

## SOCA Alert A9A213N



### **The Use of Offshore Accounts and Company Formation by Specialist Money Launderers**

This is Alert warning A9A213N issued by the Industry Exchange and Alerts Branch of the Serious Organised Crime Agency (SOCA). It is based on assessed intelligence, warns of dangers and threats from serious organised criminality and is devised with the aim of bringing about preventative or remedial action.



**SOCA**  
SERIOUS ORGANISED CRIME AGENCY



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## The Use of Offshore Accounts and Company Formation by Specialist Money Launderers

### Overview

Specialist money launderers use offshore accounts and company formation to launder the proceeds of crime. Their skills are used for their own requirements or as an enabler for other criminals to launder money. Using specialist knowledge, they can access legitimate financial and commercial services, manipulate systems and avoid anti money laundering detection mechanisms.

This Alert contains general information and a case study which illustrates the way criminals can establish and use these structures. This case study is based on historical activity, but we believe the same or similar activities continue to take place.

### What we would like you to do

We are providing you with this Alert to help raise your awareness of the threat. We would like you to use the information to:

- cascade awareness to staff for training and continuous professional development
- report any related suspicious activity that you subsequently identify.

Information explaining how to submit suspicious activity reports (SARs) is provided on page 6.

The Alerts process is the way in which SOCA provides information to the private sector. To help us to improve this service, we would welcome any feedback you have on both the Alert itself and the information provided to you. Please email all feedback to [alerts@soca.x.gsi.gov.uk](mailto:alerts@soca.x.gsi.gov.uk) and include the reference **AMPHICTYON** in the subject line.

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## Information Report

Money launderers use offshore accounts and company formation to invest the proceeds of crime in legitimate markets and generate legitimate returns.

Serious organised criminals recognise the value of using these structures to launder money and they will often employ corrupt, honest or unwitting professionals (such as accountants, solicitors etc) to provide specialist knowledge and experience. A detailed knowledge of financial services, products and related legislation (including money transfer, jurisdictional safe havens, tax loopholes, avoidance schemes and protection from confiscation law) are sought after skills.

Examples of how these are used to launder the proceeds of crime are described within this Alert.

### **Accounting and Legal Professionals**

Specialists such as accountants or legal professionals are sometimes engaged by criminals to launder money. A company formed by a specialist employed by serious organised criminals will have little or no apparent customer base or business model, that is they will be serving no purpose other than to launder money, or they are integral in some other way as a front or enabler to validate business records, for example nail bars, casinos, pubs and clubs and so on.

These companies are generally represented by fictitious or otherwise unrelated company representatives – company directors and secretaries. Often, these details will bear no correlation to the criminal, although the specialist involved may feature in the audit trail as they may have acquired a number of shelf companies prior to them being used in any legitimate or criminal enterprise.

Once companies are established they will be supported by bank accounts opened with the intention of accepting and re-distributing the criminal funds received.

Deposits are transferred between accounts under the guise of investments, or purchase and sales. By creating a network of companies, openly linked or seemingly otherwise unconnected, the specialist is able to circulate criminal funds between companies to obscure the original source.

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'Clean' money is extracted from accounts and paid directly or indirectly to a criminal client in the form of business loans, fictitious purchases or through the provision of property and assets.

**Comment**

This activity is everyday business for the specialist. Criminal activity is combined and concealed with legitimate trade which is being simultaneously managed. Each endeavour is dependent on the skills and resource at the disposal of the specialist.

**Money Service Specialists**

It follows that a large percentage of criminal activity is based on a cash economy. Getting cash into the legitimate banking system without detection is a concern which preoccupies most serious criminals. Many steps and variations of approach will be adopted by the criminal and his network to overcome this dilemma.

The use of corrupt money transmitters, currency exchange and cheque cashing agents is a common practice employed by criminals to launder money. Transactions are invariably completed for a commission charge and businesses are easily able to conceal such transactions within everyday business activity. Some business proprietors feel able to turn a blind eye to bogus transactions; they receive little remittance for the exchange and are very often removed from the actual crime which originally generated the money.

The responsibility to carry out 'Know Your Customer' validation checks falls on the proprietor or employee. In instances where a business is owned or is operating as a franchise, checks can easily be ignored or fabricated if a business owner is in any way complicit in the crime.

These types of services often provide criminals a first stop on the journey to legitimise the proceeds of crime, and as such present a target for exploitation.

## Case Study

A self-employed accountant, a property developer and a bookmaker established a company to launder the proceeds of crime.

This arrangement provided the knowledge and access to specialist facilities enabling them to conceal the source of their criminal funds. The bookmaker received cash from one of the partners and issued cheques to the company. As a bookmaker, no suspicion was aroused as it is expected they deal in large quantities of cash on a regular basis and for such amounts to be deposited into the company bank account.

The men then formed a company in an offshore UK dependency, in this instance the Isle of Man, to trade land and property in England and Wales.

The properties acquired by the company were already owned by one of the individuals involved. The company purchased properties in such a way that it allowed assets to be held by nominees, installed as company officials and shareholders. This disguised ownership from law enforcement. Further purchases of properties in the UK were structured in a similar fashion and completed with loans advanced by lenders. Later law enforcement enquiries established the loans had been obtained fraudulently.

Money released from the sale of the properties was passed to offshore destinations including the Channel Islands and Eastern Europe. A significant amount was subsequently paid into an account created in Europe by one of the individuals, then 'smurfed'<sup>1</sup> back to associates in the UK, where it was drawn as cash under the guise of a legitimate income.

The individuals travelled abroad to open a number of offshore accounts in Europe, portraying themselves to the banks as a partnership comprising a property developer, financial adviser and a financial backer.

Demonstrating their specialist knowledge in accountancy and the property arena added an air of legitimacy which withstood the scrutiny of the banks. These accounts initially received regular cash deposits but were later used as a conduit for the bookmaker's

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<sup>1</sup> 'Smurfing' occurs when a large amount of money is broken down into small amounts to avoid regulation and is consolidated at a point of the money launderer's choosing.

'cheques for cash' scheme through which monies were introduced into the offshore company.

### Comment

The operating of an offshore company enables the placement, layering and integration of the proceeds of crime. The initial placement of cash took place with the bookmaker through the 'cheque purchasing' scheme. Subsequent laundering of the source of the funds occurred by the payment of cheques into accounts held with European banks, with monies then remitted back to the offshore UK company. These were reported as commissions from legitimate European business undertaken by one of the group who acted as an Independent Financial Adviser. Further laundering of the criminal funds occurred with the purchase of land and properties in England and Wales using these 'profits'.

Investigations of such company structures demonstrate that normal commercial checks<sup>2</sup> on activity are ill-suited to prevent and detect abuse. Auditing expresses an opinion on financial statements rather than investigation of the provenance of those companies involved. If only the movements of money are examined alongside other companies involved in the cycle, an auditor would be unlikely to see anything erroneous. As a result, complicit auditors may not be required and money launderers can rely on these weaknesses in systems to protect illegitimate movements of cash.

### Recommendations

- Be aware of shelf companies, or companies with nominee directors, secretaries and so on as these can potentially obscure those who are in true control of the business. Ensure your customer due diligence checks for identity are at an appropriate level.
- Be sure you understand the business and source of funds for those you do business with, and the rationale behind the business model.

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<sup>2</sup> 'Normal commercial checks' are considered to be structural and procedural assurances that auditors commonly undertake in the course of due diligence. These are not necessarily governed by specific regulatory requirements.

### What else to consider

If, as a result of information provided to you by SOCA, you are able to detect any aspects of money laundering or terrorist financing activity and your business falls within the regulated sector, then you are reminded of the obligations to make reports to SOCA under Part 7 Proceeds of Crime Act 2002 and the Terrorism Act 2000. If you decide to make a report in this way you should adopt the usual mechanism for doing so and include within the text the appropriate Alert Keyword **AMPHICTYON**. This reference is specific to the Alerts process. Where appropriate, we would ask that this is used *in addition* to the ongoing use of the Glossary of Terms. Guidance on making suspicious activity reports is available at [www.soca.gov.uk](http://www.soca.gov.uk).

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## Handling advice – Legal information

This information is supplied by SOCA in strictest confidence under authority of Section 33 of the Serious Organised Crime and Police Act 2005.

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In addition, if, because of this exercise you are able to provide any information to SOCA that you consider might be relevant to identifying or preventing crime, then we encourage you to do so. We would like to remind you of the provisions contained in Section 34 Serious Organised Crime and Police Act 2005. These provisions say that any information provided by you to SOCA, in order to assist SOCA to discharge its functions which include the prevention and detection of crime, will not breach any obligation of confidence which you may owe to any third party or any other restriction on the disclosure of information. S34 requires that disclosures of personal information about living individuals by you to SOCA must still comply with the provisions of the Data Protection Act 1998 (DPA), but you may be satisfied that disclosure by you of such personal information to SOCA in order to assist SOCA to prevent and detect crime is in deed permitted by the DPA. Please, therefore, submit all S34 information to [alerts@soca.x.gsi.gov.uk](mailto:alerts@soca.x.gsi.gov.uk).

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Requests for disclosure under the provisions of the Data Protection Act 1998 or other legislation must be referred to the Industry Exchange and Alerts Branch of SOCA, by email to [alerts@soca.x.gsi.gov.uk](mailto:alerts@soca.x.gsi.gov.uk) or by telephoning 0207 238 8541.

## Alert Coloured Roundels

SOCA Alerts are marked with either a Red or Amber Roundel. This is designed to indicate the urgency of the warning. Red may indicate a more immediate or specific threat, whilst those marked Amber will provide more general information that may complement existing knowledge.

## SOCA Prevention and Alerts

Recognising that the private sector is often the victim of serious organised crime and is engaged in its own efforts to prevent, deter and frustrate criminal activity, SOCA Prevention and Alerts seeks to forge new relationships with business and commerce that will be to our mutual benefit – and to the criminal's cost. By issuing Alerts that warn of criminal dangers and threats, Prevention and Alerts seeks to arm the private sector with information and advice it can use to protect itself and the public. For further information about this Alert, please contact SOCA Industry Exchange and Alerts Branch by email [alerts@soca.x.gsi.gov.uk](mailto:alerts@soca.x.gsi.gov.uk) or by telephoning 020 7238 8541. For more information about the Serious Organised Crime Agency go to [www.soca.gov.uk](http://www.soca.gov.uk).