

The seal of the Financial Intelligence Agency, Bermuda, is a circular emblem. It features a blue outer ring with the text "FINANCIAL INTELLIGENCE AGENCY" at the top and "BERMUDA" at the bottom. Inside the ring is a white map of Bermuda. The text "SELECT FINANCIAL INTELLIGENCE AGENCY CASE STUDIES" is centered over the seal in a bold, black, serif font.

**SELECT  
FINANCIAL INTELLIGENCE  
AGENCY  
CASE STUDIES**

**3rd Quarter  
2018**

## **INTRODUCTION**

The Financial Intelligence Agency (FIA) is Bermuda's Financial Intelligence Unit (FIU) and was established, in part, to meet recommendations of the Financial Action Task Force, including FATF Recommendation 29 whereby:

“Countries should establish a financial intelligence unit (FIU) that serves as a national centre for the receipt and analysis of: (a) suspicious transaction reports; and (b) other information relevant to money laundering, associated predicate offences and terrorist financing, and for the dissemination of the results of that analysis. The FIU should be able to obtain additional information from reporting entities, and should have access on a timely basis to the financial, administrative and law enforcement information that it requires to undertake its functions properly. ”

In carrying out its functions, the FIA collects Suspicious Activity Reports (SAR) from regulated entities and others related to money laundering and terrorist financing as required under Bermuda's Proceeds of Crime Act (POCA).

As part of its FIU functions, the FIA then analyzes the data provided via SARs to uncover activities and patterns that may indicate money laundering, terrorism financing or other related criminal activities. This information is then disseminated as intelligence to local law enforcement and regulators as well as certain international partners.

## **CASE STUDIES AND INDICATORS**

The FIA analyzes hundreds of SARs each year and based upon this information produces dozens of intelligence disclosures each quarter to its local and international partners. The case studies contained in this report are sanitized and representative examples of intelligence cases disclosed by the FIA. As part of the FIA's commitment to the fight against money laundering, terrorist financing and related crimes, the FIA produced this report of case studies to assist reporting entities in identifying and reporting suspicious activity to the FIA.

In general terms, case studies are an analysis of persons, groups, and events which are studied to find underlying principles. The FIA selected the following from reports recently provided to the FIA and analyzed for the 3rd quarter of 2018

The FIA has also identified indicators of money laundering / terrorist financing within the case studies. These indicators are generalized underlying principles that have been found by the FIA and our international partners. A list of common identifiers have been compiled and coded into goAML and when filing a SAR, reporting entities are now able to choose from a list of over 70 indicators.

In the context of individual case studies, such as those presented in this document, an indicator can be considered a “Red Flag”. Such a Red Flag could then be used by a reporting entity as a basis for suspicion by a reporting entity.

## **CASE STUDIES**

The following case studies illustrate suspicious activity reported to the FIA in the 3<sup>rd</sup> quarter of 2018

### **2018 THIRD QUARTER**

#### **Case Study 1**

A Request for Information was received from an Overseas Financial Intelligence Unit (FIU), regarding many entities linked to corruption and the laundering of illicit proceeds. One of these sister companies had been incorporated in Bermuda. In order to comply with this request, banking information that superseded 10 years was required by the overseas FIU although local reporting entities typically retain transactional history for no more than 10 years. Checks conducted by the FIA in response to this request were indeed negative due to the elongated time period of the investigation. The FIA is grateful that the local banks were willing to conduct checks that proceeded their data retention periods.

#### **Indicators:**

- Corruption
- Foreign Agency Contacting Reporting Entity
- High Risk Country
- Money Laundering
- Paradise Papers
- Use of Corporate Vehicles
- Wires

## **Case Study 2**

An overseas Incoming Request for Information (IRI) was received by the FIA on the suspect activity of Company A, a Bermuda registered Class B exempt fund which has been named as a defendant in a class action lawsuit filed in the United States District Court, Southern District of New York. The class action lawsuit is on behalf of investors who purchased or acquired securities in a Greek shipping company, Company B which owns and operates ocean going cargo vessels worldwide. The investors are seeking to recover compensable damages caused by the defendants' violations of the Securities Exchange Act of 1934. Two of the defendants listed in the class action lawsuit have an existing relationship with Company A, most notably Company C, a BVI registered company which is owned by a Canadian hedge fund manager, Subject 1.

Company A is backed by Subject 1, the mastermind of the plan to flood the stock market with shares of Company B, driving the stock price down by 99.9% due to a series of dilutive stock offerings. In a series of transactions beginning on or around June 8, 2016, it has been alleged that Company B engaged in a systematic stock-manipulation scheme to artificially inflate its share price by selling a considerable amount of discounted shares to Company C, which in turn resold them quickly, propping up Company B's value with "reverse splits" or as what is commonly known as "stock merging". This influx of capital enabled Company B to raise USD \$720 million in equity and roughly double the size of its fleet to 36 vessels, thus enabling the company to rebound in 2018 and return to profitability in the first quarter.

Further analysis undertaken by the FIA revealed that during the time of the market manipulation, the following shareholders in Company A executed the following subscriptions into the Fund:

- Company D, a BVI registered company whose underlying beneficial owner is Subject 1, entered into a loan agreement dated 7<sup>th</sup> April 2017 with Company A for the sum of USD \$34,275,921.00 and received the proceeds of the investment.
- Company E, a BVI registered company placed a subscription on 01-Feb-2013 into Company A in the amount of USD \$1,400,000.00 which was classified as a "loan" on behalf of The ABC Settlement, the beneficiary being Subject 1. The proceeds from this investment are believed to have yielded USD \$4,000,000.00.
- Company F, a BVI registered company placed a subscription into Company A on 27-Nov-2014 in the amount of USD \$1,000,000.00.

In confirmation of whom the underlying beneficial owner for Company A is, the FIA analysis revealed it was ABCD Management Ltd, whose sole shareholder as per the company's Share Register is a foundation. Of particular interest, the FIA noted that the Articles of Association for the foundation state that its purpose *'is to participate in any way whatsoever in businesses and companies and to acquire, alienate and manage currencies, securities and items of property in*

*general and to do all that it connected herewith or may be conducive hereto. The Foundation does not have any profit intention: any excess proceeds of the Foundation shall be spent for humanitarian causes’.*

The FIA believes that the financial business footprint for Company B has demonstrated that the company has placed an emphasis on growing its fleet than creating value for investors. Company B’s management was intent on selling its shares hand over fist in order to raise \$720 million in equity. The conspiracy and conduct listed in the class action lawsuit illustrated the manipulative arrangements employed outside of the public’s awareness to generate profits at the expense of ordinary shareholders. Noted below is a summary of what drove the share price from \$4.00 to \$100.00:-

- Company B’s stock traded at all time high of approximately \$190,000 a share and low of about \$4.00 a share, the adjusted price due to the reverse stock split.
- Company B’s stock spiked up 614% over a two day period during November 14<sup>th</sup> -15<sup>th</sup> 2016.
- Within five days over the period of November 9<sup>th</sup>-15<sup>th</sup> 2016, Company B’s stock rose from about \$4.00 to \$100.00, an increase of 2100%.
- When pressed to comment on this situation, Company B stated that they had no knowledge of any information which would have contributed to the increase in trading activity.
- In reporting its third quarter earnings on November 9<sup>th</sup> 2016, a net loss for Company B was posted of \$5.2 million for the quarter.
- The Wall Street Journal reported as follows:  
*“Traders said the price surge stems from a collision between hope and greed that created an unlikely bidding war for this thinly traded stock.”*

This intelligence was forwarded on to the local regulatory authority for further action.

### **INDICATORS**

Foreign Agency Contacting Reporting Agency	Securities or Brokerage
Collusion	
Foreigner(s)	
Fraud	
Wires	
Market Abuse	
Misrepresentation	
Pass Through Vehicle	
Adverse media	
Use of Corporate Vehicles	
Securities Fraud	

## **INDICATORS OF SUSPECTED MONEY LAUNDERING**

- Company B has made a vast profit selling its shares to Company C than from its own operations. In 2017 alone, Company B sold approximately \$0.5 billion in shares to Company C, which in turn dumped these shares on the public. The funds realized from the death spiral financing utilized by Company C, could be linked to the incoming electronic fund transfers flagged by the FIA, that are associated with the local bank accounts held by Company A.
- A further analysis by the FIA regarding the banking account activity for Company A, would suggest that it is used as a master feeder fund for suspect transactions solely executed by the financial control of Subject 1 and the underlying shareholders of Company A.
- The intended nature of business and expected transaction activity for Company A has changed considerably since bank account opening.
- The underlying beneficial ownership for Company A is a foundation, the disclosed purpose of which does not match the detected suspicious activity or nature in which the bank accounts have been used.

### **Case Study 3**

#### ***SARs filed by two reporting entities identified money mules***

Three Suspicious Activity Reports (SARs) were filed on the suspect activity of two Bermudians, who were on financial assistance at the time. Over a period of two weeks, the two Subjects attended the agency with a stack of “very bad and musty smelling BMD \$20 bank notes”. The teller described that the notes had the appearance of being stored in a humid area. The stack of notes amounted to BMD\$2,500.00 each visit.

During the first visit, the Subject completed a Customer Detail Form, and provided a driver’s license as proof of identification. The agency accepted the notes and advised the first Subject that a cheque would be ready in five business days.

Five business days later, the first Subject returned to the agency where again a stack of musty smelling BMD\$20 notes was produced in the same condition, which amounted to BMD\$950.00. The first Subject received two cheques from the agency for the value of the damaged notes submitted. The notes tendered by the first Subject were then destroyed by the agency.

This incident was closely followed by a second Bermudian, who also produced damaged BMD\$100 notes of the same description for exchange.

The reasons for suspicion that were identified were as follows:

- It is known that gangs in Bermuda keep their proceeds of crime in cash and typically bury them until they are needed to fund further criminal conduct.
- The timing of these transactions along with the similarity in nominal value and description of the notes suggests that these transactions deal with cash from the same source, which is likely criminal.

### ANALYSIS

A check of the FIA database (goAML) revealed that the two Subjects were not previously known. Checks of the financial activity of the Subjects revealed that only one of the Subjects held a bank account. This account showed transfers received from friends and family members and no overseas travel. It was also noted that once the cheque received from the agency was deposited on the bank account, it was quickly transferred to another bank account at the same bank. Other than the reported suspect activity, analysis of this one bank account did not reveal anything suspicious.

A disclosure was made to local law enforcement and it was identified that both Subjects had been previously charged with money laundering and the distribution of counterfeit money.

### **Red Flags of Suspected Money Laundering:**

- The Subjects were unemployed and on financial assistance.
- The source of funds could not be verified.
- The cash smelled musty and old and was damaged.
- The Subjects attended the agency to exchange unrefined and damaged bills.
- The Subjects had criminal histories.
- The modus operandi of the Subjects was the same.

### **What is a ‘modern day’ money mule?**

Here is a public awareness and prevention guide published by Europol on the evolution of money mules: <https://www.europol.europa.eu/activities-services/public-awareness-and-prevention-guides/money-muling>