

The background of the slide is a dense, repeating pattern of gold-colored currency symbols, including the dollar sign (\$), euro sign (€), pound sign (£), and yen sign (¥). The symbols are rendered in a 3D, embossed style, creating a textured, metallic appearance. The central text is set against a plain white background.

# Money Laundering & Terrorist Financing Risks

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RISKS WITHIN THE LEGAL SECTOR  
IN THE BAHAMAS



# Overview

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- Brief Background on Money Laundering & Terrorist Financing Risks in The Bahamas
- Stages of Money Laundering
- Vulnerabilities in the Legal Sector
- Red Flag Indicators
- 2 Typologies with Red Flag Indicators
- Involvement of Legal Professionals

# Background on ML & TF Risks in The Bahamas

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- According to The National Risk Assessment the “overall vulnerability” rate of designated non-financial businesses and professions (DNFBPs) is 0.75 out of 1 - meaning they are “exposed to a high level” of money laundering and terrorism financing risks.
- Practitioners in the legal profession are highly exposed to criminal exploitation as they provide a wide range of services prone to being used not only in the layering and integration stages of money laundering, but also as a means to disguise the origin of funds and beneficial owners before placing them into the financial system.
- The use of legal professionals to provide a level of respectability to the client’s activity, and access to the legal professional’s client account, is attractive to criminals.



# What is Money Laundering & Terrorist Financing?

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- Money laundering is the process by which criminals attempt to conceal the true origin and ownership of the proceeds of their criminal activities.
- Its purpose is to allow them to maintain control over those proceeds and, ultimately, provide a legitimate cover for the source of their income.
- Terrorist financing (TF) is the act of soliciting, collecting or providing funds from both legal and illicit sources, with the intention of supporting terrorist activities or organizations.
- While a money launderer's main aim is to conceal the source of funds, a terrorist financier aims mainly to conceal the use of funds. To date there is very little evidence of TF in The Bahamas.

# Stages of Money Laundering

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- Money Laundering is used to turn the proceeds of crime into cash or property that looks legitimate and can be used without suspicion.
- Each day the methods used by money launderers become more sophisticated and the financial transactions more complex.
- It generally involves three stages:
  - 1. Placement,**
  - 2. Layering, and**
  - 3. Integration.**



# Money Laundering



Source: Market Business News



## Placement Stage

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- This is the first stage in the washing cycle.
- At this stage, criminals place unlawful cash proceeds into traditional financial institutions.
- The placement makes the funds more liquid since by depositing cash into a bank account, it can be transferred and manipulated easier.
- It also helps to avoid detection from the authorities.



# Layering Stage

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- Layering usually involves a complex system of transactions designed to hide the source and ownership of the funds.
- Once cash has been successfully placed into the financial system, launderers can engage in an infinite number of complex transactions and transfers designed to disguise the audit trail and thus the source of the property and provide anonymity.
- One of the primary objectives of the layering stage is to confuse any criminal investigation and place as much distance as possible between the source of the ill-gotten gains and their present status and appearance.



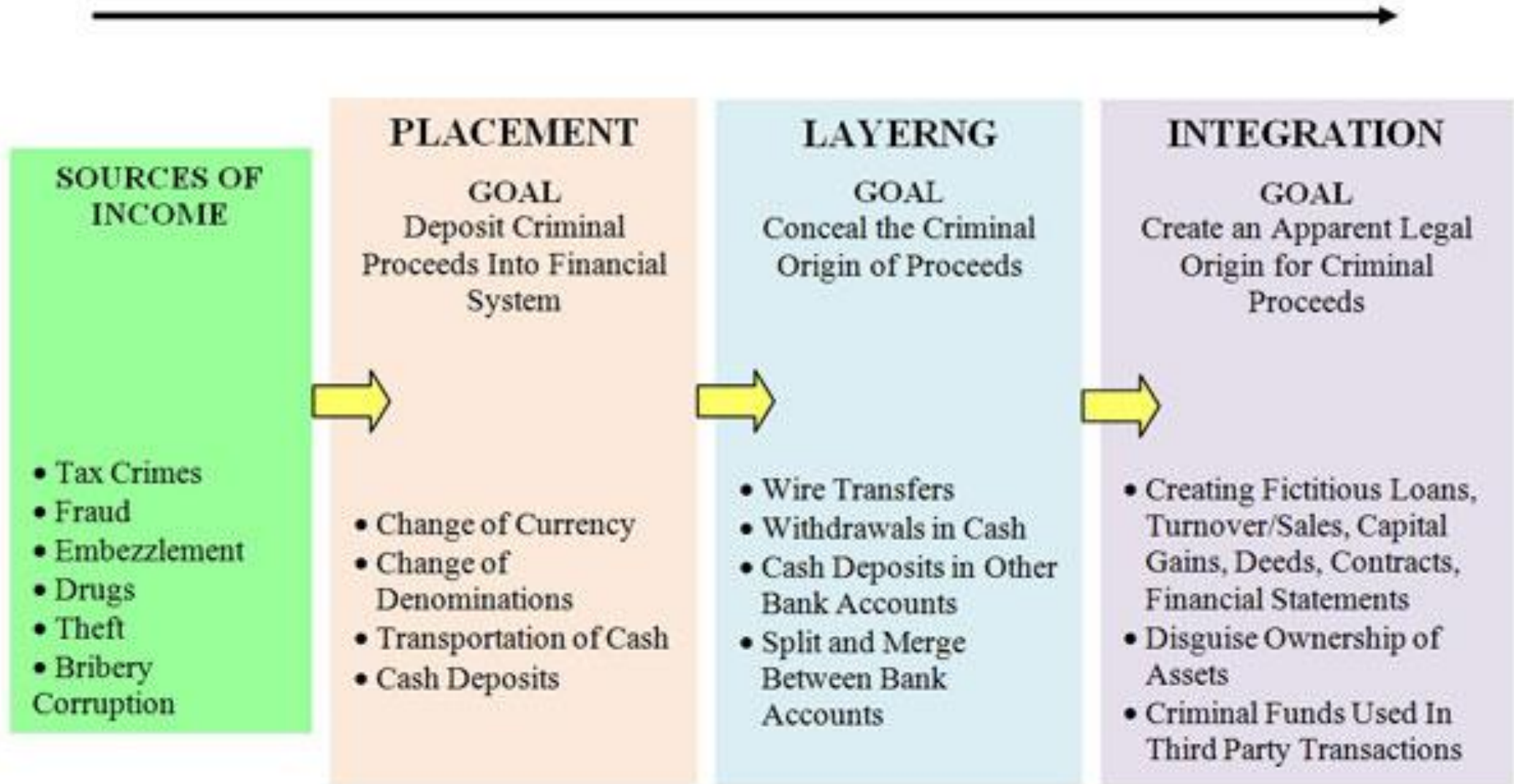


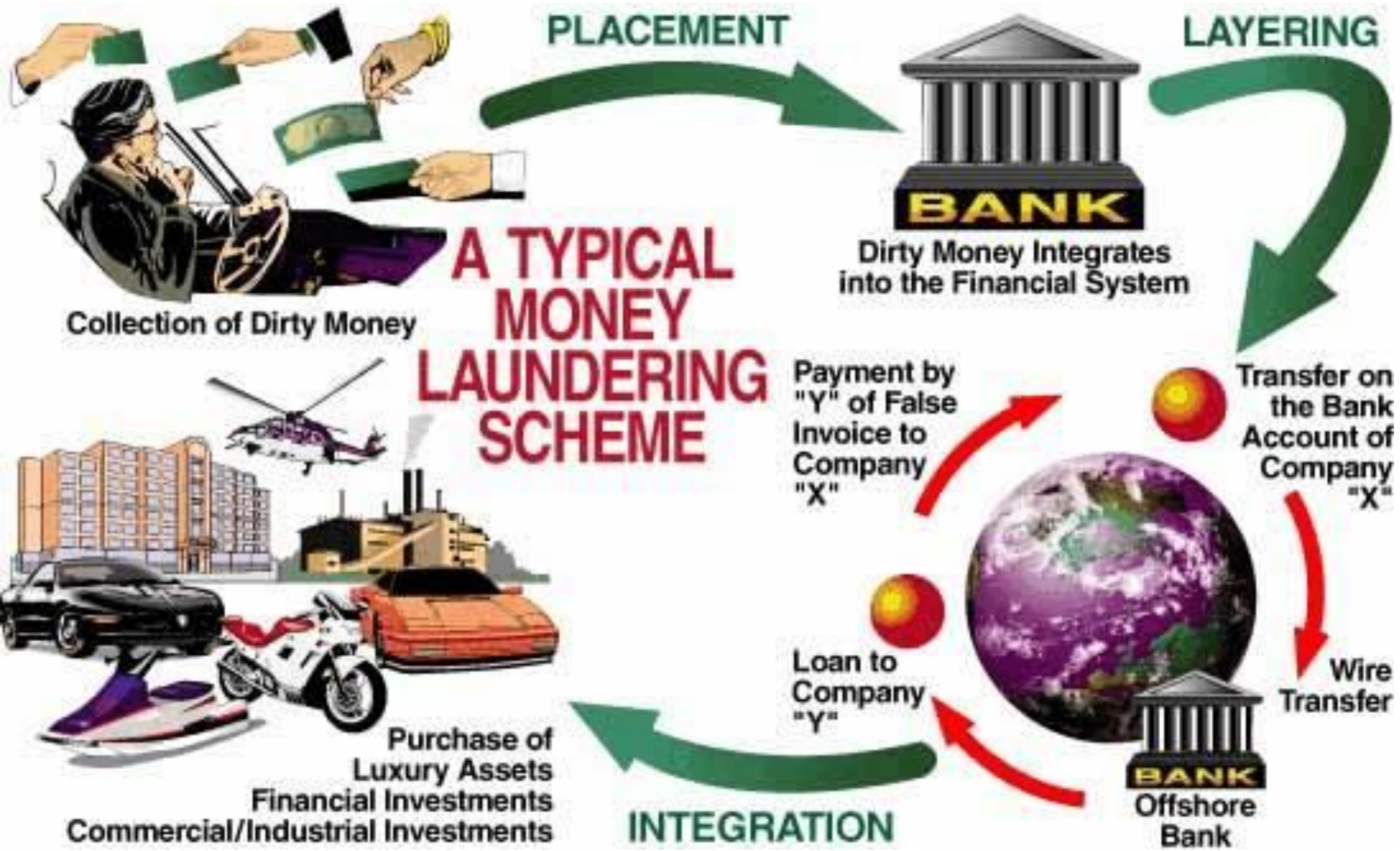
# Integration Stage

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- The final stage is integrating the money into the system so it can be used without attracting attention from law enforcement or the tax authorities.
- Integration of the “cleaned” money into the economy is accomplished by the launderer making it appear to have been legally earned.
- By this stage, it is exceedingly difficult to distinguish legal and illegal wealth.

## Process of Money Laundering





Source: Compliance Alert

# Vulnerabilities in The Legal Sector

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The high level of vulnerability stems from –

- **use of the client accounts**– which can be used to disguise the beneficial owner of funds or to conduct false transactions that are cancelled and required the return of funds to the client;
- **settlements of purchase and sale of real property** – studies have shown that these high value transactions can be used in the layering and integration stages of money laundering to disguise the source of funds and legitimize large amounts of criminal proceeds;
- **creation and management of legal persons and arrangements (companies and trusts)** – which can too often create complex vehicles that may disguise the beneficial owner and disguise criminal proceeds; and
- **managing client funds and making introductions to financial institutions** – which can give the appearance of legitimacy or respectability to affairs of the client.

*Source: ML/TF National Risk Assessment*

# RED FLAGS

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- The mere presence of a red flag indicator is not necessarily a basis for a suspicion of ML or TF, as a client may be able to provide a legitimate explanation.
- These red flag indicators should assist legal professionals in applying a risk-based approach to their Customer Due Diligence requirements of knowing who their client and the beneficial owners are, understanding the nature and the purpose of the business relationship, and understanding the source of funds being used in a retainer.
- Where there are a number of red flag indicators, it is more likely that a legal professional should have a suspicion that ML or TF is occurring.



## Red Flag Indicators

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- **Transactions:** Are transactions unusual because of their size, frequency or the manner of their execution, in relation to the client's known business type?
- **Structures:** Do activities involve complex or illogical business structures that make it unclear who is conducting a transaction or purchase?
- **Assets:** Does it appear that a client's assets are inconsistent with their known legitimate income?
- **Identity:** Has a client taken steps to hide their identity, or is the beneficial owner difficult to identify?



# Red Flag Indicators

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- **Behaviour:** Is the client unusually anxious to complete a transaction or are they unable to justify why they need completion to be undertaken quickly?
- **Political Status:** Is the client engaged in unusual private business given that they hold a prominent public title or function?
- **Documents:** Are information or documents being withheld by the client or their representative, or do they appear to be falsified?
- **Geographical Area:** Is the collateral provided, such as property, located in a high-risk country, or are the client or parties to the transaction native to or resident in a high-risk country?
- **Choice of Professional:** Have you, or other professionals involved been instructed at a distance, asked to act outside of your usual specialty, or offered an unusually high fee?

# CREATION OF TRUSTS TO OBSCURE OWNERSHIP AND RETAIN CONTROL

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## **Trust established to receive proceeds of tax crime and invest in criminal property**

Two trusts were established in an offshore centre by a law firm. The law firm requested the trustee to accept two payment orders in favour of a bank in order to buy real estate. It appeared that the trust had been used to conceal the identity of the beneficial owners. Information obtained by the Belgian FIU revealed that the beneficiaries of the trusts were individuals A and B, who were managers of two companies, established in Belgium that were the subject of a judicial investigation regarding serious tax fraud. Part of the funds in these trusts could have originated from criminal activity of the companies.





## Red Flag Indicators

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- Use of an intermediary without good reason.
- Attempts to disguise the real owner or parties to the transaction.
- Involvement of structures in multiple countries where there is no apparent link to the client or transaction, or no other legitimate or economic reason.
- Client is known to be currently under investigation for acquisitive crimes.



# STRUCTURING PAYMENTS

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## **Legal professional deliberately structures transactions to avoid reporting threshold in property case**

An investigation into an individual revealed that an Australian solicitor acting on his behalf was heavily involved in money laundering through property and other transactions. The solicitor organised conveyancing for the purchase of residential property and carried out structured transactions in an attempt to avoid detection. The solicitor established trust accounts for the individual under investigation and ensured that structured payments were used to purchase properties and pay off mortgages. Some properties were ostensibly purchased for the individual relatives, though the solicitor had no dealings with them. The solicitor also advised the individual on shares he should buy and received structured payments into his trust account for payment



## Red Flag Indicators

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- Purchase of properties for family members where there is a lack of personal contact without good reason raises doubts as to the real nature of the transaction.
- Third party funding warranting further consideration.
- Significant private funding and the transfers are structured so as to avoid the threshold reporting requirements.



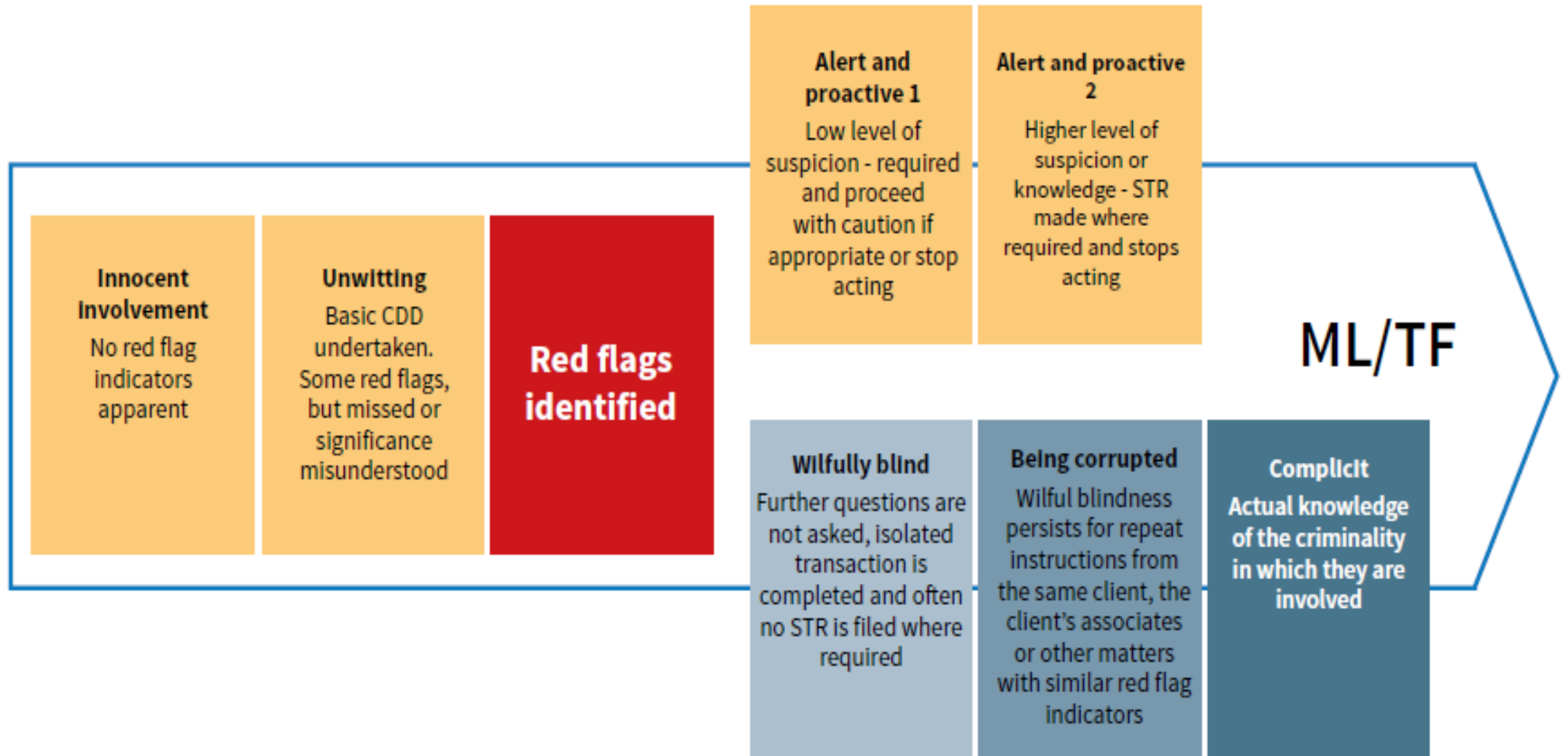
# Involvement of Legal Professionals in ML/TF

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Legal professional involvement in money laundering and terrorist financing can range from innocent involvement to complicity.

- Innocent involvement could be when none of the red flag indicators are apparent.
- Complicity occurs when the legal professional has actual knowledge of the criminality in which they are involved.

# Involvement of Legal Professionals in ML/TF



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