Illicit money from the Russian Federation

Extract from National Crime Agency (NCA) Amber ALERT (Reference 0443–ECC Spotlight.10.17)

Overview

This alert highlights features of money laundering (ML) derived from corrupt activities in the Russian Federation that you might be in a position to identify in the course of your professional activities.

The NCA and Joint Money Laundering Intelligence Taskforce (JMLIT) Expert Working Group issued the original alert based on several cases involving payments to offshore entities and state contracts. As an amber alert it should be used to complement existing knowledge, to brief business teams and to support business process improvement (red alerts indicate more immediate or specific threats).

Five case studies are attached which you may find useful to provide further context to this alert.

Identifying Features

The client:

- Has a limited public profile and the bank has limited direct contact with them
- Association with a Russian PEP (direct or indirect)
- Source of wealth/business shows connection with railways, financial sector, or construction
- Evasive about background/purpose of transactions (e.g. 'purchase for construction')
- Reluctant to provide supporting documentation
- Holds assets on an informal trust basis for a non-family member (e.g. a PEP)
- Client engaged in charitable work (e.g. sports clubs or foundations) to facilitate washing through funds.

Counter-parties:

- Registered in tax havens or the UK and directors located in offshore jurisdictions (e.g. BVI, Belize, Seychelles)
- Hold accounts with small banks in Eastern European jurisdictions (e.g. Latvia)
- Unclear who the owners of the remitting and/or beneficiary companies are
- Family member with foreign citizenship living abroad (e.g. in the UK) enables access to banking in that country.

Movement of funds/transactions:

- Regular transfers from Russian nationals/entities for loans, fees or dividends (vague payment details/documentation) to UK accounts followed by multiple withdrawals in Russia.
- Fund flows from Russia to the US via the UK with evidence of acquisition of US property
- Acquisition of property in the UK, Hungary, Bulgaria or the Czech Republic.
- Payments to decorators, lawyers and furniture shops
- Materials bought and sold on the same day (round sum amounts/different companies)
- Documentation brief and unconvincing for a large commercial transaction
- Banks associated with ML, PEPs, or sanctions violations.

Suspicious Activity Reports (SARs)

If you know or suspect ML or TF activity you should make a SAR. Please include the alert reference 0443-ECC within the text in addition to the codes from the Glossary of Terms. You should consider using the following relevant codes within your SAR:

XXS1XX: *Money laundering in action* – if law enforcement should respond swiftly
XXS99XX: *Defence against ML* under POCA (DAML). NB if using SAR Online also check the consent box
XXV2XX: *Vulnerable Persons* if immediate intervention by law enforcement is needed.
Further guidance on reporting is available at: www.nationalcrimeagency.gov.uk
The NCA welcomes feedback/information resulting from this alert which does not constitute a SAR. Please email all such information to jmlit.ops@nca.x.gsi.gov.uk quoting the reference A202-ECC.

Data Protection Considerations

Please consider your obligations under the relevant data protection regulations and where necessary remove any related personal data from your systems securely and within a satisfactory timeframe.

Disclaimer

Case Studies

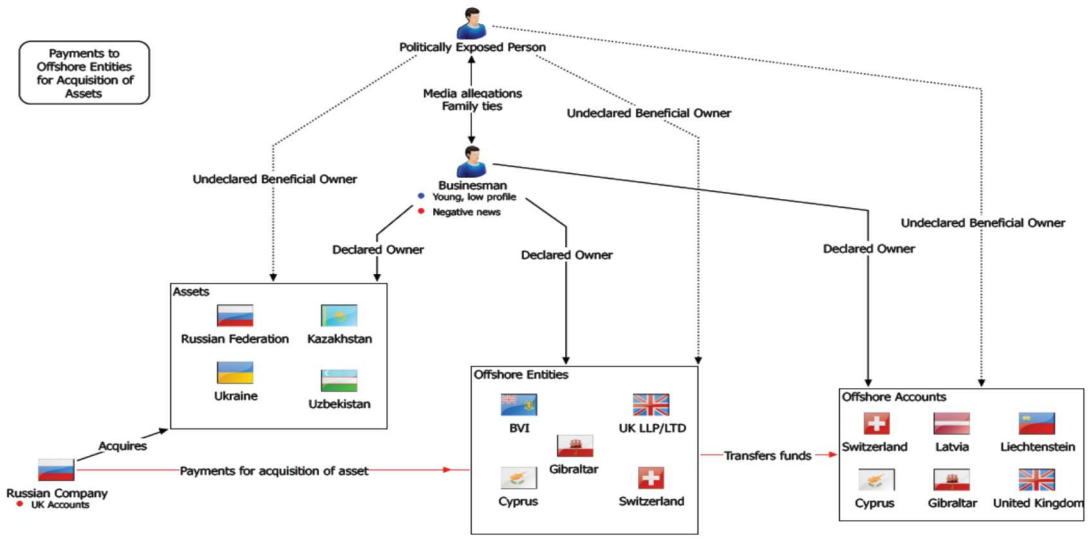
The following case studies provide examples of identified typologies that have been used to launder proceeds of corruption from the Russian Federation and demonstrate a number of indicators of this type of activity.

1 - Direct Payments to Offshore Entities

The scenario below illustrates how payments are made for legitimate goods and services to offshore entities with Ultimate Beneficial Owners (UBOs) that are undeclared and are Politically Exposed Persons (PEPs).

Key points:

- An undeclared UBO of the offshore entity is a PEP with influence or control over a Russian state company
- Russian state company sells goods at below market value to the offshore entities controlled by the PEP, which includes UK registered LLPs.
- Goods are supplied onwards to a Russian Company with UK bank accounts, the parent company being Swiss.
- Payment for goods received back through offshore entities.
- Funds transferred onwards to other jurisdictions including Switzerland, Latvia and Cyprus.

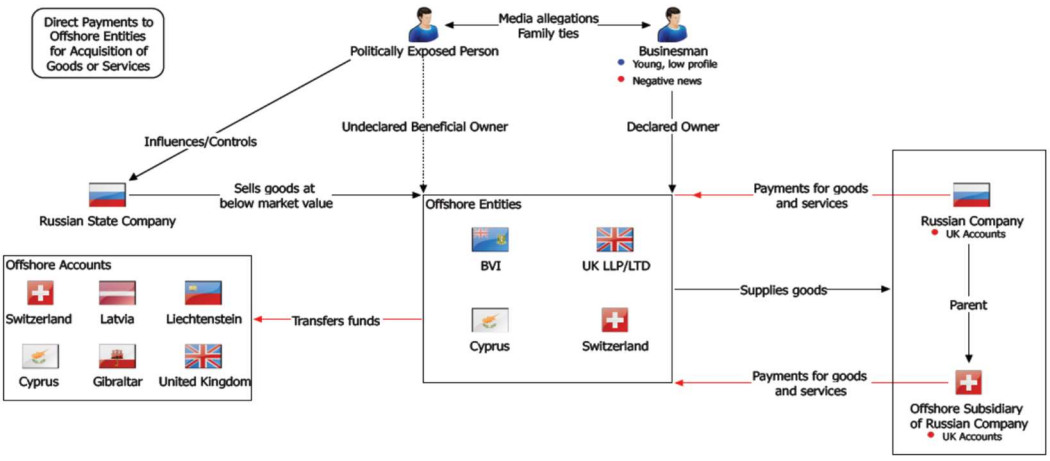


2 - Direct Payments to Offshore Entities for the Acquisition of Assets in Russia and Surrounding States

The scenario below illustrates how payments are made to offshore entities with undeclared PEP UBOs for the acquisition of assets in Russia and surrounding countries.

Key points:

- Assets held in Russia or neighbouring countries.
- Russian company with UK held bank accounts makes payments to offshore entities, to acquire assets.
- Funds are then transferred onwards to offshore accounts.
- PEP is the undeclared beneficial owner/holder of all three parties to the transaction

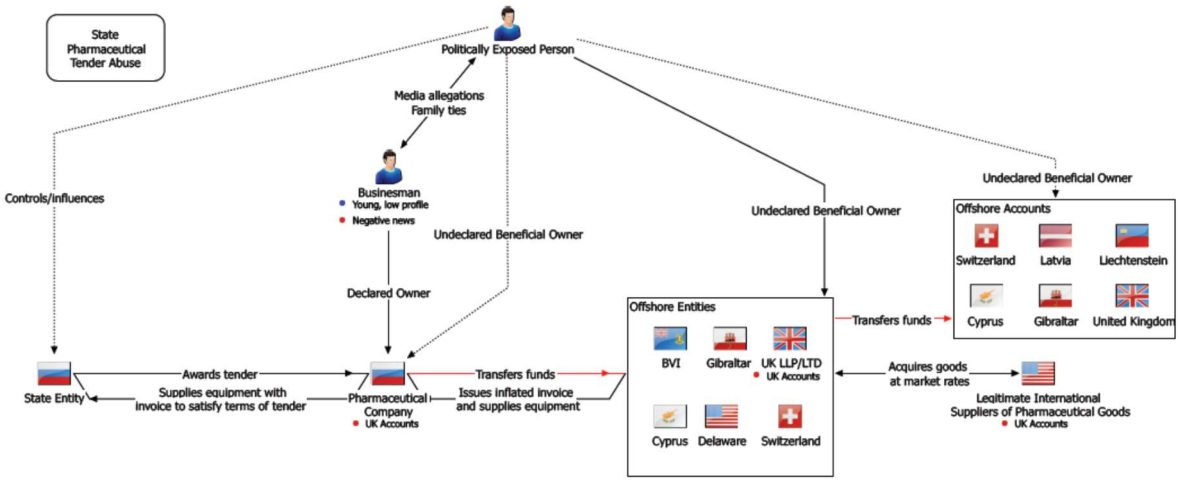


3 - Real Estate
The following case involves the use of Tier One Investor Visas. The use of such visa should not in itself be considered an indicator of laundering the proceeds of corruption, but when identified in conjunction with the other indicators, further research should be considered.

Key points
• Russian national on-boarded as a Private Banking client
• Client has no independent means of wealth and is dependent on his/her partner & family wealth.
• Payments from a business to a personal account via a business account held in the UK
• The UK business account is funded by another UK registered company holding accounts in Switzerland
• UK company's nominee directorship/correspondence addresses in the Seychelles & Panama.
• Client stated that they had personally financed a redevelopment and that the funds were repayment for this.
• Client claimed the funds from Switzerland were a real estate business partner making loans for the developments.
• No evidence of client having any background or experience in real estate development.

4 - Abuse of a state tenders
This case illustrates how abuse of tendering in the pharmaceutical sector facilitates movement of illicit funds.

Key points:
- A PEP controls or influences Russian state entity that awards contracts to Russian pharmaceutical companies
- The same PEP is the UBO of a Russian pharmaceutical company contracted to supply equipment/goods.
- The same PEP is also the UBO of an offshore entity that acquires goods legitimately from the US and then sells them at an inflated price to the Russian based pharmaceutical company.
- Funds from the sale are then transferred to offshore accounts controlled by the same PEP.



5 - Money Flows
2 large scale corporate cases are summarised below to show how money flows occur.

a. Payments for legitimate goods and services from Russian state-owned entities to offshore entities with undeclared PEPs as the UBOs or to acquire state assets in Russia and surrounding countries
b. Payments to intermediaries to facilitate cross-border transactions between Russia and neighbouring countries (particularly Ukraine).

Key points:
• Agents or proxies with limited profile/business history acting on behalf of PEPs.
• Intermediary entities with no apparent role in the transaction.
• Payments between entities incorporated in secrecy jurisdictions (eg. BVI, UK, Cyprus, Switzerland, Gibraltar).
• Onward payments via correspondent banking to offshore locations (e.g. Switzerland, Liechtenstein and Latvia)
• Inflated invoices and vague payment messages.