

RED FLAG INDICATORS IN THE REAL ESTATE SECTOR

**The Compliance Commission
of The Bahamas**

Date: December 7th 2021

STAGES OF MONEY LAUNDERING

1. Placement

- **Physical deposit of criminal proceeds into financial system**

2. Layering

- **Conceal the origin of criminal proceeds through various financial transactions**
 - e.g., transfers of illegal funds to various bank accounts; purchasing property; renovating

3. Integration

- **Create an apparent legal origin for criminal proceeds**
 - e.g., proceeds from sale; rent

Sources:

Financial Action Task Force ("FATF")

National Association of Realtors, "Anti-Money Laundering Voluntary Guidelines for Real Estate Professionals", 16 February 2021 - <https://www.nar.realtor/money-laundering-and-terrorism-financing/anti-money-laundering-voluntary-guidelines-for-real-estate-professionals>

WHY REAL ESTATE IS ATTRACTIVE

- COVER OF RESPECTABILITY, PRESTIGE & LEGITIMACY
- APPRECIATION POTENTIAL/INVESTMENT OPPORTUNITY
- WEAK REGULATORY OVERSIGHT IN CERTAIN JURISDICTIONS

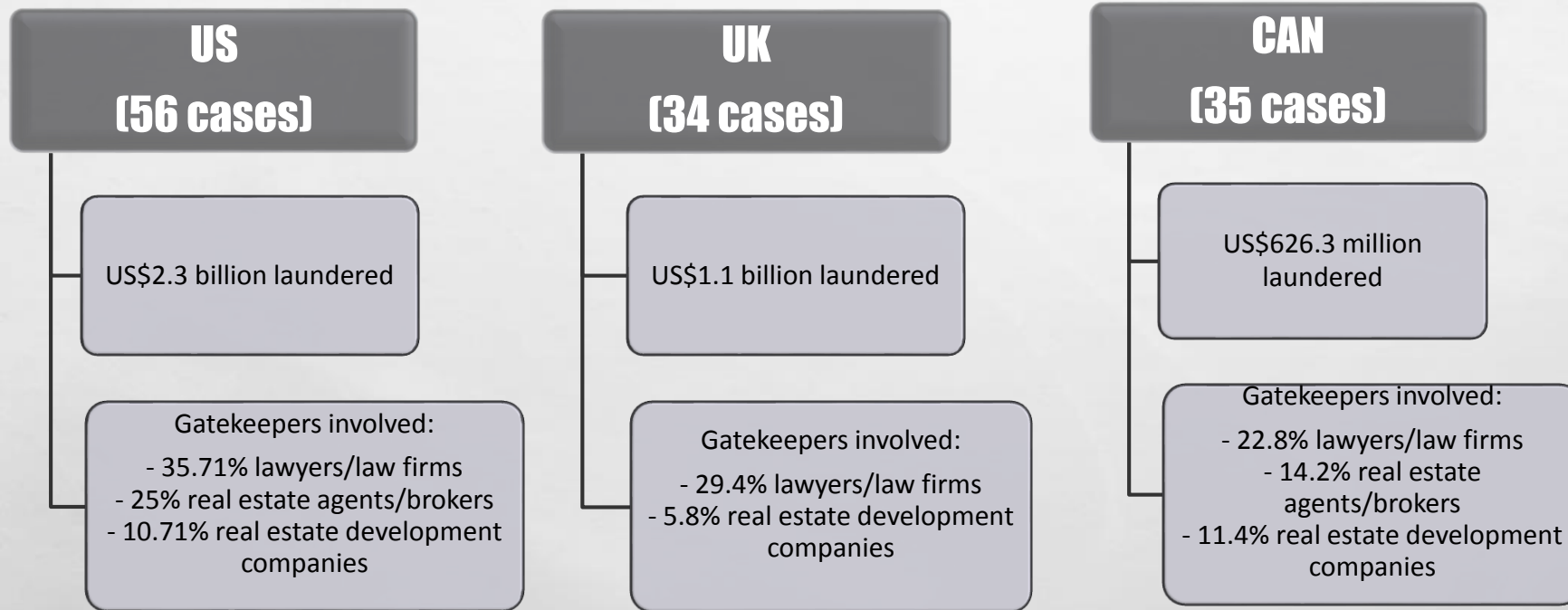
WHY THE BAHAMAS?

- ACCORDING TO THE NRA:
 - AVAILABILITY OF HIGH-VALUED PROPERTIES TO INTERNATIONAL BUYERS
 - PURPORTED NON-COMPLIANCE WITH LEGAL PROVISIONS BY SOME REAL ESTATE DEVELOPERS, AND THE NEED TO STRENGTHEN THE SECTOR'S GOVERNING LEGISLATION



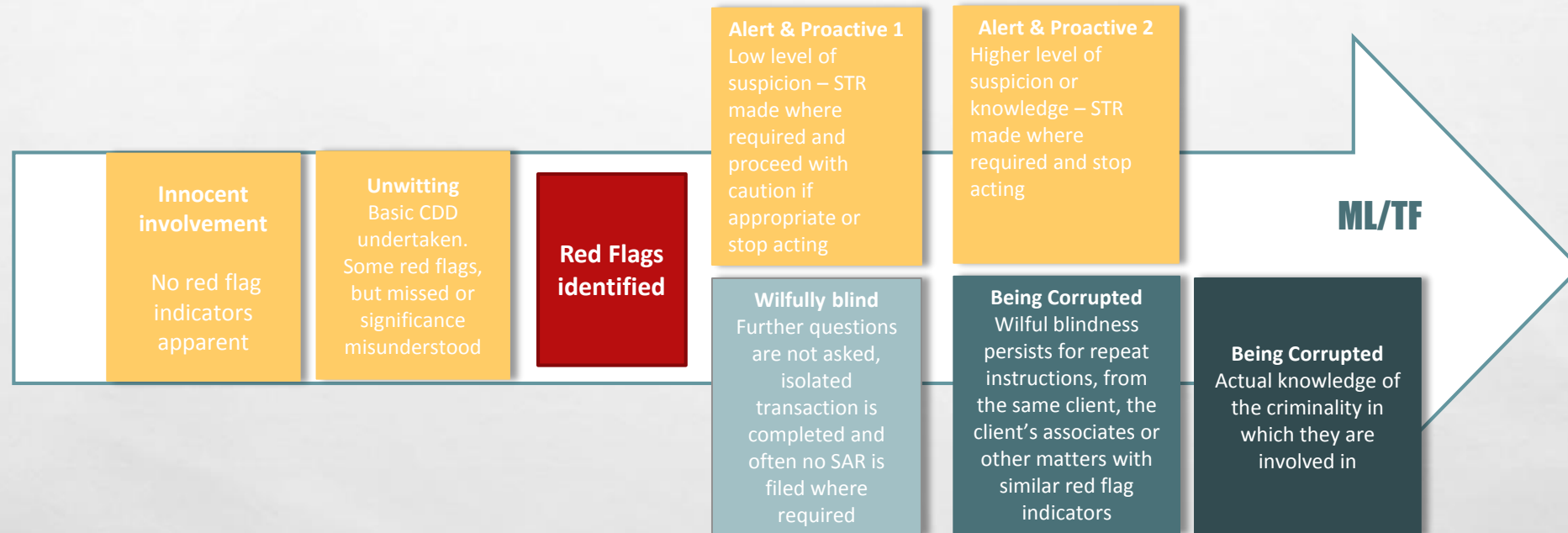
REAL ESTATE STATISTICS

- MONEY LAUNDERING ESTIMATED TO REACH \$800 BILLION TO \$2 TRILLION A YEAR WORLDWIDE – APPROXIMATELY 2-5% OF THE WORLD'S GDP
- MORE THAN \$2.3 BILLION HAS BEEN LAUNDERED THROUGH U.S REAL ESTATE (2015-2020)
- COMMERCIAL REAL ESTATE FEATURED IN MORE THAN 30 PERCENT OF THE CASES



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INVOLVEMENT OF REAL ESTATE PROFESSIONALS



Source:

FATF, "Money Laundering and Terrorist Financing Vulnerabilities of Legal Professionals", June 2013 - <https://www.fatf-gafi.org/documents/documents/mltf-vulnerabilities-legal-professionals.html>

RED FLAG INDICATORS

- Foreign PEPs
- Countries with:
 - weak financial safeguards
 - weak ML/TF controls
 - ongoing conflicts
 - secretive banking laws
 - UN Sanctions List
 - high-risk or non-cooperative by FATF

Geographic Risks



- Funds from unusual third party
- Use of multiple bank accounts
- Funds through bank account in different jurisdiction

Financing Risks

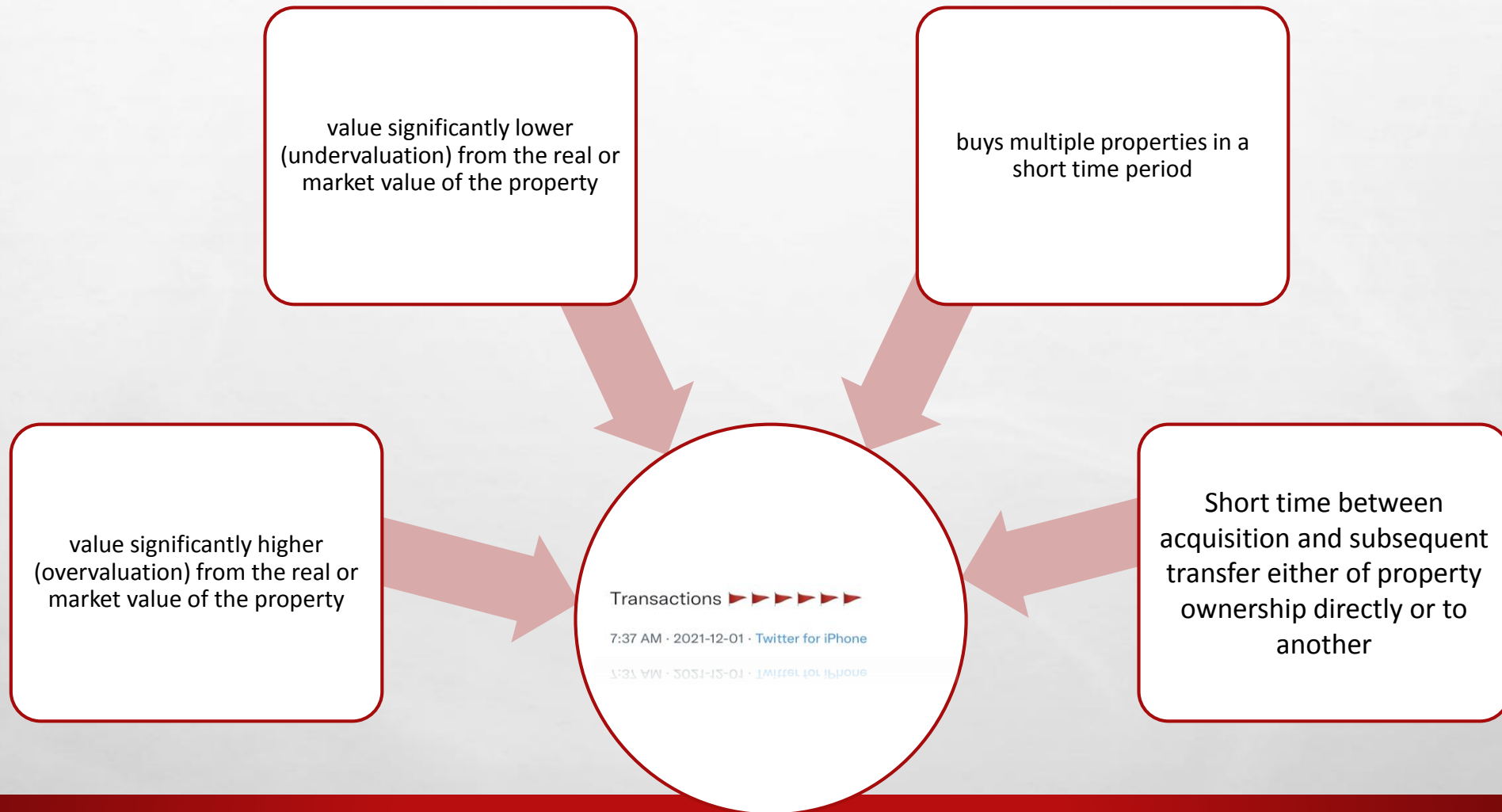


Sources:

National Association of Realtors, "Anti-Money Laundering Voluntary Guidelines for Real Estate Professionals", 16 February 2021 - <https://www.nar.realtor/money-laundering-and-terrorism-financing/anti-money-laundering-voluntary-guidelines-for-real-estate-professionals>

FINTRAC, "Money laundering and terrorist financing indicators—Real estate", January 2019 - https://www.fintrac-canafe.gc.ca/guidance-directives/transaction-operation/indicators-indicateurs/real_mltf-eng#s5

Red Flag Indicators - Transactions

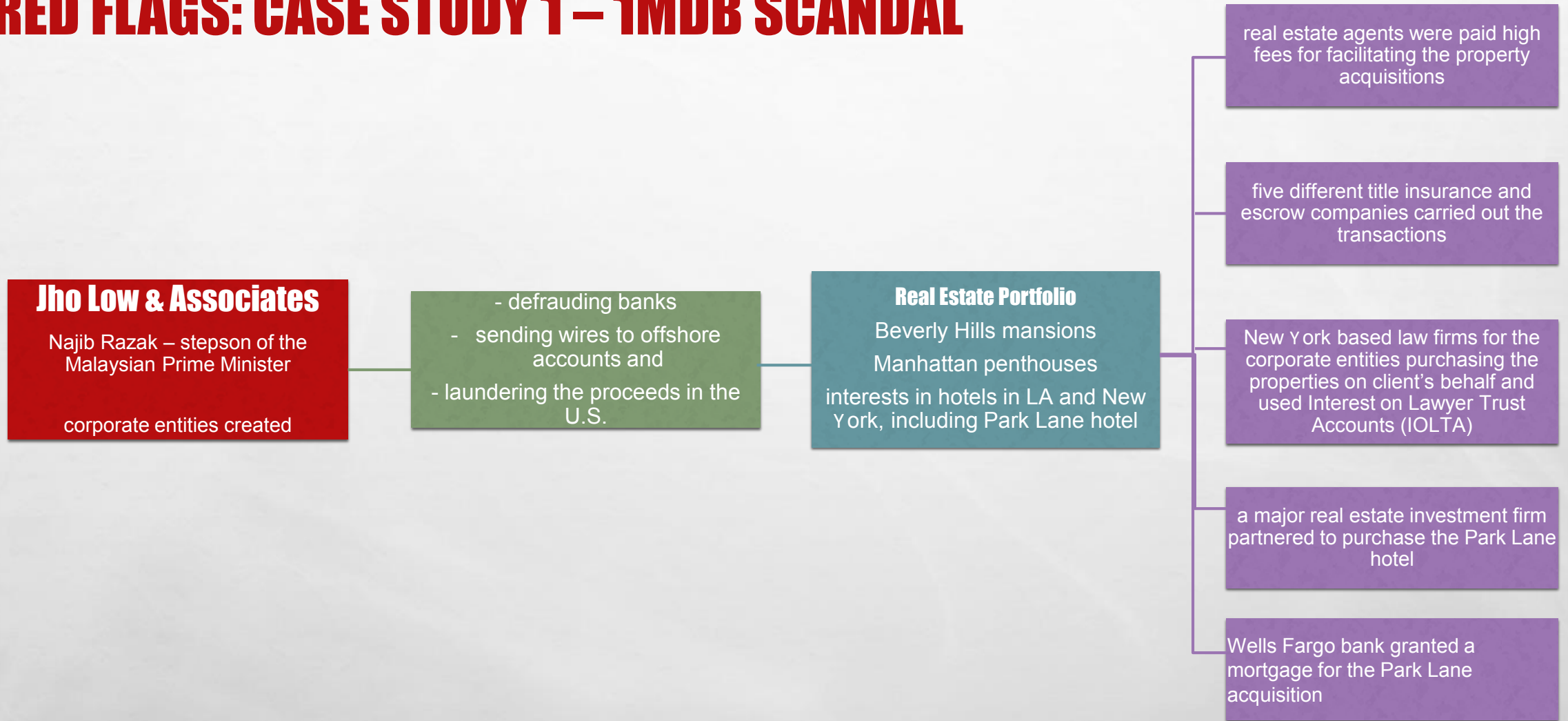


Sources:

National Association of Realtors, "Anti-Money Laundering Voluntary Guidelines for Real Estate Professionals", 16 February 2021 - <https://www.nar.realtor/money-laundering-and-terrorism-financing/anti-money-laundering-voluntary-guidelines-for-real-estate-professionals>

FINTRAC, "Money laundering and terrorist financing indicators—Real estate", January 2019 - https://www.fintoc.ca/guidance-directives/transaction-operation/indicators-indicateurs/real_mltf-eng#s5

RED FLAGS: CASE STUDY 1 – 1MDB SCANDAL



Source:

Global Financial Integrity, "Acres of Money Laundering: Why U.S. Real Estate is a Kleptocrat's Dream", August 2021 <https://gfintegrity.org/report/acres-of-money-laundering-why-u-s-real-estate-is-a-kleptocrats-dream/>

CASE STUDY 1: THE 1MDB SCANDAL

Red Flag Indicators and Key Elements



- Politically Exposed Persons (PEPs)



- Complex Corporate Structures

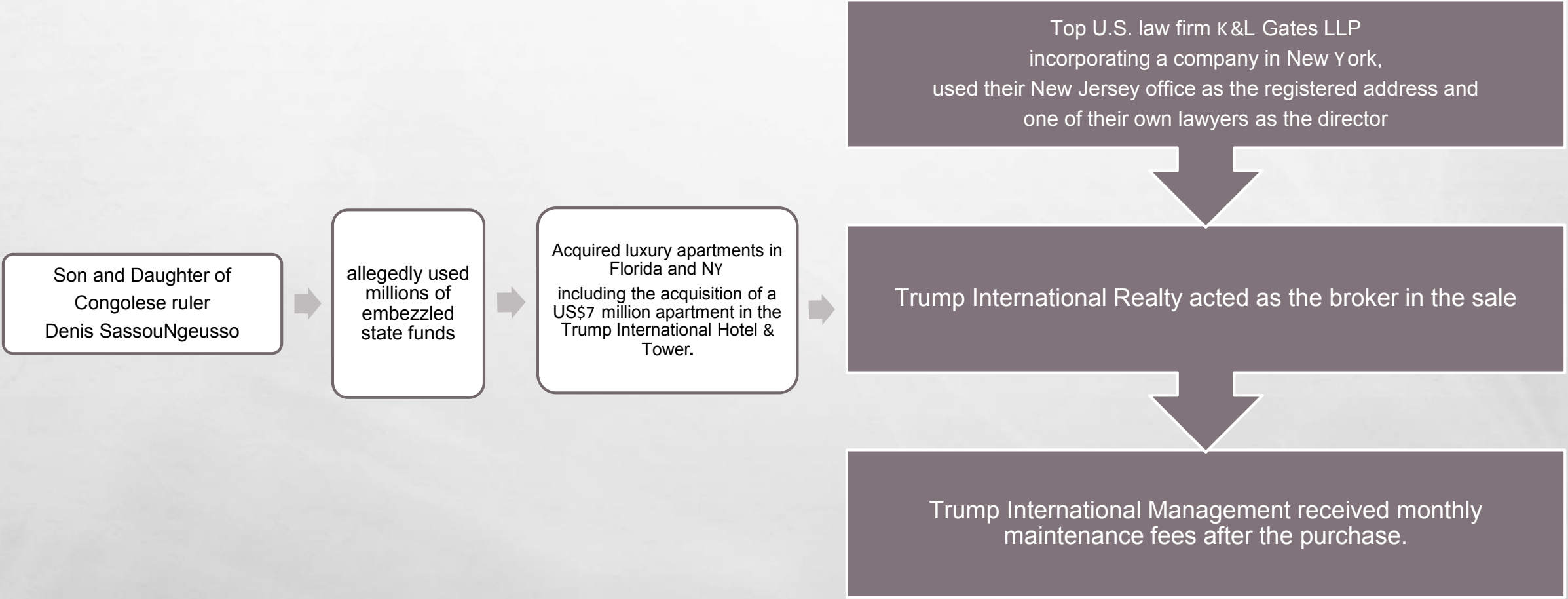


- Use of Gatekeepers – lawyers, banks, real estate agents

Source:

Global Financial Integrity, “Acres of Money Laundering: Why U.S. Real Estate is a Kleptocrat’s Dream”, August 2021 <https://gfintegrity.org/report/acres-of-money-laundering-why-u-s-real-estate-is-a-kleptocrats-dream/>

RED FLAGS: CASE STUDY 2



Source:
Global Financial Integrity, "Acres of Money Laundering: Why U.S. Real Estate is a Kleptocrat's Dream", August 2021 <https://gfintegrity.org/report/acres-of-money-laundering-why-u-s-real-estate-is-a-kleptocrats-dream/>

CASE STUDY 2

Red Flag Indicators and Key Elements



- Politically Exposed Persons (PEPs)



- Complex Corporate Structures



- Use of Third Parties



- The Democratic Republic of The Congo is on The UN Sanctions List



- Use of Gatekeepers – real estate agents, lawyers

Sources:

Global, Financial Integrity, “Acres of Money Laundering: Why U.S. Real Estate is a Kleptocrat’s Dream”, August 2021 <https://gfintegrity.org/report/acres-of-money-laundering-why-u-s-real-estate-is-a-kleptocrats-dream/>

UN, “Sanctions on Democratic Republic of Congo, Extends Expert Group Mandate, Unanimously Adopting Resolution 2582 (2021)”, 29 June 2021 - <https://www.un.org/press/en/2021/sc14565.doc.htm>

CASE STUDY 3

Title: Gambian dictator, buys multi-million-dollar home in Potomac next to fellow dictator Teodoro Obiang

- The president of Gambia - only made a modest 'official salary'
- In 2010, Jammeh and his wife Zineb Jammeh purchased a multi-million-dollar mansion in Potomac using a US\$3.5 million bribe that was paid to him by a petroleum company.
- Engaged a real estate broker and instructed that a large home was needed for the family and staff of Zineb Jammeh, upon which the broker forwarded details of properties in the area, including the Maryland mansion.
- Jammeh family purchased the property through the MYJ family trust, wiring US\$3.5 million directly to paragon title and escrow company in Maryland. the property deed was issued to the trustees of the myj family trust.
- Jammeh accumulated 281 properties and over 100 bank accounts
- Real Estate Broker did not make any enquiries

Source:

Global, Financial Integrity, "Acres of Money Laundering: Why U.S. Real Estate is a Kleptocrat's Dream", August 2021 <https://gfintegrity.org/report/acres-of-money-laundering-why-u-s-real-estate-is-a-kleptocrats-dream/>

MITIGATING THESE RISKS

REAL ESTATE BROKERS/AGENTS/LAND DEVELOPERS' AML/CFT/CPF OBLIGATIONS

IMPLEMENTING A COMPLIANCE PROGRAM THAT ENCOMPASSES THE OBLIGATIONS LISTED BELOW:

- conduct and document a risk assessment of the company/firm's inherent risks to determine the level of exposure to the risks of ML/TF/PF, other identified risks and controls to mitigate risks;
- establish written risk-based policies and procedures that comply with the provisions of AML laws and guidelines this is to be kept up to date, approved by senior management and/or board of directors, available to the competent authority and includes enhanced measures to mitigate risk;
- identify and verify customers when opening an account, establishing a business relationship or carrying out the transaction and their source of funds and source of wealth;
- appoint a senior management CO and a MLRO;
- keep transaction, identification and verification records;
- conduct on-going monitoring of customer transactions;
- report suspicious transactions to the FIU

Source:

Compliance Commission of The Bahamas, *"Real Estate Brokers and Land Developers Obligations for Anti-money Laundering and Combatting The Financing of Terrorism & Other Identified Risk"*, 2020 - <https://ccb.finance.gov.bs/compliance-articles/>

MITIGATING THESE RISKS

REAL ESTATE BROKERS/AGENTS/LAND DEVELOPERS' AML/CFT/CPF OBLIGATIONS

IMPLEMENTING A COMPLIANCE PROGRAM THAT ENCOMPASSES THE OBLIGATIONS LISTED BELOW:

- the management and appropriate staff receive AML/CFT/CPF training **annually**;
- conduct internal compliance effectiveness reviews of its operations **at least once every two (2) years**;
- submit to an **AML examination**;
- high risk client relationships must **be approved by senior management**
- a risk management system for customers and BOs and screen clients through **World Check or other systems** to determine and monitor if they are listed on the United Nations Sanctions List; and
- a risk management system for customers and BOs and **screen clients** to determine if they are:
 - PEPS and higher risk relationships
 - originate from a higher risk country as defined by FATF

Source:

Compliance Commission of The Bahamas, *"Real Estate Brokers and Land Developers Obligations for Anti-money Laundering and Combatting The Financing of Terrorism & Other Identified Risk"*, 2020 - <https://ccb.finance.gov.bs/compliance-articles/>

MITIGATING THESE RISKS

AML/CFT/CPF OBLIGATIONS



Q&A

SOURCES:

- COMPLIANCE COMMISSION OF THE BAHAMAS, “REAL ESTATE BROKERS AND LAND DEVELOPERS OBLIGATIONS FOR ANTI-MONEY LAUNDERING AND COMBATTING THE FINANCING OF TERRORISM & OTHER IDENTIFIED RISK”, 2020 - [HTTPS://CCB.FINANCE.GOV.BS/COMPLIANCE-ARTICLES/](https://ccb.finance.gov.bs/compliance-articles/)
- FATF, “MONEY LAUNDERING AND TERRORIST FINANCING VULNERABILITIES OF LEGAL PROFESSIONALS”, JUNE 2013 - [HTTPS://WWW.FATF-GAFI.ORG/DOCUMENTS/DOCUMENTS/MLTF-VULNERABILITIES-LEGAL-PROFESSIONALS.HTML](https://www.fatf-gafi.org/documents/documents/mltf-vulnerabilities-legal-professionals.html)
- FINTRAC, “MONEY LAUNDERING AND TERRORIST FINANCING INDICATORS—REAL ESTATE”, JANUARY 2019 - [HTTPS://WWW.FINTRAC-CANAFE.GC.CA/GUIDANCE-DIRECTIVES/TRANSACTION-OPERATION/INDICATORS-INDICATEURS/REAL_MLTF-ENG#S5](https://www.fintrac-canafe.gc.ca/guidance-directives/transaction-operation/indicators-indicateurs/real_mltf-eng#S5)
- GLOBAL FINANCIAL INTEGRITY, “ACRES OF MONEY LAUNDERING: WHY U.S. REAL ESTATE IS A KLEPTOCRAT’S DREAM”, AUGUST 2021 [HTTPS://GFINTEGRITY.ORG/REPORT/ACRES-OF-MONEY-LAUNDERING-WHY-U-S-REAL-ESTATE-IS-A-KLEPTOCRATS-DREAM/](https://gfintegrity.org/report/acres-of-money-laundering-why-u-s-real-estate-is-a-kleptocrats-dream/)
- NATIONAL ASSOCIATION OF REALTORS, “ANTI-MONEY LAUNDERING VOLUNTARY GUIDELINES FOR REAL ESTATE PROFESSIONALS”, 16 FEBRUARY 2021 - [HTTPS://WWW.NAR.REALTOR/MONEY-LAUNDERING-AND-TERRORISM-FINANCING/ANTI-MONEY-LAUNDERING-VOLUNTARY-GUIDELINES-FOR-REAL-ESTATE-PROFESSIONALS](https://www.nar.realtor/money-laundering-and-terrorism-financing/anti-money-laundering-voluntary-guidelines-for-real-estate-professionals)
- UNITED NATIONS OFFICE ON DRUGS AND CRIME, [HTTPS://WWW.UNODC.ORG/UNODC/EN/MONEY-LAUNDERING/OVERVIEW.HTML](https://www.unodc.org/unodc/en/money-laundering/overview.html)
- UNITED NATIONS, “SANCTIONS ON DEMOCRATIC REPUBLIC OF CONGO, EXTENDS EXPERT GROUP MANDATE, UNANIMOUSLY ADOPTING RESOLUTION 2582 (2021)”, 29 JUNE 2021 - <https://www.un.org/press/en/2021/sc14565.doc.htm>