



HSI

CTPAT - TRADE BASED MONEY LAUNDERING CONFERENCE
JUNE 2019

Who We Are

HSI is the principal investigative arm of the U.S. Department of Homeland Security

HSI is responsible for investigating transnational crime, specifically those criminal organizations that exploit the global trade and infrastructure through which international trade, travel, and finances flow.



Homeland Security Investigations

HSI MISSION: Protecting America from transnational criminal organizations that threaten our borders, national security, public safety and exploit our financial institutions for money laundering and other financial crimes.

HSI investigates customs, trade and immigration crimes, smuggling of narcotics, weapons and other types of contraband, human trafficking and smuggling, *financial crimes*, cybercrimes, gang related crimes, critical infrastructure and import/export enforcement issues.



Homeland Security Investigations

Homeland Security Investigations Legacy



HSI is the investigative arm of Immigration and Customs Enforcement, which was created in 2003 by merging the investigative and enforcement elements of the U.S. Customs Service and the Immigration and Naturalization Service.

By combining the statutory customs and immigration authorities of these legacy agencies, HSI Special Agents have unique and broad investigative authorities.

Homeland Security Investigations Operational Areas of Responsibility

★ SAC Offices ■ DSAC Offices ▲ ASAC Offices ◆ RAC Offices ● RA Offices
2017



OPERATIONS SOUTHWEST



OPERATIONS NORTH



HSI Buffalo

HSI Detroit

HSI Chicago

HSI St. Louis

HSI Atlanta

HSI New Orleans

HSI Tampa

HSI Miami

HSI Honolulu

HSI San Juan

USVI

Domestic Footprint



26
SAC offices
and multiple
sub-offices in
over 200 cities

OPERATIONS SOUTHEAST AND ISLANDS

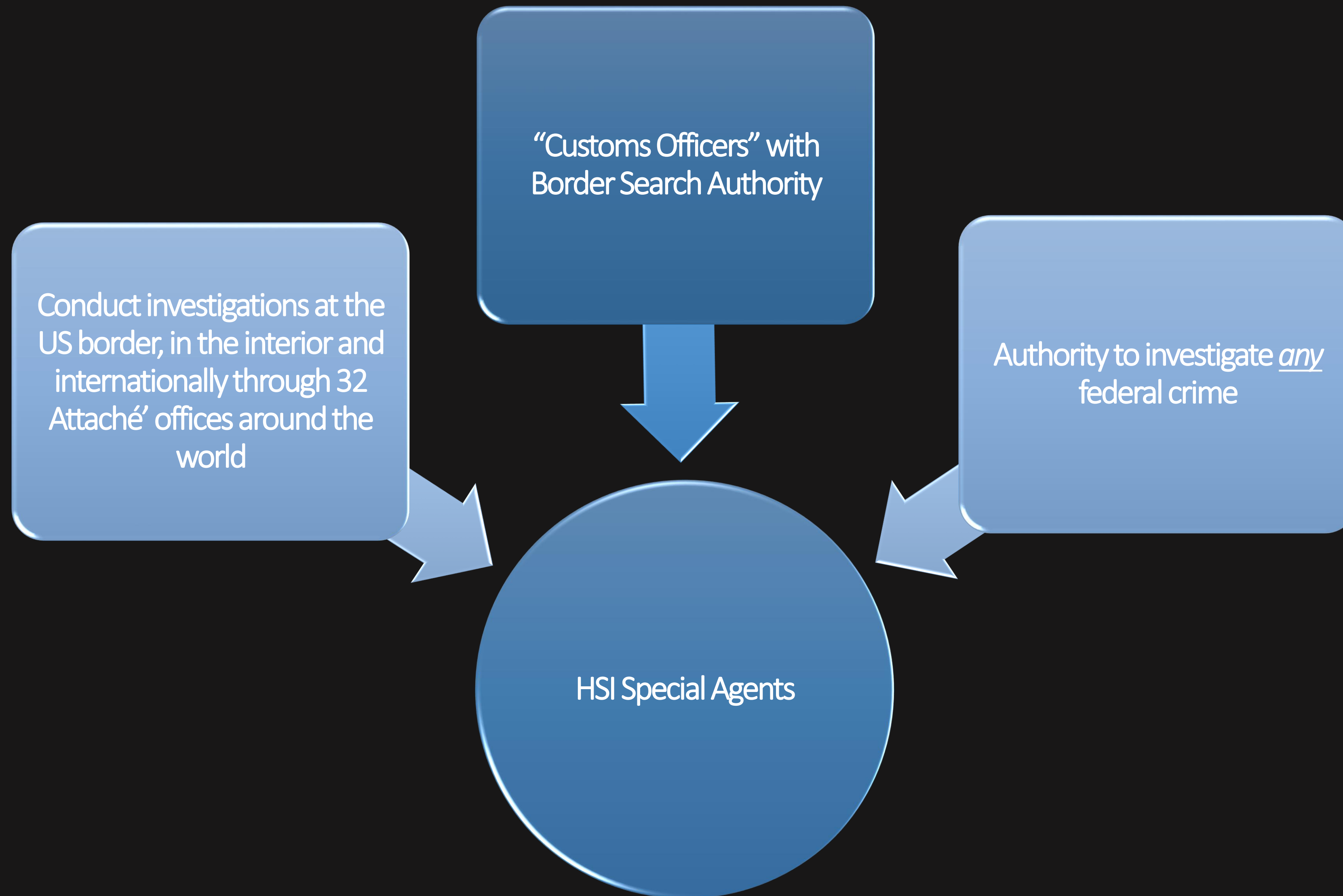


Our Mission

HSI investigates, disrupts, and dismantles terrorist, transnational, and other criminal organizations that threaten or seek to exploit the customs and immigration laws of the United States.

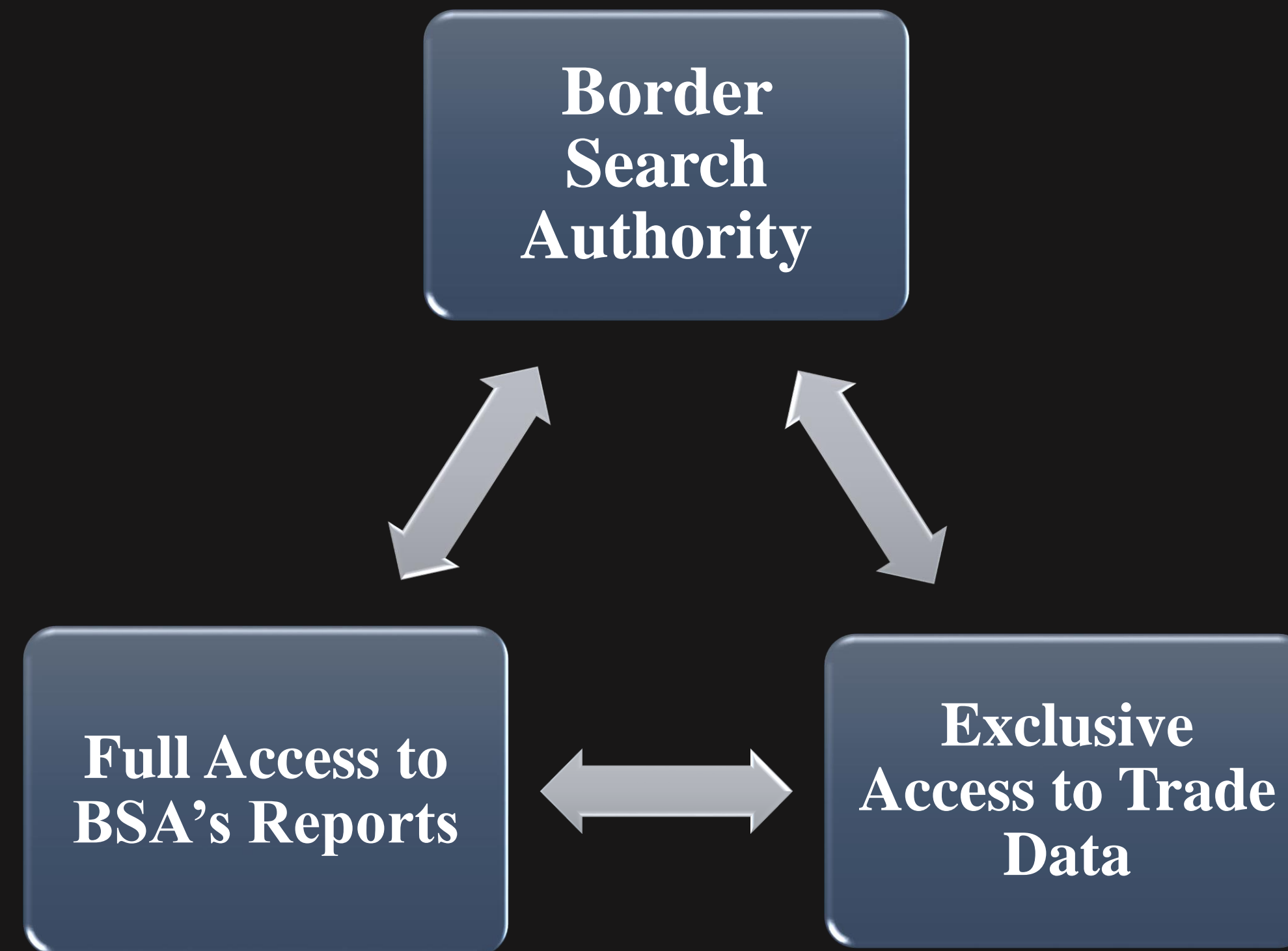


Homeland Security Investigations





Homeland Security Investigations



As the United States' principal border enforcement investigative agency, HSI is uniquely positioned to investigate all incidents of transnational and cross-border financial crimes. HSI *is the only law enforcement investigative agency* that has border search authority, full access to BSA reports, and exclusive access to trade data.



Homeland Security Investigations

Public and Private Sector Partnership

“HSI recognizes the significance and integral role that industry groups play in establishing and bolstering anti-money laundering guidance and oversight. The private sector represents America’s first line of defense against money laundering.”

- Janice Ayala, Former Assistant Director, Domestic Operations, HSI



2018 Outreach results:

400 outreaches conducted

5,178 LEOs

1,902 Government officials

31,462 Civilian partners



Cornerstone Outreach Program



In July 2003, HSI Illicit Finance and Proceeds of Crime Unit (IFPCU) launched the Cornerstone Outreach Program to work with the private sector in order to identify and eliminate vulnerabilities in financial systems through which criminals launder their illicit proceeds.

The key is building strong partnerships and alliances by *sharing law enforcement trends and methods and providing training* to the businesses and industries that manage the financial systems that terrorists and criminal organizations seek to exploit.



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HSI's Private Sector Partners

- Banks and Finance Companies
- Personal Identity Security
- Securities and Investment Firms
- Transportation, Trade and Shipping
- Insurance Industry
- Intellectual Property Rights Holders
- Customs Brokers and Freight Forwarders
- Precious Metals and Commodities Dealers
- Retail Industry
- Money Service Businesses
- Cryptocurrency Exchangers
- Blockchain Technology Companies
- Credit Unions
- Casinos
- Car and Boat Dealerships
- Real Estate Brokers
- Major Retailers
- Professional Organizations and Associations



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There are more than 200 dedicated Special Agents assigned to HSI's field offices who work as Cornerstone Outreach Program liaisons with the financial private sector. These Cornerstone liaisons *provide training and share trends and "red flag" indicators of criminal activity.*

As a result of these partnerships, HSI is able to successfully develop investigations based on critical and actionable information related to suspicious financial activity, which is shared by experts from the financial private sector. Since initiation of the Cornerstone Outreach Program in 2003, these investigations have resulted in over 600 criminal arrests and the seizure of over \$700 million USD.





Homeland Security Investigations

**In fiscal year 2018, HSI Special Agents financial investigations,
resulted in:**

2,064 Criminal Arrests

306 Administrative Arrests

\$600,838,485 USD in Seizures

(approximately \$172M was in currency or monetary instruments)

(approximately \$28M was in cryptocurrency)





Homeland Security Investigations

The Cornerstone Report

HSI Illicit Finance and Proceeds of Crime Unit (IFPCU) publishes a newsletter titled “*The Cornerstone Report*” highlighting current trends in financial crimes identified by both law enforcement and the private sector, recent cases studies and training/outreach events.

www.ice.gov/cornerstone



The Cornerstone Report

Safeguarding America Through Financial Investigations

Volume XIII No. 2 Summer 2017

Inside This Issue

Virtual Currency.....1

IFPCU/ Definitions.....2

Case Study of Operation Denial.....3

Virtual Currency Cont'd.....4

Cornerstone is U.S. Immigration and Customs Enforcement's (ICE) comprehensive investigative initiative for fighting financial crime.

The Cornerstone Report is a quarterly bulletin highlighting key issues related to ICE Homeland Security Investigations (HSI) financial, narcotics and special operations investigations.

 U.S. Immigration and Customs Enforcement

Toll Free Tip Line:
1-866-DHS-2-ICE

www.ice.gov/cornerstone

Virtual Currency

The use of virtual currency is rapidly becoming more accepted throughout the world. Virtual currencies function as a method of value exchange; a peer-to-peer cashless ecosystem that seeks to remove the intermediary financial institution. Bitcoin is the most adopted form of virtual currency with a current market of \$38 billion. In the last several years many companies worldwide have embraced Bitcoin as an alternative payment method. As this virtual form of value continues to gain legitimacy, methods to exploit it for criminal purposes will become more prevalent as well.

Bitcoin use is described as an anonymous transaction because it is possible to send and receive bitcoins without revealing any personally identifiable information. In reality, bitcoin is actually pseudonymous. Every user has a public address used to buy, sell, or transfer bitcoin and every transaction conducted with bitcoin is recorded on a public ledger known as the Blockchain. Because of this pseudonymity, Bitcoin is a popular manner to buy and sell illicit goods and services found on both the internet, as well as darknet market places.

One area that presents a significant challenge to law enforcement is unlicensed Peer to Peer (P2P) exchangers. Exchangers of currency, including virtual currencies, are considered money transmitters under federal law and are required to register and comply with federal anti-money laundering regulations if they

Continued on page 4



LEGITIMATE USES OF BITCOIN

- Exchanges: Convert traditional currency into Bitcoins and transfer them to a bitcoin address in a virtual wallet.
- Peer-to-Peer: Exchanging bitcoins from one holder to another.
- Mining: Bitcoin mining software is used to solve complex math problems for the bitcoin network. If solved, new Bitcoins are created for the user.
- Virtual Wallet: Traditional currency is deposited into a bitcoin kiosk and the Bitcoins are sent to the virtual wallet.
- Bitcoin Kiosk/ATMs
- Business Accepting Bitcoins Through Payment Processors: Transfer of bitcoins to a business payment processor, which converts into traditional currency.
- Business Accepting Bitcoins Directly: Pay for goods or services directly to bitcoin address of business.
- Other Bitcoin Users: Transfer of bitcoins from virtual wallet to other bitcoin users as gift or payment for goods or services.

ILLCIT USES OF BITCOIN

- Buyer
- Exchange/Dealer
- Seller
- Exchange/Dealer
- Darknet Marketplace Escrow/Mouse
- Illicit item(s) shipped

Please feel free to send your questions and comments to the editors of the Cornerstone Report at: cornerstone@ice.dhs.gov



Homeland Security Investigations

Trade



Narcotics Smuggling /
Trafficking

Commercial Trade and Fraud

Weapons Smuggling

Export Enforcement

Intellectual Property Rights
(IPR)

Travel



Human Smuggling /
Trafficking

Anti-Gang Enforcement

Immigration Document /
Benefit Fraud

Human Rights Violations

Finance



Money Laundering / Bulk
Cash Smuggling / TBML/
MSB's

Cyber-related Financial
Crimes

Worksite Enforcement/

Critical Infrastructure
Protection



Transnational Criminal Organizations & Illicit Money

TCOs are known to move, store,
and launder illicit proceeds through:

- Financial Sector
- Bulk Cash Smuggling
- Trade

Movement of Illicit Money	Risk
Financial Transactions	Leaves a “paper” trail/High Risk once detected
Bulk Cash Smuggling	High Risk/High Costs
Trade	Low Risk of Detection due to complexity of schemes and large volume of trade



Trade Based Money Laundering (TBML)

- Financial Action Task Force (FATF) definition of TBML:
“The “process of disguising the proceeds of crime and moving value through the use of trade transactions in an attempt to legitimize their illicit origins.”
- TBML is *not* a single activity; rather it’s a variety of schemes used together to disguise criminal proceeds, which can involve moving illicit goods, falsifying trade documents, and misrepresenting trade-related financial transactions with the purpose of integrating criminal proceeds.
- **HSI** estimates that criminal networks launder hundreds of billions of dollars of illicit proceeds through trade-based money laundering (TBML) schemes annually using a variety of tactics and techniques, including falsification of trade documents and misrepresentation of financial transactions. Trade-based money laundering is a significant threat to the global financial and trade sectors as transnational criminal organizations (TCOs) and terrorist groups use this money laundering methodology to move value across international borders via international trade transactions.



What is Money Laundering?

- Money laundering is the process of attempting to legitimize illegally obtained money to disguise its true nature or source.
 - This process is of critical importance, as it enables the criminals to enjoy their illicit proceeds without compromising their illegitimate source.
- To conceal or disguise the nature, location, source, ownership or control of money (acquired by illegal means), to avoid a transaction reporting requirement, facilitation of illicit activity, or tax evasion.
- The use of legitimately earned money to support or further a criminal act/conspiracy, terrorist financing [18 USC 1956 a(2)].



The Three Stages of Money Laundering

Proceeds of Criminal Activity



1. Placement



Proceeds Enter a
Financial Institution

2. Layering



Funds Transferred
Between Accounts

3. Integration



Purchase of Assets
and Investments

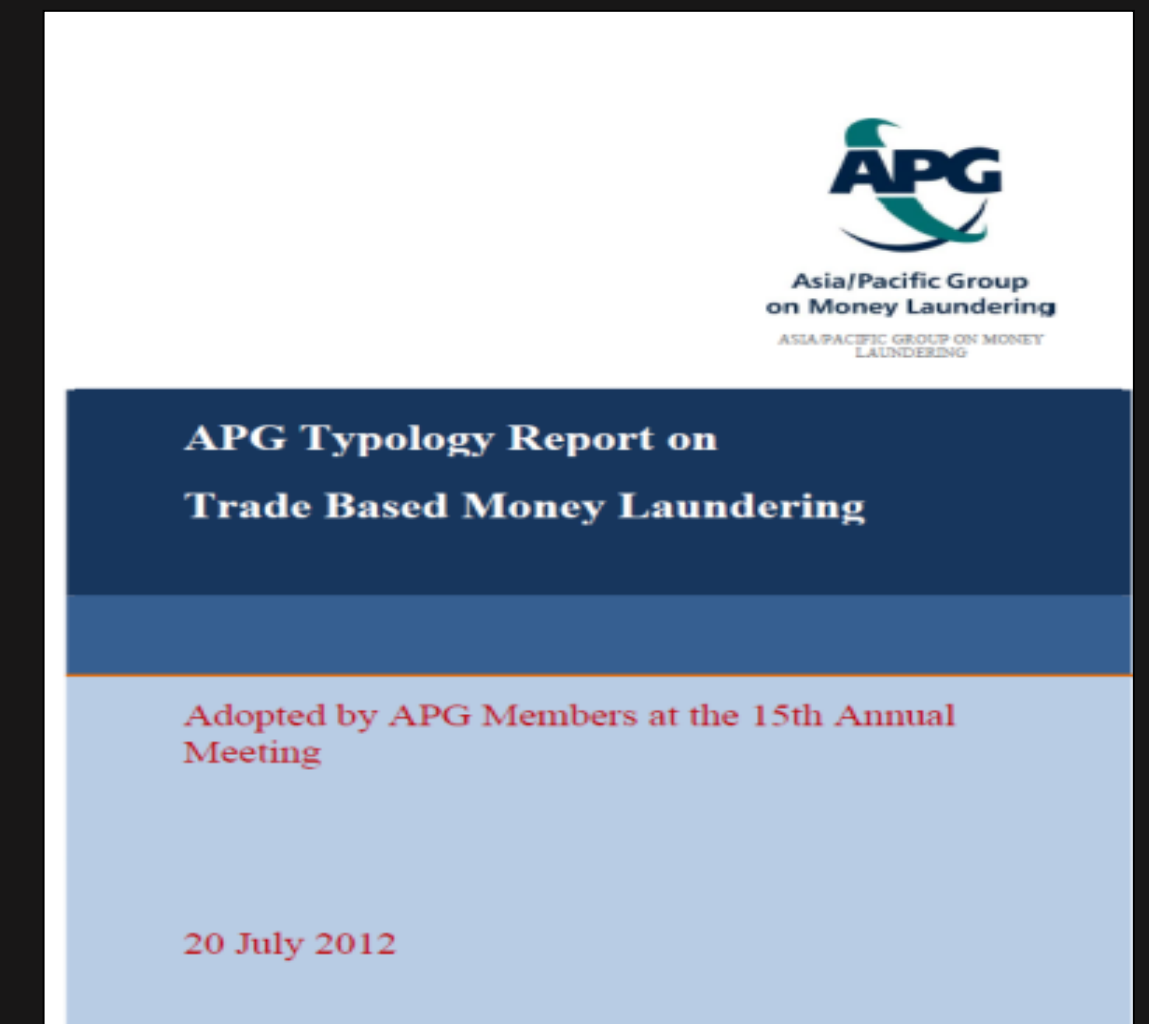
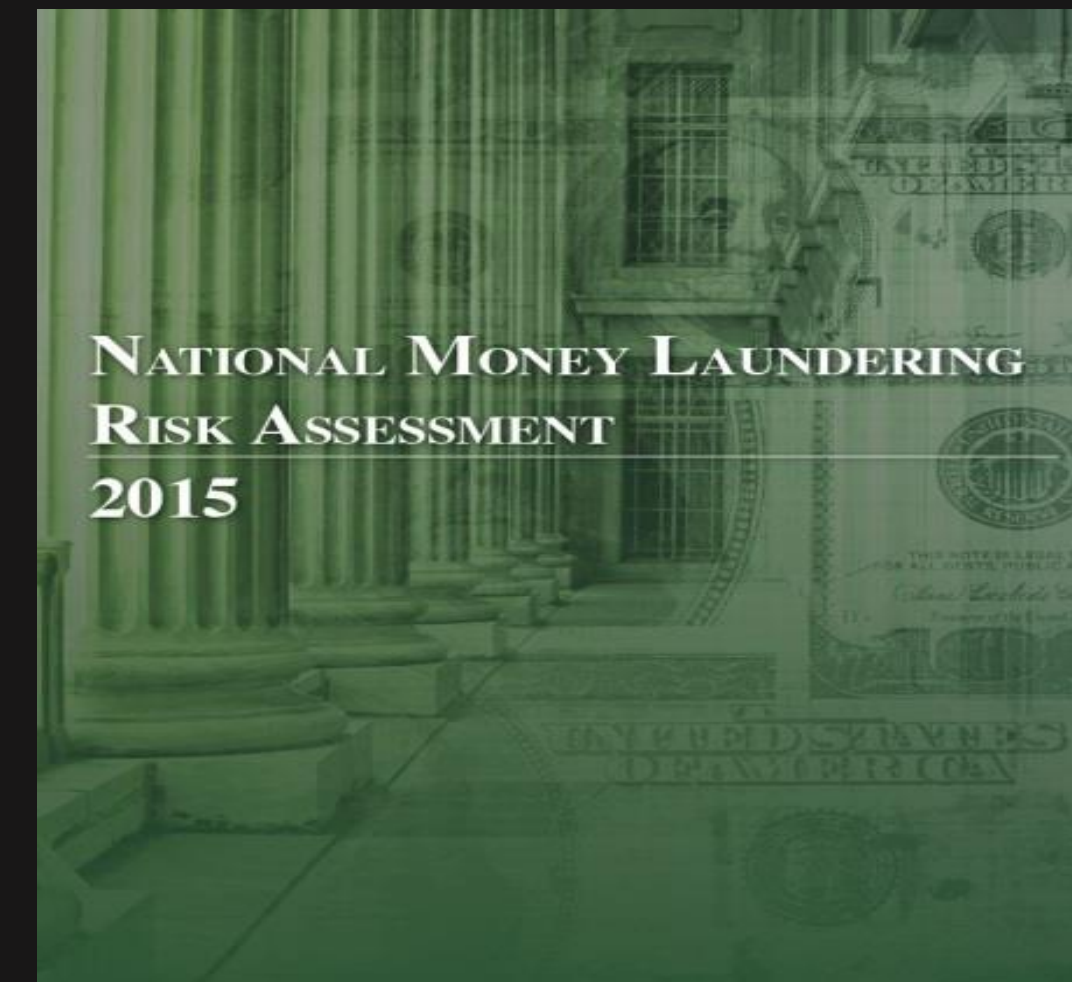
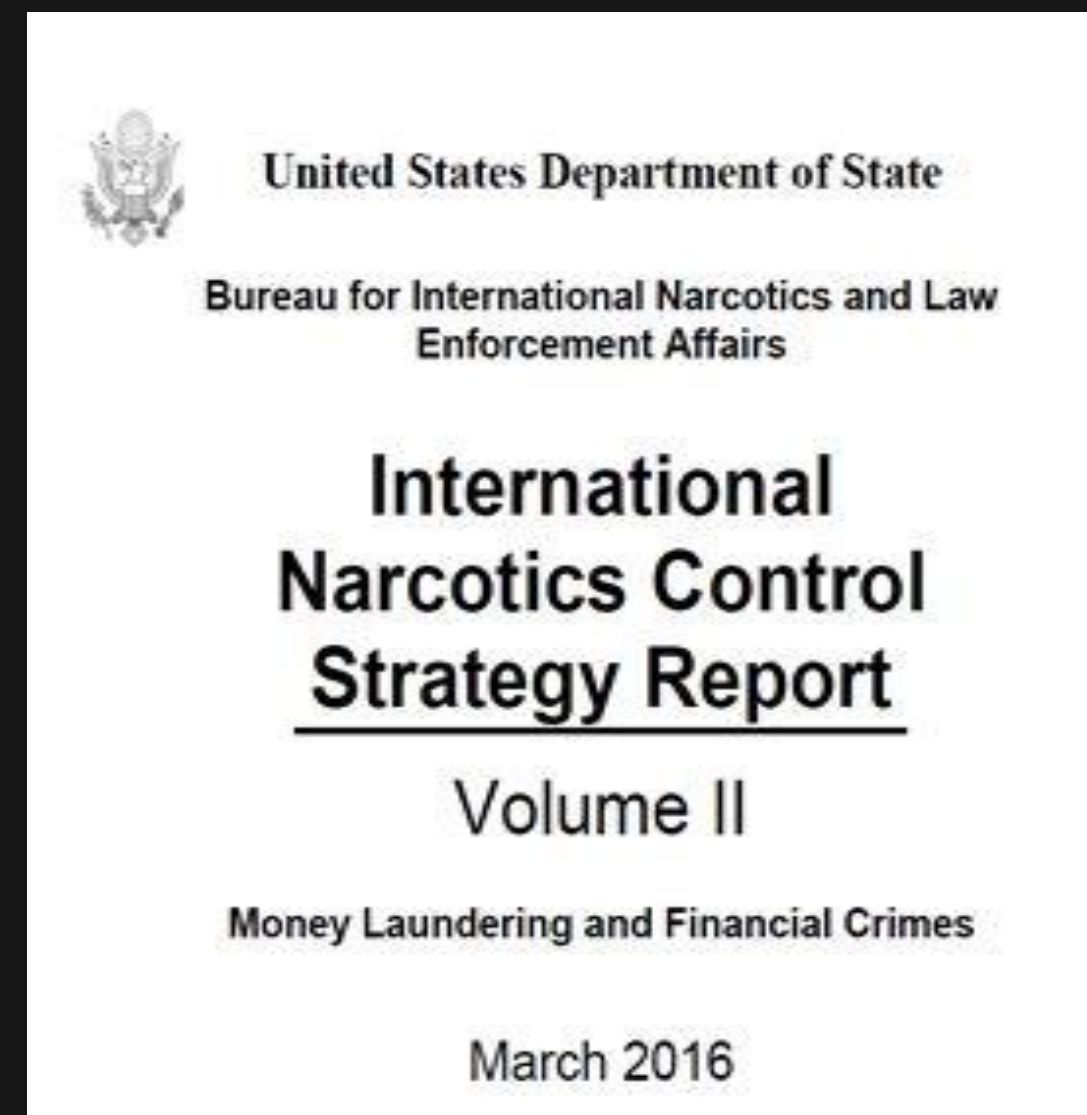
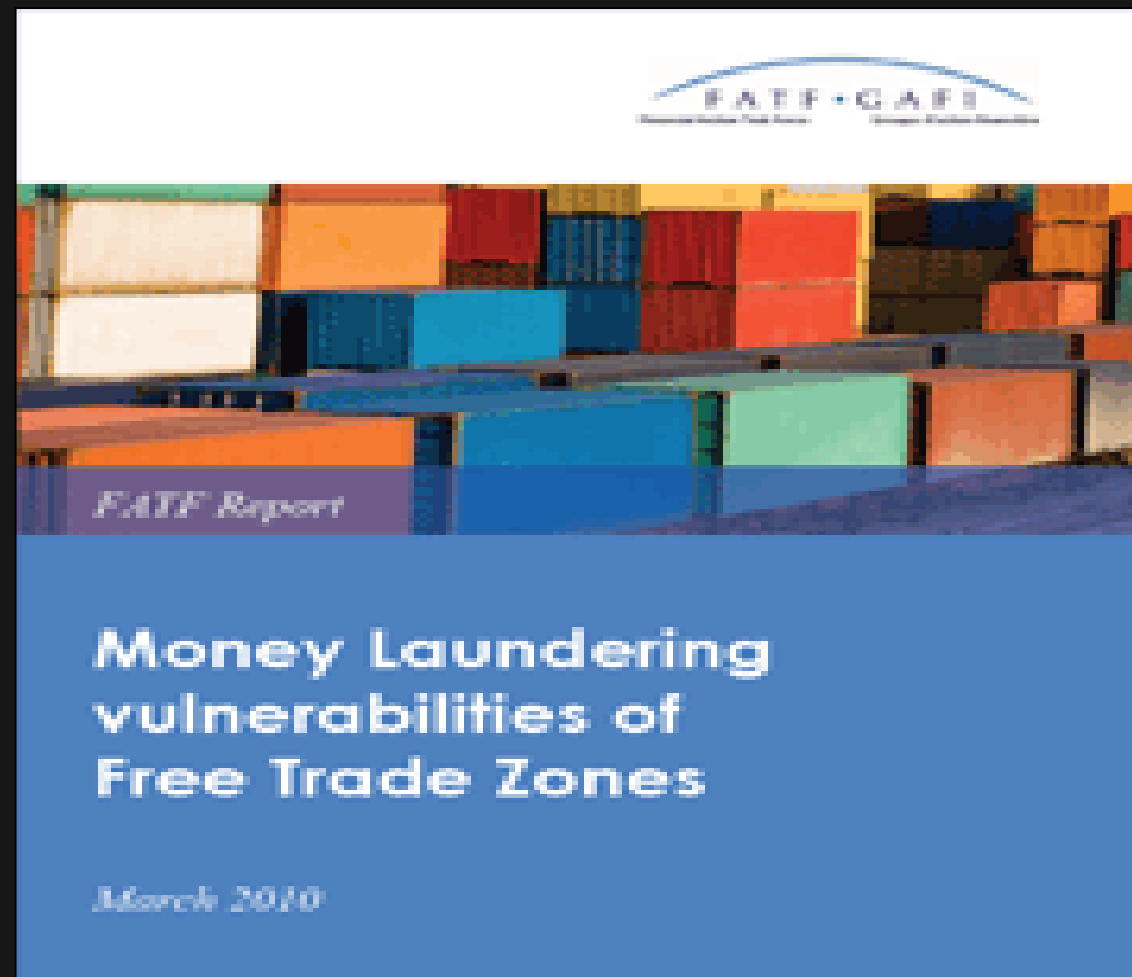


Negative Impact of Money Laundering

- Loss of public revenue
- Causes corruption in private industry
- Damage to legitimate business
- Directly impacts the national economy
- Empowers criminal and terrorist organizations



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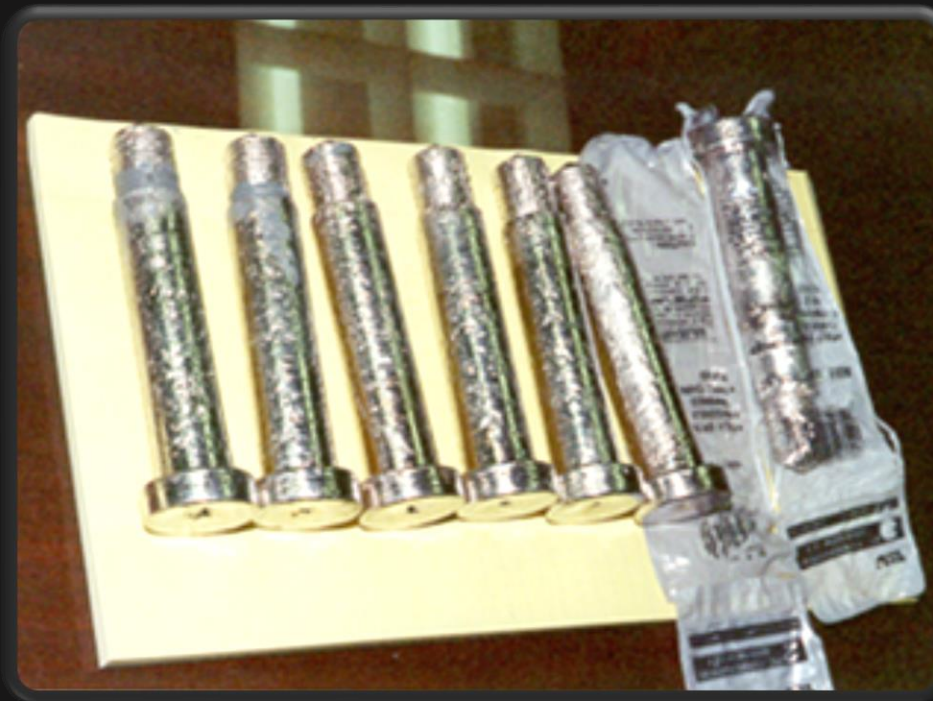
Homeland
Security
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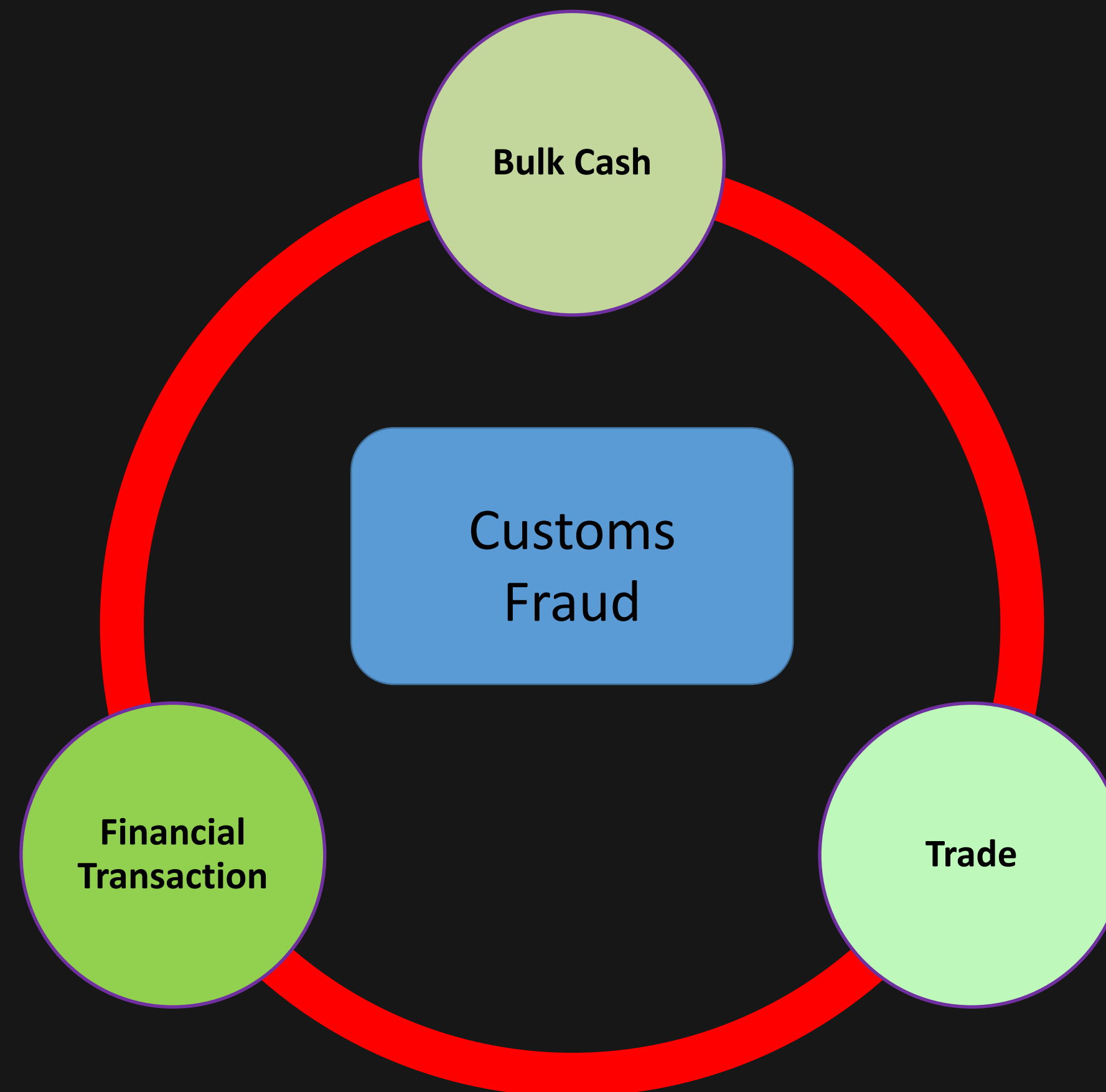


Trade Based Money Laundering (TBML)

- Overvaluation
- Undervaluation
- Double Invoicing
- False Invoicing
- False Description



- Lost Revenue



- Basic TBML



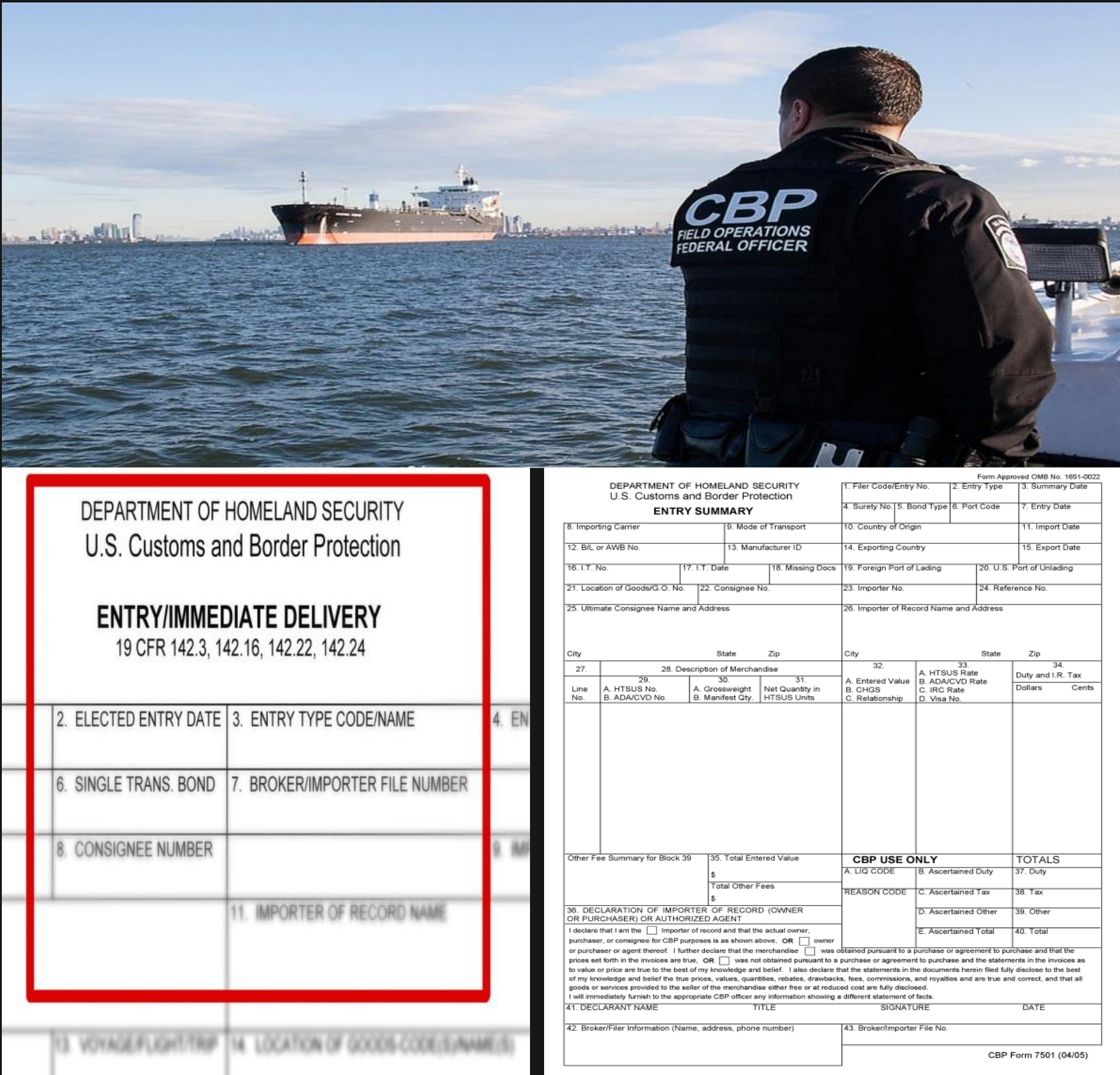
- Value Transfer



Importation Process

Importing

- ❑ Admissibility and the Entry process; Tariff Classification; Valuation; and Country of Origin.
- ❑ The term “entry” refers to the documents filed by the importer with CBP.
- ❑ Involves providing CBP with enough information to “admit” and thereafter “release” the merchandise and sufficient information to determine proper amount of duties, taxes and fees to be paid by the importer.



CBP 3461

CBP 7501



Exportation Process

Exporting

- ❑ The exportation process of goods begins when an entity located in a foreign country purchases goods from a U.S. entity for export from the U.S. to the foreign entity's location.
- ❑ The Automated Export System (AES) is the system used by U.S. exporters to electronically declare their international exports valued in excess of \$2,500 known as Electronic Export Information (EEI).
- ❑ The Internal Transaction Number (ITN) is the AES generated number assigned to a shipment confirming that the EEI was accepted and is on file in the AES.





Trade Based Money Laundering (TBML) Schemes



Overvaluation Scheme: Reporting goods as more than what they are actually worth (over-invoicing). Allows the importer to move illicit proceeds out of the country under the false representations made in the invoice (compare invoice, BOL to known FMV.)

Over Shipment: Exporter ships less goods than what is actually declared on invoice, BOL, etc. Effectively allowing the importer to move value (illicit proceeds) back to the exporter.

False Invoicing: (i.e. Reporting different commodities than what is actually shipped or ghost shipments)



Trade Based Money Laundering (TBML) Schemes



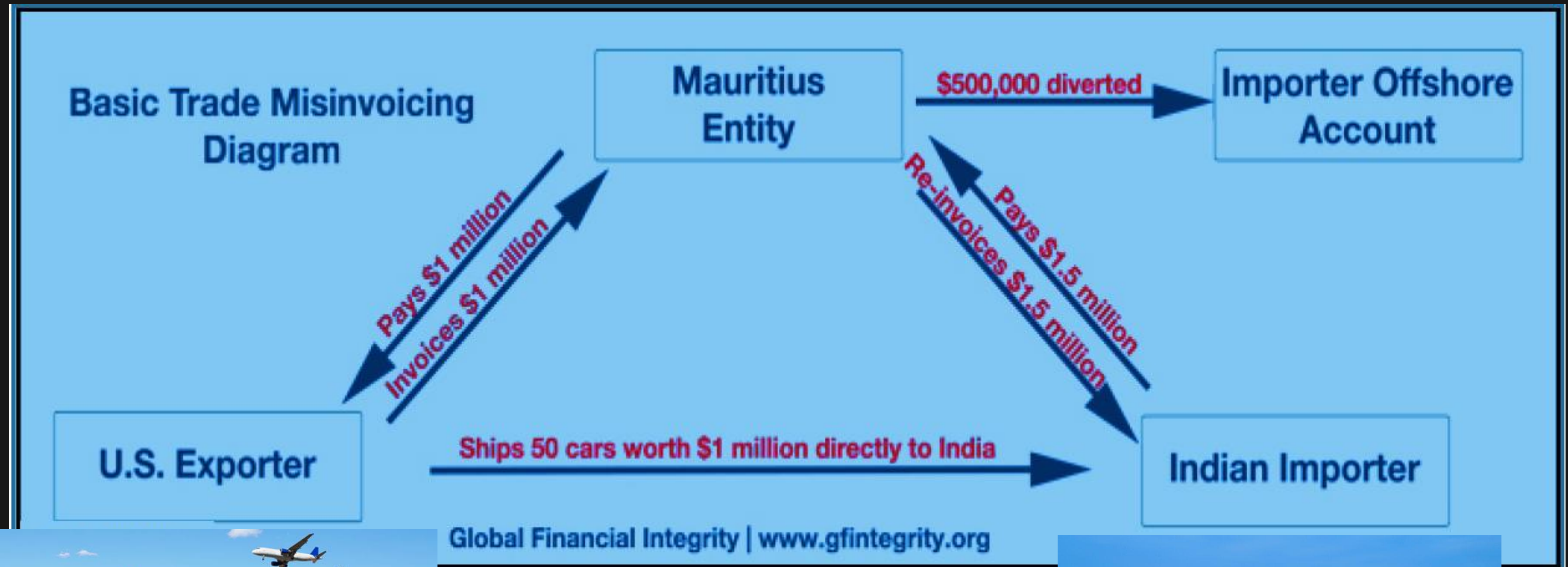
Undervaluation Scheme: Reporting goods as less than what they are actually worth (under-invoicing). Allows the exporter to move illicit proceeds (in the form of goods) out of the country under the false representations made in the invoice (compare invoice, BOL to known FMV.)

Under Shipment: Exporter ships more goods than what is actually declared on invoice, BOL, etc. Effectively moving value to the importer in the form of additional goods.

False Invoicing: (i.e. Reporting different commodities than what is actually shipped or ghost shipments)



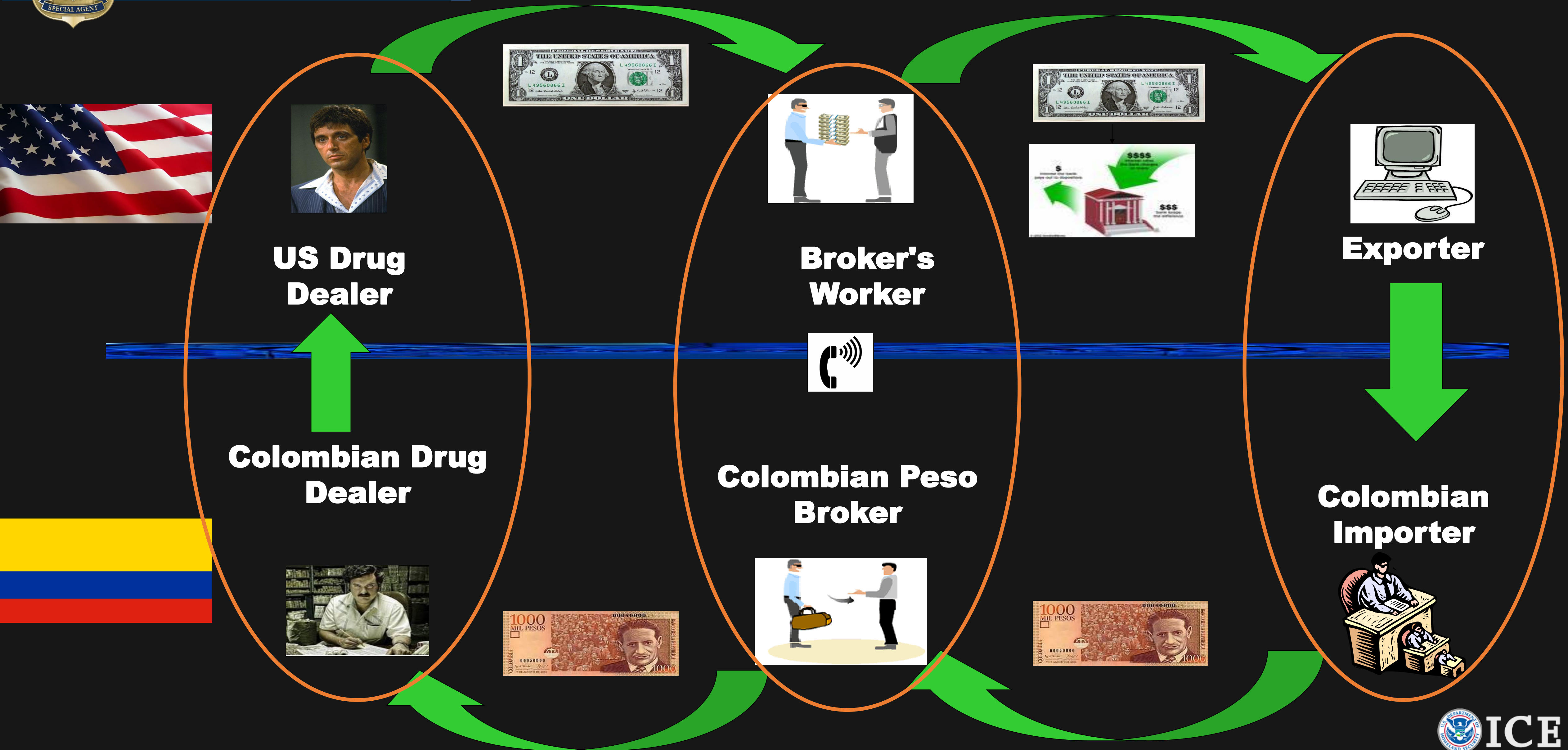
Trade Based Money Laundering (TBML) Schemes





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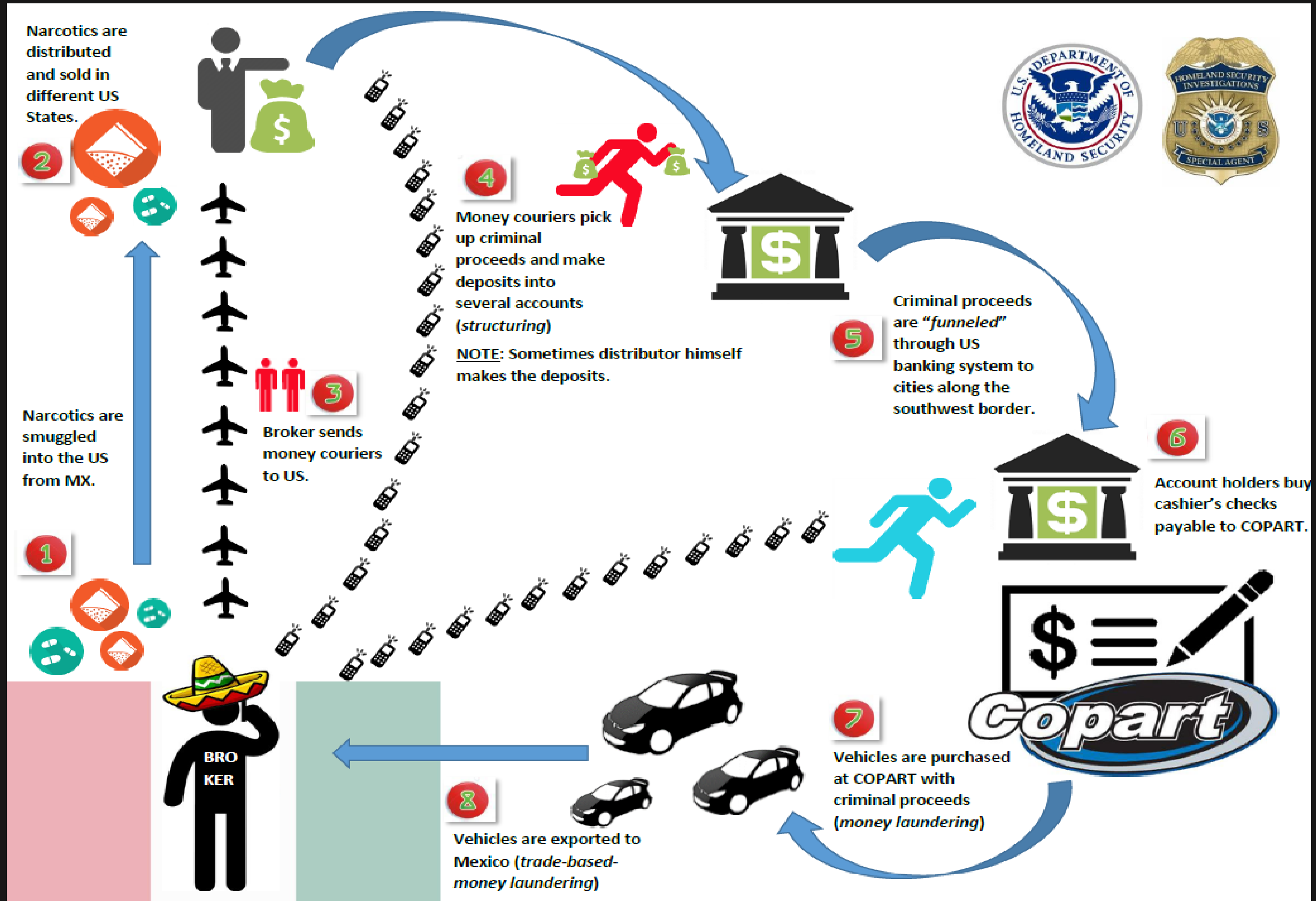
Black Market Peso Exchange (BMPE)





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TBML/BMPE Variations





Scope of TBML



- **State Sponsor**
- **Criminal Organization**
- **Individuals**
- **Disguise Operational Funds**
- **Illegal Proceeds**
- **Corruption**



The world GDP for 2015 was approximately \$73.1 Trillion (International Monetary Fund), of that amount it is estimated that 7 to 15 % is involved in TBML or \$5 to \$11 Trillion (WCO/WTO). Larger than the economy of any country in the world other than the U.S., China or the E.U. (estimated)

TBML exists in every country that has access to the international trading community.



Red-Flag Indicators of possible TBML

- Significant discrepancies between description on the bill of lading and invoice
- Significant discrepancies between description on the bill of lading or invoice and actual goods shipped
- Significant discrepancies between reported value of the commodity on invoice and market value
- Shipment size appears inconsistent with the scale of regular business activities
- Commodity shipped is designated as high-risk for money laundering activities
- Commodity shipped appears inconsistent with the importer's or exporter's regular business activities; mismatched industries (i.e. precious metals dealer paying a food wholesaler).
- Shipment does not make economic sense; routing is circuitous



Red-Flag Indicators of possible TBML

- Commodity is shipped to or from a designated high-risk jurisdiction for money laundering activities
- Commodity is shipped through one or more jurisdictions for no apparent economic reason
- Method of payment appears inconsistent with the risk characteristics of the transaction
- Transaction involves the receipt of cash or payments from third parties that have no apparent connection with the transaction, or cash for orders in excess of \$10,000 or multiple cash transactions below BSA reporting threshold
- Transaction involves the use of repeatedly amended or frequently extended letters of credit
- Transaction involves the use of front or shell companies



Financial Action Task Force (FATF) Guidance on TBML

- Proposes countries have measures in place to facilitate the detection of TBML.
- **FATF recognized the exchange of trade data between foreign counterparts as a best practice in TBML.**
- FATF recommends countries implement systems to investigate money laundering cases using trade data.



ICE HSI's Approach

- To combat the growing threat of TBML, HSI initiated the Trade Transparency Unit (TTU) concept in Washington, D.C., in 2004
- The TTU provides subject matter expertise on trade-based money laundering through investigative, analytical, and intelligence case support to HSI domestic and international offices, and to our U.S. and international law enforcement partners.
- TTUs examine trade between countries by comparing, for example, the export records from Country A and the corresponding import records from Country B. Allowing for some recognized variables, the data should match. Any wide discrepancies could be indicative of trade fraud (including TBML), corruption, or the back door to underground remittance systems and informal value transfer systems, such as hawala.
- Customs Mutual Assistance Agreements (CMAAs) can facilitate the establishment of TTUs.
CMAA with Malaysia signed on December 9, 2014.



TTU Information Sharing

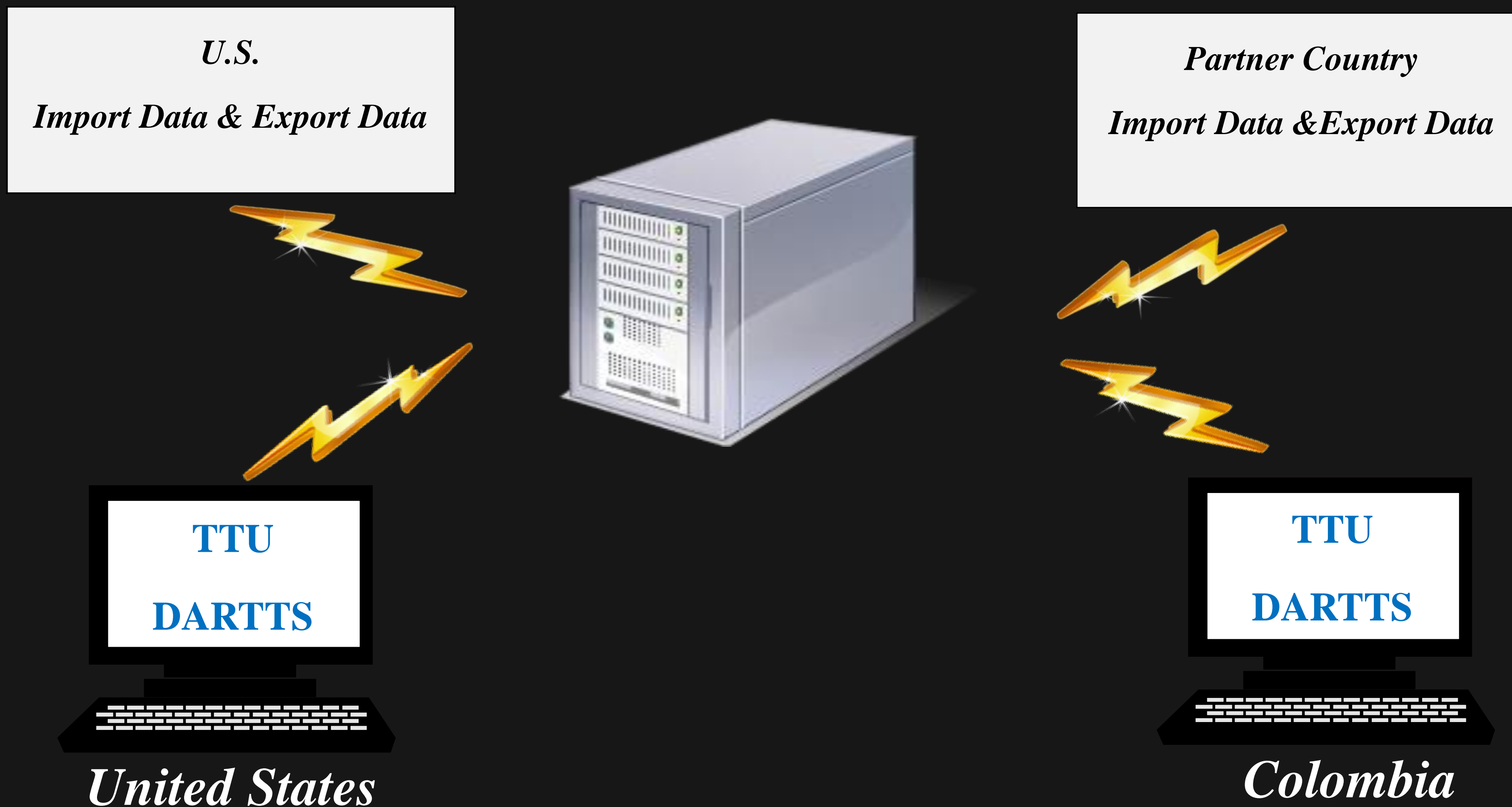
- HSI exchanges trade data through Customs Mutual Assistance Agreements or other similar agreements.
- HSI and participating governments are able to see both sides of trade transactions, and or currency and monetary instrument reports (CMIRs), currency transaction reports (CTRs), etc.
- HSI uses this shared information to support on-going investigations and to initiate new cases.
- HSI is currently the only investigative agency exchanging trade data with foreign countries.
- Our current TTU partners: Argentina, Australia, Brazil, Colombia, Chile, Dominican Republic, Ecuador, France, Guatemala, Mexico, Panama, Paraguay, Peru, Philippines, United Kingdom and Uruguay.





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Data Analysis & Research for Trade Transparency System (DARTTS)





Data Sharing & Partnership Review

- Most countries do not have access to foreign trade data to compare imports and exports.
- Individuals and criminal enterprises have long taken advantage of international trade mechanisms to avoid taxes, tariffs, and customs duties, and to conceal the ownership of funds.
- Increases in global trade and complex trade transactions brings increased opportunities for criminal organizations to move illicit funds disguised as trade to more regions.
- Find the legal and technical means of sharing trade data. Customs Mutual Assistance Agreements are a good starting point that can be further defined through a TTU MOU.
- Establish collaborative partnerships with other countries' customs agencies.
- Experience from investigations has demonstrated that if two countries share the results of trade data analysis, larger patterns of trade anomalies can be discovered.



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SEARCH

DATA SETS

BROWSE

CHARTS

READING

Search

CHOOSE A COLLECTION

Search

PH

United States
Imports of goods
from Malaysia, 2016
– Total: \$22.9 Billion
USD

US IMPORTS

Entry Summary Date is between
01-01-2016 and 12-31-2016

Country of Export is MY - MALAYSIA

+ Add a Filter

Group By

Columns

To F

Grouped by HTS

HTS	RESULT COUNT	SUM VALUE ▼	AVERAGE VALUE	MINI
8542310000 - ELECTRONIC INTEGRATED CIRCUITS; PARTS THEREOF, ELECTRONI...	41,963	\$6,094,645,387.00	\$145,238.55	
8517620050 - TELEPHONE SETS, INCLUDING TELEPHONES FOR CELLULAR NET...	71,701	\$2,833,992,519.00	\$39,525.15	
8541406020 - DIODES, TRANSISTORS AND SIMILAR SEMICONDUCTOR DEVICES; ...	2,048	\$1,861,330,494.00	\$908,852.78	
4015190550 - ARTICLES OF APPAREL AND CLOTHING ACCESSORIES (INCLUDING ...	15,044	\$541,924,469.00	\$36,022.63	
8526910040 - RADAR APPARATUS, RADIO NAVIGATIONAL AID APPARATUS AND R...	4,746	\$435,963,900.00	\$91,859.23	
8523510000 - DISCS, TAPES, SOLID-STATE NON-VOLATILE STORAGE DEVICES, "S...	4,527	\$419,824,614.00	\$92,737.93	
8542390000 - ELECTRONIC INTEGRATED CIRCUITS; PARTS THEREOF, ELECTRONI...	20,599	\$340,907,778.00	\$16,549.72	
8443995015 - PRINTING MACHINERY USED FOR PRINTING BY MEANS OF PLATES,...	5,765	\$281,301,693.00	\$48,794.74	
1511900000 - PALM OIL AND ITS FRACTIONS, WHETHER OR NOT REFINED, BUT N...	804	\$269,104,763.00	\$334,707.42	
9030400000 - OSCILLOSCOPES, SPECTRUM ANALYZERS AND OTHER INSTRUME...	6,178	\$265,683,275.00	\$43,004.74	
8517700000 - TELEPHONE SETS, INCLUDING TELEPHONES FOR CELLULAR NET...	13,766	\$227,836,534.00	\$16,550.67	
8541402000 - DIODES, TRANSISTORS AND SIMILAR SEMICONDUCTOR DEVICES; ...	9,067	\$163,800,024.00	\$18,065.51	
8471704065 - AUTOMATIC DATA PROCESSING MACHINES AND UNITS THEREOF; ...	5,113	\$160,804,882.00	\$31,450.20	
9403509080 - OTHER FURNITURE AND PARTS THEREOF, WOODEN FURNITURE O...	21,337	\$155,795,469.00	\$7,301.66	
8443995011 - PRINTING MACHINERY USED FOR PRINTING BY MEANS OF PLATES,...	2,453	\$142,717,965.00	\$58,180.99	
8508110000 - VACUUM CLEANERS; PARTS THEREOF, WITH SELF-CONTAINED EL...	1,369	\$139,061,745.00	\$101,579.07	
4015191010 - ARTICLES OF APPAREL AND CLOTHING ACCESSORIES (INCLUDING ...	5,016	\$132,788,158.00	\$26,472.92	



Homeland Security Investigations

US EXPORTS

Date of Transaction is between
01-01-2016 and 12-31-2016

Destination Country is MY - MALAYSIA



U.S. Exports of
Goods to
Malaysia, Total
Exports: \$11.8
Billion USD
2016

Group By Columns

To Falcon

Grouped by HTS

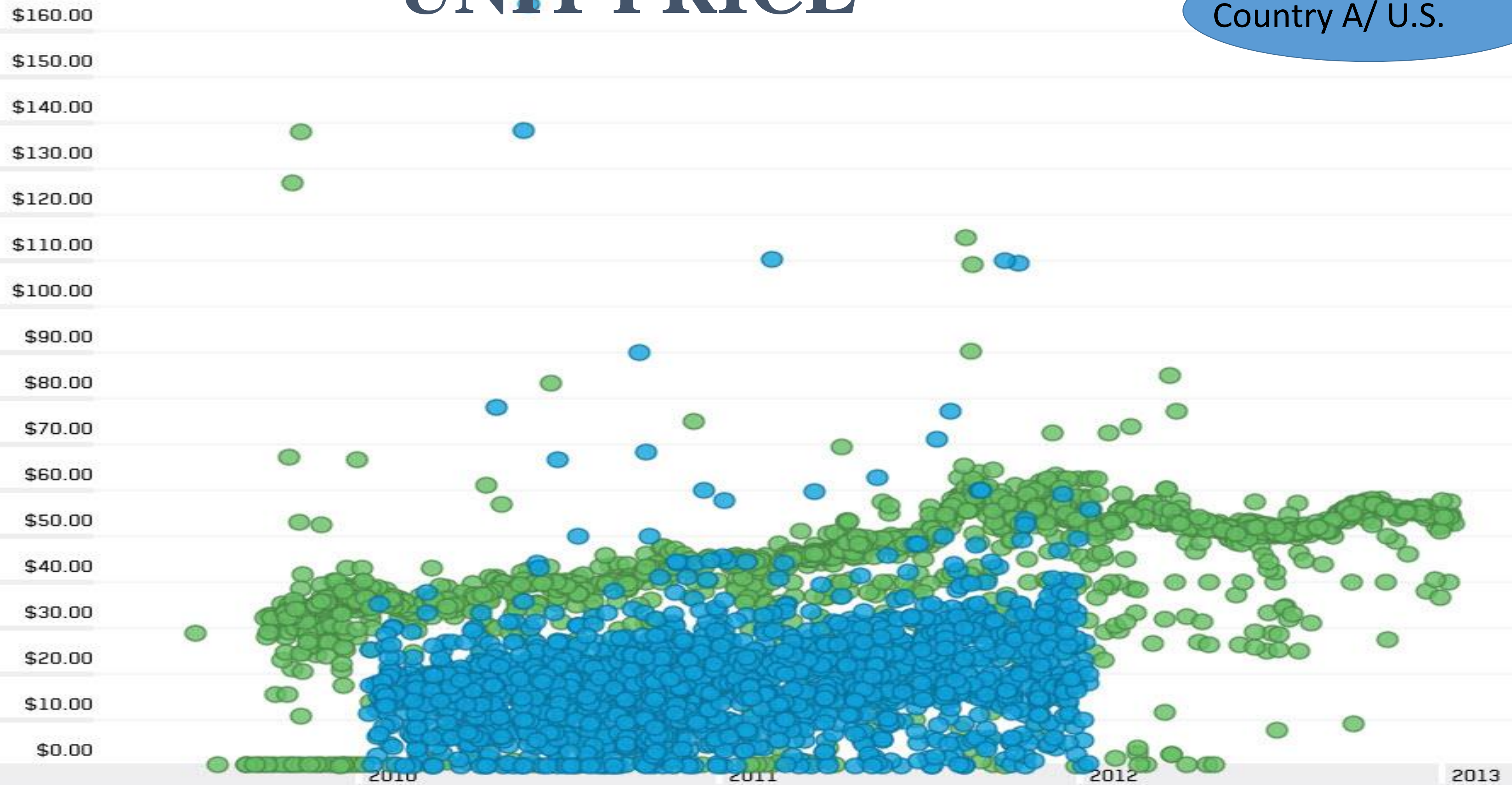
HTS	RESULT COUNT	SUM VALUE ▼	AVERAGE VALUE	MINIMUM
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8542390000 - ELECTRONIC INTEGRATED CIRCUITS; PARTS THEREOF, ELECTRONI...	45,317	\$1,240,020,409.00	\$27,363.25	
8411917010 - TURBOJETS, TURBOPROPELLERS AND OTHER GAS TURBINES, AN...	4,106	\$394,104,239.00	\$95,982.52	
8517620050 - TELEPHONE SETS, INCLUDING TELEPHONES FOR CELLULAR NET...	7,552	\$376,418,223.00	\$49,843.51	
8802400040 - OTHER AIRCRAFT (FOR EXAMPLE, HELICOPTERS, AIRPLANES); SP...	6	\$224,960,116.00	\$37,493,352.67	\$11
8542320070 - ELECTRONIC INTEGRATED CIRCUITS; PARTS THEREOF, ELECTRONI...	574	\$202,842,408.00	\$353,383.99	
8534000020 - PRINTED CIRCUITS, PLASTICS IMPREGNATED, NOT FLEXIBLE TYPE...	3,549	\$159,698,257.00	\$44,998.10	
1201900095 - SOYBEANS, WHETHER OR NOT BROKEN, OTHER	454	\$126,327,308.00	\$278,253.98	\$8
2710190615 - PETROLEUM OILS AND OILS OBTAINED FROM BITUMINOUS MINER...	15	\$115,397,249.00	\$7,693,149.93	\$1,154
8541500040 - DIODES, TRANSISTORS AND SIMILAR SEMICONDUCTOR DEVICES; ...	2,584	\$111,248,279.00	\$43,052.74	
8471704065 - AUTOMATIC DATA PROCESSING MACHINES AND UNITS THEREOF; ...	906	\$95,094,726.00	\$104,961.07	
8536694040 - ELECTRICAL APPARATUS FOR SWITCHING OR PROTECTING ELECT...	4,983	\$94,751,300.00	\$19,014.91	
8542330000 - ELECTRONIC INTEGRATED CIRCUITS; PARTS THEREOF, ELECTRONI...	5,527	\$91,173,685.00	\$16,496.05	
8803300010 - PARTS OF GOODS OF HEADING 8801 OR 8802, OTHER PARTS OF AI...	4,374	\$85,448,522.00	\$19,535.56	
8542320050 - ELECTRONIC INTEGRATED CIRCUITS; PARTS THEREOF, ELECTRONI...	1,199	\$75,473,596.00	\$62,947.12	
9030820000 - OSCILLOSCOPES, SPECTRUM ANALYZERS AND OTHER INSTRUME...	1,429	\$71,598,050.00	\$50,103.60	



Homeland Security Investigations

UNIT PRICE

Country A/ U.S.





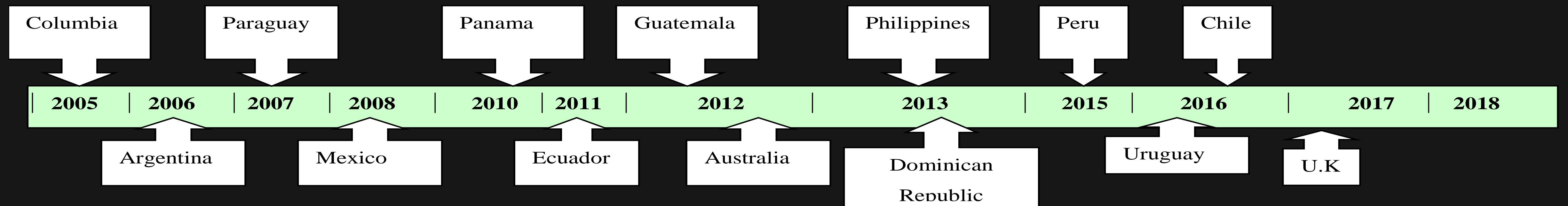
Homeland Security Investigations

16 TTU Members

TTU Members	Creation Date	Unit Composition
Argentina	July 2006	Argentina Customs (AFIP)
Australia	September 2012	Australian Customs & Border Protection (ACBP)
Brazil	February 2006	Recieta Federal Brasil
Chile	September 2016	National Customs Service
Colombia	February 2005	Colombian Customs, FINCEN & Police (DIAN, UIAF, POLFA)
Dom Republic	September 2013	Dominican Customs - (DGA)
Ecuador	August 2011	National Judicial Police & Customs (PNE & SENAE)
France	June 2015	Customs National Intelligence & Investigations Directorate (DNRED)
Guatemala	May 2012	Guatemalan Customs - (SAT)
Mexico	May 2008	Mexican Customs & Financial Intel Unit (SAT, UIF)
Panama	February 2010	Panama Customs, Customs Police (ANA & PNP)
Paraguay	March 2007	Customs, IRS, FINCEN, & IPR (DNA, PNPSET & UIF)
Peru	November 2015	National Tax Administration (SUNAT)
Philippines	June 2013	Philippine Bureau of Customs
Uruguay	March 2016	Uruguay Customs
United Kingdom	January 2017	Her Majesty’s Revenue and Customs



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Hawala Overview

The “traditional” realm of informal value transfer systems are typically deep rooted in certain ethnic cultures in the Middle-East and Asia and includes what we would term as basic Hawala type operations (e.g., *transactions in which a broker or intermediary accepts cash on behalf of a sender in one location, and arranges for disbursement of the cash, minus a small fee, from another broker or intermediary at another location without the actual movement of any funds*).



Homeland Security Investigations

Hawala - a potential mechanism to fund Terrorism

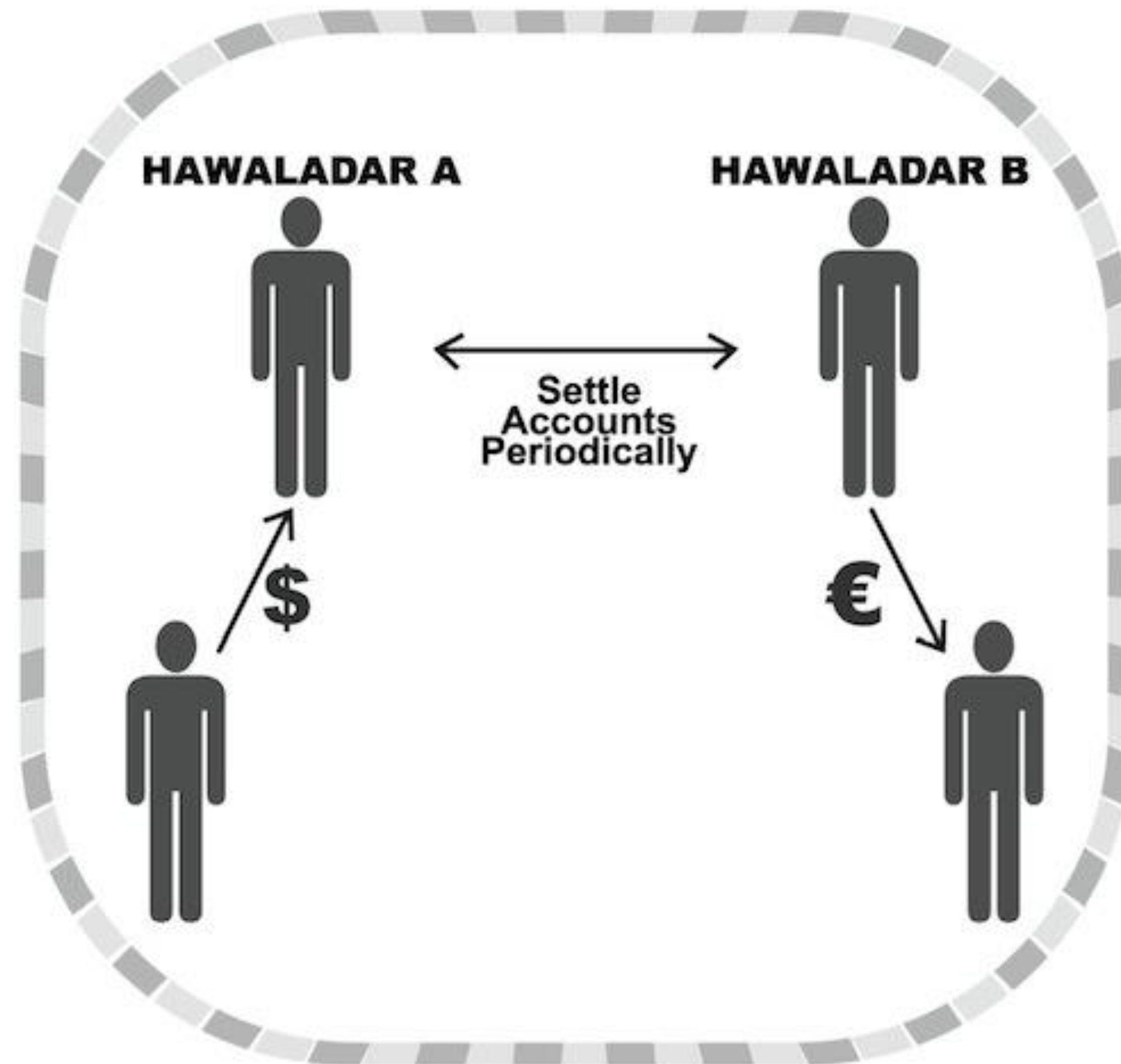
- “Before any real Jihad can be fought, Muslims require money” (*ISIS Ebook How to Survive in the West 2015*).
- “If you are an expert in credit card fraud, paypal/ebay scams, Phishing, hacking, or you know the secrets of a big company, then take advantage of your skills. If you can claim extra benefits from a government, then do so. If you can avoid paying taxes, then do so” (*ISIS Ebook How to Survive in the West 2015*).





Homeland Security Investigations

HAWALA TRANSACTION



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Hawala Overview

- Settlements may occur through compensatory balances (i.e. settlements occurring amongst hawaladars) or other techniques such as commodity shipments, bulk cash smuggling or false invoicing.
- Concealment of proceeds via this method constitutes an intent element of money laundering 18 USC 1956(a)(1).





Hawala Overview

- In the Hawala system, the funds never physically leave the country of origin, making it more difficult to trace the flow of proceeds using traditional methods.
- This informal value transfer system is based upon trust.





Homeland Security Investigations

FinCEN Form 8300 (31 USC 5331)

- A trade or business (*non-financial institution*) is required to complete and file a **Form 8300** with FinCEN for currency transactions exceeding \$10,000.00 received in one transaction or two or more related transactions in the course of that trade or business.
- Illicit trade or businesses will not be in compliance.
- Through investigative findings, they will falsify internal invoices and maintain separate business accounting systems in preparation for law enforcement contact.
- **Red Flag indicator for NON COMPLIANCE:** Structured cash deposits, or CTR filings with no corresponding Form 8300s.

IRS Form **8300** (Rev. July 2012)
OMB No. 1545-0092
Department of the Treasury
Internal Revenue Service

**Report of Cash Payments Over \$10,000
Received in a Trade or Business**

See instructions for definition of cash.
Use this form for transactions occurring after July 8, 2012. Do not use prior versions after this date.
For Privacy Act and Paperwork Reduction Act Notice, see the last page.

FinCEN Form **8300** (Rev. July 2012)
OMB No. 1506-0018
Department of the Treasury
Financial Crimes
Enforcement Network

1 Check appropriate box(es) if: a ☐ Amends prior report; b ☐ Suspicious transaction.

Part I Identity of Individual From Whom the Cash Was Received

2 If more than one individual is involved, check here and see instructions ☐

3 Last name 4 First name 5 M.I. 6 Taxpayer identification number

7 Address (number, street, and apt. or suite no.) 8 Date of birth (see instructions) M M D D Y Y Y Y

9 City 10 State 11 ZIP code 12 Country (if not U.S.) 13 Occupation, profession, or business

14 Identifying document (ID) a Describe ID b Issued by c Number

Part II Person on Whose Behalf This Transaction Was Conducted

15 If this transaction was conducted on behalf of more than one person, check here and see instructions ☐

16 Individual's last name or organization's name 17 First name 18 M.I. 19 Taxpayer identification number

20 Doing business as (DBA) name (see instructions) Employer identification number

21 Address (number, street, and apt. or suite no.) 22 Occupation, profession, or business

23 City 24 State 25 ZIP code 26 Country (if not U.S.)

27 Alien identification (ID) a Describe ID b Issued by c Number

Part III Description of Transaction and Method of Payment

28 Date cash received M M D D Y Y Y Y 29 Total cash received \$.00 30 If cash was received in more than one payment, check here ☐ 31 Total price if different from item 29 \$.00

32 Amount of cash received (in U.S. dollar equivalent) (must equal item 29) (see instructions):
a U.S. currency \$.00 (Amount in \$100 bills or higher \$.00)
b Foreign currency \$.00 (Country ☐)
c Cashier's check(s) \$.00 Issuer's name(s) and serial number(s) of the monetary instrument(s) ☐
d Money order(s) \$.00
e Bank draft(s) \$.00
f Traveler's check(s) \$.00

33 Type of transaction
a ☐ Personal property purchased f ☐ Debt obligations paid
b ☐ Real property purchased g ☐ Exchange of cash
c ☐ Personal services provided h ☐ Escrow or trust funds
d ☐ Business services provided i ☐ Bail received by court clerks
e ☐ Intangible property purchased j ☐ Other (specify in item 34) ☐

34 Specific description of property or service shown in 33. Give serial or registration number, address, docket number, etc. ☐

Part IV Business That Received Cash

35 Name of business that received cash 36 Employer identification number

37 Address (number, street, and apt. or suite no.) Social security number

38 City 39 State 40 ZIP code 41 Nature of your business

42 Under penalties of perjury, I declare that to the best of my knowledge the information I have furnished above is true, correct, and complete.

Signature ☐ Authorized official Title ☐

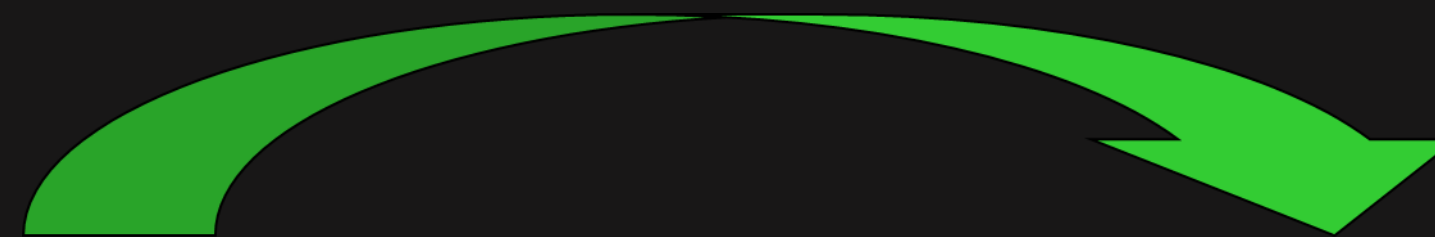
43 Date of signature M M D D Y Y Y Y 44 Type or print name of contact person 45 Contact telephone number

IRS Form 8300 (Rev. 7-2012) Cat. No. 62133S FinCEN Form 8300 (Rev. 7-2012)



Homeland Security Investigations

Proceeds transported directly to the Exporter in bulk. The Exporter would avoid filing the FinCEN Form 8300, given that the Peso Broker's worker (courier) needs to remain anonymous.



8300 Report of Cash Payments Over \$10,000 Received in a Trade or Business
Rev. July 2012
OMB No. 1545-0082
Department of the Treasury
Internal Revenue Service

8300 Form
Rev. July 2012
OMB No. 1545-0082
Department of the Treasury
Internal Revenue Service

1. Check appropriate box(es) if:
a. ☐ Amends prior report. b. ☐ Suspicious transaction.

Part I Identify individual from whom the cash was received.
2. If more than one individual is involved, check here and see instructions.
3. Last name
4. First name
5. M.I.
6. Taxpayer identification number
7. Address (number, street name, suite no.)
8. Date of birth (see instructions)
9. City
10. State
11. ZIP code
12. Country (if not U.S.)
13. Identification (ID) number
14. Identity document number
15. If the person is a U.S. person, check here
16. If the person is a foreign person, check here
17. First name
18. Last name
19. Identification (ID) number
20. Doing business with
21. Address (number, street name, suite no.)
22. City
23. State
24. ZIP code
25. Country (if not U.S.)
26. Identification (ID) number
27. Alien
28. Date cash received (M M D Y Y Y)
29. Amount of cash received (in U.S. dollars)
30. U.S. currency
31. Foreign currency
32. Cashier's check(s)
33. Money order(s)
34. Bank draft(s)
35. Traveler's check(s)
36. Type of transaction
37. Person
38. Funds
39. By court clerk
40. By court clerk
41. Nature of your business
42. Under penalties of perjury, declare that to the best of my knowledge the information I have furnished above is true, correct, and complete.
43. Signature
44. Date of signature
45. Title
46. Type or print name of contact person
47. Contact telephone number
IRS Form 8300 (Rev. 7-2012) Cat. No. 821335 FinCEN Form 8300 (Rev. 7-2012)



Exporter



Homeland Security Investigations

BSA COMPLIANCE

The Four (4) Pillars of AML/BSA Compliance

- Designation of a Compliance Officer
- Development of Internal Policies, Procedures and Controls
- Ongoing , Relevant training of Employees
- Independent Testing and Review

KYC Customer Identification Program

- Customer Due Diligence - Customer Risk
- Enhanced Due Diligence – High Risk Customers

Trade Services & Products

- Global Trade & Receivables Finance
- International Trade Settlement & Finance
- Domestic Trade Financing
- Supply Chain management





Homeland Security Investigations

Difficulty of Financial Institutions identifying red flags of TBML in Non-Documentary Trade Transactions

- **Documentary Trade Transaction**: Bank intermediated trade, whereby the bank finances the trade transaction and processes documentation (i.e. BOL, invoice, certificate of origin, inspection certificate) prior to executing payment pursuant to the letter of credit for international transactions.
- Hence, there is potential for the bank to ID red flag indicators of TBML as they generally review the documents before settling payment.
- However, according to a 2017 Bankers Association for Finance and Trade report, only about 20% of global trade is **bank intermediated** with the remaining 80% of global trade being **non-bank intermediated**.
- **Non-Documentary Trade Transaction**: Non-Bank intermediated trade (open account trade), whereby the bank only processes payment to settle the international trade transaction. The bank is not involved in financing the trade transaction and as a result, does not have access to trade documents prior to executing payment.
- With open account trade, the bank will typically only have the name, address and account number of the payment originator (buyer) and the name and account number of the beneficiary (seller).



KYC: On-boarding New Customers

- **Non-financial institutions**: Trade industry (i.e. Customs brokers, shippers, freight forwarders) must play a strong role in identifying possible TBML activity, since most international trade is conducted on a non-bank intermediated basis.
- **KYC**: Conduct thorough due diligence on the front end and periodically verify that established customer profile is in line with expectations. Some examples include:
 - Identification and verification of the identity of customers, counterparties and their beneficial owners, obtaining information on the purposes and intended nature of the business relationships, and conducting ongoing due diligence
 - Historical and expected volume of trade
 - Typical valuation of commodities
 - Understanding the type of commodities traded
 - Knowing if the customers sales are cyclical or not; if so, what months are sales concentrated in
 - Knowing the customers primary market(s)
 - Understanding the revenue collection/accounts receivable operating cycle
 - Understanding the accounts payable (A/P) operating cycle; how does your customer typically pay their A/P (i.e. wire transfer, ACH, cashier's check, business checks, money orders)?



KYC: On-boarding New Customers

- Additional on-boarding resources for the trade industry:
 - U.S. Department of Treasury, Office of Foreign Asset Control’s “Consolidated Sanctions List”
 - <https://sanctionssearch.ofac.treas.gov/>
 - U.S. Department of Commerce, Bureau of Industry and Security’s “Consolidated Screening List”
 - <https://www.export.gov/csl-search>
 - U.S. Immigration and Customs Enforcement – Homeland Security Investigations Trade Transparency Unit’s website
 - <https://www.ice.gov/trade-transparency>

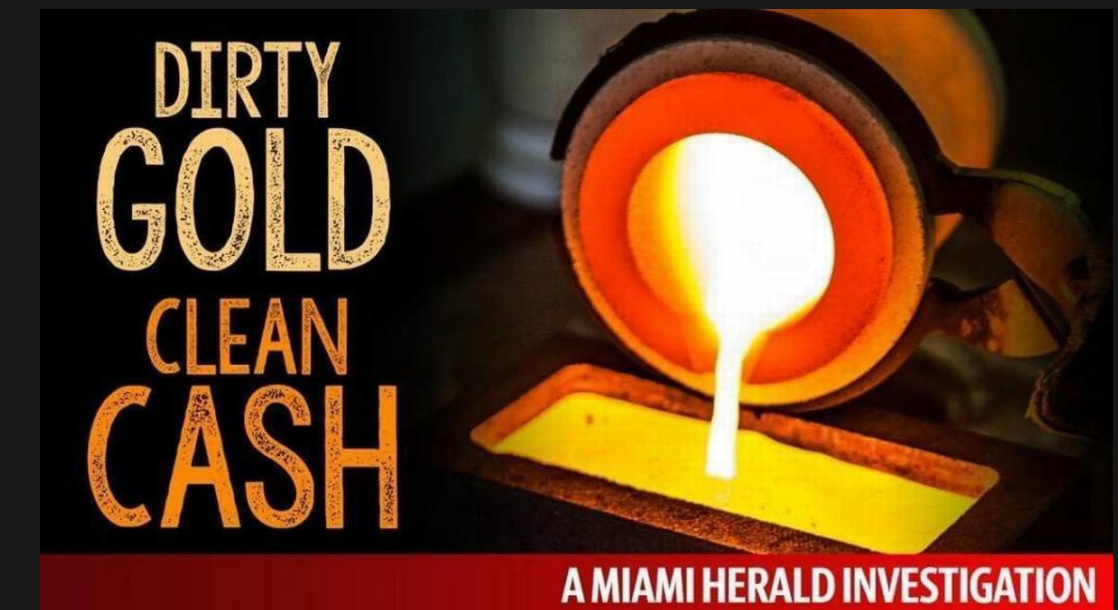


Homeland Security Investigations

HSI Success Stories

TBML Case Studies





Operation Barred Gold

- A trade-based money laundering (TBML) investigation by HSI Miami resulting in the indictment, arrest and conviction of three corporate officers of NTR Metals, a subsidiary of Elemetal, LLC, on money laundering conspiracy charges for orchestrating a TBML scheme that involved the purchase of over **3 billion dollars** of criminally derived gold from South America (mainly Peru) and the Caribbean that was subsequently imported into the U.S. under false means and statements between about January 2013 through about March 2017. Through NTR Metals, the three defendants transmitted over \$3 billion dollars in wire transfers from the U.S. to co-conspirators in South America and the Caribbean (including drug traffickers) to promote the delivery of additional illicit gold.
- The criminally derived gold was sourced from illegal mining, narcotics trafficking and other criminal activities. Illegal gold mining (alluvial mining) uses toxic mercury and has created a significant environmental problem in South America because it decimates the land leaving behind barren landscapes polluted by mercury. It has also been reported that in this environment, violence is common, workers suffer horrendous health and safety conditions and other forms of exploitation.
- The three defendants received sentences between 6 and 7 years incarceration and the forfeiture of approx. \$2,000,000. The parent company Elemetal, LLC, was levied a fine of **\$15,000,000** and sentenced to a probationary period of five years for failing to maintain a compliance program and was barred from trading gold on bullion markets.



Operation Barred Gold



Illicit Finance or Red Flag Indicators

- Geographic Risk; acquisition of gold from countries known to operate illegal mines.
- Elemetals failure to identify the numerous South American suppliers (traders, businesses and collectors) and failure to identify the “source” of the gold.
- Elemetals failure to establish an effective anti-money laundering/compliance program.
- Illegal gold and cash were smuggled in vehicles between Peru, Bolivia, Ecuador, Colombia, Chile, and Argentina.
- NTR Metals did business with numerous Peruvian front companies in order to facilitate the purchase of illicit gold.
- TTU/DARTTS analysis revealed a sharp increase in the valuation of imported gold by NTR Metals.



MS-13 TBML Vehicle Export Case



- In July 2016, the Government of El Salvador (GoES) and HSI San Salvador conducted a large-scale operation targeting high-ranking members and associates of the notorious MS-13 (Mara Salvatrucha) gang on various charges including terrorism, money laundering and other charges. The operation resulted in numerous arrests and seizures including vehicles, real estate and firearms in El Salvador.
- After receiving information from HSI San Salvador regarding an individual (GONZALEZ-Miranda) who imported 76 vehicles into El Salvador, HSI Brownsville, Texas initiated a trade-based money laundering investigation, which revealed that numerous vehicles were purchased in the U.S. from an on-line auto auction by MS-13 co-conspirators with illicit proceeds (i.e. extortion & drug trafficking) and were subsequently exported to El Salvador through a Port of Entry in South Texas.
- The investigation also revealed numerous foreign wire transfers totaling approx. \$4.2 million USD from GONZALEZ-Miranda and his business, on behalf of MS-13 co-conspirators in El Salvador that were remitted to CoPart, Inc. (*a large online auto auction*) in South Texas, which funded the purchase of approx. 2,000 vehicles (many higher-end) that were exported to El Salvador and subsequently sold and converted back to cash (TBML) between 2012 and 2016. Many of these vehicles were believed to have been used to smuggle bulk cash and weapons into El Salvador as well.



Homeland Security Investigations

MS-13 TBML Vehicle Export Case



- GONZALEZ-Miranda is currently incarcerated in El Salvador facing GoES charges, but the investigation is still ongoing and HSI is pursuing international money laundering charges and various export charges including violation of the International Emergency Economic Powers Act (IEEPA) and smuggling goods from the U.S.

Illicit Finance or Red Flag Indicators

- Large cash deposits in El Salvador through numerous front companies that collaborated with MS-13 to launder their illicit proceeds
- Large volume of outgoing wire transfers originating from GONZALEZ-Miranda's business in El Salvador to CoPart, Inc. in the U.S.
- VIN numbers were switched/altered prior to export
- Falsification of Electronic Export Information (EEI) documentation, formerly Shippers Export Declaration (SED), for all goods in excess of \$2,500 in value that are exported from the U.S. GoES importation documents were also fabricated.



Homeland Security Investigations

LOS ANGELES FASHION DISTRICT INVESTIGATION

- In September 2014, HSI and partner law enforcement agencies (1,000 + personnel) conducted a largescale enforcement action (50 search warrants) against numerous Los Angeles fashion district entities (importers and wholesalers of Chinese goods) engaged in a BMPE scheme to launder narcotics proceeds for international drug cartels.
- Nine individuals were arrested and over \$90 million in bulk currency and 30 bank accounts were seized. The BMPE scheme involved cash couriers delivering narcotics proceeds to businesses in the Los Angeles fashion district. The proceeds were deposited into the financial accounts of the Los Angeles fashion district businesses and used to import garments from China for subsequent export to México and Colombia.
- As part of the scheme, the co-conspirators intentionally failed to file Form 8300's after receiving cash (narcotics proceeds) from the business and failed to file through an industry outreach





Homeland Security Investigations

LOS ANGELES FASHION DISTRICT INVESTIGATION

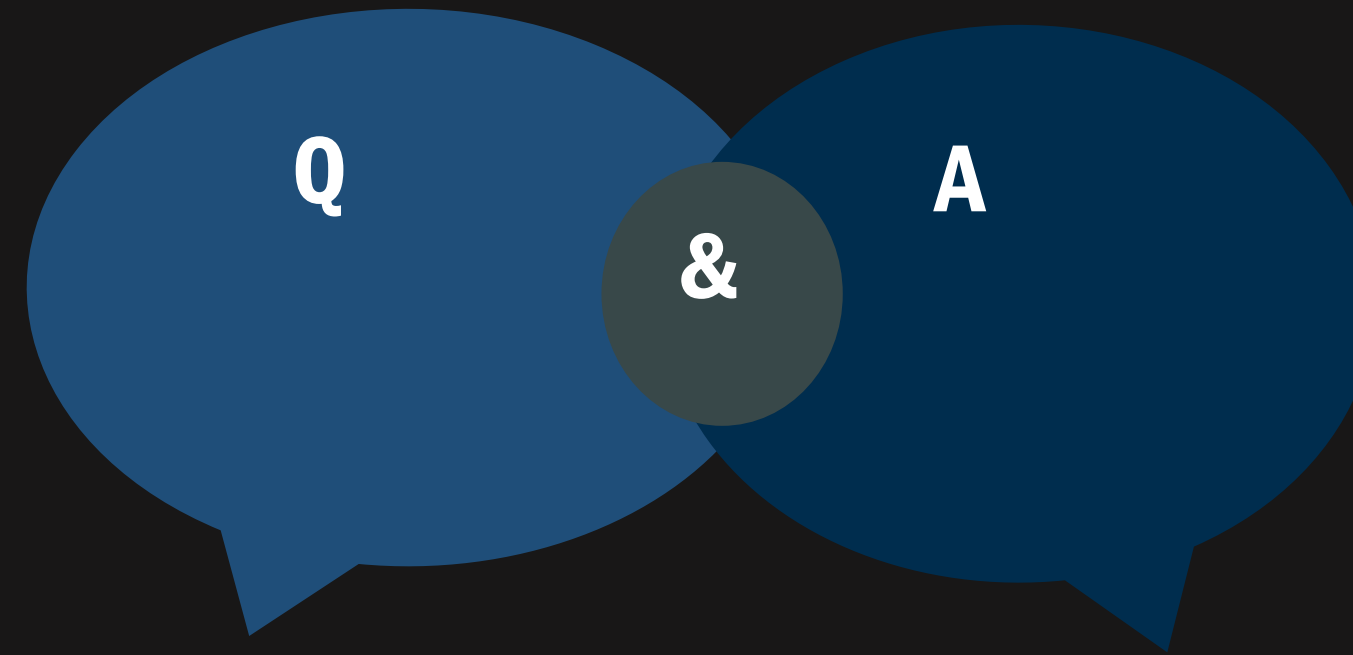
Illicit Finance or Red Flag Indicators

- Excessive structured cash deposits under \$10,000.00 to avoid the filing of Currency Transaction Reports (*Placement stage of money laundering*).
- Lack of FinCEN **Form 8300** reports filed by the targets, despite the excessive structured cash deposits.
- After deposits were made, frequent inter-account transfers (*Layering stage of money laundering*) that did not make economic or business sense.
- Excessive outgoing foreign wire transfers inconsistent with customer's or a related financial transaction's business. Some of these outgoing wires were repatriated into the U.S. in the form of loans/inheritances and used to purchase assets (*Integration stage of money laundering*).
- The absence of incoming international wire payments from their primary market (i.e. foreign buyer(s)/client(s) being from Mexico and South America).
- Excessive cash deposits in high-dollar denominations that were be randomly packaged and/or tainted by scent masking agents.



Homeland Security

HSI



PROTECTING THE HOMELAND WITH HONOR, SERVICE, AND INTEGRITY



Homeland Security Investigations

Illicit Finance and Proceeds of Crime Unit

Special Agent Kenneth Schaffer
kenneth.schaffer@ice.dhs.gov
(714) 920-6899

Report unlawful activity to:
1-866-DHS-2-ICE (1-866-347-2423)
www.ice.gov