

FII BUSINESS MODEL TO IDENTIFY
POSSIBILITIES TO DISRUPT IT

USE OF FINANCIAL INVESTIGATIONS

II

presented by



What is a
(financial)
criminal investigation?

Criminal (financial) investigation:

The study of facts to show and prove criminal trials.

Criminal (financial) investigation:

A complete criminal investigation can include:

- ▶ Searching, identify and finding informations,
- ▶ Searching, identify and finding traces,
- ▶ preservation,
- ▶ interviews,
- ▶ interrogations,
- ▶ others various methods of investigation,
- ▶ evidence collection,
- ▶ analyze, develop hypotheses, reconstruct,
- ▶ report.

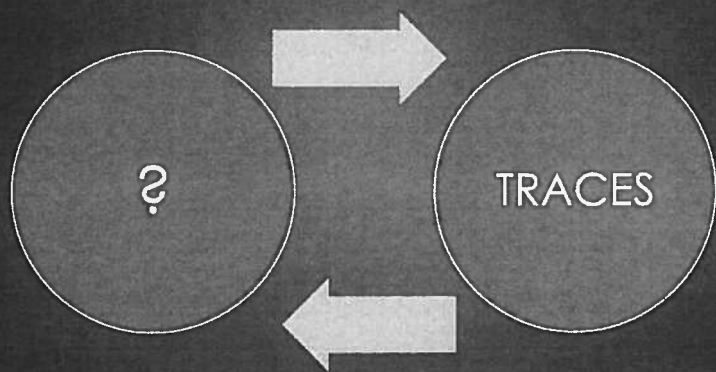
What is a financial investigation?

A financial investigation is an analysis of where money comes from, how it moves, and how it is used.

FLOW of the MONEY



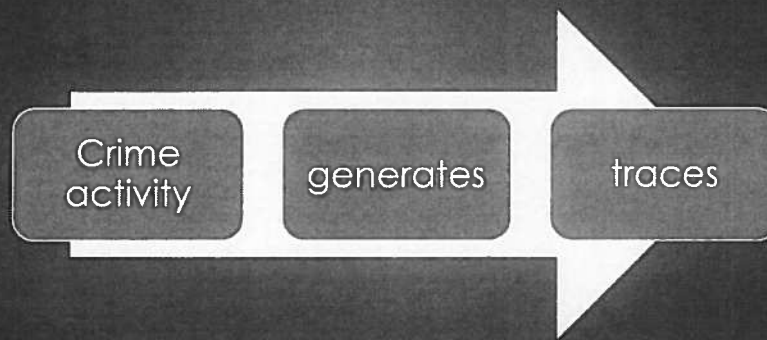
What are we looking for?



Crime
activity

generates

traces



Traces

Searching, finding and identify

Recover and preserve

Collect, seize and confiscate for evidence

Analyze and connect them with others traces and informations

How can I move money, funds, objects,...

- ▶ Giro *also known as direct deposit*
- ▶ Money order *transfer by postal cheque, money gram or other*
- ▶ Bank transfer *money order / swift*
- ▶ Remittance *a transfer of money by a foreign worker to his or her home country*
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- ▶ Wire transfer *an international expedited bank-to-bank funds transfer*
- ▶ HOSSP's
- Al-Barakat *an informal money transfer system originating in the Arab world*
- Hawala (hundi) *an informal system primarily to send money to and from the Middle East, North Africa, India, Pakistan, Bangladesh, Nepal*
- ▶ Others

Using «real» companies

The Tech Tour 2016 Growth 50 Companies



Using corporate stocks and companies share



Using fake structures, off-shore and shell companies

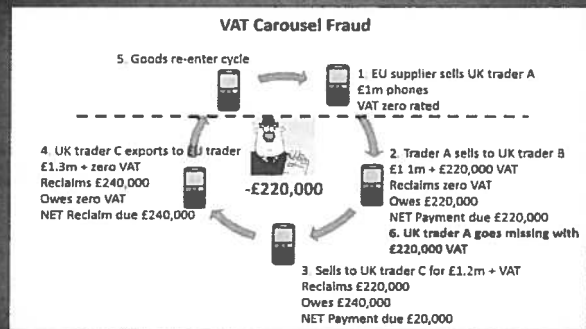


BRITISH VIRGIN ISLANDS

- Highly regulated offshore jurisdiction
- 0% taxation fully tax exempt
- Registration costs of \$1,500 to \$2,000
- Registration time is less than two weeks

A world map with a line pointing to the British Virgin Islands, highlighting its location in the Caribbean region.

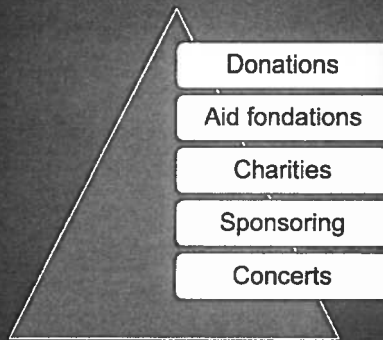
VAT /TVA carousel frauds



Fake invoices, fake exports



Friendship corporations



Donations

Aid fondations

Charities

Sponsoring

Concerts

What Is a Hedge Fund?

Hedge funds are alternative investments using pooled funds that employ different strategies to earn active return, or alpha, for their investors.

Hedge funds may be aggressively managed or make use of derivatives and leverage in both domestic and international markets with the goal of generating high returns (either in an absolute sense or over a specified market benchmark).

Hedge Fund

It is important to note that hedge funds are generally only accessible to accredited investors as they require less SEC regulations than other funds.

One aspect that has set the hedge fund industry apart is the fact that hedge funds face less regulation than mutual funds and other investment vehicles.

Hedge funds are alternative investment vehicles that employ a variety of strategies to generate alpha for their accredited investor clients.

Hedge Fund

They are more expensive as compared to conventional investing instruments because they have a Two And Twenty fee structure, meaning they charge two percent for asset management and take 20% of overall profits as fees.

They have had an exceptional growth curve in the last twenty years and have been associated with several controversies.

Understanding Hedge Funds

Each hedge fund is constructed to take advantage of certain identifiable market opportunities.

Hedge funds use different investment strategies and thus are often classified according to investment style. There is substantial diversity in risk attributes and investments among styles.

Understanding Hedge Funds

Legally, hedge funds are most often set up as private investment limited partnerships that are open to a limited number of accredited investors and require a large initial minimum investment.

Investments in hedge funds are illiquid as they often require investors keep their money in the fund for at least one year, a time known as the lock-up period. Withdrawals may also only happen at certain intervals such as quarterly or bi-annually.

The History of the Hedge Fund

Former writer and sociologist Alfred Winslow Jones's company, A.W. Jones & Co. launched the first hedge fund in 1949.

It was while writing an article about current investment trends for Fortune in 1948 that Jones was inspired to try his hand at managing money.

He raised \$100,000 (including \$40,000 out of his own pocket) and set forth to try to minimize the risk in holding long-term stock positions by short selling other stocks.

This investing innovation is now referred to as the classic long/short equities model. Jones also employed leverage to enhance returns.

The History of the Hedge Fund

In 1952, Jones altered the structure of his investment vehicle, converting it from a general partnership to a limited partnership and adding a 20% incentive fee as compensation for the managing partner.

As the first money manager to combine short selling, the use of leverage, shared risk through a partnership with other investors and a compensation system based on investment performance, Jones earned his place in investing history as the father of the hedge fund.

The History of the Hedge Fund

Hedge funds went on to dramatically outperform most mutual funds in the 1960s and gained further popularity when a 1966 article in Fortune highlighted an obscure investment that outperformed every mutual fund on the market by double-digit figures over the previous year and by high double-digits over the previous five years.

The History of the Hedge Fund

However, as hedge fund trends evolved, in an effort to maximize returns, many funds turned away from Jones' strategy, which focused on stock picking coupled with hedging, and chose instead to engage in riskier strategies based on long-term leverage.

These tactics led to heavy losses in 1969-70, followed by a number of hedge fund closures during the bear market of 1973-74.

The History of the Hedge Fund

The industry was relatively quiet for more than two decades until a 1986 article in Institutional Investor touted the double-digit performance of Julian Robertson's Tiger Fund.

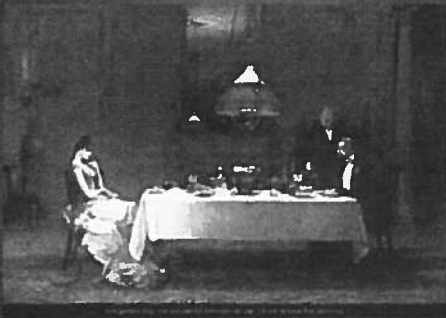
With a high-flying hedge fund once again capturing the public's attention with its stellar performance, investors flocked to an industry that now offered thousands of funds and an ever-increasing array of exotic strategies, including currency trading and derivatives such as futures and options.

Using fake names and nominees

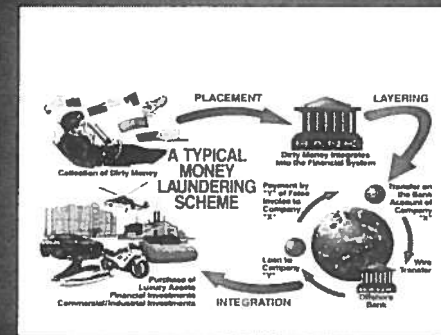
using false ID,
passports, etc.

using passports
from migrants,
refugies, hobo's,
bogus identities etc.

Fake marriage/marriage of convenience /successor



Money laundering

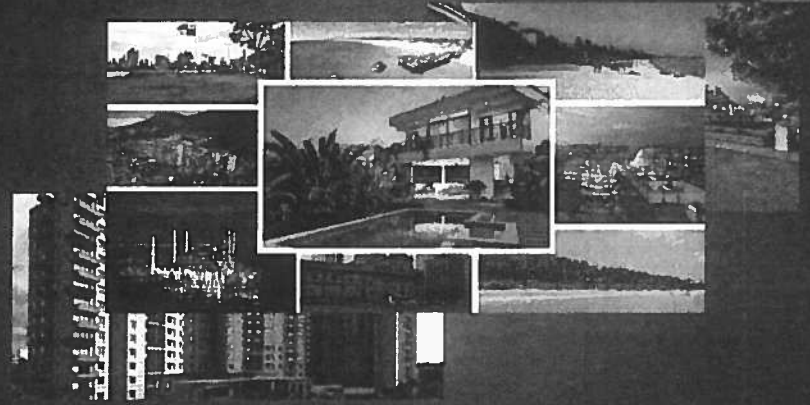


Objects

All kind of objects related with legal
business

Some examples...

Real estate



cars



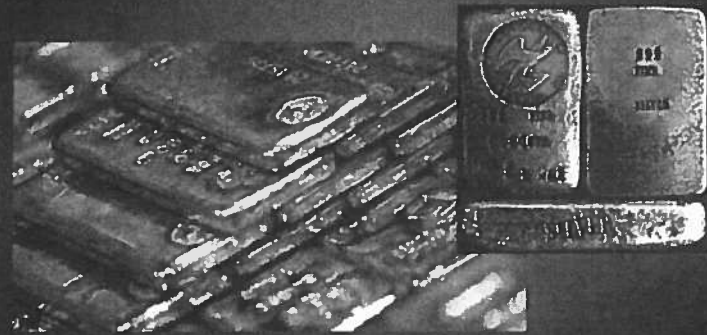
jewellery



watches



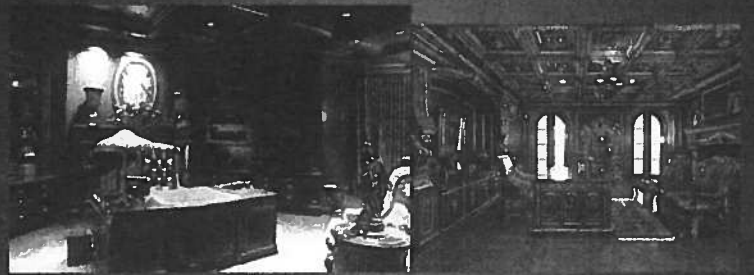
Noble metal, crystals,...



Holidays



office



Mobile phones



Arts



PC, Instruments, tools, ...



Casino, gambling areas



Drugs and medicine



Other goods and services



Insurances

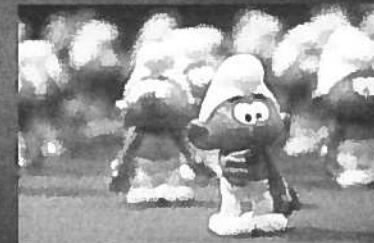


More than 10.000,-€

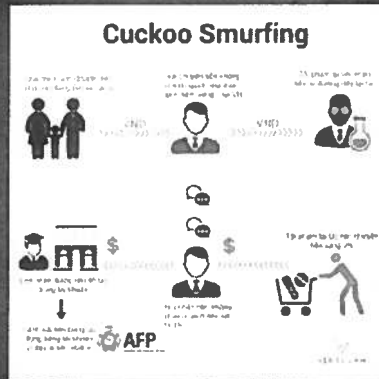


Smurfing money

smurfing explained



Cuckoo Smurfing



First



HOSSP's Hawala and Other Similar Service Providers:

pure traditional
(legitimate) ones

hybrid traditional
(often unwritten)
ones

and criminal
(complicit) ones

What is Hawala?

It is an informal way of transferring money based on verbal assurance. It is carried out by a huge network of brokers mainly located in Middle East, North Africa, The horn of Africa and the Indian Subcontinent.

In simple words it is transfer of money without moving it, the process will have no traces or evidences left. Hawala system is mainly used to transfer money among long distant countries

How works Hawala?

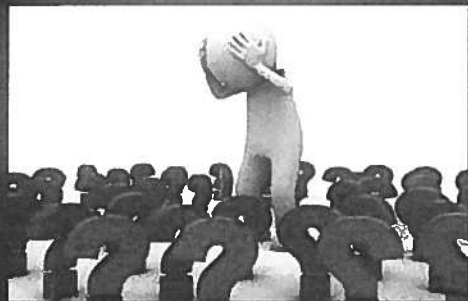
- ▶ **Step 1:** Rajesh contacts a Hawala broker in Dubai, and hands over 1 lakh rupees and gives him a password.
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- ▶ **Step 5:** Now basically, broker in Dubai owes money to the broker in Kerala. And he decides to settle the due in a later date.

«It's all
about the
money!»



Thank you for your attention

Questions?



POLICE
LËTZEBURG



LIST OF PARTICIPANTS, TRAINERS, ORGANISERS AND GUESTS to be signed
Finalist Institutions in connection with TTB and Migrant smuggling

CEPOL Reference Number

PARTICIPANTS

16 Jun

17 Jun

18 Jun

19 Jun

20 Jun

21 Jun

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[1] For questions related to data to be signed by members of CEPOL, please refer to: [2020]11241 and [2020]11242. CEPOL is the European Centre for Counter-Terrorism, Counter-Proliferation and Organized Crime Threat Assessment.

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USE OF FINANCIAL INVESTIGATIONS
III (HOSSP'S)

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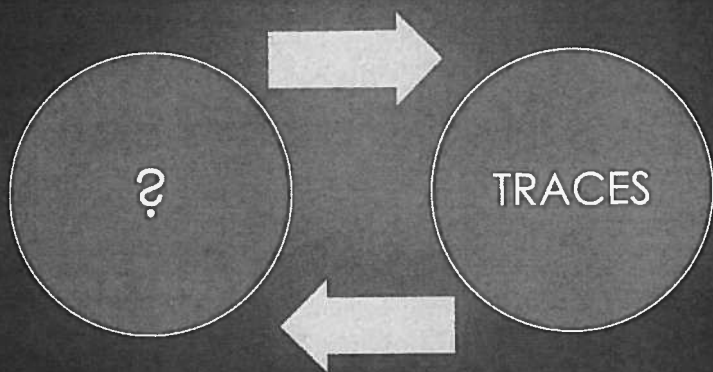
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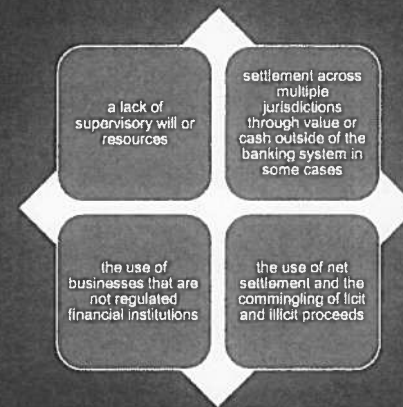
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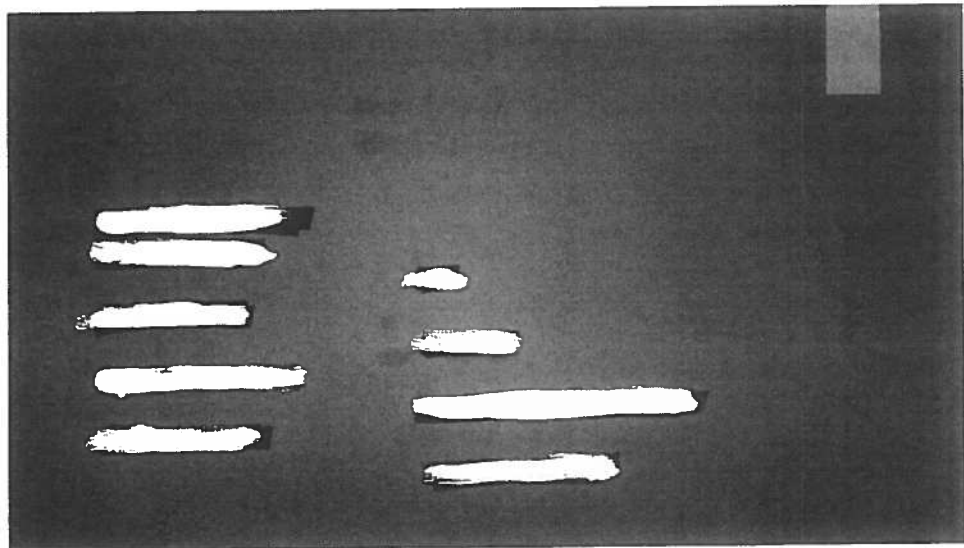
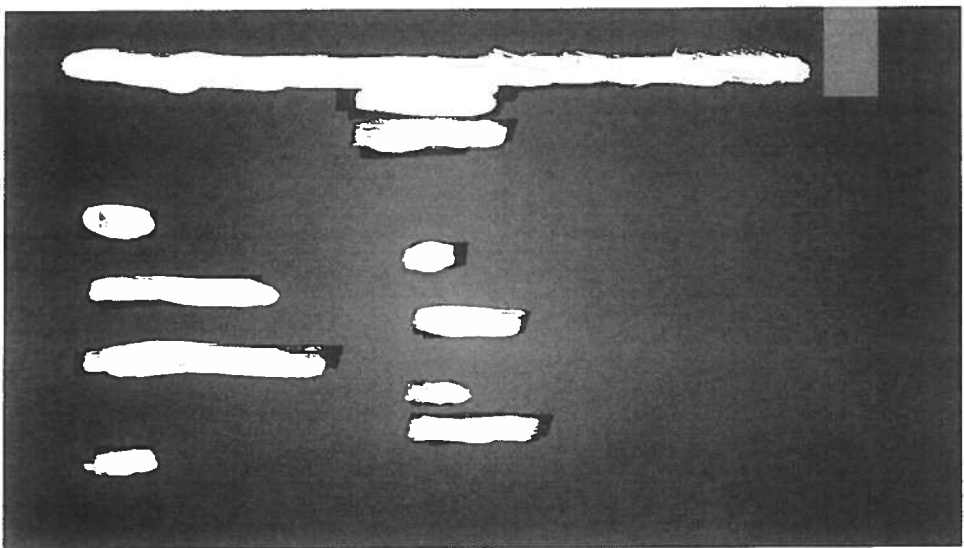
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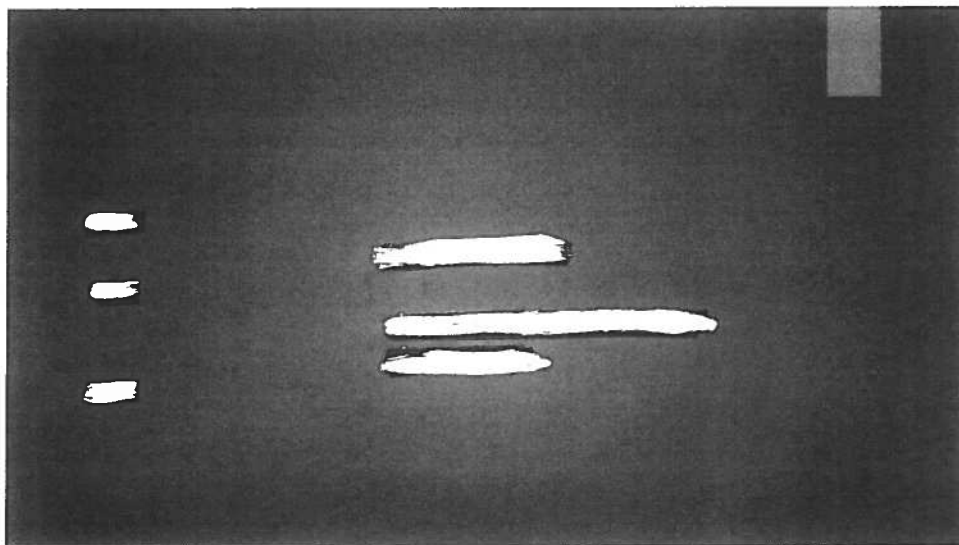
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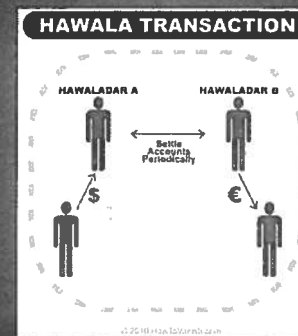
Distinct money laundering / terrorist financing risks apply to each and there are several reasons why HOSSPs continue to pose a money laundering and terrorist financing vulnerability. These include:







Hawala transaction



Hawala
is based
on
TRUST

Why is Hawala money considered bad?

Since the money transferred gave away no clues as to the source, the transaction was soon exploited by Terrorists, Smugglers and other criminal associations for funding.

Money transferred around the world needs to be kept track off, and accounted in such a volatile global situation. This parallel system will disturb the Banking system and Foreign Exchange equations.

Why is Hawala money considered bad?

This is also highly unreliable for Common man, as trusting Hawala brokers without any proof is asking for trouble.

Hawala system may have certain benefits in under developed countries, but it is no substitute to the formal banking system in the long run. It needs to be kept under check and cracked down with zero tolerance.

Some of the contributing factors associated with Hawala are:

- ▶ [Redacted]
- ▶ [Redacted]
- ▶ [Redacted]
- ▶ [Redacted]

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- ▶ [Redacted]
- ▶ [Redacted]
- ▶ [Redacted]
- ▶ [Redacted]
- ▶ [Redacted]

"Don't pay the ferryman,
Don't even fix a price,
Don't pay the ferryman
But he gets you to the other side!"

Chris De Burgh



Don't Pay The Ferryman

Hawala operating

The hawaladar is visible to his customers and operates in spaces with the same ethnic groups.

Hawala operating

The hawaladar never operates alone.

Hawala operating

The hawaladar have no «big» bank accounts, he cooperates with other hawaladars.

Hawala operating

The hawaladar split and hide his funds in many places (carpet crawler).

Hawala operating

No loan from the regular bank. They have no other choice to cooperate with the hawaladar.

Hawala operating

Mostly illegal migrants can be mugged by the human trafficker or other migrants during their long way to the «better world».

Hawala operating

Migrant employees and workers could can send money back to their families.

Helps to avoid tax:

since no banks are involved in the process, and also no records maintained, you need not have to pay any taxes to the government. And this is the main reason for it to be termed illegal. Hence it has to be carried out in secrecy.

Lower brokerage rates:

Hawala brokers charge very low amount and the transactions turns out cheaper than bank transactions and to avoid high foreign exchange rates.

No movements = no traces

There is no physical movement of money or funds.

Easy to use:

You need not have to stand in long queues, fill complicated forms, submit documents or worry about exchange rates with banks, you would just have to pass it to a trustworthy Hawala Broker. And he would do the rest, no bureaucracy.

No identity check:

Anonymity.

To protect the source of money:

Since no official records are maintained, the source of the money can not be traced. This benefit is often exploited by criminals, terrorists, smugglers, etc.

All around the world:

Get the money every time and in every country, also during war or political instability.

Fast:

*The money
can be
transferred in
a few minutes
all around the
world.*

Money laundering:

Hawala can bring the "black money" into the market, as no source is disclosed. This is detrimental to the law enforcement and encourages illegal businesses.

QUESTION:

How to disrupt
financial ways to
fight against Fii,
THB, money
laundering,
migrant smuggling
and terrorism?

Is it
possible to
regulate
the
HOSSP's?

While the settlement through value or trade that masks the individual fund transfers is a source of vulnerability, the most significant reason for concern is lack of supervisory resources and commitment to effective regulation of the HOSSP's.

«It's all about the money!»



Thank you for your attention

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