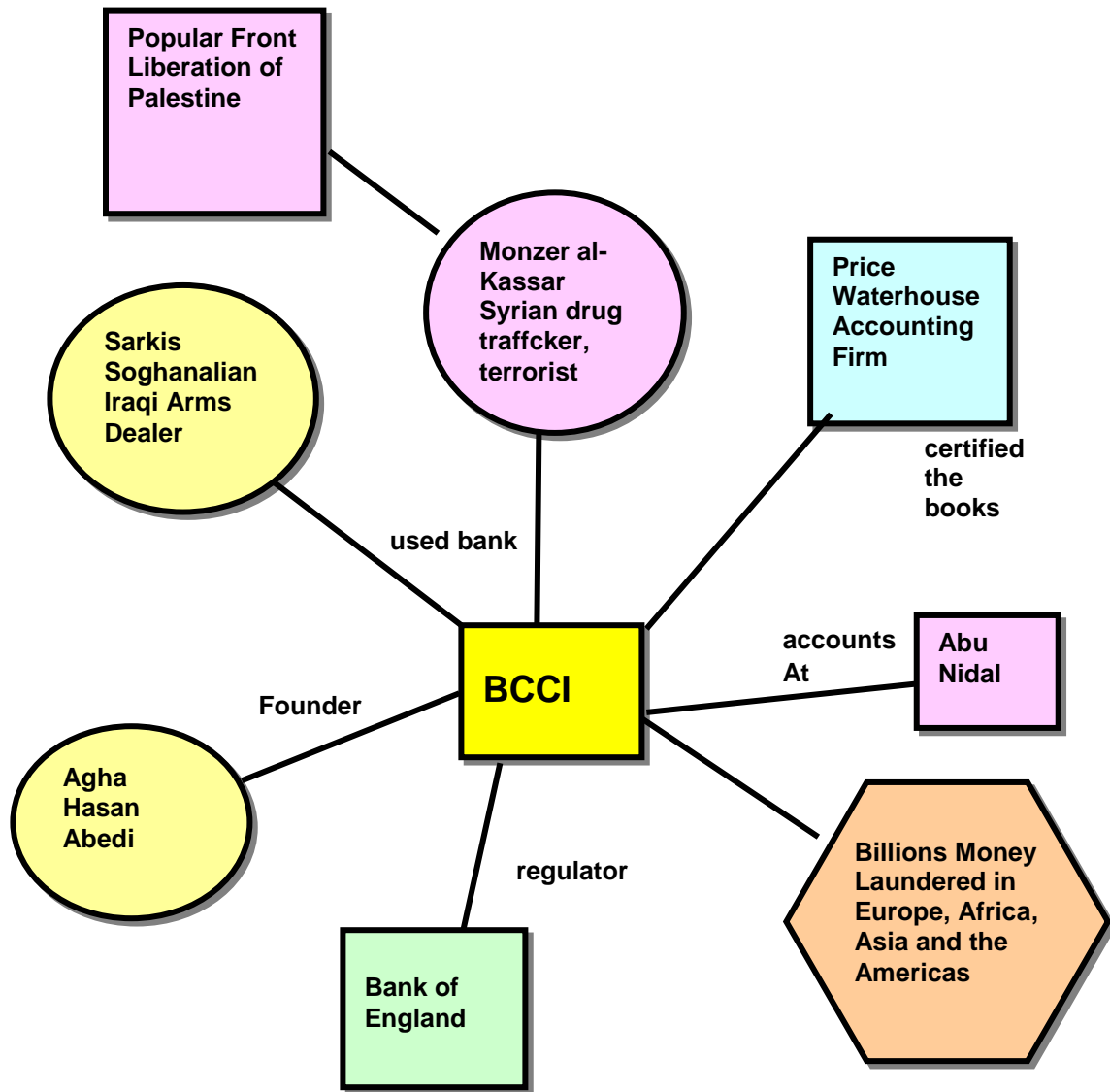
It is important to remember that network analysis is not simply a graphic. The association matrix and chart are ways of organizing and displaying data so that we may understand it and explain it more simply. The process of developing an association analysis and the rules for creating association charts are explained elsewhere;¹¹³ some of the depth of information available to us through this process can show:

- who the key individuals are in a network
- who the weak links in the network are
- if there are gaps in the network needing to be filled; i.e., jobs needed to be done to support the operation of the network
- the communication links of the network
- who holds both formal and informal leadership roles
- how the network operates
- what the structure of the organization is
- who may fill liaison roles between organizations or sub-organizations
- if there are territories involved in the organization
- what types of licit and illicit activities in which its members may be involved
- what the geographical span of the organization is¹¹⁴

These questions may be answered in the course of the investigation or they may become the ‘intelligence gaps’ to be further developed. Also, the known information should be summarized and included with the analysts’ hypotheses about the network.

ⁱⁱⁱ Software used includes The Analysts’ Notebook™, by i2, Inc., Visual Links™, by Visual Analytics, VISIO™, by Microsoft and the drawing capabilities in Excel™ and PowerPoint™, by Microsoft.

BCCI Selected Association Network



In the above association matrix, some of the associations of the Bank of Credit Commercial are shown. The nature of the association is also shown in certain instances. If specific amounts of monies laundered, dates and times were available, this information could also be included. The financial transactions become links in the overall network.

When we are looking holistically at a network or organization, having the financial links, along with communication links, surveillance data, etc. are quite helpful. Putting together an accurate picture of what has occurred, what is occurring or what might occur, depends on understanding the workings of the network.

B. Timeline Analysis

A timeline is a graphic depiction of events put into a context of the time of the events and the time between events. It is used to help identify patterns, trends or relationships between/among the events or actions and to identify significant changes or assist in developing issues or anomalies. They organize information in a format that can be easily understood in a briefing or in courtroom testimony.¹¹⁵

Timelines are drawn using pencil or pen or a computerized program such as Excel™ or Analyst's Notebook™. The events are placed into chronologic order, with appropriate space reflecting time gaps or indicated in some way. The information is then reviewed to answer questions about it, including the relationships between events; i.e., is there a causal relationship between particular pieces of data; are there gaps in what is known; are their patterns or cycles that are reflected? In some instances, there may be inferred activity, that is, an action that must have taken place between two other known actions (e.g., Paul is in Paris on 18 January; on 19 January he is seen walking along Fifth Avenue in New York; therefore, he must have taken a conveyance, probably a plane, between France and the United States).

Timelines can be horizontal, vertical, or diagonal. Boxes can be used to enclose the data or they can be unboxed. The date and/or time should appear along the line. The event should be summarized as tightly as possible. Financial data included in a timeline might show the amount transferred, type of

Terrorists receive training on weapons, Explosives	Sleeper cell gathers intelligence on site	Terrorists sent to location of Attacks	
July	August	October	December
	September	November	Terrorists
Organizer receives funding to purchase forged identification papers and documents		Organizer receives funding for travel costs	practice attack routes and complete Attack

Timeline Example

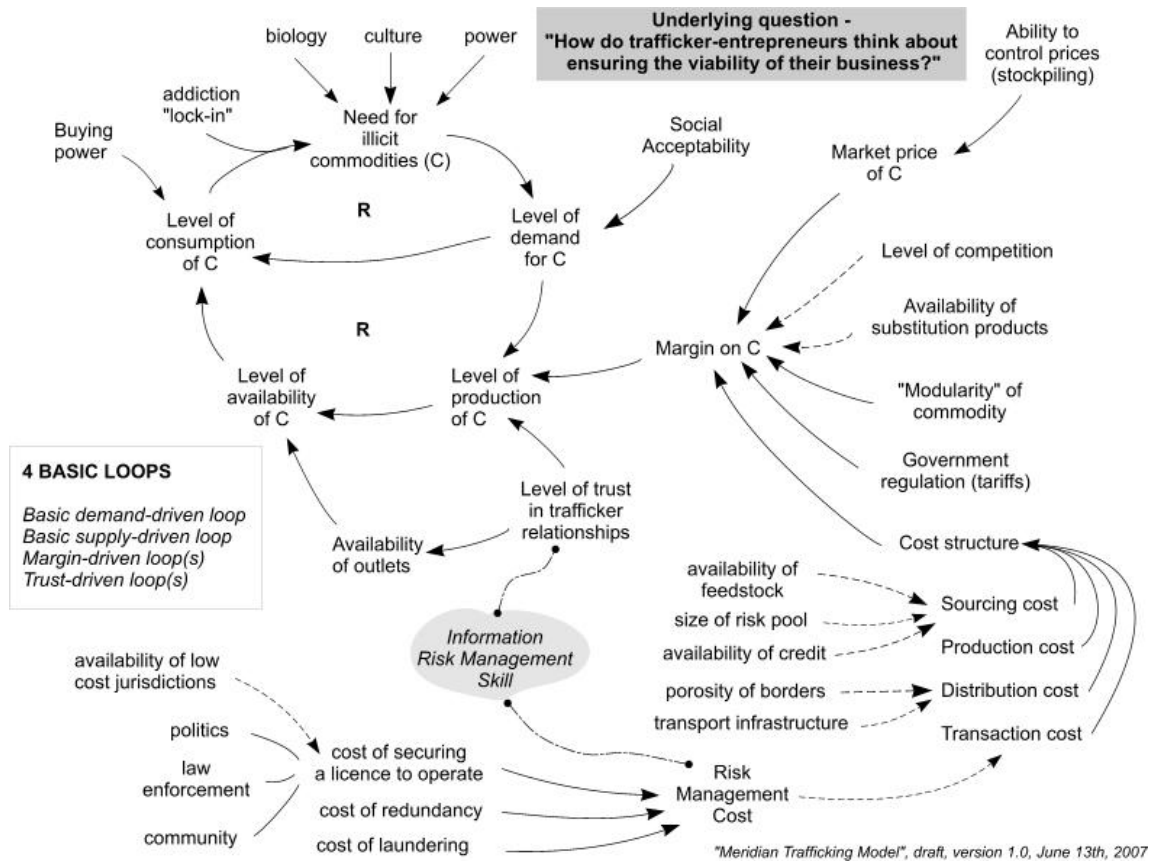
In the above example of a timeline, the activities that lead to a terror attack are shown. Obtaining the finances are key to the activity

transfer, and entities between which the transfer was made. This type of analytic graphic is helpful to show events leading up to an event and the movement of monies in support of the event. Timelines allow the analyst to show how a scheme, plan or activity unfolds. The financing, combined with the other activities, give a full portrayal of the steps needed.

K. Causal Loop Analysis

When we develop a causal loop analysis, we are looking at the impact of varied forces on the system we are analyzing. The system may be an actual system or it may be a network or a situation. In physics, a law says that for every action, there is an equal reaction and that is the basis for causal analysis. In looking at it, we can see the possible consequences of actions and be better able to choose which action we should take based on that consequence.

The example provided discusses how traffickers think about ensuring the viability of their operations. It shows the various loops of demand, supply, trust and margin regarding the product trafficked.



Appendix - Records to be Analyzed


A. Bank Records

Bank records include account opening forms, checks, deposit slips, account statements, wire transfer records, cashier's check records, loan information, and safe deposit box logs. In the United States, these records are generally accessed by an administrative subpoena or a court order. In other countries, varied laws apply.

The basic records in a bank account are the statements and the checks. The Check Clearing Act for the 21st Century allowed banks and retailers to switch to electronic payments in lieu of checks, saving the requirement to move and store paper.¹¹⁶ Most U.S. customers now receive bank statements with small images of their checks, rather than the checks themselves. The digitalization of bank information may be helpful to investigators and analysts because the data can be enlarged to see the detail of the records better and is easier to store.

Bank statements are more informative now than ever before, primarily due to consumers' use of bank cards for everyday purchases which might have previously been paid for with credit cards. Because point of sale (POS) activities are electronic, information on the location, date, and amount are now found on the bank statement. Deposits (direct, in person, or electronic) are noted, along with withdrawals (at an automated teller, or in person, or by check or wire transfer) are also noted.

Example of Bank Statement

		FIRST BANK OF WIKI 1425 JAMES ST, PO BOX 4000 VICTORIA BC V8X 3X4 1-800-555-5555		CHEQUING ACCOUNT STATEMENT Page : 1 of 1	
— == ==		JOHN JONES 1643 DUNDAS ST W APT 27 TORONTO ON M6K 1V2		Statement period 2003-10-09 to 2003-11-08	Account No. 00005- 123-456-7
Date	Description	Ref.	Withdrawals	Deposits	Balance
2003-10-08	Previous balance				0.55
2003-10-14	Payroll Deposit - HOTEL			694.81	695.36
2003-10-14	Web Bill Payment - MASTERCARD	9685	200.00		495.36
2003-10-16	ATM Withdrawal - INTERAC	3990	21.25		474.11
2003-10-16	Fees - Interac		1.50		472.61
2003-10-20	Interac Purchase - ELECTRONICS	1975	2.99		469.62
2003-10-21	Web Bill Payment - AMEX	3314	300.00		169.62
2003-10-22	ATM Withdrawal - FIRST BANK	0064	100.00		69.62
2003-10-23	Interac Purchase - SUPERMARKET	1559	29.08		40.54
2003-10-24	Interac Refund - ELECTRONICS	1975		2.99	43.53
2003-10-27	Telephone Bill Payment - VISA	2475	6.77		36.76
2003-10-28	Payroll Deposit - HOTEL			694.81	731.57
2003-10-30	Web Funds Transfer - From SAVINGS	2620		50.00	781.57
2003-11-03	Pre-Auth. Payment - INSURANCE		33.55		748.02
2003-11-03	Cheque No. - 409		100.00		648.02
2003-11-06	Mortgage Payment		710.49		-62.47
2003-11-07	Fees - Overdraft		5.00		-67.47
2003-11-08	Fees - Monthly		5.00		-72.47
*** Totals ***			1,515.63	1,442.61	

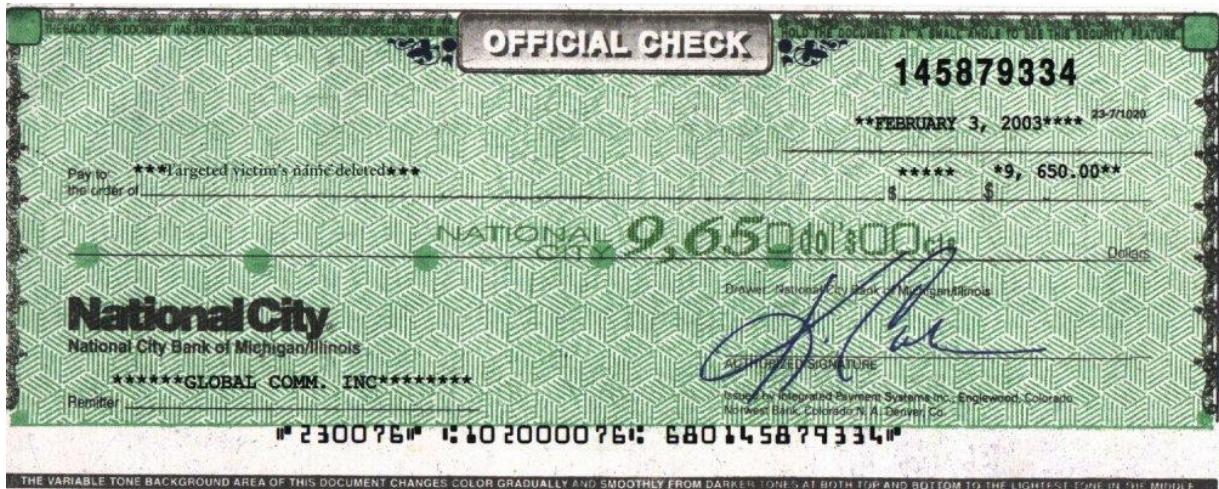
The above example of a Canadian bank statement shows a number of electronic banking activities.

For example, there is direct deposit of payroll (694.81) from the hotel. There are web payments (MASTERCARD and AMEX), Automated teller withdrawals, debit card purchases (SUPERMARKET, ELECTRONICS) and a pre-authorized payment (debit) for Insurance. Only one actual check (Cheque 409) was made during the month.

By reviewing bank records, an analyst can determine the 'normal' income and expenditures for the individual or entity. The financial situation of the account holder can be ascertained; that is, if the holder is spending as much (or more than) is brought in, or if the holder is living within his or her means.

Tip: activities at Automated Teller Machines (ATMs) are sometimes 'posted' on different days than when they are transacted. For example, an activity after 2 p.m. on a Friday afternoon may not be posted to the records until Monday or, if Monday is a holiday, Tuesday. Some banks will give you both the transaction date and the posting date on the bank statement. Make sure you note the transaction date.

Example of Cashier's Check



Cashier's checks are checks written and signed by bank officials on money provided by the entity from which the check is being drawn. They often do not have the name of the entity on the check, but have the entity to which it is written. These are checks favored by persons involved in illegal activity as they may not, on their face, identify their source. To get additional information on the source, the investigator must give the number in the upper right hand corner to the bank which can then provide additional data on the maker.

TIP: If you are reviewing a particular account and the 'normal' activity in which that type of entity might engage is not reflected in the records you have found, this may be an indicator that the individual has additional accounts or may have the use of another person or entity's account which is being used to pay these 'normal' expenses. Thus these additional accounts may be gaps in what is known.

Access to bank records is covered by the Right to Financial Privacy Act which states that they cannot be accessed without permission of the account holder except by a law enforcement agency or an intelligence agency investigating terrorism or counter intelligence.¹¹⁷

TIP: When obtaining bank account records, inventory them immediately to determine if you have received all you requested. If not, go back to the bank and ask for the missing data. Also, quickly reviewing the check information will allow you to determine if there are additional

accounts that need to be obtained. Since banks need time to respond to requests for data, this should be done as early as possible within the investigation. During the inventory, compare the checks on hand with the bank statement to determine you have received them all.

B. Bank Secrecy Act Data

The Bank Secrecy Act of 1970 required banks and non-bank financial institutions to submit certain data on a Currency Transaction Report (CTR) if a transaction greater than \$10,000 was done. It also caused U.S. Customs (now Immigration and Customs Enforcement) to require persons carrying or shipping greater than \$10,000 across country borders to report that movement (CMIR) and persons who were paid greater than \$10,000 for merchandise or a service to report that payment (Form 8300). All these reports were initially sent to the Internal Revenue Service until the Financial Crimes Enforcement Network (FinCEN) was created in 1990.

Regulations that went into effect in 1996 required depository institutions (banks) to file Suspicious Activity Reports (SARs) on any transaction over \$5,000 that fitted a listing of varied potentially criminal activity, ranging from ‘mysterious disappearance’ to ‘credit card fraud’ to ‘terror support’.¹¹⁸ After 9/11, these SARs were also required to be filed by money service businesses (with a threshold of \$2,000), casinos, insurance and securities and futures brokers. See page 44-46 for a copy of a completed SAR.

There are greater than 190 million records in the Financial Crimes Enforcement Network (FinCEN) data base, including those above as well as others: casino CTRs and SARs, Foreign Bank Account Reports, Money Service Business Registrations and CTR Exemption forms.


In some states, these forms are available through state agencies as well as through FinCEN if state law requires dual filing with the state attorney general’s office or department of banking. Law enforcement can access these forms through their state FinCEN single point of contact, FinCEN or, in some instances, directly from money service businesses.

Tip: When searching for BSA data, do not rely upon only one identifier as the information may have been submitted or entered incorrectly. Check variations on name spelling, Social Security Number, and date of birth. All fields on the form are searchable.

The Currency Transaction Report (CTR) provides the name of its transactor as well as the company or individual on behalf of which the transaction occurred. Identifiers (Social Security Number, Passport Number, Driver’s License number, etc.) are present, as well as the occupation and address of the transactor. The amount of the transaction and type of transaction are also present. If a bank is involved, the affected account number is shown. The name and location of the financial institution (bank or money service business) is shown.

Indicators of unusual activity in CTRs include:

- Amounts in large (over \$50,000) round numbers
- Multiple reports in a short period of time (within a week)
- An individual using multiple identification numbers
- CTRs along with SARs or other Bank Secrecy Act reports
- One individual transacting for several entities
- One individual using several different addresses¹¹⁹

FINCEN Form 104 (Formerly Form 4789) (Eff. December 2003) Department of the Treasury FinCEN		Currency Transaction Report ▶ Previous editions will not be accepted after August 31, 2004. ▶ Please type or print. <i>(Complete all parts that apply--See Instructions)</i>		 OMB No. 1508-0004	
1 Check all box(es) that apply: a <input type="checkbox"/> Amends prior report b <input type="checkbox"/> Multiple persons c <input type="checkbox"/> Multiple transactions					
Part I Person(s) Involved in Transaction(s)					
Section A--Person(s) on Whose Behalf Transaction(s) Is Conducted					
2 Individual's last name or entity's name HORIZONS LTD			3 First name		4 Middle initial
5 Doing business as (DBA)			6 SSN or EIN 2 2 - 13 2 4 6 9 7		
7 Address (number, street, and apt. or suite no.) 1004 BROOKFIELD ROAD			8 Date of birth MM / DD / YYYY		
9 City GARY	10 State I N	11 ZIP code 34265	12 Country code (if not U.S.)	13 Occupation, profession, or business TRAVEL	
14 If an individual, describe method used to verify identity: a <input type="checkbox"/> Driver's license/State I.D. b <input type="checkbox"/> Passport c <input type="checkbox"/> Alien registration d <input type="checkbox"/> Other _____ e Issued by: _____ f Number: _____					
Section B--Individual(s) Conducting Transaction(s) (if other than above).					
If Section B is left blank or incomplete, check the box(es) below to indicate the reason(s)					
a <input type="checkbox"/> Armored Car Service b <input type="checkbox"/> Mail Deposit or Shipment c <input type="checkbox"/> Night Deposit or Automated Teller Machine d <input type="checkbox"/> Multiple Transactions e <input type="checkbox"/> Conducted On Own Behalf					
15 Individual's last name THOMPSON			16 First name EDWARD		17 Middle initial R
18 Address (number, street, and apt. or suite no.) 2345 MAIN STREET, APT. 82			19 SSN 1 4 6 5 3 1 2 0 9		
20 City GARY	21 State I N	22 ZIP code 34210	23 Country code (if not U.S.)	24 Date of birth 02/21/1971	
25 If an individual, describe method used to verify identity: a <input checked="" type="checkbox"/> Driver's license/State I.D. b <input type="checkbox"/> Passport c <input type="checkbox"/> Alien registration d <input type="checkbox"/> Other _____ e Issued by: IN f Number: T27456152J					
Part II Amount and Type of Transaction(s). Check all boxes that apply.					
26 Total cash in \$ NaN.00		27 Total cash out \$ 0.00		28 Date of transaction 03/15/2009	
26a Foreign cash in 0.00 <small>(see instructions, page 4)</small>		27a Foreign cash out 0.00 <small>(see instructions, page 4)</small>			
29 <input type="checkbox"/> Foreign Country		30 <input type="checkbox"/> Wire Transfer(s)		31 <input type="checkbox"/> Negotiable Instrument(s) Purchased	
32 <input checked="" type="checkbox"/> Negotiable Instrument(s) Cashed		33 <input type="checkbox"/> Currency Exchange(s)		34 <input type="checkbox"/> Deposit(s)/Withdrawal(s)	
35 <input type="checkbox"/> Account Number(s) Affected (if any):		36 <input type="checkbox"/> Other (specify)			
Part III Financial Institution Where Transaction(s) Takes Place					
37 Name of financial institution COUNTRY CHECK CASHING			Enter Regulator or BSA Examiner code number (see instructions) ▶		
38 Address (number, street, and apt. or suite no.) 9341 BROADWAY			39 EIN or SSN 4 2 4 1 8 3 5 7 6		
40 City KOKOMO		41 State I N	42 ZIP code 36135		43 Routing (MICR) number
Sign Here ▶	44 Title of approving official OWNER		45 Signature of approving official		46 Date of signature 03/15/2009
	47 Type or print preparer's name JOHN J JONES		48 Type or print name of person to contact JOHN J JONES		49 Telephone number (1 1 1) 5 1 5 - 1 3 2 1 4
▶ For Paperwork Reduction Act Notice, see page 4. Cat. No. 37683N FinCEN Form 104 (Formerly Form 4789) (Rev. 08-03)					

In the above Currency Transaction Report (CTR), an individual, Edward Thompson, is cashing a check at the Country Check Cashing, on behalf of Horizons, LTD, a travel company. The check, for \$75,000, is somewhat large. The location of the check casher, in Kokomo, IN, is somewhat distant from Gary, IN, where both the company and the individual are located. These two items may make the transaction somewhat suspect, further investigation or additional similar transactions would be needed to open an investigation on the individual or company.

Bank suspicious activity reports are filed on a variety of potentially illegal activities, from bank fraud to terror financing. The financial institution's name, address, and compliance person are shown on the form. The suspect's name and any known additional information (address, identifier numbers, occupation, etc.) is shown, as well as their relationship with the financial institution. The financial institution is supposed to provide a written explanation of why they believe the activity is suspicious and to keep a copy of their report, attaching all back up documentation.

Suspicious activity reports are able to be accessed by law enforcement officers without a subpoena. Some banks proactively contact law enforcement regarding suspicious activity rather than waiting for officials to ask.

FinCEN, on its web site (www.fincen.org) has several written documents on trends in Suspicious Activity Reports that show what has been found and cases that have been generated from or supported by their use. In one example, two banks filed SARs on targets suspected of being involved in a large-scale international marijuana smuggling and money laundering operation. One bank saw deposits broken into smaller amounts to avoid the Currency Transaction Reporting threshold while another said the subjects attempted to eliminate the smell of marijuana from their currency deposits. The defendants pleaded guilty to marijuana conspiracy, money laundering and international money laundering after importing over a ton of marijuana.¹²⁰

Tip: The 107 countries that comprise the Egmont Group are all required to collect and analyze suspicious transactions through their financial intelligence units (FIU). For example, in Afghanistan, FinTRACA collects both large currency transaction reports and suspicious activity reports (www.fintraca.gov.af).¹²¹

<h1 style="margin: 0;">Suspicious Activity Report</h1> <p style="margin: 0;">July 2003</p> <p style="margin: 0;">Previous editions will not be accepted after December 31, 2003</p>		<div style="background-color: black; color: white; width: 20px; float: right; text-align: center;">1</div>	
ALWAYS COMPLETE ENTIRE REPORT (see instructions)		<div style="display: flex; justify-content: space-between;"> <div> FRB: 6710/06 FDIC: 8010-9,8010-1 OCC: 1801 OTS: 2362 NCUA: 2362 TREASURY: TD F 90-22.47 </div> <div> FRB: 2230 FDIC: 6710/06 OCC: 8010-9,8010-1 OTS: 1801 NCUA: 2362 TREASURY: TD F 90-22.47 </div> <div> OMB No. 7100-0212 OMB No. 3084-0077 OMB No. 1557-0180 OMB No. 1550-0003 OMB No. 3133-0094 OMB No. 1506-0001 </div> </div>	
1 Check box below only if correcting a prior report. <input type="checkbox"/> Corrects Prior Report (see instruction #3 under "How to Make a Report")			
Part I Reporting Financial Institution Information			
2 Name of Financial Institution FIRST BANK OF FULTON COUNTY		3 EIN 11-384756	
4 Address of Financial Institution 55 BROAD STREET		5 Primary Federal Regulator a <input type="checkbox"/> Federal Reserve d <input type="checkbox"/> OCC b <input checked="" type="checkbox"/> FDIC e <input type="checkbox"/> OTS c <input type="checkbox"/> NCUA	
6 City MONROE	7 State C A	8 Zip Code 9 9 5 7 3 — 2 2 1 1	
9 Address of Branch Office(s) where activity occurred <input type="checkbox"/> Multiple Branches (include information in narrative, Part V) 55 BROAD STREET			
10 City MONROE	11 State C A	12 Zip Code 9 9 5 7 3 — 2 2 1 1	
13 If institution closed, date closed MM / DD / YYYY			
14 Account number(s) affected, if any a 11239485766 b _____ Closed? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No c _____ d _____ Closed? <input type="checkbox"/> Yes <input type="checkbox"/> No			
Part II Suspect Information			
<input type="checkbox"/> Suspect Information Unavailable			
15 Last Name or Name of Entity BRADSHAW		16 First Name ROBERT	
17 Middle E		18 Address R.D.2, BOX 73	
19 SSN, EIN or TIN 19865431		20 City MONROE	
21 State C A	22 Zip Code 9 8 5 4 8 — — — — —		23 Country US
24 Phone Number - Residence (include area code) (575) 555-9870		25 Phone Number - Work (include area code) ()	
26 Occupation/Type of Business TRUCK DRIVER		27 Date of Birth 04 / 20 / 1945 MM / DD / YYYY	
28 Admission/Confession? a <input type="checkbox"/> Yes b <input checked="" type="checkbox"/> No			
29 Forms of Identification for Suspect: a <input checked="" type="checkbox"/> Driver's License/State ID b <input type="checkbox"/> Passport c <input type="checkbox"/> Alien Registration d <input type="checkbox"/> Other _____ Number CDL B2948674720 Issuing Authority CA			
30 Relationship to Financial Institution: a <input type="checkbox"/> Accountant d <input type="checkbox"/> Attorney g <input checked="" type="checkbox"/> Customer j <input type="checkbox"/> Officer b <input type="checkbox"/> Agent e <input type="checkbox"/> Borrower h <input type="checkbox"/> Director k <input type="checkbox"/> Shareholder c <input type="checkbox"/> Appraiser f <input type="checkbox"/> Broker i <input type="checkbox"/> Employee l <input type="checkbox"/> Other _____			
31 Is the relationship an insider relationship? a <input type="checkbox"/> Yes b <input checked="" type="checkbox"/> No If Yes specify: c <input type="checkbox"/> Still employed at financial institution e <input type="checkbox"/> Terminated d <input type="checkbox"/> Suspended f <input type="checkbox"/> Resigned		32 Date of Suspension, Termination, Resignation MM / DD / YYYY	

Part III Suspicious Activity Information			2
33. Date or date range of suspicious activity From <u>01 / 22 / 2009</u> To <u>03 / 15 / 2009</u> <small>MM DD YYYY MM DD YYYY</small>		34. Total dollar amount involved in known or suspicious activity \$ <u>7</u> <u>9</u> <u>0</u> <u>0</u> <u>0</u> <u>00</u>	
35. Summary characterization of suspicious activity:			
a <input checked="" type="checkbox"/> Bank Secrecy Act/Structuring/ Money Laundering b <input type="checkbox"/> Bribery/Gratuity c <input type="checkbox"/> Check Fraud d <input type="checkbox"/> Check Kiting e <input type="checkbox"/> Commercial Loan Fraud f <input type="checkbox"/> Computer Intrusion g <input type="checkbox"/> Consumer Loan Fraud h <input type="checkbox"/> Counterfeit Check i <input type="checkbox"/> Counterfeit Credit/Debit Card j <input type="checkbox"/> Counterfeit Instrument (other) k <input type="checkbox"/> Credit Card Fraud l <input type="checkbox"/> Debit Card Fraud m <input type="checkbox"/> Defalcation/Embezzlement n <input type="checkbox"/> False Statement o <input type="checkbox"/> Misuse of Position or Self Dealing p <input type="checkbox"/> Mortgage Loan Fraud q <input type="checkbox"/> Mysterious Disappearance r <input type="checkbox"/> Wire Transfer Fraud s <input type="checkbox"/> Terrorist Financing t <input type="checkbox"/> Identity Theft u <input type="checkbox"/> Other _____ <small>(type of activity)</small>		i <input type="checkbox"/> Debit Card Fraud m <input type="checkbox"/> Defalcation/Embezzlement n <input type="checkbox"/> False Statement o <input type="checkbox"/> Misuse of Position or Self Dealing p <input type="checkbox"/> Mortgage Loan Fraud q <input type="checkbox"/> Mysterious Disappearance r <input type="checkbox"/> Wire Transfer Fraud s <input type="checkbox"/> Terrorist Financing t <input type="checkbox"/> Identity Theft u <input type="checkbox"/> Other _____ <small>(type of activity)</small>	
36. Amount of loss prior to recovery (if applicable) \$ _____		37. Dollar amount of recovery (if applicable) \$ _____	
38. Has the institution's bonding company been notified? a <input type="checkbox"/> Yes b <input checked="" type="checkbox"/> No		39. Has the suspicious activity had a material impact on, or otherwise affected, the financial soundness of the institution? a <input type="checkbox"/> Yes b <input checked="" type="checkbox"/> No	
40. Has any law enforcement agency already been advised by telephone, written communication, or otherwise? a <input type="checkbox"/> DEA d <input type="checkbox"/> Postal Inspection g <input type="checkbox"/> Other Federal b <input type="checkbox"/> FBI e <input type="checkbox"/> Secret Service h <input type="checkbox"/> State c <input type="checkbox"/> IRS f <input type="checkbox"/> U.S. Customs i <input type="checkbox"/> Local j <input type="checkbox"/> Agency Name (for g, h or i) _____			
41. Name of person(s) contacted at Law Enforcement Agency		42. Phone Number (include area code) ()	
43. Name of person(s) contacted at Law Enforcement Agency		44. Phone Number (include area code) ()	
Part IV Contact for Assistance			
45. Last Name OFFICER		46. First Name COMPLIANCE	
47. Middle		48. Title/Occupation VICE PRESIDENT	
49. Phone Number (include area code) (575) 324-8557		50. Date Prepared <u>04</u> / <u>01</u> / <u>2009</u> <small>MM DD YYYY</small>	
51. Agency (if not filed by financial institution)			

This Suspicious Activity Report (SAR) shows an individual with several transactions at a bank which, according to the write-up on the third page of the form, appear to be structuring deposits to avoid the CTR requirement. The bank notes that this is out of the customer's normal pattern and that the funds, once accumulated, were wired to a bank account in the Cayman Islands. The name shown on that transaction, Brad Roberts, may be another form of the customer's name, Robert Bradshaw.

Part V Suspicious Activity Information Explanation/Description		3
<p>Explanation/description of known or suspected violation of law or suspicious activity.</p> <p>This section of the report is critical. The care with which it is written may make the difference in whether or not the described conduct and its possible criminal nature are clearly understood. Provide below a chronological and complete account of the possible violation of law, including what is unusual, irregular or suspicious about the transaction, using the following checklist as you prepare your account. If necessary, continue the narrative on a duplicate of this page.</p> <p>a Describe supporting documentation and retain for 5 years.</p> <p>b Explain who benefited, financially or otherwise, from the transaction, how much, and how.</p> <p>c Retain any confession, admission, or explanation of the transaction provided by the suspect and indicate to whom and when it was given.</p> <p>d Retain any confession, admission, or explanation of the transaction provided by any other person and indicate to whom and when it was given.</p> <p>e Retain any evidence of cover-up or evidence of an attempt to deceive federal or state examiners or others.</p>	<p>f Indicate where the possible violation took place (e.g., main office, branch, other).</p> <p>g Indicate whether the possible violation is an isolated incident or relates to other transactions.</p> <p>h Indicate whether there is any related litigation; if so, specify.</p> <p>i Recommend any further investigation that might assist law enforcement authorities.</p> <p>j Indicate whether any information has been excluded from this report; if so, why?</p> <p>k If you are correcting a previously filed report, describe the changes that are being made.</p> <p>For Bank Secrecy Act/Structuring/Money Laundering reports, include the following additional information:</p> <p>l Indicate whether currency and/or monetary instruments were involved. If so, provide the amount and/or description of the instrument (for example, bank draft, letter of credit, domestic or international money order, stocks, bonds, traveler's checks, wire transfers sent or received, cash, etc.).</p> <p>m Indicate any account number that may be involved or affected.</p>	
<p>Tips on SAR Form preparation and filing are available in the SAR Activity Review at www.fincen.gov/pub_reports.html</p>		
<p>MR BRADSHAW MADE 10 DEPOSITS OVER THE PERIOD WHICH TOTAL 78,000. ALL TEN DEPOSITS WERE UNDER \$10,000. HIS NORMAL ACTIVITY IN THE ACCOUNT AMOUNTS TO LESS THAN \$4,000 PER MONTH. AT THE END OF THE PERIOD, MR. BRADSHAW WIRED \$78,000 TO THE ROYAL BANK OF CANADA BRANCH IN THE CAYMAN ISLANDS, TO THE BENEFIT OF A BRAD ROBERTS.</p>		

C. Credit Card Data

The information found on credit card statements can be critical to investigations. These show not only the extent to which an individual is in debt on a particular card (and he/she may have several), but also what transactions have occurred at particular locations on particular dates. This gives background information to other possibly known data (such as reports of surveillances, border crossings, etc.).

An example of the use of credit cards to further an investigation was when Ted Bundy was seen as a potential suspect in the serial killings of young females across six states. He had given an account of his travels which, when compared with gasoline purchase receipts on his credit card, saw that he had lied about being in the town where a victim had been killed on the date of the killing.

In another example, one suicide attack perpetrator was identified from two credit cards bearing the same name, found at two different bomb scenes. He was connected to an address that was used as the bomb factory. Financial analysis of the accounts showed the individual as involved in attack planning and the purchase of camping equipment for a pre-attack training event. Follow up interviews with shop keepers crystallized a connection between the individual and another person who was also an attacker. This information provided the investigative team with information on the nature of the conspiracy.¹²²

Credit Card Records Example

	Posting Date	Transaction Date	Reference Number	Account Number	Amount
Payment 9/28					1,000.00 CR
The Home Depot Denver CO	25-Sep	23-Sep	2713	2017	97.57
Sunoco SVC Station Aurora CO	26-Sep	25-Sep	7083	2017	53.01
Safeway Aurora CO	26-Sep	25-Sep	8430	2017	168.32
IKEA Denver	27-Sep	25-Sep	9853	2017	550.66
US Airways 03723245600 Denver CO	1-Oct	29-Sep	5720	2017	15.00
Olive Garden Sacramento CA	1-Oct	30-Sep	6324	2017	38.20
Applebee's Sacramento CA	2-Oct	1-Oct	3265	2017	29.32
Tony Roma's Sacramento CA	3-Oct	2-Oct	7361	2017	43.86
Holiday Inn Express Sacramento CA	4-Oct	3-Oct	8456	2017	724.91
US Airways 033714895793400 Sacramento CA	4-Oct	3-Oct	5830	2017	15.00
Wahlgreen's Aurora CO	5-Oct	4-Oct	4219	2017	39.00

In the above set of records, the individual appears to be staying in Denver, CO, with a trip to Sacramento, CA and then a return to Colorado. While the individual's plane ticket may have been purchased before the date of the statement, the baggage fees delineate the days on which flying occurred.

Tip: Comparing credit card records to communications and travel data can show the movements and contacts of individuals. Make sure you do not look at a set of financial data in a vacuum.

Credit card records can support or refute surveillance information and border crossing data. When investigating an individual, accessing these records is invaluable.

D.Business Records

Business records can be obtained directly from a business or from a financial professional hired by the business to keep its records (i.e., a bookkeeper or accountant).¹²³ Businesses may have formal or informal records, depending upon the nature of the business and the financial sophistication of its owner. At one end of the spectrum, information may be jotted down in a spiral notebook; at the other, formal financial statements are prepared by certified public accountants.

Tip: Business records can reflect varied criminal activities from fraud to tax evasion to acting as a front for threat activity. This information can be found through examining the records and comparing them to varied government reports made by the business.

Typical business records include invoices, ledgers, journals, and financial statements.

The below document is a journal showing the amounts, costs, types of commodities involved and a declining balance in the account in the right hand column.

CONTROLLING ACCOUNT							
Receipts	Total Receipts	Date	Items	Check No.	Disbursed	Total Disbursed	Bank Balance
		Mar.					
		1	Balance Forward				\$14,330.70
\$125.70			Cafeteria				14,456.40
			Meat	4035	\$40.00		
			Groceries	8	100.00	\$140.00	14,316.40
50.00	\$175.70		Newton Society				14,366.40
		4	Printing Dept.	7	5.40		
		5	Book Room	8	800.00	945.40	13,561.00
139.00	314.70	7	Cafeteria				13,700.00
			Milk	9	25.00		
			Fruit	4040	25.00		
			Ice Cream	1	50.00		
			Candy				
			Help	3	125.00		
			Meat	4	50.00	1,245.40	13,400.00
10.00	324.70	8	French Club				13,410.00
520.00	844.70	9	Locker Deposits				13,030.00
			Noon Movies	5	60.00	1,305.40	13,870.00
200.00		10	Cafeteria				
130.00		11	"				14,350.00
150.00	1,324.70	12	Newton Society, Books	6	5.00		
			Slides	7	3.00		
			" Books	8	10.00		
			" Printing	9	15.00	1,338.40	14,317.00
30.00	1,354.70	14	Lanier Society				14,347.00
100.00	1,454.70	15	Music Dept. Concert				14,647.00
		16	Locker Fund	4050	400.00	1,738.40	14,047.00
160.00		17	Cafeteria				
142.87		18	"				14,531.00
171.13	1,928.70	19	Groceries	4051	206.40		
			Help	3	125.00		
			Ice Cream	3	50.00		
			Meat	4	47.50	2,167.40	14,098.00
47.30	1,975.90	22	Spanish Club				14,139.20
14.67	1,990.57		Home Room 42				14,153.87
	1,990.57		Forwarded			2,167.40	14,153.87

This document appears to be the March account of a secondary school, reflecting activity of clubs, the cafeteria and other extracurricular groups. Note that both receipts and disbursements are shown, along with a balance along the right side.

The second document is a financial statement that shows a comparison between one year's activity and the previous year's. It reflects a significant increase in the amount of work done and profits made by the company noted.

3/2/04	DEMO Construction Co., Inc. INCOME STATEMENT March 2004				Page 1
	-----This Year-----		-----Prior Year-----		
	Month	Year-to-Date	Month	Year-to-Date	
INCOME					
Contract Revenue	73,565.86	1,161,577.51	147,954.78	297,164.90	
Over/Under Billings Adjustment	(382.25)	(382.25)			
Interest Income	485.12	1,943.60	45.67	246.77	
Discounts Earned	78.00	78.00			
TOTAL INCOME	73,746.73	1,163,216.86	148,000.45	297,411.67	
COST OF CONSTRUCTION					
Job Labor	15,297.62	117,883.96	8,294.45	28,316.79	
Job Material	8,622.60	164,731.83	30,673.25	48,182.56	
Job Sub-Contract	31,815.25	661,287.75	83,750.50	165,626.00	
Job Miscellaneous	4,311.68	28,828.79	994.75	3,478.65	
Job Burden (PR Taxes & Ins)	1,702.77	24,049.17	1,782.38	5,283.15	
TOTAL COST OF CONSTRUCTION	61,749.93	996,881.50	125,495.33	250,885.15	
Gross Profit	11,996.80	166,335.36	22,505.12	46,526.52	
GENERAL & ADMINISTRATIVE					
Contributions		150.00			
Dues & Subscriptions				58.25	
Estimating Expense				45.00	
Insurance - General	281.50	844.50	281.50	563.00	
Insurance - Medical	35.02	147.47	158.00	316.00	
Office Expense		220.23		57.00	
PR Taxes & Ins	694.47	911.11	1,144.85	1,746.56	
Rent	1,800.00	5,000.00	2,000.00	4,000.00	
Salaries - Office	1,440.00	4,440.00	800.00	3,900.00	
Telephone		25.96		312.50	
Utilities		128.25		665.00	
TOTAL GENERAL & ADMINISTRATIVE	4,250.99	11,867.52	4,384.35	11,663.31	
Operating Profit	7,745.81	154,467.84	18,120.77	34,863.21	
Net Income Before Taxes	7,745.81	154,467.84	18,120.77	34,863.21	
Net Income	7,745.81	154,467.84	18,120.77	34,863.21	

It is important to note that the type of records you may see in a business may be skimpy to highly detailed, depending upon the training of the business owner, his/her use of bookkeeping or accounting professionals, or the size of the business. A small 'mom and pop' store would generally not have formal financial statements, but could keep hand-written or computerized ledgers.

E. Check Cashier Records

Check cashiers are businesses that, for a consideration^{iv}, cash checks written to individuals or companies. The business may also sell travelers checks and wire money, if it has the appropriate licenses. Check cashers are considered to be 'money service businesses' under federal regulation and must register at www.msb.gov.

Check cashiers are governed by state laws and these laws differ from area to area. The state law may indicate the maximum fee allowed to be charged. Some states differentiate between checks written to individuals and those written to companies and different levels of check cashiers may be used to transact these varied checks.

Companies that cash checks range from supermarkets, drug stores and gas stations to specific check cashier companies. All entities that cash checks must submit Currency Transaction Reports (CTRs) to FinCEN for all those transactions over \$10,000. Some states (e.g., New Jersey) require duplicate reporting to the state Attorney General's Office.¹²⁴

Records available from check cashiers vary by state requirement. Some states require check cashiers to keep copies of the front and back of the check cashed along with a picture of the individual performing the cashing and their identification used.

Check cashiers can be used to launder money in several ways. Cashing a check can hide the destination of the money because the paper trail ends. Likewise, using the proceeds of the check cashing to wire money or buy traveler's checks is another way to launder money in which one exchanges one monetary instrument for another.

Some indicators of the check cashier being used as part of a money laundering or threat finance scheme could be:

- No business reason for a corporate check to be cashed
- Amount of the check being cashed being significantly higher than normal (i.e., over \$50,000)
- Amount of check being cashed in round tens or hundreds of thousands.
- Check being transacted a significant distance from work or home location of person transacting the check.
- Frequent transactions (e.g., several per week).
- Transaction done by someone who has a business relationship with a depository institution.
- Transaction done by a person who is a financial professional¹²⁵

^{iv} A "consideration" may be a fee, some other form of value, or the privilege of doing business.

AS SOON AS POSSIBLE

PAGE 1 04/05/01 PAGE 1

NEW DELHI

445 SENDER: - KAY RECEIVER: - SATWANT KAUR W/O BALDEV SINGH NEW
DELHI TEL: - 320 8203 1000//=

484 SENDER: - HARISHA BHRAR RECEIVER: - MRS SUHAG RANI BHRAR C-19
KRISHNA PURA GARDENS NEAR TILAK NAGAR TEL: - 559 2785 NEW DELHI
1330//=

PUNJAB

467 SENDER: - AMERJIT SINGH DHALIWAL RECEIVER: - SWARAN SINGH S / O
JAGIR SINGH (GURDITTEY KAY) PATTI LODH BADI MALLAN ROAD VILLAGE
LOPON TEHSIL NIHAL SINGH WALA TEL: - P.P. (RAGHBIR SINGH
CHACHA OF AMERJIT SINGH) 01636 53721 (OLD) 01636 52121 (NEW)
DISTT. MOGA 1000//=

470 SENDER: - RAM PRAKASH VIRDI RECEIVER: - BALBIR CHAND S / O
RAMJI VILLAGE DAULATPUR P.O. LAHALPUR TEL: - 181 715430
DISTT. JULLUNDHUR 1500//=

471 SENDER: - SURJIT SINGH AUJLA RECEIVER: - JASVIR SINGH AUJLA
BROTHER OF HAWALDAAR KANKAR SINGH AUJLA VILLAGE AUJLA (HOUSE
NEAR THE GURDWARA) NEAR KOT TAPAI TEL: - 1822 33872 DISTT.
KAPOORTHALA 3000//=

Figure 2: Example of a genuine payment instruction from a shop front ARS to intermediary ARS at destination; Source: UK

An alternate remittance system (ARS) is another name for a money remitter, or wire transfer business. This example is from an FATF report.¹²⁶

F. Money Remitter Records

Money remitters are often small shops that offer wire transfer services to ethnic communities but they can also be international wire services with outlets in supermarkets, drug stores, convenience stores and even gas stations. There are thousands of money remitter entities in the United States and all around the world.

Years ago, Western Union sent telegrams and was a quick way to get word to people before there were telephones. Western Union no longer sends telegrams, but does remit money. Millions of dollars of remittances go around the world every day. In some countries, such as the Philippines, people moving to countries, like the United States are required to send home 20 percent of their earnings to help support that country. People who migrate from South to North America often send home money to their families to help support them. Money remitters are, therefore, legal and normal business operations. They are required to be registered in some countries and, in the United States, may also be licensed and regulated by the state's department of banking. They are considered to be a 'money service business' and those registered in the United States by FinCEN can be found at www.msb.gov.

G. Hawaladar Records

Hawaladars develop their own document procedures and protocols that allow them to know how much cash they have, how much has been transacted and how much is owed to them. Customers may have slips which indicate the hawala number or code. Some hawaladars perform basic 'due diligence' on their customers to make certain they know their financial practices. Some keep rudimentary accounting records, and maintain files with invoices, etc. Ledgers with debit and credit columns may be seen. Transactions may be placed as a line item in a ledger including the date, amount, destination, any fee

charged, and settlement date. A separate book may be found that includes the transaction confirmation documents.¹²⁷ If the hawaladar is used by major non-governmental organizations or government agencies, he may keep files on the financial activity he oversees on behalf of those particular entities.

Additionally, hawaladars may keep bank accounts for the settlement of outstanding balances between their colleagues if they work internationally, thus they may have bank records that could be analyzed. Hawala banking centers include Dubai, Peshewar and London.¹²⁸

Example of Hawaladar Records

<u>Date</u>	<u>Broker</u>	<u>Amount</u>	<u>Xchange</u>	<u>\$ Amt.</u>	<u>Method</u>
16/6/98	Vinod	100000	37.6	2659.57	F=1202
16/6/98	Ashish	250000	39.25	6369.42	F-1203
16/6/98	Nitinbha	350000	42.3	8274.23	B-8146
17/6/98	DK	50000	38.75	1290.32	F-1204
17/6/98	Suresh	300000	39.25	7643.31	B-8147
17/6/98	Anil	200000	40.1	4987.53	S-5428
17/6/98	Vinod	150000	39.75	3773.58	F-1205

Indicators of hawaladar bank accounts include:

- Significant deposit activity including cash and checks
- Notations on checks – name, what bought
- Outgoing wire transfers to major financial centers used by hawalas (Great Britain, Switzerland, Dubai), often out of the country
- Business using account is import/export, jewelry, rugs/carpets, travel service, foreign exchange, used car business or telephone/pagers business¹²⁹

Thus to examine hawaladar financial records, one might need to separate out the ‘normal’ business activity from that of the hawala activity. Comparing the business journal entries to the bank records could be helpful in this regard.

H. Trade Records

Trade based money laundering or threat finance is common around the world. This form of illicit movement of funds is easily hidden in the massive amounts of commodities traded. In order for trade based money laundering to occur, there must be some collusion between the exporter and the importer of

funds such that the misstatements on the trade documents are understood by both sides. Typical trade documents include invoices, bills of lading, shipping declarations and certificates of manufacture.

Date: _____		BILL OF LADING		Page 1 of _____				
SHIP FROM				Bill of Lading Number: _____ <div style="text-align: center; font-size: 0.8em;">BAR CODE SPACE</div>				
Name: _____ Address: _____ City/State/Zip: _____ SID#: _____ FOB: <input type="checkbox"/>								
SHIP TO								
Name: _____ Location #: _____ Address: _____ City/State/Zip: _____ CID#: _____ FOB: <input type="checkbox"/>								
THIRD PARTY FREIGHT CHARGES BILL TO:				CARRIER NAME: _____ Trailer number: _____ Seal number(s): _____ SCAC: _____ Pro number: _____ <div style="text-align: center; font-size: 0.8em;">BAR CODE SPACE</div>				
Name: _____ Address: _____ City/State/Zip: _____								
SPECIAL INSTRUCTIONS:								
Freight Charge Terms: Prepaid _____ Collect _____ 3 rd Party _____ <input type="checkbox"/> (check box) Master Bill of Lading: with attached underlying Bills of Lading								
CUSTOMER ORDER INFORMATION								
CUSTOMER ORDER NUMBER		# PKGS	WEIGHT	PALLET/SLIP Y or N	ADDITIONAL SHIPPER INFO			
GRAND TOTAL								
CARRIER INFORMATION								
HANDLING UNIT		PACKAGE		WEIGHT	H.M. (X)	COMMODITY DESCRIPTION <small>Commodities requiring special or additional care or attention in handling or stowing must be so marked and packaged as to ensure safe transportation with ordinary care. See Section 2(a) of NMPC Item 360</small>	LTl ONLY NMFC # CLASS	
QTY	TYPE	QTY	TYPE					
							<div style="text-align: center; font-size: 0.8em;">RECEIVING STAMP SPACE</div>	
							GRAND TOTAL	
Where the rate is dependent on value, shippers are required to state specifically in writing the agreed or declared value of the property as follows: *The agreed or declared value of the property is specifically stated by the shipper to be not exceeding _____ per _____.						COD Amount: \$ _____ Fee Terms: Collect: <input type="checkbox"/> Prepaid: <input type="checkbox"/> Customer check acceptable: <input type="checkbox"/>		
NOTE Liability Limitation for loss or damage in this shipment may be applicable. See 49 U.S.C. - 14706(c)(1)(A) and (B). RECEIVED, subject to individually determined rates or contracts that have been agreed upon in writing between the carrier and shipper, if applicable, otherwise to the rates, classifications and rules that have been established by the carrier and are available to the shipper, on request, and to all applicable state and federal regulations.						The carrier shall not make delivery of this shipment without payment of freight and all other lawful charges. _____ Shipper Signature		
SHIPPER SIGNATURE / DATE <small>This is to certify that the above named materials are properly classified, packaged, marked and labeled, and are in proper condition for transportation according to the applicable regulations of the DOT.</small>				Trailer Loaded: <input type="checkbox"/> By Shipper <input type="checkbox"/> By Driver		Freight Counted: <input type="checkbox"/> By Shipper <input type="checkbox"/> By Driver/pallets said to contain <input type="checkbox"/> By Driver/Pieces		
				CARRIER SIGNATURE / PICKUP DATE <small>Carrier acknowledges receipt of packages and required placards. Carrier certifies emergency response information was made available and/or carrier has the DOT emergency response guidebook or equivalent documentation in the vehicle.</small>				

From the sample bill of lading, it can be seen that there are spaces for descriptions of the commodities being shipped, along with the amounts and weights of those items. Value is not included, however, on this document.

1a. U.S. PRINCIPAL PARTY IN INTEREST (USPPI) (Complete name and address)				2. DATE OF EXPORTATION		3. TRANSPORTATION REFERENCE NO.	
b. USPPI'S EIN (IRS) OR ID NO.				c. PARTIES TO TRANSACTION <input type="checkbox"/> Related <input type="checkbox"/> Non-related			
4a. ULTIMATE CONSIGNEE (Complete name and address)				5a. FORWARDING AGENT (Complete name and address)			
b. INTERMEDIATE CONSIGNEE (Complete name and address)				5b. FORWARDING AGENT'S EIN (IRS) NO.			
5a. FORWARDING AGENT (Complete name and address)				6. POINT (STATE) OF ORIGIN OR FTZ NO.			
5b. FORWARDING AGENT'S EIN (IRS) NO.				7. COUNTRY OF ULTIMATE DESTINATION			
8. LOADING PIER (Vessel only)		9. METHOD OF TRANSPORTATION (Specify)		14. CARRIER IDENTIFICATION CODE		15. SHIPMENT REFERENCE NO.	
10. EXPORTING CARRIER		11. PORT OF EXPORT		16. ENTRY NUMBER		17. HAZARDOUS MATERIALS <input type="checkbox"/> Yes <input type="checkbox"/> No	
12. PORT OF UNLOADING (Vessel and air only)		13. CONTAINERIZED (Vessel only) <input type="checkbox"/> Yes <input type="checkbox"/> No		18. IN BOND CODE		19. ROUTED EXPORT TRANSACTION <input type="checkbox"/> Yes <input type="checkbox"/> No	
20. SCHEDULE B DESCRIPTION OF COMMODITIES (Use columns 22–24)							
D/F or M (21)	SCHEDULE B NUMBER (22)	QUANTITY – SCHEDULE B UNIT(S) (23)	SHIPPING WEIGHT (Kilograms) (24)	VIN/PRODUCT NUMBER/ VEHICLE TITLE NUMBER (25)	VALUE (U.S. dollars, omit cents) (Selling price or cost if not sold) (26)		
27. LICENSE NO./LICENSE EXCEPTION SYMBOL/AUTHORIZATION				28. ECCN (When required)			
29. Duly authorized officer or employee				The USPPI authorizes the forwarder named above to act as forwarding agent for export control and customs purposes.			
30. I certify that all statements made and all information contained herein are true and correct and that I have read and understand the instructions for preparation of this document, set forth in the "Correct Way to Fill Out the Shipper's Export Declaration." I understand that civil and criminal penalties, including forfeiture and sale, may be imposed for making false or fraudulent statements herein, failing to provide the requested information or for violation of U.S. laws on exportation (19 U.S.C. Sec. 305; 22 U.S.C. Sec. 401; 18 U.S.C. Sec. 1001; 50 U.S.C. App. 2410).							
Signature				Confidential – Shipper's Export Declarations (or any successor document) wherever located, shall be exempt from public disclosure unless the Secretary determines that such exemption would be contrary to the national interest (Title 19, Chapter 9, Section 901 (g)).			
Title				Export shipments are subject to inspection by U.S. Customs Service and/or Office of Export Enforcement.			
Date				31. AUTHENTICATION (When required)			
Telephone No. (Include Area Code)				E-mail address			

Clear fields 1 to 19
Clear Fields 20 to 26
Clear Fields 27 to 31
Clear all fields

The shipper's export declaration, however, does have the value noted, along with the value of the commodity and the weight. Likewise, customs' entry forms have spaces for value (below 19) and quantity (below 23).

U.S. DEPARTMENT OF HOMELAND SECURITY
Bureau of Customs and Border Protection

Form Approved
OMB No. 1651-0024
Expiration Date
11-30-08

ENTRY/IMMEDIATE DELIVERY

19 CFR 142.3, 142.16, 142.22, 142.24

1. ARRIVAL DATE 1		2. ELECTED ENTRY DATE 2		3. ENTRY TYPE CODE/NAME 3		4. ENTRY NUMBER 4	
5. PORT 5		6. SINGLE TRANS. BOND 6		7. BROKER/IMPORTER FILE NUMBER 7			
		8. CONSIGNEE NUMBER 8		9. IMPORTER NUMBER 9			
10. ULTIMATE CONSIGNEE NAME 10				11. IMPORTER OF RECORD NAME 11			
12. CARRIER CODE 12		13. VOYAGE/FLIGHT/TRIP 13		14. LOCATION OF GOODS—CODE(S)/NAME(S) 14			
15. VESSEL CODE/NAME 15							
16. U.S. PORT OF UNLADING 16		17. MANIFEST NUMBER 17		18. G.O. NUMBER 18		19. TOTAL VALUE 19	
20. DESCRIPTION OF MERCHANDISE 20							
21. IT/BL/AWB CODE 21	22. IT/BL/AWB NO. 22	23. MANIFEST QUANTITY 23	24. H.S. NUMBER 24	25. COUNTRY OF ORIGIN 25	26. MANUFACTURERS ID. 26		
27. CERTIFICATION 27				28. CBP USE ONLY 28			
I hereby make application for entry/immediate delivery. I certify that the above information is accurate, the bond is sufficient, valid, and current, and that all requirements of 19 CFR Part 142 have been met. SIGNATURE OF APPLICANT X PHONE NO. _____ DATE _____				<input type="checkbox"/> OTHER AGENCY ACTION REQUIRED, NAMELY: _____ <input type="checkbox"/> CBP EXAMINATION REQUIRED. <input type="checkbox"/> ENTRY REJECTED, BECAUSE: _____			
29. BROKER OR OTHER GOVT. AGENCY USE 29				DELIVERY AUTHORIZED: _____ SIGNATURE _____ DATE _____			

PAPERWORK REDUCTION ACT NOTICE: This information is to determine the admissibility of imports into the United States and to provide the necessary information for the examination of the cargo and to establish the liability for payment of duties and taxes. Your response is necessary. The estimated average burden associated with this collection of information is 15 minutes per respondent depending on individual circumstances. Comments concerning the accuracy of this burden estimate and suggestions for reducing this burden should be directed to Bureau of Customs and Border Protection, Information Services Branch, Washington, DC 20229, and to the Office of Management and Budget, Paperwork Reduction Project (1651-0024), Washington, DC 20503.

A comparison of key factors (weight, value, amount) between what was shipped and what was received could reveal discrepancies and possible trade based money laundering.

Letter of Credit

Trade deals are financed in three manners: by having the seller extend credit to the buyer, by having the buyer pre-pay for the commodity, or by having the buyer provide a letter of credit from his/her financial institution. Letters of credit tell the seller that the buyer is able to pay the amount needed. A sample letter of credit is below.

INTERNATIONAL BANKING GROUP Megabank Corporation P.O. BOX 1000, ATLANTA, GEORGIA 30302-1000 CABLE ADDRESS: MegaB TELEX NO. 1234567 SWIFT NO. MBBABC 72		ORIGINAL
OUR ADVICE NUMBER: EA00000091 ADVICE DATE: 08MAR97 ISSUE BANK REF: 3312/HBI/22341 EXPIRY DATE: 23JUN97	****AMOUNT**** USD****25,000.00	
BENEFICIARY: THE WALTON SUPPLY CO. 2356 SOUTH N.W. STREET ATLANTA, GEORGIA 30345	APPLICANT: HHB HONG KONG 34 INDUSTRIAL DRIVE CENTRAL, HONG KONG	
WE HAVE BEEN REQUESTED TO ADVISE TO YOU THE FOLLOWING LETTER OF CREDIT AS ISSUED BY: THIRD HONG KONG BANK 1 CENTRAL TOWER HONG KONG		
PLEASE BE GUIDED BY ITS TERMS AND CONDITIONS AND BY THE FOLLOWING: CREDIT IS AVAILABLE BY NEGOTIATION OF YOUR DRAFT(S) IN DUPLICATE AT SIGHT FOR 100 PERCENT OF INVOICE VALUE DRAWN ON US ACCOMPANIED BY THE FOLLOWING DOCUMENTS:		
1. SIGNED COMMERCIAL INVOICE IN 1 ORIGINAL AND 3 COPIES.		
2. FULL SET 3/3 OCEAN BILLS OF LADING CONSIGNED TO THE ORDER OF THIRD HONG KONG BANK, HONG KONG NOTIFY APPLICANT AND MARKED FREIGHT COLLECT.		
3. PACKING LIST IN 2 COPIES.		
EVIDENCING SHIPMENT OF: 5000 PINE LOGS – WHOLE – 8 TO 12 FEET FOB SAVANNAH, GEORGIA		
SHIPMENT FROM: SAVANNAH, GEORGIA TO: HONG KONG LATEST SHIPPING DATE: 02JUN97		
PARTIAL SHIPMENTS NOT ALLOWED TRANSHIPMENT NOT ALLOWED		
ALL BANKING CHARGES OUTSIDE HONG KONG ARE FOR BENEFICIARYS ACCOUNT. DOCUMENTS MUST BE PRESENTED WITHIN 21 DAYS FROM B/L DATE.		
AT THE REQUEST OF OUR CORRESPONDENT, WE CONFIRM THIS CREDIT AND ALSO ENGAGE WITH YOU THAT ALL DRAFTS DRAWN UNDER AND IN COMPLIANCE WITH THE TERMS OF THIS CREDIT WILL BE DULY HONORED BY US.		
PLEASE EXAMINE THIS INSTRUMENT CAREFULLY. IF YOU ARE UNABLE TO COMPLY WITH THE TERMS OR CONDITIONS, PLEASE COMMUNICATE WITH YOUR BUYER TO ARRANGE FOR AN AMENDMENT.		

Discrepancies in the letter of credit may also reflect trade based money laundering.

Glossary

ACH – Automated Clearing House – an electronic banking network that ‘clears’ large numbers of debits and credits to a large number of accounts. ACH credits could include direct deposit of paychecks; ACH debits could include bank fees, established bill payments, ATM withdrawals, etc. (4)

AML Compliance Program – a program required of a financial institution that includes training, guidance, and reporting of activities that might reflect money laundering.

ATM - automatic teller machine – a machine owned by a bank or private company that offers access to funds from an individual’s bank or credit account. Some also accept deposits. They are connected through a large electronic network such as Star TM, Cirrus TM, Plus TM, Interlink TM or NYCE TM. It is important to note they are not all owned by banks or other financial institutions but in their private ownership may be less secure than one might expect.

Air Way Bill – a document provided with freight that is sent by air.

Alternate Remittance – a way to move money or value over distances without using a bank. Often refers to money remitter organizations or informal value transfer entities.

Articles of Incorporation – legal papers created when a business is incorporated that generally include the date, names of its directors, its address, its purpose and a registered agent.

Asset Forfeiture – permanent loss of private property or assets as result of civil or criminal legal/judicial action by a government authority. (4)

Asset Freeze – the prohibition of the movement, transfer, conversion or disposition of funds or other assets on the basis of an action begun by an authority or court. This is a temporary action taken while an investigation ensues and the assets are then either adjudicated for forfeiture or control of them is returned to their original owner. (4)

Bank for International Settlements – an international entity that serves as the central bank for banks across the world and fosters international banking standards. (4)

Bank Money Order – a monetary instrument provided by a bank to a customer who wishes to make a payment to an entity for \$1,000 or less.

Barter – the exchange of goods or services in return for other goods or services, avoiding the movement of currency or monetary instruments.

Bearer Shares – negotiable instruments that accord ownership in a corporation to the person who possesses the bearer share certificate. (1)

Beneficial Owner – natural person(s) who ultimately owns or controls a customer and/or the person on whose behalf a transaction is being conducted. It also involves those persons who exercise ultimate effective control over a legal person or arrangement. (1)

Beneficiary – all trusts must have beneficiaries, who may include the settler, and a maximum time, known as the perpetuity period, normally 100 years. Trusts may have no defined existing beneficiaries

until some person becomes entitled as beneficiary to income or capital on the expiry of a defined period, known as an accumulation period. (1)

Bill of Lading – a document required to accompany goods that are shipped/transported which includes information describing what is being shipped, the quantity, its value and other information. Omissions or inaccuracies on the bill of lading may indicate trade based money laundering.

Bribery – public officials accepting cash, material or favors in return for influence. (3)

Broker – someone who acts as an intermediary in a business transaction on behalf of another. Typical brokers include real estate brokers, stock brokers, etc. Brokers generally earn a commission on their participation.

Bulk Cash Smuggling – the movement of large amounts of currency usually across a border. The currency may be carried or shipped in compartments or other means to avoid detection..

Bust-Out Scheme – the extension or use of credit is obtained by a person or company with no intention of paying the creditor, (4) but with the intent of selling off the goods received through the credit and hiding the proceeds from creditors and the government. The “Crazy” Eddie Antar activity was an example of this.

Casa de Cambio – a business that exchanges one form of currency for another. Also called Bureau de Change or money exchange house.

Cashier’s Check – monetary instrument commonly purchased for cash. (4) As it is written by the bank on its account, the source of the funds is more difficult to trace. The check is not required to have the name or account number of the source on it and is signed by a bank staff person. Follow up interaction with the bank may provide detail on the source of funds.

Certificate of Manufacture – a document that authenticates the manufacture of an item to be sold or traded.

Check 21 – a law which allows financial institutions and businesses to convert checks received into electronic payments. This allows for immediate debit to the account on which the check was made. It results in customers receiving copies of checks as originals have been destroyed.

Check Casher – a business that, for consideration, converts a check into cash. It may also offer other services including the sale of money orders or the wiring of funds.

Check Kiting – opening accounts at two or more institutions and using the “float” time it takes checks to clear each institution to create fraudulent balances. (3)

CHIPS (Clearing House Interbank Payment System) – a New York based wire transfer concern developed by several New York Banks to facilitate interbank wiring of funds. CHIPS is now called The Clearing House.

Commodity Flow Analysis – the analysis of the flow of goods or currency among persons, businesses or entities to determine the meaning of that activity and may give insights into the nature of a conspiracy, the hierarchy of a group, or the workings of a distribution network. (5)

Correspondent Banking - provision of banking services by one bank to another bank. Large international banks typically act as correspondents for thousands of other banks around the world. Respondent banks may be provided with a wide range of services, including cash management, international wire transfers of funds, check clearing, payable-through accounts and foreign exchange services to customers in different areas or countries.. (1)

Credit Card – a card distributed by a credit company or business which allows the holder to purchase goods and pay for them at a later time. A finance fee is charged for payments not made immediately upon billing; yearly fees may also be charged..

Corruption Perceptions Index – an index devised by Transparency International to refer to a country's ranking in how it is perceived regarding corruption.

Currency – banknotes and coins that are in circulation as legal tender. (1)

Customer Identification Program (CIP) - see Know Your Customer

Debit Card – a card providing electronic access to a bank account given to the account holder by the bank. Is usable at automated teller machines (ATM) worldwide that are part of the network used by the ATM.

Designation Package – data prepared by an agency (often military or federal law enforcement) in support of the naming of an entity as involved in illegal activity including narcotics trafficking, terrorism, WMD, etc. Designations are done by the US Office of Foreign Asset Control (OFAC) or the United Nations.

Due Diligence – before a financial institution opens an account for a client, it should check the client's activity to ensure that the client is not barred from doing business in that country or is not involved in suspicious activities. Varied software products have been developed to assist financial institutions in tracking designated entities. Credit checks may also be done.

Egmont Group – a group of national-level financial intelligence units (FIUs) which began cooperating with each other in 1995 to provide support for anti-money laundering programs and develop protocols for data sharing. (4) As of 2009, there were 106 member nations. Its members are often central banks or government agencies.

Electronic Funds Transfer (EFT) – the movement of funds through an electronic medium, including ATM withdrawals, wire transfers, remittances, or point-of-sale check scanning. The two primary EFT vehicles are FedWire, owned by the Federal Reserve Bank, and CHIPS, owned by a group of New York City banks.

Enhanced Due Diligence – additional examination and cautious measures aimed at identifying customers and confirming that their activities and funds are legitimate. (4)

Fedwire – an automated information and money transfer system that allows Federal Reserve Banks and the Treasury Department to move large sums of money among banks. (3)

Fei C'hing - informal banking system in China that has existed for centuries in which value is moved upon request from one area or country to another.

Fictitious Name Registration – the process through which a name, other than one's true name, is used for a business. Registration occurs at the county or state level in the U.S.

Financial Action Task Force – group of agencies begun in 1989 that sets anti-money laundering and counter-terrorist financing standards. Its recommendations do not have the force of law. (4)

Financial Facilitator – an individual who has expertise in finance or banking and assists people to move or hide funds the owners do not wish to be brought to the attention of the government. May be a financial or legal professional or an investment advisor.

Financial Institution – any person or entity who conducts as a business a financial activity or operation on behalf of a customer. Activities include acceptance of deposits, lending, financial leasing, transfer of money or value, money and currency changing, etc. (1) An insured bank; a commercial bank or trust company; a private banker; an agency or branch of a foreign bank in the US; a thrift institution; a broker or dealer registered with the Securities and Exchange Commission; an investment banker or investment company; a currency exchange; an issuer, redeemer, or cashier of travelers' checks, checks, money orders, or similar instruments; an operator of a credit card system; an insurance company; a dealer in precious metals, gems or jewels; a pawnbroker; a loan or finance company; a travel agency; a licensed sender of money; a telegraph company. (2)

Financial Intelligence Unit – a central entity responsible for receiving, analyzing and disseminating information on suspicious financial activities. It may be an agency or a sub-unit of a central bank, a government agency or a part of an established bank.

Financial Market – market for the exchange of capital in the economy, including stock, bond, commodity and foreign exchanges. (3)

Financial Statement – any report summarizing the financial condition or financial results of a person or an organization. Financial statements include the balance sheet and the income statement or cash flow analysis and sometimes the statement of changes in financial position. (2)

Freight Forwarder – an intermediary who receives and forwards items sent through freight lines.

Front Company – a entity set up and controlled by another organization. (3) It may be used to move illicit money by co-mingling it with legal proceeds. The operation of the front company may be subsidized by criminal proceeds. (4) Front companies may be seen to have an unfair advantage over regular companies as they can continue in business without making substantive profits on their own.

Gatekeeper – professional with expertise in financial dealings and/or corporate matters who assists with the covert movement of funds. May include lawyers, accountants, investment advisors, notaries, etc. (4)

Hawala(dar) – informal banking system in the South Asia and Middle East areas that has existed for centuries in which value is moved upon request from one area or country to another. A hawaladar is the individual operating the hawala.

High Risk Countries – countries that are involved in significant activity of a criminal or terrorist/insurgency nature due to which funds transferred there may become part of that criminal or terrorist/insurgency activity.

High Value Target – an individual or organization that has been deemed, by an agency, as an important target in their threat environment.

Hundi (walla) – informal banking system in India that has existed for centuries in which value is moved upon request from one area or country to another. A hundiwalla is the individual operating the hundi.

Indicator analysis – the compilation, review and analysis of an activity to develop a model of what occurrences may be used to predict the presence of that activity in another location, situation, or timeframe. (5)

Informal Value Transfer System – a non-bank financial system that moves value rather than money; term is used to refer to hawalas and other similar systems.

Integration – the return of funds to the beneficiary in a form that appears to be legitimate after the placement and layering stages of traditional money laundering. The funds may be brought back as a loan, salary, commission, or proceeds of other legal activity. It is at this point that funds have been sufficiently separated from their probable illicit origins that they are considered laundered.

Internal Controls – procedures and protocols within a company or system that ensure the adequate supervision of business activities including the movement of funds. They generally have a system of checks and balances on approvals and processing of financial transactions.

International Business Company (IBC) – offshore corporate structures dedicated to business use outside the incorporating jurisdiction which are often rapidly formed, secret, low cost, minimally taxed and with relatively broad powers. They may be formed by nominee directors and officers that cloak the existence of beneficial shareholders. (4)

International Monetary Fund (IMF) – an organization with over 180 member countries that promotes monetary cooperation, fosters economic growth and provides countries with financial assistance. Is a strong proponent of anti-money laundering efforts. (4)

Investment Banking – banking department or organization that provides large amounts of funds for capitalization of businesses, often start-up operations.

Know Your Customer – policies and procedures used to determine the true identity of a customer and the type of activity that is ‘normal and expected’ of that customer so that the institution can detect activity that is ‘unusual’ for the customer. Highly recommended as a focal part of an anti-money laundering program. (4)

Layering – the movement of funds through several accounts, companies or nominees to obscure the source or destination of the funds. It is the second phase of traditional money laundering.

Letter of Credit – (L/C) instrument or document issued by a bank on behalf of a buyer of goods or services that authorizes the use of credit for a specified period. It substitutes the bank’s credit for the buyer’s and eliminates the seller’s risk. (3) Commonly used in international trade transactions.

Letters Rogatory – formal written requests for legal or judicial assistance sent by a central authority of one country to the central authority of another when seeking evidence from the foreign jurisdiction. (4)

Money Laundering – process of concealing the source or destination of funds, typically occurring in the phases of Placement, Layering and Integration.

Money Order – a negotiable instrument generally provided by a bank, postal office or commercial seller, usually in small amounts. In the US, money orders are for \$1,000 or less.

Money Remitter – a commercial business that sends remittances between entities on behalf of an entity, generally for a fee.

Money Service Business – a business that issues, sells, or redeems money orders or travelers' checks, provides check-cashing services, is a currency dealer or foreign exchange dealer, or provides money transfer services. (3)

Mutual Evaluation – a program under the Financial Action Task Force in which countries do follow-up evaluations of each other in terms of their compliance with the 40 Recommendations Against Money Laundering and the 9 Recommendations Against Terror Finance.

Negotiable Instrument - a document that is acceptable as a substitute for currency such as a check, cashier's check, money order, traveler's check, or other document that is negotiable. Also includes stocks, bonds, and promissory notes. (4)

Nested Account – use of a foreign correspondent bank account by another foreign bank to conduct its own transactions. (4)

Net Worth Analysis – a form of financial analysis developed by the US Internal Revenue Service in which an individual's assets and liabilities are compared over three years to determine if the person had more money available than was reported as income. A high amount more than reported is a possible indicator of illegal profits.

Nominee - one who has been designated to act for another in his place (3)

Non-Cooperative Country – a country that has not enacted anti-money laundering and other laws to trace the flow of funds. Not a member of the Egmont Group of countries.

Offshore Tax Haven – banks outside country of residency that offer 'secret accounts' to allow account holders to hide money from taxing authorities. (3)

Originator – an account holder, or the person who places an order with a financial institution to initiate a wire transfer. (4)

Paperhanging – writing checks on closed bank accounts (of their own or others). Sometimes used to refer to anyone who passes bad checks. (3)

Payable Through Account – correspondent accounts that are used directly by third parties to transact business on their own behalf. (1)

Placement – the physical movement of currency into the banking system, either in the country of origin or in another country's system. It is the first phase in traditional money laundering.

Point of Sale (POS) – the financial transaction at the location of a sale.

Politically Exposed Persons – individuals who are or have been entrusted with prominent public functions in a foreign country. Business relationships with family members or cost associates of PEPs involve reputation risks similar to those with PEPs themselves. (1)

Postal Money Order – an anonymous monetary instrument sold by the US Postal Service that comes in two forms – domestic or international. Domestic money orders can only be used inside the United States and do not require identification of the purchaser. International Postal Money Orders require identification of the purchaser. The maximum amount allowed on Postal Money Orders is \$1,000.

Private Banking – a department of a financial institution that provides banking services to wealthy individuals. The services are marked by confidentiality and may include investment services and tax shelters. (4)

Registered Agent – person designated in the articles of incorporation of a corporate entity that will receive service of process or other important documents. (3)

Regulator – government body charged with regulating financial transactions and markets to ensure proper conduct, transparency, and fairness. (3) In the US, there are five primary regulators: Federal Reserve Board, the Federal Deposit Insurance Corporation, the Office of the Comptroller of the Currency, the Office of Thrift Supervision, and the National Credit Union Association.

Remittance – money sent by one person to another, either in specie, bill of exchange, check, or otherwise. (2)

Risk Management – the assessment of various risks associated with types of clients in order to minimize the potential for money laundering violations among a financial institutions' clients. (4)

SAR – suspicious activity report. (see also STR) The minimum type of potential illegal activity agreed to be collected by members of the Egmont Group.

Saraf(i) – hawaladar(s) in Afghanistan.

Safe Harbor – legal protection for financial institutions from criminal and civil liability for filing suspicious transaction reports on their clients. (4)

Settlement – the act of balancing accounts between a seller and a buyer.

Shell Bank – bank that has no physical presence in the country in which it is incorporated and licensed, and which is unaffiliated with a regulated financial services group that is subject to effective consolidated supervision. (1)

Shell Company – fictitious entities created for the sole purpose of committing fraud. (3)

Shelf Company – a fictitious entity who has been created at an earlier date but has not been used as an active corporation and thus has no positive or negative history.

Smart card – plastic card resembling a credit or debit card that contains a computer chip that can store information such as e-cash. (4)

Smurf(ing) – using multiple individuals and/or accounts to move money into or out of the traditional financial system by keeping the amounts of the transactions under the reporting threshold.

Source & Application of Funds – a method of financial analysis created by the US Internal Revenue Service in which what one earns and what one purchases during each given year over three years is looked at to determine the possibility of unreported/possibly illegal income.

Stored Value Card – pre-paid card that stores a monetary value that can be used to buy goods or services until the value is depleted. At one end, they are gift cards for specific locations (restaurants, stores, etc.); at the other end, they may appear to be credit cards which can be refilled as they are depleted.

STR – Suspicious transaction report. (see also SAR) (1)

Structuring – the act of splitting cash deposits or withdrawals into smaller amounts, or purchasing monetary instruments in smaller amounts, to stay under a currency reporting threshold. (4)

Suspicious Activity Reporting/Suspicious Transaction Reporting – the reporting of financial activity deemed suspicious by a financial institution or other entity responsible for reporting such activity. This is required to be done by all countries who are members of the Egmont Group.

SWIFT – Belgium-based message sending service that informs financial institutions of financial transactions that will be occurring internationally.

Terror Finance – the financing of terroristic activity including its sources, the methods of movement and its uses.

Third parties – individuals involved in a third party transaction which usually includes the writer of a monetary instrument, the payee on the monetary instrument and a third person to whom the instrument is endorsed.

Threat Finance - the manner in which adversarial groups move and use funds to support their illegal activities or profit from them.

Wire Transfer - Any transaction carried out on behalf of an originator person through a financial institution by electronic means with a view to making an amount of money available to a beneficiary person at another financial institution. (1)

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