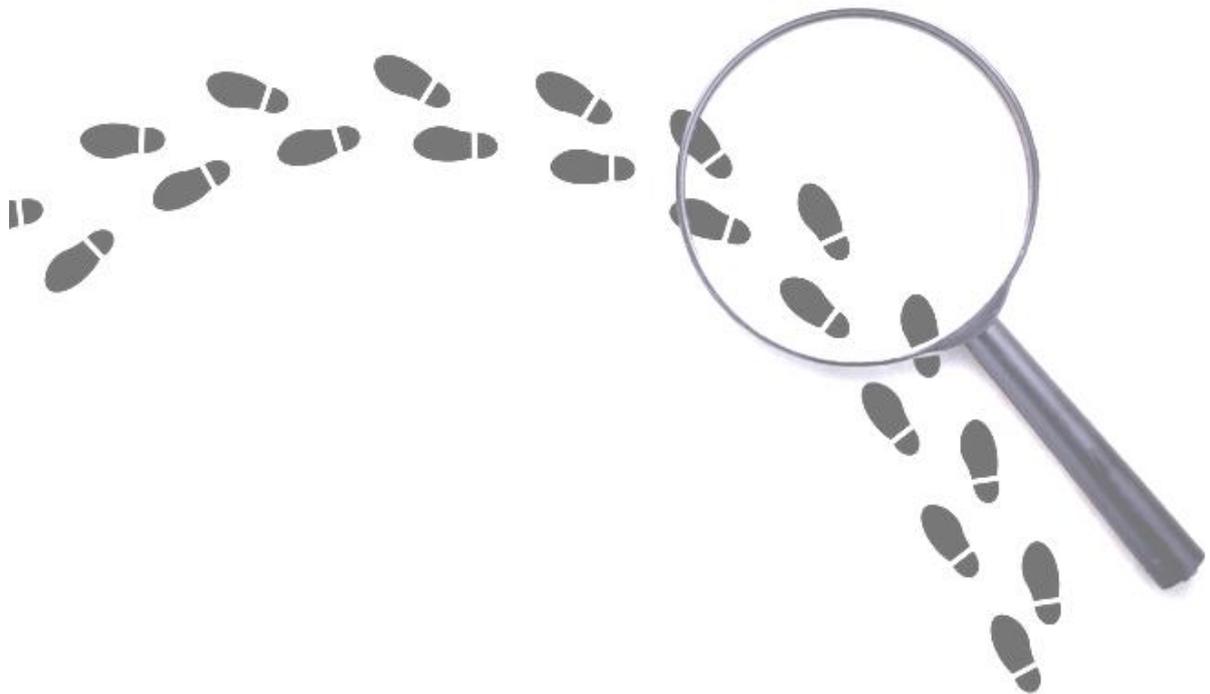




Financial Transaction and Report Analysis Center of Afghanistan

DA AFGHANISTAN BANK

**TPOLOGIES - MONEY LAUNDERING, TERRORIST FINANCING
AND OTHER PREDICATE OFFENCES.**



TYPLOGIES

FinTRACA has undertaken relevant typologies research to better understand the financial crime environment. The study of techniques, methods and trends concerning money laundering, terrorist financing and other predicate offences constitute the documentation of typologies for the relevant financial crimes. FinTRACA's typology reports provide an opportunity for experts to identify and describe effective counter-measures for financial crimes. Findings of typology reports of FinTRACA is of significant value as these findings facilitate provision of updated empirical information for decision makers and operational experts for development of policies and strategies to combat financial crime.

The center's typology framework is comprised of collection and analysis of case studies and case sensitive information. Typologies report is inclusive of contextual information about ML/TF and other predicate offences across relevant sectors. Case studies conducted for outlining financial crime typologies is facilitated by collaboration between FinTRACA and certain Law Enforcement Agencies, for which FinTRACA forwards its appreciation and gratitude.

FinTRACA continues to work together with law enforcement experts and regulatory authorities to exchange information on cases and operations forming the foundation of typology research documents.

DIRECTOR GENERAL'S STATEMENT

The study and provision of financial crime typologies to reporting entities is incorporated as parts of terms of reference of the Financial Intelligence Unit. In pursuit of building capacity and enhancing the ability of reporting entities to detect ML and TF red flags, form suspicion, and ultimately improve the quality of STR and LCTR reports, the center strained to study different typologies associated with financial crimes and publish this report.

Studying financial crime typologies and provision of typologies report to reporting entities is an international best practice for the purpose of enhancing the overall combating abilities of FIU reporting entities. Money laundering and terrorist financing crimes are an evolving phenomenon; therefore the treatment mechanism to fight these crimes needs to be updated as per new and emerging typologies. Publication of the reports of these typologies helps FIU reporting entities to develop advanced detection mechanisms and update their preventative measures.

In this report, while the confidentiality associated with the cases studied is well protected, different red flag indicators associated with the studied cases are outlined and shall be shared with reporting entities upon launch of the report.

This is the very first time the Financial Transactions and Reports Analysis Center of Afghanistan (FinTRACA) is releasing typologies report. This report examines the experience of competent authorities from law enforcement agencies in effectively handling cases associated with financial criminology. It analyses the use of available procedures and mechanisms and sets out practical problems encountered by relevant authorities in this context. It includes a number of cases, red flags and indicators and serves as a tool for reporting entities to better understand new typologies and take preventative measures accordingly to protect the integrity of their institutions.

The center remains committed to develop typologies in areas where financial information disclosure led to prosecutions and convictions.

LEGAL BASIS

Afghanistan's AML/CFT legal and regulatory framework is primarily comprised of the AML-PC law, Counter Financing of Terrorism Law and relevant regulations. This country's legal framework obliges the financial intelligence unit to gather, compile, maintain and disseminate information and statistics on money laundering and terrorism financing trends. The study of assessment results, forms, trends and risks pertaining to financial crimes are outlined as the parts of the duties of FIU under the AML-PC law of the country.

The interpretive notes to recommendation 29 of the Financial Action Task Force also calls upon FIUs to conduct strategic analysis as part of their core functions, by using available and obtainable information including data that may be provided by other competent authorities, to identify trends and patterns related to financial crimes.

Satisfying the legal obligations assigned to FinTRACA in article 32 of the AML-PC law, and the requirements assigned to FIU in interpretive note of recommendation 29 of the Financial Action Task Force, FinTRACA has conducted strategic analysis of cases related to financial crimes and has outlined the relevant typologies.

Provision of this report to reporting entities of the FIU satisfies the requirements of FATF recommendation 34, which calls on competent authorities to establish guidelines and provide feedback in order to assist reporting entities of the FIU in applying national measures to combat financial crime, particularly in detections and reporting of suspicious transactions. The study of typologies is designed to fulfill the criterion of recommendation 30 of FATF as this report is aimed at helping reporting entities in applying updated measures to combat financial crime including updated detection mechanism for detection and reporting of suspicious transactions.

OBJECTIVES

The Financial Transactions and Reports Analyses Center of Afghanistan outlined typologies report in light of the legal obligations designated to the center in article 32 of the country's AML-PC law. Provision of typologies report to the FIU reporting entities also satisfies the requirements of the FATF recommendation 29 that calls upon FIUs to outline trends of financial crime by conducting strategic analysis.

FinTRACA has outlined the typologies report from the feedback information of prosecuted cases received from law enforcement agencies. The main objectives of outlining this report are:

- To understand and combat new and emerging financial crime trends.
- Assist reporting entities in enhancing and updating detection mechanisms to enable them to detect emerging trends of financial crimes.
- Use the information outlined concerning financial crime typologies as capacity building tool for FinTRACA and law enforcement agencies.
- To upgrade law enforcement measures against new and emerging financial crime trends.

2019

In the year 2019 association of different types of crimes with particular predicate activities was highlighted by FinTRACA. The following typologies derived from analyzed cases and feedback response from LEAs, have been outlined by FinTRACA in the year 2019;

TRADE-BASED MONEY LAUNDERING AND TRANSFER PRICING

Case 1

202 Upon verification with Customs and Revenue Department, it was found that the trading Company X's customs documents were forged. It was a 'company on paper' which had no record of any imports or exports with Customs and Revenue Department, yet money was credited into the company's accounts in a systematic manner by several individuals. The company's accounts were then debited by Mr. Y who used the money for money transfer and exchange purposes. Mr. Y also smuggled physical cash through domestic airports to other provinces of the jurisdiction. The FIU intelligence led to open investigations by LEA.

Case 2

Results of financial analysis conducted on companies showed that the companies have transferred a large amount of cash abroad mainly to Jurisdiction A and Jurisdiction B against imported goods. However, the value of the imported goods was verified by the Customs department to form only a tiny fraction of the total amount sent abroad. The companies also transferred a large amount of money to Jurisdiction C and Jurisdiction D against which no goods were imported into the jurisdiction.

Financial verification of invoices by the reporting entities of the FIU also showed that the companies transferred money via invoices from different banks for importing the same goods.

Upon dissemination of the case by the FIU to LEAs, the Major Crime Task Force opened an ML investigation on the case. This investigation not only confirmed issuance of different payment invoices for the same goods, but also showed that the companies had forged payment invoices. The invoices presented by the owners of the companies in court were subjected to verification and an expert panel was formed to determine whether the invoices were real. The expert panel confirmed that the invoices were forged.

During investigation, the accused individuals offered a bribe to the officials to clear them of charges and drop the case, which resulted in their immediate arrest and detention for attempting bribe officials. While the subjects were in detention, the ML investigation was completed and an ML prosecution was opened.

As a result of this prosecution, the accused individuals were subjected to ML convictions and sentenced to four years imprisonment with immediate effect. This conviction was made based

on the AML Law and resulted with a confiscation of a certain amount of fund. The case is open for appeal (as for the time of preparing this typologies report 2019).

ASSOCIATION WITH HUMAN TRAFFICKING

Money Service Provider (MSP) X was acting as a guarantor by receiving money in installments from Afghan citizens for their recruitment abroad. MSP X coordinated recruitments, with a foreign organization (XYZ) irrespective of the regulations governing recruitment of workers abroad. The recruited Afghans deposited the installments in MSP X's bank accounts, for which MSP X failed to provide any supporting documents. The recruited Afghans were then were smuggled abroad via extremely high-risk routes at the border provinces of Afghanistan.

As a result, the company's license was suspended and the aforementioned case was sent to the concerned LEA for further legal proceedings.

CURRENCY SMUGGLING

Case 1

Mr. X's bag was subjected to a thorough search conducted in the presence of government officials from relevant departments at an international airport of the jurisdiction. The search showed that the suspect had hidden more than 1.7 million Indian Rupees inside baby diapers which he was carrying in his hand bag. Since the suspect could not provide any documentation for the discovered cash, he was arrested.

Case 2

Upon their arrest for currency smuggling, which was discovered in their handbag at an international airport, Mr. X and Mr. Y claimed that they were to be assisted by certain officials at the airport in transferring the cash abroad. Based on this claim made by the suspects, further investigations were carried and it was discovered that the subjects had lobbied airport officials to assist them in smuggling a certain amount of USD and KSA Riyals out of the jurisdiction. Ultimately, four airport officials were arrested along with the suspects.

Case 3

Person A arriving from Jurisdiction A passed the security screenings in the airport, however suspicions were raised shortly after the suspect exited the airport terminal. As per the suspicion by border police the person's luggage was subjected to a physical search, upon which it was discovered that the person had packed certain amounts of USD and KSA Riyals in cosmetic materials. The security screenings at the terminal, including X-ray scans failed to detect foreign currencies packed as cosmetics. The case was referred to law enforcement agencies for further investigations.

Case 4

Border police at an international airport suspected persons X and Y, when Mr. X's luggage was suspected at a baggage screening checkpoint at an airline counter. Based on this suspicion, Mr. X's luggage were subjected to a physical search upon which it was discovered that gold bars weighing more than 11 kilograms were contained in the luggage.

Mr. X claimed to have brought these gold bars into the airport inside his shoes and then placed them in his luggage after passing the X-ray scans. However, the CCTV footage shows that Mr. X and Mr. Y entered a washroom at the same time, each carrying a bag. Upon exiting the washroom, Mr. X was shown in the footage carrying two bags, while Mr. Y exited the washroom empty handed. Moreover, the footage also showed Mr. Y leaving the terminal as soon as Mr. X submits the luggage at the airline counters. In this case, the gold bars were brought into the airport by Mr. Y, possibly with the assistance of airport officials.

After a thorough investigation of the case by competent authorities Mr X was fined 4.9 million AFNs (equivalent to 72,558 USD) in accordance with prevailing laws and regulations.

USE OF FALSE IDENTIFICATION

Case 1

A targeted MSP used forged identification documents to obtain a license, in order to avoid identification and skip responsibilities in the future. Through discovering the misconduct of the MSP, the relevant authorities were not able to locate the true identification of the subject.

As a result, the FIU revoked the license and notified the licensing body to verify the identification document before issuance of license.

Case 2

Verification of a bidding application submitted by Engineering Company X to the National Procurement Authority showed that the company's bank statement was forged. Verifications showed that the actual closing balance of the company's bank statement was 155,486 AFN. However, the company forged its bank statement showing a closing balance of 2 million AFN. This was done to fulfill the bidding requirement. As a result, the company was blacklisted from participation in National Procurement Authority's bidding process.

2018

In the year 2018 Afghanistan highlighted the association of different types of ML or TF with particular predicate activities related to terrorist organizations and the smuggling of drugs. Afghanistan's Financial Intelligence unit has outlined the following typologies derived from analyzed cases and feedback response from LEAs.

SUPPORTING A TERRORISM ORGANIZATION

Subject A, a resident of Konar Province, was accused of being a member of the Taliban (UNSCR 1267/1998) and of TF and was arrested in May 2016 in Pacheeragam district of Nengarhar Province, Afghanistan. During the investigation, it was revealed that the suspect was carrying the payroll sheet and distribution sheets for Taliban fighters. He was also carrying two bank cheques valued at PKR 10.3 million (US\$88,000). After completion of the prosecution, the case was referred to the Primary Court and the suspect was convicted and received:

- Five and half year's imprisonment and monetary fine of AFN 400,000 (US\$ 5,600) for terrorist financing pursuant to the CFT Law;
- 18 months imprisonment for being a member of the Taliban pursuant to the Counterterrorism Crimes Law; and
- Confiscation of the assets and instruments

DRUGS SMUGGLING

According to the request for information by the Counter Narcotics Justice Centre (CNJC), subject X was accused of smuggling drugs to jurisdiction A.

The subject X was caught and arrested by law enforcement officials at Kabul International Airport while carrying drugs inside his abdomen. Also, two bank account cards related to two commercial banks were found during the physical body search of the subject. The drug smuggling case was forwarded to CNJC for prosecution.

TRADE-BASED MONEY LAUNDERING AND TRANSFER PRICING

Case 1

The Afghanistan FIU's analysis for 11 STRs related to a wire fraud, revealed the involvement of two money service providers (including a money exchange service provider) in a misappropriation of international transfers facilitating trade-based ML.

Group X was found to be transferring money overseas and providing inadequate documents to support the wire transfer. The commercial invoices for the purchase of textile and solar

from jurisdiction A were flagged as fraudulent. Key red flags identified by the FIU are listed below:

- The email address provided on the commercial invoice was different from original supplier email address. All the verification emails sent to the fake email address placed on invoices, were replied confirming that the invoice is original.
- Type of business, address and contacts were picked up from the relevant businesses of jurisdiction A to make the fraudulent invoice appear legitimate.
- Original business transactions were also mixed up with fraudulent invoices to make it difficult to compliance officers for identification.
- Mobile numbers placed on the invoice were seemed to be prepared in collusion with the sale agents providing positive feedback to the bank officer.

The difference of more than 70 percent was identified between the amount transferred and goods imported. Under invoicing was demonstrated as a key red flag for the difference.

Afghanistan FIU disseminated the case to the Major Crime Task Force in 2016. During the investigation, two suspects (owner of money service provider) had tried to bribe the investigating officers. The Primary Court of the Anti-Corruption Justice Center convicted both suspects of providing kickbacks with 18 months imprisonment each and ML is under prosecution.

Case 2

The FIU made spontaneous disclosure on trade-based money laundering to the Investigation Agency, 11 businesses including money services providers (MSPs) and FXD suspected in transferring X amount of US dollars overseas, which were found to be using forged and inadequate supporting documents in order to purchase and import commercial goods back to the jurisdiction.

Based on STRs reported by the commercial banks, the subjects have transferred X amount of US dollars abroad in order to purchase and import commercial goods to Afghanistan. Some of the customs documents submitted by the businesses were not authenticated or acknowledged by the customs department. Also, according to the Bank A's STR, one of the subjects has proposed kickbacks to a bank official on a monthly basis for facilitating the transactions overseas.

The analysis findings have determined from account signatories and business activities that some of the businesses are interconnected with each other, via familial relations. The red flags and suspicious matters identified are as following:

- Providing foreign exchange services without legal authorization; money Providing fake invoices to conduct FTTs;
- conducting several transactions in contradiction with the monthly turnover;

- Proposal of kickbacks;
- Having multiple corporate bank accounts.

The investigation of spontaneous disclosures was completed by a joint task force and was forwarded to the Attorney General's Office for the prosecution on the following charges:

- Money laundering;
- Tax evasion; ² Forgery;
- Concealment of the illicit origin of funds; and
- Proposal of kickbacks.

CURRENCY EXCHANGES/CASH CONVERSION

A foreign exchange dealer was arrested in December 2016 in Baghlan Province on charges of embezzlement of AFN 24,415,811 funds of Bank A in collusion of bank employees and laundering AFN 6,740,000. The primary court of the Anti-Corruption Justice Centre convicted the accused on charges of ML and sentenced him to two years custodial imprisonment, a cash penalty of AFN 50,000 and also to pay cash penalty equivalent to the laundered funds.

CURRENCY SMUGGLING

Case 1

On 22 January 2017, a person (person X) arrived at Kabul International Airport through a direct flight from jurisdiction Y. He was found in possession of cash exceeding the regulatory threshold that had not been declared to the Customs Department at the airport. Upon a physical search, CHF 23,000, USD 238,700, INR 141,500 and an amount of EUR 95,910 were found with person X. After a thorough investigation, the person was fined 15 percent of the total seized cash (AFN 3,569,282 approximately USD 52,313).

Case 2

On 8 June 2017, following a physical search of the bags of a suspected person (person A) at Kabul airport, four packages of gold bars weighing 11.724 kilograms were found in his bags. During the inquiry at the airport, person A has stated that: "I had placed gold bars at my shoes and after passing from x-ray machine at the exit point of Customs, I sat on the chair, took the packages off my shoes and placed those gold bars in my bags and then handed over the bags to the airline". However, after checking the security cameras of the airport, it was noticed that person A had only one bag with him while entering to the airport's terminal and the second bag was brought to the terminal by a second person.

It was revealed that both persons entered the toilet of the terminal after one another and while coming out from the toilet, one of them went to airline's counter and handed over the bags. It is also noticed that after the bags are handed over to the airline counter, person A

goes into the terminal's hall while person B leaving the airport's terminal. After a thorough investigation of the case by the competent authorities, the subject was fined AFN 4,980,930 (USD 72,558).

Case 3

On 12 December 2016, a person (person X) was ticketed on a direct commercial flight from Kabul International Airport to jurisdiction Y. The subject made no attempt to declare to an authorized officer that he was carrying USD 28,750 cash. According to the procedures, at the departure checkpoint of the airport, the subject was stopped and his bag was searched on suspicion of concealing undeclared cash in an amount above the regulatory threshold. Upon searching the subject at the first customs' checkpoint of the airport, customs officials found an amount of 19,250 USD concealed in the suspect's shoes, travel bag, and trousers as well as 9,500 USD in his jacket pocket. After the investigation, the person was fined AFN 288,712 (USD 4,310) by the Customs Department for breaching the regulations.

STRUCTURING (SMURFING)

Reporting threshold for Afghanistan banking institutions is AFN 1,000,000 (USD 14,500). Any two or more transactions that occur within two consecutive days of one and another, which transactions aggregate AFN 1,000,000 or greater should also be reported. Based on the STR filed by bank A, the subject was carefully structuring the placements to avoid the above reporting threshold bypassing the two consecutive days reporting requirement.

The subject (s) deposited the funds into the banking system which was 52 times more than the subjects declared income.

Although an amount of AFN 26m (USD 382,000) is placed into the banking system, but due to organized structuring (38 placements), no large cash transaction report was filed with the FIU. In addition to the structuring, additional suspicions were also identified and the case was disseminated to law enforcement authorities for investigation.

GHOST PUBLIC SERVANT

Individual X had opened 13 bank accounts; eleven bank accounts were opened for the purpose of salary. As per KYC forms of the subject, all accounts were opened with different phone numbers, addresses, and payroll revenue.

After reviewing the KYC forms and bank statements of the individual, it was noticed that the subject has received large amount of public funds as monthly salary via different bank accounts. Subject's monthly salary was USD 300, but he received USD 482,746 during four years via a payroll scam. The STR analysis report was disseminated for investigation and prosecution to the Attorney General's Office.