



Policy & Resources Committee

GUIDANCE ON TERRORIST FINANCING RISKS TO THE BAILIWICK

5 November 2019

INTRODUCTION

1. This guidance on terrorist financing risks to the Bailiwick is being issued by the Policy and Resources Committee to assist specified businesses in their terrorist financing business risk assessments in advance of the publication of the Money Laundering and Terrorist Financing National Risk Assessment (“NRA”) report.
2. The publication of this guidance coincides with steps being taken by the Guernsey Financial Services Commission to revise the transitional rules in the Handbook for Countering Financial Crime and Terrorist Financing to enable specified businesses to advance work on revising their business risk assessments and policies, procedures and controls prior to completion of the NRA, which is in the process of being finalised. Following publication of the NRA report, specified business will be required to consider its findings and conclusion when their next review of their business risk assessment and policies, procedures and controls fall due.
3. While specified businesses have a good understanding of the money laundering risks to their business and have in place appropriate measures to mitigate these risks, the Bailiwick AML/CFT authorities recognise that specified businesses might welcome input at this stage with regard to assessing terrorist financing risk, as the requirement to assess this separately from money laundering risk is new. Therefore, the decision has been taken to issue this guidance, which comprises a summary of the NRA findings on terrorist financing risks for the Bailiwick.
4. The opportunity is also being taken to re-circulate the findings of an earlier terrorist financing risk assessment that was carried out in 2016 as a preliminary step in the NRA process. The findings of this 2016 terrorist financing risk assessment, which were provided to the Financial Action Task Force (FATF)¹ as part of a global information-gathering exercise as well as being circulated to the private sector, are attached to this document as an appendix.

¹ The FATF is an international organisation with responsibility for addressing money laundering and terrorist financing, and it issues the leading international standards in this area, the FATF Recommendations.

5. While there are no domestic terrorist financing case studies as Guernsey² has had no experience of terrorism and not detected any terrorist financing to date, money laundering case studies are available; some of the countries and patterns of behaviour involved in these case studies will be relevant to possible terrorist financing activity, especially in relation to secondary terrorist financing (see below). Consequently, they are attached to this document as Appendix 2. Specified businesses are encouraged to consider these studies, particularly those which are relevant to the products and services they offer. Specified businesses are also advised to familiarise themselves with the terrorist financing case studies available on the FATF website, such as the 2015 Report on Emerging Terrorist Financing Risks.
6. This guidance complements, but does not replace the assessment by a specified business of the particular risks to that business. Specified businesses are reminded that they should be ensuring that business risk assessments and the assessment of terrorist financing risks in a business take into account their risk appetite and risk factors relating to their customers and the beneficial owners of customers, countries and geographical areas and products, services, transactions and delivery channels.

SCOPE OF LEGISLATION

7. It is important to be aware that under Guernsey law, terrorism includes attacks carried out for political or ideological reasons and this covers any form of extremism. In addition, support for terrorists and terrorist organisations comprises terrorist financing even when this support is not linked to an attack and is provided for reasons unconnected to terrorism. Therefore, the scope of terrorist financing is not confined to attacks that are carried out to promote religious or racial causes. It also extends to financial support linked to individual terrorists or terrorist organisations for any purpose, and to terrorist attacks that are carried out to promote far-right ideology or other causes such as animal rights or environmentalism. Specified businesses should consider all of these different forms of terrorism and terrorist financing when assessing their terrorist financing risks.

OVERVIEW OF TERRORIST FINANCING RISKS TO THE BAILIWICK OF GUERNSEY

8. The likelihood of deliberate terrorist financing occurring within Guernsey itself is low. The finding of the NRA is that the form of terrorism with the greatest prospects of receiving support from within Guernsey is non-religious extremism. However, this is still considered highly unlikely to occur in reality. The NRA findings also identify two potential terrorist financing risks relating to activity outside Guernsey, namely:
 - funds that are provided or invested by parties in Guernsey in good faith subsequently being diverted to support foreign terrorism; or
 - Guernsey's cross-border products and services being used by parties outside the jurisdiction to fund foreign terrorism.

² For ease of reference, the Bailiwick of Guernsey is described as Guernsey throughout this document.

9. Therefore, consideration of a specified business's cross-border exposure is central to a terrorist financing risk assessment. Specified businesses are advised to ensure that they are familiar with the information below about the ways in which cross-border business poses a terrorist financing threat, especially the findings about the modalities of terrorist financing likely to arise from this type of business. In particular, specified businesses should be alive to the risk of secondary terrorist financing, i.e. where the proceeds of crime are used to fund terrorism. This has been identified as the form of terrorist financing most likely to arise from Guernsey's cross-border business.
10. Secondary terrorist financing is usually carried out by organised criminal groups but may also involve lone actors, including politically exposed persons (PEPs) in the case of state-sponsored terrorism. Therefore, specified businesses are advised to consider taking steps to familiarise themselves with the types of crimes that are identified below as internationally linked to secondary terrorist financing. Where a specified business suspects that an existing or possible future business relationship or transaction may be linked to crimes of this kind, especially where there is also a possible link to a country or population known to be affected by or involved in terrorist activity, it should not therefore see this as simply an issue of money laundering but is encouraged to consider whether there may be any terrorist financing links. It should also do this in any case where there is a suspected link to an organised criminal group.
11. Similarly, while both international and domestic experience to date indicates that the vast majority of criminality involving PEPs will be motivated solely by the desire for personal gain, specified businesses should always be alert to the possibility that the proceeds of such criminality may be used for state-sponsored terrorism. Again, this is particularly important where the PEP is linked to a country that is known to be affected by or involved in terrorist activity.

FOCUS COUNTRIES

12. In the absence of case experience of terrorist financing, the findings of the NRA are primarily based on the level and nature of links that businesses and non-profit organisations (NPOs) have with countries that are considered likely to be exposed to terrorism or to terrorist financing. For convenience these countries are referred to as focus countries. However, a consideration of links to focus countries should not be confined to looking at the immediate source of business into Guernsey. The possibility of underlying links to focus countries in business that is conducted via another international financial centre (IFC) acting as an entrepot must always be borne in mind. This is looked at in more detail below.
13. Given the rapidly evolving international situation with regard to terrorism and the danger of any list of countries being treated as exhaustive, this document does not contain a list of focus countries. However, focus countries are considered to be jurisdictions that fall into one or more of the following categories:

- countries that present active terrorism or terrorist financing threats because there are areas of conflict within their borders;
- countries that border or have other strong geographical links to countries that have an active terrorism or terrorist financing threat;
- countries with a section of the population that is actively targeted by terrorist organisations for support and cover because it may be sympathetic to regional or terrorist actors (whether because of diaspora links or otherwise);
- countries that are involved in state-sponsored terrorism;
- countries with a secondary terrorism or terrorist financing threat, i.e. where there may not be an active terrorism or terrorist financing threat but where there is a heightened threat of crimes whose proceeds are typically used by organised criminal groups to fund terrorism.

14. As a starting point in identifying whether a country should be treated as a focus country specified businesses will find helpful sources such as:

- *The Global Terrorism Index published annually by the Institute for Economics and Peace:*
<http://visionofhumanity.org/app/uploads/2018/12/Global-Terrorism-Index-2018.pdf>
- *Information on high-risk and other monitored jurisdictions by the FATF:*
[http://www.fatf-gafi.org/publications/high-risk-and-other-monitored-jurisdictions/?hf=10&b=0&s=desc\(fatf_releasedate\)](http://www.fatf-gafi.org/publications/high-risk-and-other-monitored-jurisdictions/?hf=10&b=0&s=desc(fatf_releasedate))
- *U.S. Department of State country reports on terrorism :*
<https://www.state.gov/country-reports-on-terrorism-2/>
- *Reports by individual industry organisations (e.g. the Terrorism Risk Insurance Market reports issued by bodies such as the JLT group, Aon and Marsh:*
[JLT](#)
[Aon](#)
[Marsh](#)

15. In addition to these sources, which are not exhaustive, specified businesses should consider other publicly available information to check whether they should treat a particular country involved in a business relationship or transaction as a focus country.

16. A further point to be aware of is that involvement for these purposes extends not only to the jurisdiction of residence, incorporation or nationality as the case may be of customers, or of the officials or beneficial owners of legal persons or legal arrangements involved in a business relationship. It also extends to less obvious links between these parties and focus countries, including but not limited to a customer or beneficial owner having a relevant connection with a focus country, as defined in paragraph 5(10) of Schedule 3 to the Criminal Justice (Proceeds of Crime) (Bailiwick of Guernsey) Law, 1999. These less obvious links may arise for example where the customer, official or beneficial owner in question conducts business or owns property in a focus country, where they have a close relative or associate who is from or who resides in a focus country, where they jointly own property with a person from a focus

country, where a business relationship involves an entity that is directly or indirectly controlled by a party linked to a focus country or where third party payments are made to or received from a focus country. The process involved in identifying links of this kind will be familiar to specified businesses, as they are already taking steps of this kind for the purposes of sanctions screening.

SPECIFIC FINDINGS ON TERRORIST FINANCING

Fund raising and use for the purposes of terrorism in Guernsey

17. The likelihood of funds being raised or sent into Guernsey for the purposes of terrorist activity within the jurisdiction is considered to be very low, on the basis that the likelihood of domestic terrorist activity is also very low.
18. There have been no known instances of terrorist groups or lone actors within Guernsey, of the radicalization or recruitment of Guernsey residents by terrorist groups, or of persons departing from or travelling through Guernsey in order to act as cash couriers or foreign terrorist fighters.
19. Nevertheless, further enquires are always made in any case where there may be a possible terrorist or terrorist financing link. To date there has only been a very small number of such cases and on further investigation no terrorism or terrorist financing link was found. Aside from these cases, the Guernsey Special Branch division of Law Enforcement has become aware of a small number of incidents of local residents viewing material linked to far-right ideology through social media. These cases have been logged on intelligence data bases and where appropriate, intelligence has been shared with counter-terrorism authorities in the UK for checking. None of these cases has resulted in the need for any further action, and Law Enforcement has not identified any instances of Guernsey financial services businesses or other sectors being used to support the aims and objectives of far-right groups or individuals. In addition, the authorities are monitoring a possible threat from the proximity of terrorist cells operating in northern France but there have been no indications to date of any links with Guernsey.
20. On the basis of the limited experience of possible terrorism links to date, the likelihood of domestic terrorist activity linked to political or ideological extremism (e.g. to promote far-right ideologies or possibly animal rights activism) has been identified as greater than that linked to religious extremism. However, this is in relative terms only; the possibility of this taking place is still considered to be very low.

Fund raising in Guernsey for the purposes of terrorism elsewhere

21. Based on Guernsey's profile, the likelihood of deliberate fundraising within the jurisdiction to support terrorism elsewhere is considered to be very low.

22. The likelihood of inadvertent terrorist financing (i.e. where funds raised, donated or invested from Guernsey in good faith are diverted abroad for the purposes of terrorism) is considered low.
23. To date there have been no known cases of this happening but three situations have been identified where it could potentially arise, as follows:
- donations to internationally active charities and other non-profit organisations (collectively, NPOs) are subsequently diverted to or appropriated by terrorists;
 - Guernsey residents provide funds for campaigning etc. purposes via online fundraising platforms that are in fact fronts for terrorist groups;
 - Guernsey impact investment schemes that are invested in war-torn countries generate benefits for terrorist groups there.
24. As the use of impact investment schemes is in its infancy within the jurisdiction, their possible abuse by terrorists is considered less likely to occur than the other two forms of inadvertent terrorist financing. It is considered that the payment channels most likely to be used in all three forms of inadvertent terrorist financing involve the formal financial sector, with only some 5% or so involving cash or physical assets. This is on the basis that while it is estimated that approximately 50% of payments to NPOs are likely to involve cash, in most cases this will be transferred into the formal financial system before leaving the jurisdiction. Therefore, the possible risks arising from donations to internationally active NPOs must be kept in mind by specified businesses that work with the sector.

Movement of funds used for the purposes of foreign terrorism

25. Guernsey's cross-border business inevitably gives rise to the jurisdiction's possible involvement in the global movement of funds linked to foreign terrorism. This involvement is unlikely to arise in respect of lone actors, who typically require small amounts of money to fund their activities and who would have no need or wish to incur the cost of using the formal financial system in another jurisdiction. There is more prospect of this arising from well-organised terrorist groups that are known to operate like businesses with sophisticated financial arrangements (e.g. Hezbollah).
26. However, the overall likelihood of this happening is assessed as low. There have been no known cases of terrorist financing to date. References to terrorism and terrorist financing in the usual indicators of links to foreign criminality, such as suspicious activity requests, international requests for assistance or other international contacts, are either non-existent or negligible. In addition, to date, no assets held in or administered from Guernsey have been subject to terrorist financing related sanctions.
27. There have been some cases involving the assets of parties that are subject to other sanctions regimes that, while not terrorist related, are applicable to countries with a terrorism risk (e.g. the so-called Arab spring countries). However, the number of these cases is low and no terrorism links with the sanctioned parties in question have

been identified. Furthermore, these parties typically use Guernsey to maximise wealth in ways that do not readily lend themselves to terrorist financing activities (e.g. investment schemes). In addition, although the legal framework permits Guernsey to make its own terrorism-related designations on the basis of intelligence received and this is considered routinely among the authorities, to date there has been no intelligence or other form of information to suggest that this power should be exercised. The same applies to recommending possible terrorism-related sanctions targets to the UN, which is also considered routinely by the authorities and where no basis for doing so has ever been identified. The legal framework also permits Guernsey to make terrorism-related designations at the request of other countries but no such request has ever been received and Guernsey has never had any grounds to make a request of this kind to another jurisdiction.

28. Consideration has also been given to business relationships with PEPs and their possible involvement in state-sponsored terrorism. However, there is no indication that this is happening and it would not be consistent with the typical way in which PEPs use the jurisdiction, which is focused on wealth management for the personal benefit of themselves and their family members. In addition, the level of PEP involvement in business relationships across all sectors is low; even among trust and corporate services providers (TCSPs), which have the highest proportion, it does not exceed 7%.
29. However, the authorities recognise that the absence of any indicators of terrorist financing is not necessarily determinative of the absence of terrorist financing activity. It is acknowledged globally that it is extremely difficult to identify funds that are destined for use in terrorism. In addition, while little is still known internationally about the extent to which the formal financial system and the creation of legal entities are being used for terrorist financing purposes, two ways have been identified in which the global financial services sector may be used for terrorist financing.
30. The first way is the use by terrorist organisations of money-laundering techniques, in order to disguise both the source and the purpose of their funds, and to distance themselves from their financiers. This may be by using legitimate activities to raise funds or the creation of structures to conceal links to terrorism. An example of the former is trade-based terrorist financing, i.e. where revenue from a legitimate commercial enterprise is routed to support a terrorist organisation. Examples of the latter are where terrorist groups use advanced financial management practices and create front or holding entities to manage revenue sources and expenditure. This was highlighted by the publication of the Panama Papers and the subsequent enquires that were carried out as a result, which suggested not only that some parties who were subject to terrorism-related sanctions were involved in cross-border business relationships, but also that shell companies had been established in an IFC for use by terrorist financiers in the Middle East. The types of entities created for the purposes of this type of activity are most likely to be companies or other legal persons, as there do not appear to be any cases internationally where terrorists have used legal

arrangements such as trusts. (See, however, the reference to a trust company in a case identified below.)

31. The second is the use of money laundering itself, i.e. secondary terrorist financing, where the proceeds of crime are used to fund terrorism. Consequently some indicators of money laundering may also in fact be terrorist financing indicators, even though they are not identified or categorised as such because the link to terrorist financing is not apparent to the person making the suspicious activity report, international request for assistance etc. as the case may be.
32. For these reasons, the NRA process has not been confined to recognised indicators of terrorist financing or other criminality, but has also taken into account the extent to which Guernsey cross-border business involves links with focus countries. The extent of these links varies depending on the type of business involved, but in all sectors the level of links with focus countries is low. Where links with focus countries exist, they primarily arise in relation to secondary terrorist financing risks.
33. There is very little focus country involvement in flow data on banking deposits or withdrawals, or in flow data on funds under management. As would be expected, there is a greater degree of focus country involvement in the kidnap and ransom insurance sector and also in the fiduciary sector, due to the diverse nature of its client base and the services it offers.
34. This is subject to the caveat that for relationships that involve another IFC, there may be underlying focus country involvement in some cases that is not apparent from the data. This is particularly the case with flow data, which is based on the countries involved rather than the underlying customers so could include IFCs acting as entrepôts. However, while the extent of focus country involvement in flows from other IFCs is difficult to determine, it is also considered likely to be low. As indicated above, there have been indications in sources such as the Panama Papers of IFCs being used to create shell companies for terrorist financing purposes, but the scale of this appears limited. The identified cases of other IFCs being used for terrorist financing involves small-scale activity to fund the immediate needs of individuals resident in or otherwise linked to the IFC itself, rather than the type of activity that is usually involved in business relationships with Guernsey. For example, the terrorist financing activity described in the most recent FATF report on the UK is UK-based and low level (involving self-funded attackers, individuals providing small amounts to foreign terrorist fighters or individuals financing their own travel plans), rather than the establishment of the kind of sophisticated cross-border financial arrangements that would be likely to involve another IFC. Similarly, while a recent FATF evaluation of another IFC referred to a small number of ongoing investigations into support for foreign terrorist fighters or for terrorist organisations, only one terrorist financing prosecution had taken place, and this related to personal cash withdrawals by a young person who had left the jurisdiction and travelled to London. Another recent report on a different IFC refers to a suspected connection with a trust company in another jurisdiction and an individual allegedly linked to terrorism and possible terrorist financing, but the report did not identify any action taken as a result other

than the exchange of intelligence between jurisdictions, suggesting that there was in fact no evidence of any terrorist financing activity. While the absence of any evidence of sophisticated cross-border terrorist financing in these reports is obviously not conclusive, it supports the finding of the NRA that the likelihood of Guernsey's cross-border business being used for terrorist financing is low.

TERRORIST FINANCING VULNERABILITIES – MOST LIKELY MODALITIES

35. The finding of the NRA is that the types of cross-border business most likely to expose Guernsey to a potential exposure to terrorist financing are the flow-through of funds or by service provision. The data relating to these forms of activity demonstrates that a high proportion of the focus countries involved are those where the terrorist financing risk is secondary. This indicates that if terrorist financing were to take place it would most probably be secondary to money laundering activity. However, the likely extent of this has to be seen in context.
36. A range of underlying offences is internationally linked to secondary terrorist financing (i.e. corruption, drug trafficking, hijacking or kidnapping, benefit fraud, environmental crimes such as illegal logging and ivory dealing, human trafficking and modern slavery). There is no evidence that Guernsey is being used to launder the proceeds of some of these offences, but Guernsey is exposed to laundering in connection with foreign drug trafficking, corruption and, to a much lesser extent, low-level fraud. However, the specific types of these offences that affect Guernsey do not fit the internationally recognised patterns of secondary terrorist financing, for two main reasons.
37. First, international patterns of secondary terrorist financing typically involve organised criminal groups whose members are likely to be motivated by ideological objectives rather than a desire for individual financial gain. Although there has been some experience of organised criminal groups seeking to use Guernsey to launder the proceeds of drug trafficking, the number of cases is extremely low and all seem to be motivated by the desire for personal gain; there is no evidence of any terrorist links or sympathies on the part of the persons involved.
38. Second, with regard to the proceeds of foreign bribery and corruption, a Guernsey nexus is most likely to arise where the jurisdiction is used by PEPs and other individuals whose motives are to acquire personal wealth for themselves, their families and associates. On that basis, it is unlikely that the proceeds of their offences would be diverted for terrorist purposes. A possible exception to this would be where a PEP is involved in state-sponsored terrorism. However, there have been no indications to date that this is happening with any PEPs that have a connection with Guernsey, whether linked to corruption or not. In addition, detailed strategic analysis of suspicious activity reports and other financial intelligence by the Financial Intelligence Service at the Guernsey Border Agency has not identified any terrorist financing links from business relationships with countries that are seen internationally as high risk for bribery and corruption, whether or not those relationships involve PEPs.

39. On that basis, the assessment that secondary terrorist financing is the most likely form of terrorist financing to affect the jurisdiction is in relative terms only; it does not affect the overall assessment of the likelihood of terrorist financing taking place, which remains low.

APPENDIX 1 – 2016 Terrorist Financing (“TF”) Risk Information

The assessment of TF risks forms a regular part of the ongoing work of the AML/CFT authorities at a jurisdictional and sector wide level. Assessments of TF risks are also made at an entity or transaction level, for example, by the supervisory authorities during onsite inspections of individual businesses or by law enforcement in response to specific intelligence information.

In addition, in response to international developments such as the rise of ISIL and the terrorist attacks in Paris, the government (the Policy Council of the States of Guernsey) has recently coordinated a jurisdictional assessment of TF risks. It follows previous jurisdictional risk assessments and forms part of Guernsey’s national risk assessment to comply with Recommendation 1.

The assessment was primarily based on input from the different AML/CFT authorities. These authorities are:

- The Policy Council (a government department that is the competent authority for the implementation of sanctions including UNSCRs 1267 and 1373)
- Law enforcement (the Guernsey Border Agency and the Guernsey Police); the FIU is embedded within law enforcement
- The Attorney General (the prosecuting authority and central authority for MLA requests)
- The Guernsey Financial Services Commission (the supervisory authority for financial services businesses and lawyers, accountants and estate agents)
- The Alderney Gambling Control Commission (the supervisory authority for online gambling)
- The Registrar of NPOs.

Input was also obtained from the private sector (reporting entities and NPOs).

The assessment draws on both quantitative and qualitative information. The quantitative information includes statistics and related analysis on:

- Investigations and prosecutions
- STRs
- International assistance requests
- Assets frozen under UNSCRs 1267 and 1373
- Transfers of funds and cash withdrawals involving jurisdictions perceived as end use or transit countries for TF.

The qualitative information includes:

- Contextual information about Guernsey
- Intelligence briefings and alerts from the UK

- Findings of the supervisory authorities from onsite inspections and other supervisory engagements
- Aggregated information from routine engagements with and findings from industry about the proportion of business with high risk jurisdictions
- Information from NPOs about activities overseas.

In addition, the authorities have looked at the possible TF risks arising from jurisdictions with close business or geographical links to Guernsey, together with the latest TF typologies produced by international bodies such as the FATF, Egmont and the OECD.

What are the main terrorist financing risks faced by your country?

Guernsey is a significant international finance centre providing wealth management services to an international client base. There is a small domestic market for retail financial services for the jurisdiction's residents. The authorities have therefore considered TF from both a domestic perspective (i.e. the possible presence in the jurisdiction of persons with links to terrorism or the likelihood of terrorism-related activity taking place within its borders) and from an international perspective (i.e. the possibility of TF or terrorist-related activity taking place elsewhere that has a link to the jurisdiction).

Domestic risk

The widely recognized TF risk factors arising from activity within a jurisdiction (i.e. terrorist cells or organizations operating within its borders, radicalization and recruitment of its citizens and the incidence of persons departing from or travelling through it in order to act as cash couriers or terrorist fighters) are not considered to be significant risk factors for Guernsey. The following contextual factors are relevant:

- The jurisdiction comprises a number of politically stable small island communities with very low domestic crime rates and ethnically homogenous populations
- It has no historical, geographical or ethnic links to the Middle East or other parts of the world that are currently considered to present a high risk of terrorist activity
- It does not operate an independent foreign policy or have any military installations so is unlikely to attract the attention of terrorists
- International transport links to and from Guernsey are confined to the UK and France so it is unlikely to be attractive as a transit jurisdiction.

On that basis the domestic risk has been assessed as very low.

International risk

This is considered to be the main TF risk faced by Guernsey. It arises in two ways.

The first is in relation to the cross-border business carried out by the financial services sector (i.e. banking, insurance, investment, fiduciary and money services businesses) and the online gambling sector. The second is in relation to the possible misappropriation or diversion of funds distributed internationally by Guernsey NPOs.

There are no indicators from the information available within the jurisdiction of any TF-related activity regarding Guernsey's cross-border business. The authorities have also looked from this perspective at information from international typologies and the risk assessments carried out by jurisdictions with close ties to Guernsey and, while they recognize that there is still an incomplete understanding internationally about the full scope of TF activity, particularly with regard to the possible use of sophisticated structures and services, such information as is currently available suggests that the only significant instances of terrorists using the type of cross-border financial service or business that might be relevant to Guernsey involve the banking and money services sectors. This is either to transfer funds to end use or transit countries or to use ATMs in those countries to withdraw cash from accounts held elsewhere, and the sums involved are often small to avoid raising suspicion.

The authorities have therefore looked closely at these sectors. The findings of the financial services supervisory authority are that they have robust CFT controls. In the last 18 months onsite inspections were undertaken to the jurisdiction's two non-bank money services providers, which provide bureau de change services, money transfers services and pre-paid cards. Both entities provide services to visitors to the jurisdiction and the local population. The controls in place to mitigate the risk of TF were found to be sufficiently robust. Although average transaction sizes were very low at around £300 to £400 and £400 to £600 respectively both entities undertook due diligence on all their customers including where remittance values were very low. During the same period the financial services supervisory authority engaged with 10 of the 22 banks registered as money services providers. The majority of these banks provide money transfer services to clients of their core banking activities only and with whom they have well – established relationships, and robust due diligence and monitoring controls were found to be in place.

These findings have been supplemented by a survey issued by the authorities to all banks and other money service providers to obtain information targeted at the specific risks identified internationally in relation to these sectors.

A targeted survey has also been issued to the NPO sector. Only a very small minority of Guernsey NPOs are active internationally. As with cross-border business, there are no indicators from the information available within the jurisdiction of any TF related activity regarding the NPO sector and no concerns about compliance with risk and governance controls. Here too the authorities looked at findings from international sources, and international concern about NPOs appears to arise primarily from the fact that it can be difficult for them to establish the end use of monies that are distributed 'on the ground' in foreign countries. The survey issued by the authorities was therefore targeted at internationally active NPOs whose activities more obviously lend them to making cash distributions of this kind, to assess the extent to which this happens in practice.

The findings from the two targeted surveys and from the other information maintained or considered by the Guernsey authorities relevant to overall TF threats is summarized as follows:

- An extremely low proportion of cross-border business involves jurisdictions that are high risk from a TF perspective
- The number of transfers of funds and cash withdrawals from Guernsey accounts involving end use and transit countries is extremely low in absolute terms, and negligible when considered as a proportion of the overall number of transfers and withdrawals from Guernsey
- Guernsey does not provide Hawala services and there are no domestic or international indicators of terrorists using other types of structures and services which Guernsey does provide (e.g. collective investment schemes, companies, trusts or online gambling services)
- Internationally active NPOs typically provide practical humanitarian assistance by transporting items such as food, clothing and medical supplies abroad, rather than by making distributions by way of cash 'on the ground' to beneficiaries or affiliated support workers and organisations
- The STRs from all sectors related to TF and those from or related to NPOs for other reasons (mainly tax evasion) have been analyzed. The annual figure is either nil or is so low as to be statistically insignificant and it discloses no trends: most have been disseminated to various competent authorities, including the National Terrorist Financial Investigation Unit in the UK, and this did not lead to any follow-up requests for assistance
- To date there has been no other information that would constitute grounds for a TF investigation or prosecution
- To date there have been no TF-related requests for international assistance from any country in relation to TF (apart from a single instance nearly ten years ago relating to an attempted coup in an African country)
- There has been no indication in any UK intelligence briefings or alerts to suggest TF activity in Guernsey
- No assets have been frozen either under UNSCRS 1267 and 1373 or under the criminal justice system on suspicion of being terrorist property

The authorities also considered the CFT controls that Guernsey has put in place. These are considered to be strong for the following reasons:

- Guernsey has a comprehensive legal framework that either meets or goes beyond international TF standards
- The findings of the supervisory authorities are that the levels of awareness and compliance with CFT obligations (including training on TF issues) among reporting entities are high

- The findings of the NPO Registrar are that levels of compliance with risk and governance obligations by NPOs are high
- There are fortnightly briefings between the FIU and Guernsey Special Branch about on-going risks of terrorism and TF, and information is passed on to other authorities as necessary using well established multilateral information sharing mechanisms to ensure that there are no gaps in the jurisdiction's awareness of these issues.

On the basis of these findings the international risk has been assessed as low.

APPENDIX 2 – CASE STUDIES

The case studies below are examples of ways in which criminals have used or attempted to use Guernsey for the purposes of money laundering. The cases have been chosen to illustrate each of the different aspects of the criminal justice system involved in tackling money laundering, namely domestic money laundering investigations and prosecutions, the activities of the FIU in receiving and analysing reports of suspicion and disseminating intelligence reports to other authorities, and the provision of information to other jurisdictions in evidential form under the mutual legal assistance process. A case involving a joint investigation with other jurisdictions has also been included.

There is a degree of overlap between the different categories of cases, as an investigation or MLA request often follows a dissemination of intelligence from the FIU. In addition, a small number of cases involve activity by other authorities, namely the Revenue Service in some tax evasion cases and the Policy & Resources Committee in one case involving a sanctions breach.

For ease of reference, each case study has been given a heading which sets out the specific domestic sectors or products involved and the underlying offence (including whether it is domestic or foreign). To be clear, where there is a reference in the heading to a legal person or legal arrangement, this means a legal person or legal arrangement established in the Bailiwick, and references to a TCSP mean a Guernsey-licensed TCSP.

In line with the findings in Guernsey's money laundering and terrorist financing risk assessment, a large number of the case studies involve corruption or fraud. It is important to be aware that, while corruption cases typically relate to illicit enrichment through activities such as outright theft of state assets or the awarding of contracts to family members or associates, some cases also involve bribery. To make this distinction clear, where a corruption case involves bribery, this is specifically referred to in the heading. Similarly, in fraud cases where the fraud in question is tax evasion, this has been specifically identified as the underlying offence in the heading.

No case studies on terrorist financing are included, as the jurisdiction has no experience of being used for these purposes to date.

Investigations and prosecutions

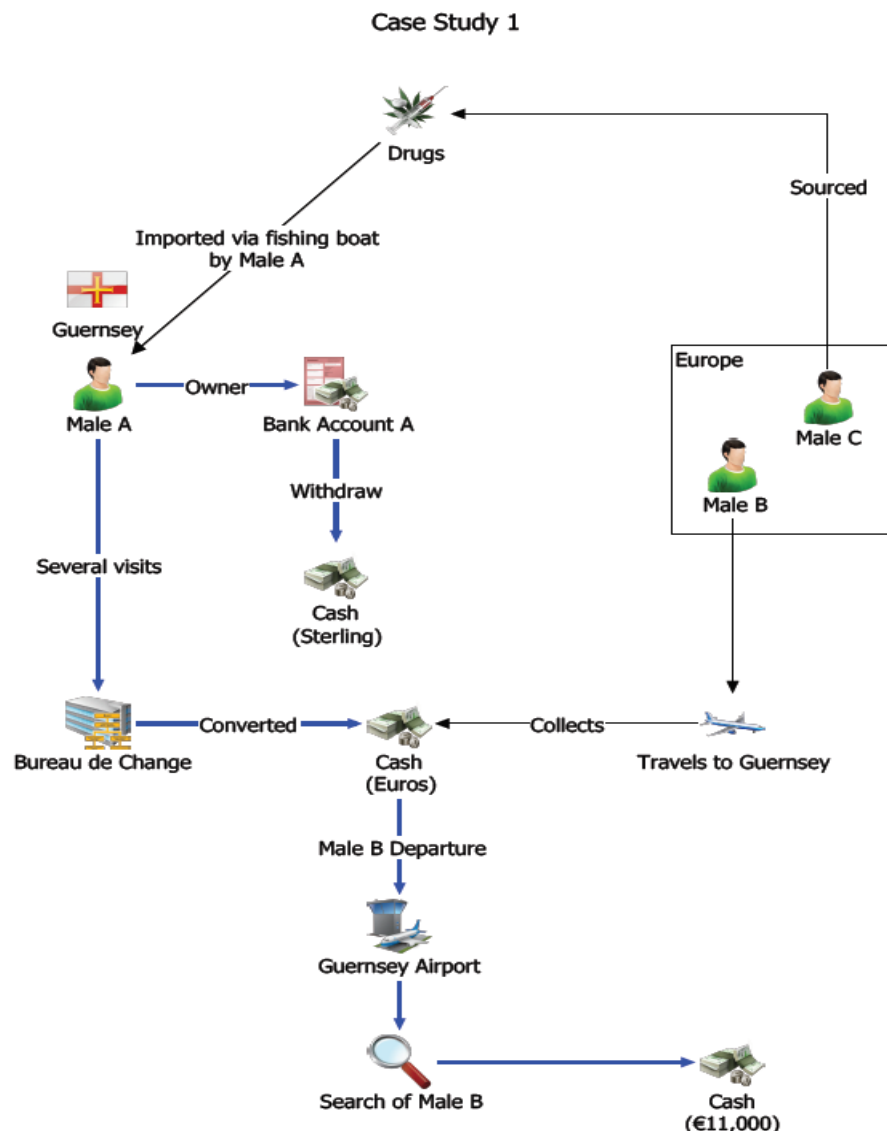
CASE STUDY 1

Sector/product: banking sector/MSP sector/cash

Underlying offence: domestic drug trafficking

A Guernsey- based drug trafficker (Male A) was involved in the importation of drugs from Europe under the cover of his professional activities as a fisherman. He was then laundering the proceeds by depositing funds into his Guernsey bank account (bank account A) and also by "smurfing", using a local bureau de change to convert small amounts of sterling into euros.

An associate of Male A (Male B) travelled to Guernsey from Europe via Jersey to meet Male A. Male B was searched on leaving Guernsey and €11,000 was found to be concealed on his person. An investigation established that the drugs being brought into Guernsey by Male A came from Male C, the brother of Male B. Male A and Male B were subsequently prosecuted for money laundering offences and both received custodial sentences.



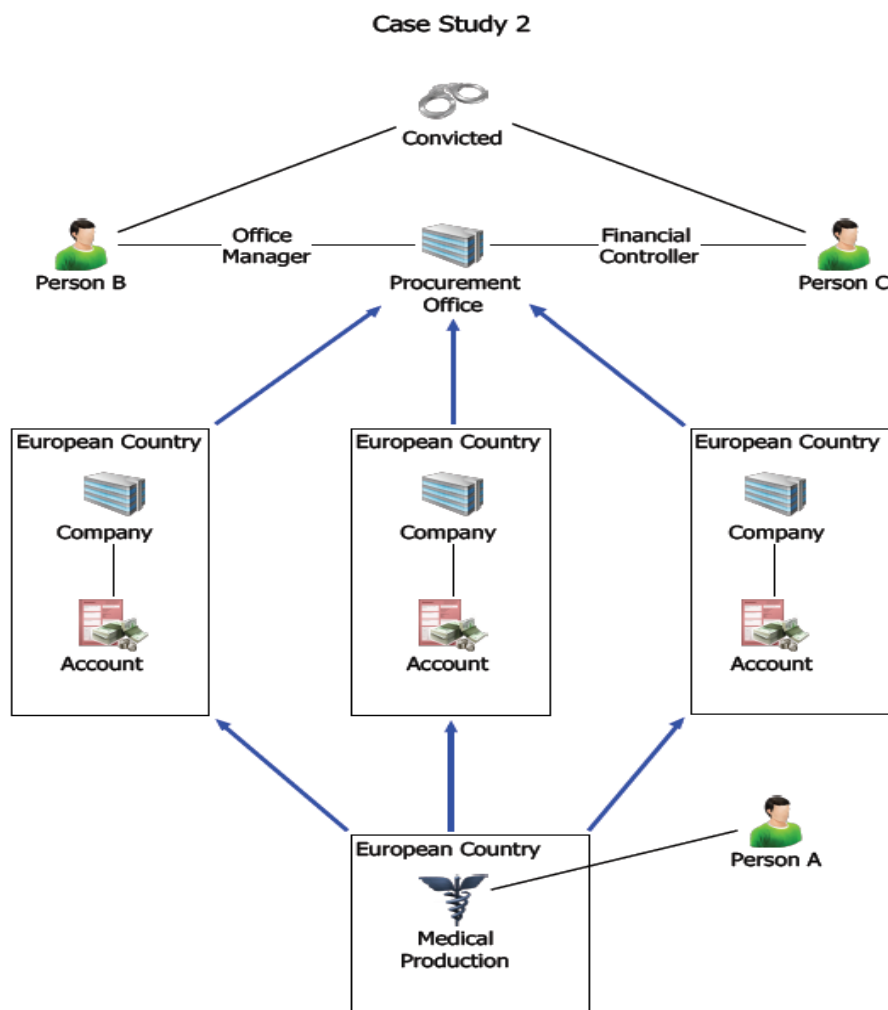
CASE STUDY 2

Sector/product: foreign legal persons

Underlying offence: domestic and foreign sale of unlicensed medical products

A locally based businessman (Person A) had for many years been attempting to market and sell a new medicinal product said to cure a number of life threatening diseases. As a result of intervention by the medicines regulators in Guernsey and a European country, and also the Guernsey regulator, Person A's operations in Guernsey were closed down. He was subsequently convicted in the UK of manufacturing and distributing an unlicensed product together with money laundering over a four year period.

The Guernsey investigation and prosecution concentrated on a subsequent period where the operation had gone underground using a myriad of companies and bank accounts located in three different European countries, with production moved to a rural site in a fourth European country. Two individuals in Guernsey (Persons B and C) had been involved in the operation as office manager and financial controller respectively. They had put their names to foreign based companies designed to conceal the identity of the ultimate beneficiary and core business. After numerous legal challenges, both were convicted of facilitating money laundering, using evidence obtained under the MLA process from 5 different jurisdictions.



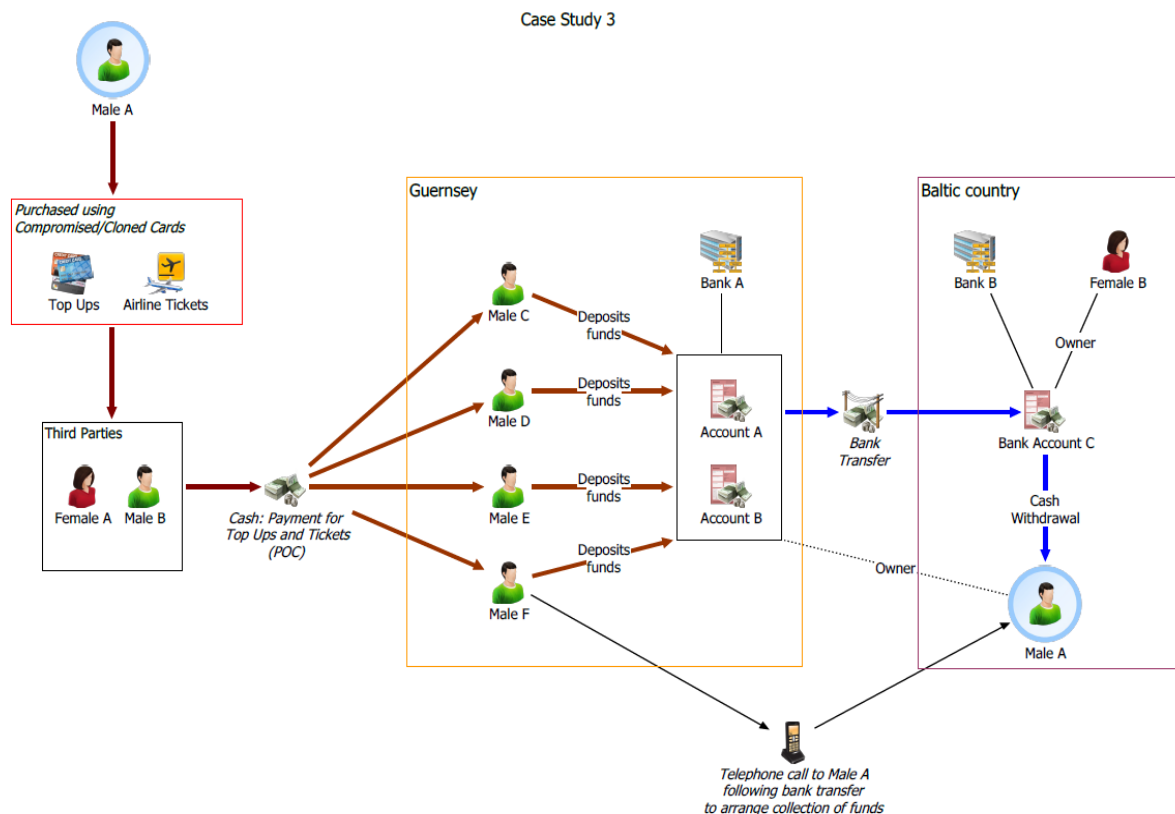
CASE STUDY 3

Sector/product: banking sector/cash

Underlying offence: foreign fraud

An organised criminal group operating in Guernsey and in a Baltic country used the Guernsey retail banking sector to launder the proceeds of credit card fraud. The ringleader (Male A) was facilitating the crime from the foreign country and was using straw men based in the Channel Islands to launder the proceeds. Male A would, on request from multiple third parties (*depicted for ease of reference in the diagram below as Female A and Male B*), purchase airline tickets and mobile phone 'top-up' credits using compromised or cloned credit cards. Female A or Male B would pay a fixed sum, in cash, to straw men in the Channel Islands (Males C, D, E and F). The straw men would then deposit the cash into Guernsey retail bank accounts A and B, which were controlled by Male A. Male A would then transfer the funds from bank accounts A and B to bank account C, which was an account at bank B in the Baltic country operated and controlled by Male A's partner Female B. The funds would be withdrawn in cash from bank account C by Male A. When Male A returned to Guernsey from the Baltic country he was prosecuted for money laundering and fraud offences, for which he received a custodial sentence. Males C, D and E were arrested in Guernsey and charged with money laundering offences. The three subsequently absconded and remain wanted by the Guernsey authorities.

Male F was prosecuted for fraud offences in Jersey, for which he received a custodial sentence.



CASE STUDY 4

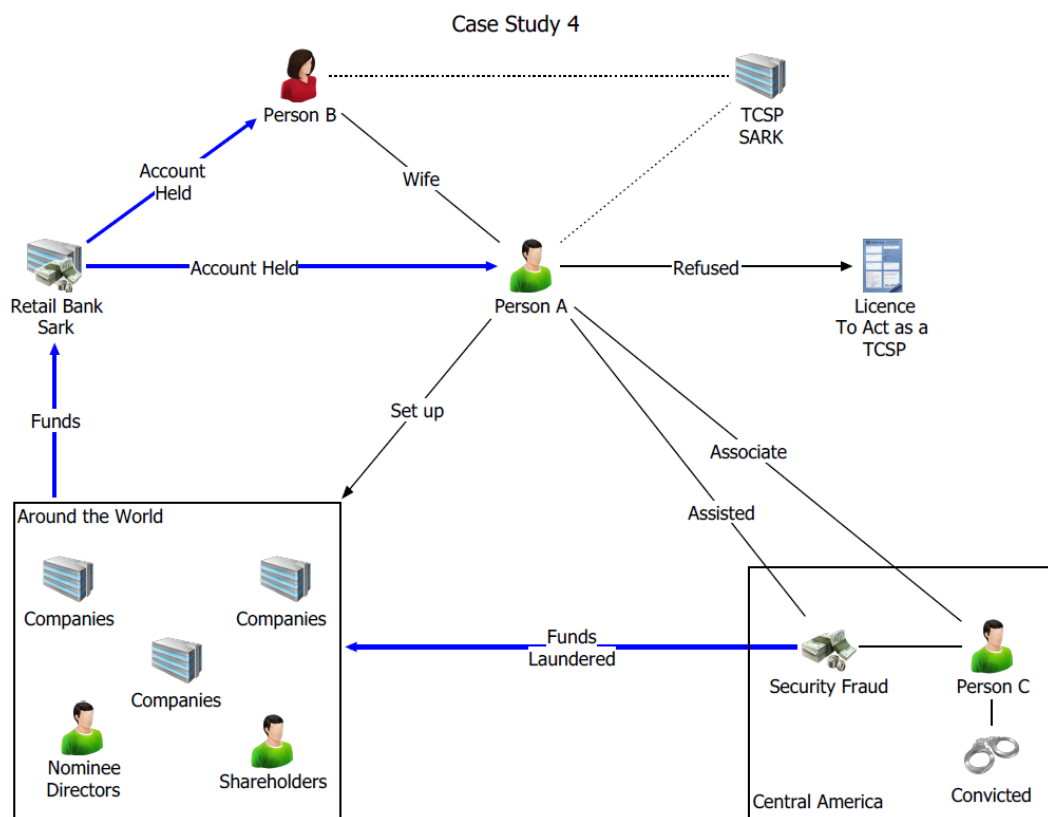
Sector/product: TCSP sector (unlicensed)/banking sector

Underlying offence: foreign fraud

An individual resident in Sark (person A) was refused a licence from the GFSC to act as a TCSP. He and his wife (person B) then purported to operate a TCSP business from another jurisdiction but in reality were continuing to operate the business from Sark. A friend of person A based in Central America (person C) was involved in a USD \$90m securities fraud by manipulating the price of commodities on the stock market in a North American country. Person A assisted in the fraud by setting up companies around the world with nominee directors and shareholders, which were used to disguise the true beneficial ownership of bank accounts connected to brokerage accounts for stock. In addition, person A laundered some of person C's proceeds through a series of companies and bank accounts in other jurisdictions.

Person C was convicted of fraud in the North American country and received a custodial sentence. Following the arrest of person C in that country, persons A and B liquidated the remaining stock held by two of the companies which person A had set up and transferred the proceeds to a retail bank in Sark.

Persons A and B were prosecuted in Guernsey for money laundering (and other offences) on the basis of evidence obtained from 6 different jurisdictions. Both received custodial sentences.



CASE STUDY 5

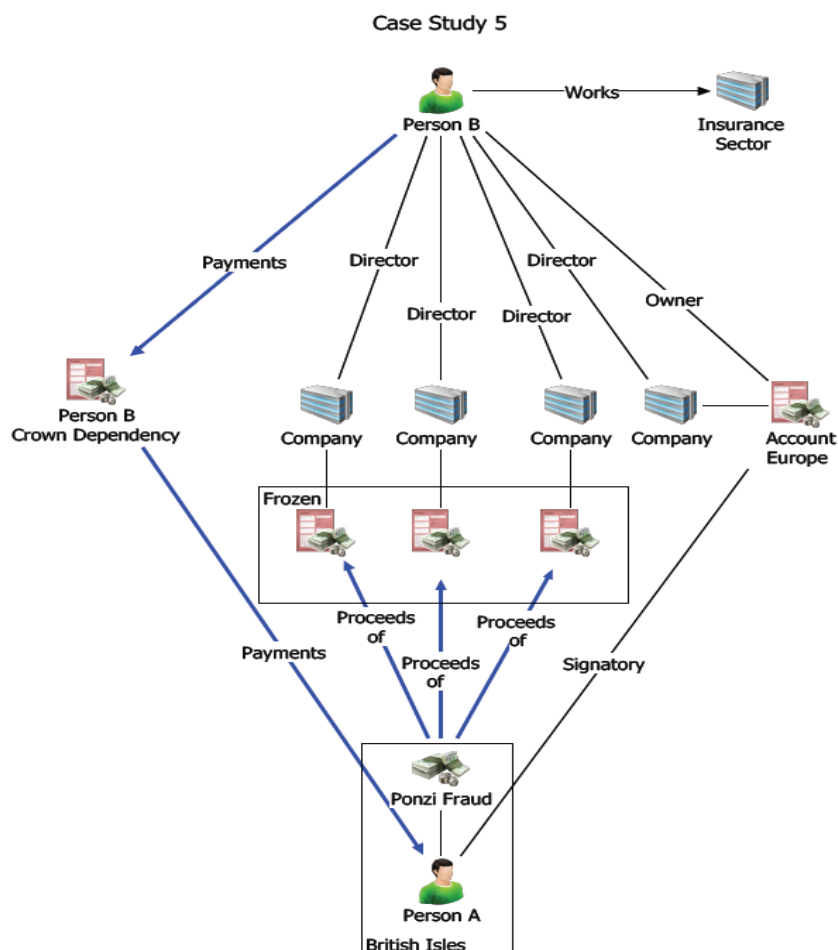
Sector/product: banking sector

Underlying offence: foreign fraud

A foreign national (person A) was involved in a series of Ponzi frauds involving over USD \$12m that were perpetrated against persons in the UK and in North America. An individual working in the insurance sector in Guernsey was the director of a number of Guernsey companies that had bank accounts in the jurisdiction. Some of the proceeds of person A's frauds were channelled through those accounts. When this came to light the accounts were frozen and person B was questioned. He denied any knowledge of fraud and claimed to believe that the funds were commission payments relating to property deals. Person B was warned not to have any further dealings in respect of funds from person A.

Person B then opened a bank account in a European country for one of his companies with person A as a signatory. He made a payment to himself from an account which he had opened in another Crown Dependency when his Guernsey accounts were frozen, followed by a series of payments to person A from the same account. He also made payments to person A from the account of one of his Guernsey companies and attempted to obtain the unfreezing of another Guernsey account to enable person A to make payments from it.

Person A was convicted of fraud in the UK and received a custodial sentence. Subsequently person B was prosecuted for money laundering in Guernsey. He was convicted and received a custodial sentence.



CASE STUDY 6

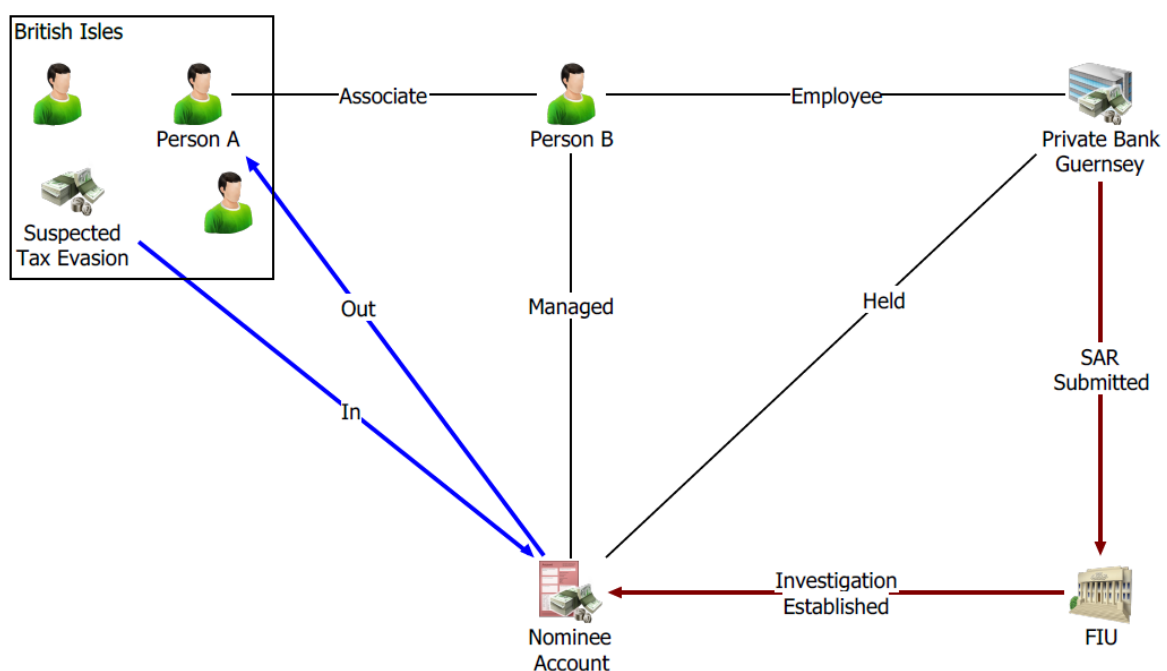
Sector/product: banking sector/cash

Underlying offence: foreign tax evasion

A number of individuals in the UK were engaged in tax evasion, including one (person A) who had a connection with an employee of a private bank in Guernsey (person B). Pursuant to an agreement between persons A and B, person B managed a bank nominee account so as to permit cash comprising the proceeds of the group's tax evasion to enter the banking system without arousing suspicion. Person B then created a false audit trail which enabled him to deliver cash back to person A for his use or that of other group members.

When person B's activities came to the attention of the bank it made a SAR. The subsequent investigation established that none of the parties involved had been convicted of tax evasion in their home jurisdiction. Person B was therefore prosecuted for money laundering on the basis that underlying tax evasion offences could be inferred. This was accepted by the court. Person B was convicted of money laundering and received a custodial sentence.

Case Study 6



CASE STUDY 7

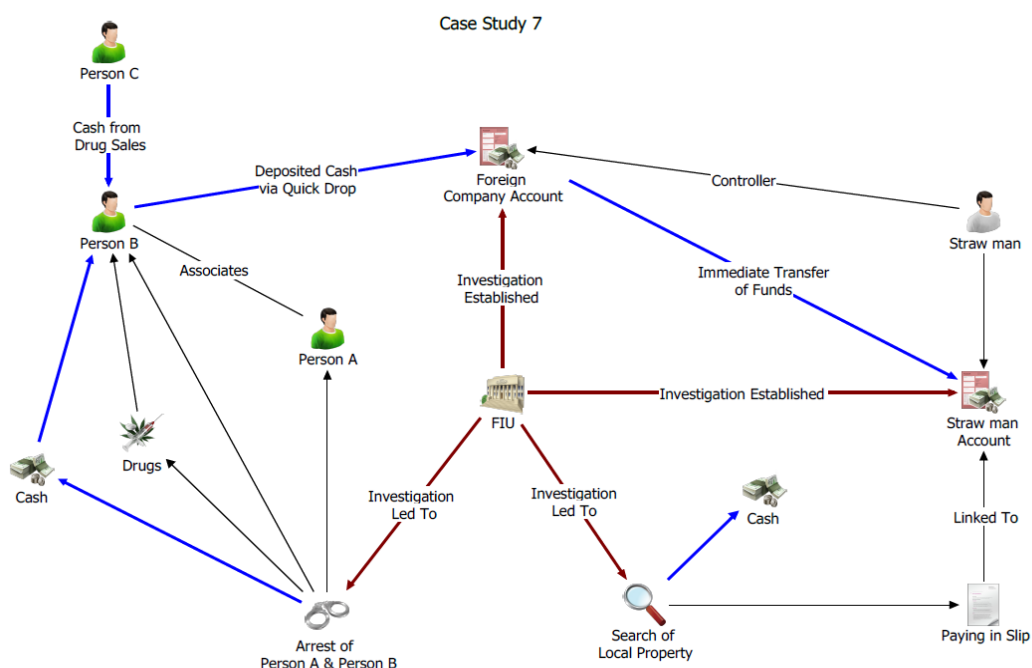
Sector/product: banking sector

Underlying offence: foreign drug trafficking

An organised crime group operating in Guernsey and a foreign jurisdiction were involved in the commercial importation of controlled drugs into Guernsey. The main actor in the UK, Person A, utilised a pleasure craft to import a quantity of drugs into Guernsey from that jurisdiction. Person A and an associate, Person B, subsequently supplied the drugs to the main actor in Guernsey, Person C. The proceeds from selling the drugs in Guernsey were controlled by Person C until sufficient funds had been received to pay Person A and Person B.

The FIU identified that known associates of Person A were frequenting a number of Guernsey retail banks and it was suspected that this was in order to use the banking system to transfer the proceeds of drug trafficking to the foreign jurisdiction. The FIU established that Persons A and B were using a 'straw man' based in the foreign jurisdiction to facilitate the transfer of money from Guernsey. A financial investigation further established that Person B had deposited £3,000 using a 'quick drop' facility at the retail bank into an account in the name of a company in the foreign jurisdiction controlled by the straw man, and the funds were then immediately transferred to another account controlled by the straw man. Person B subsequently deposited further sums of £2,650 and £1,900 into another account attributed to the 'straw man'. The financial investigation identified the 'straw man' depositing cash (circa £1,000) at the retail bank. The straw man, Person A and Person B were subsequently arrested and cash (£1,100) and a small amount of controlled drugs were found on Person B. A subsequent search of a local property identified a further sum of approximately £12,000, and a bank paying-in slip attributed to the 'straw man' was also found in the property.

The investigation could not identify sufficient evidence to charge Person A, Person B or the straw man with money laundering, but the cash seized during the investigation was identified as the proceeds of Person B's unlawful conduct and was forfeited using civil asset recovery powers.



CASE STUDY 8

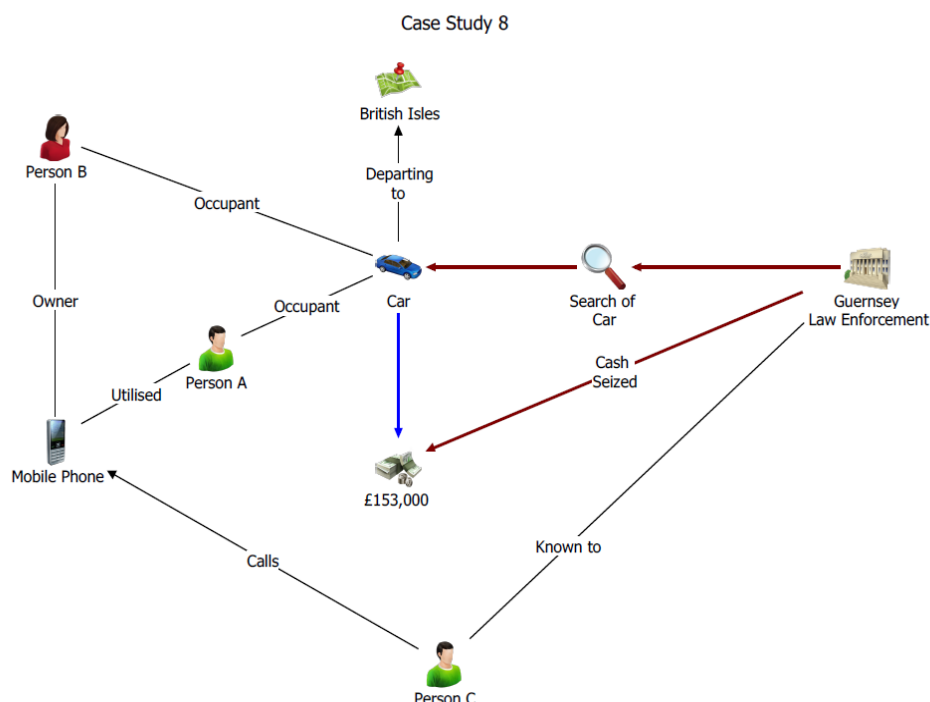
Sector/product: cash

Underlying offence: unspecified

Law Enforcement officers were undertaking overt checks of vehicles departing Guernsey for a ferry port in the UK utilising a cash detector dog, when they stopped a vehicle for further examination. The occupants were a father (Person A), daughter (Person B) and granddaughter, all of whom were residents of the UK and who when questioned denied that they were carrying any large amounts of cash. Following a positive indication from the cash detector dog, the vehicle was searched and cash totalling £153,000 was discovered. £83,980 of this was in Channel Island notes.

Person A claimed that he had brought £90,000 to Guernsey and the remaining £63,000 he claimed to have won in a card game whilst in Guernsey. A subsequent check of a gambling company's records in the UK showed that he had either broken even or lost money over the past two years. Person B claimed that Person A had said he was taking her away for a surprise weekend. Person A had utilised Person B's mobile phone whilst in Guernsey and an examination of the phone identified repeated contact with a mobile phone that was located in the area of the ferry terminal to which Person A and B were due to travel. The same mobile phone had been used repeatedly to contact Person B's mobile telephone during the time that Person A and B were in police custody. The mobile phone also received several incoming calls from a person (Person C) who was known to law enforcement.

Person A could not provide evidence as to the provenance of the funds in his possession and he was subsequently convicted of acquiring, using or possessing money which he knew represented the proceeds of another's person's criminal conduct. The case is particularly noteworthy because no specific underlying offence could be identified as the source of the proceeds, and the court inferred that the cash was the proceeds of crime based on circumstantial evidence. This was the first time such an approach had been successfully utilised in the jurisdiction.



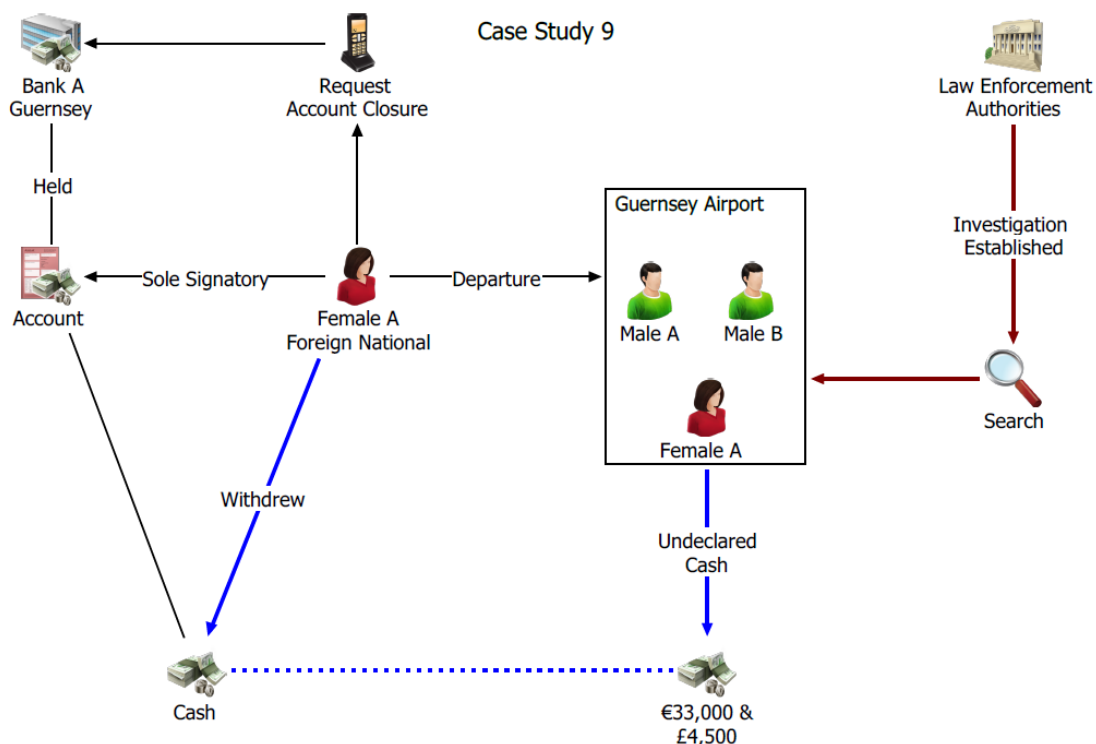
CASE STUDY 9

Sector/product: cash

Underlying offence: foreign tax evasion

A foreign national (Female A) was the sole signatory on an account (account 1) with a Guernsey retail bank (bank A). Female A contacted bank A to request that the account be closed and the balance of the account, circa £40,000, made available in cash, which she would travel to Guernsey to collect in the company of some colleagues. Female A collected the cash and, accompanied by Male A and Male B, attempted to depart from Guernsey Airport without making a cash declaration, despite having been advised by bank A that the cash would need to be declared to the Guernsey authorities as it exceeded €10,000. A search of Male A, Male B and Female A identified a total of €33,000 and £4,500 undeclared cash which was linked to possible tax evasion in Female A's home jurisdiction.

Male A, Male B and Female A were prosecuted for breach of cash controls and each received a fine. Intelligence about their activities was forwarded to the tax authorities in the home country of Female A.



FIU activity

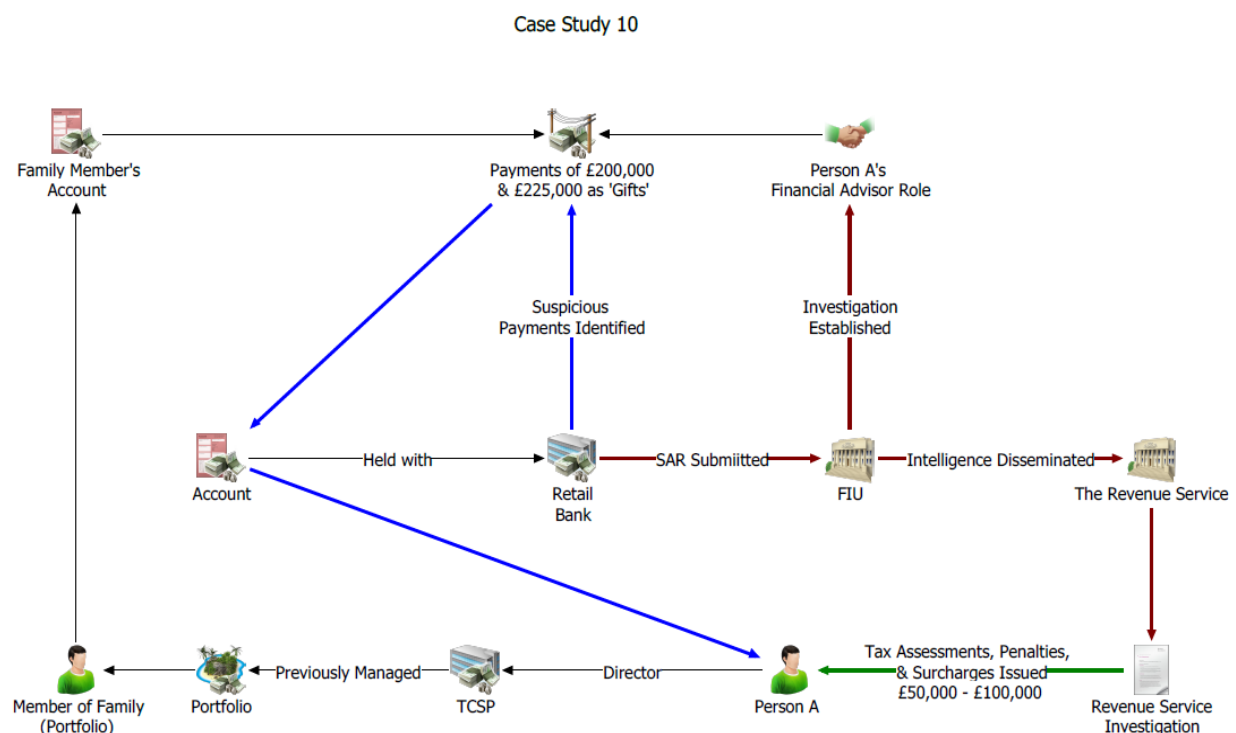
CASE STUDY 10

Sector/product: banking sector

Underlying offence: domestic tax evasion

Person A was a director of a TCSP that managed a portfolio for a wealthy family resident in a foreign country, and had received regular salary payments from the TCSP until ceasing to work for it. Person A had an account with a retail bank, which identified that Person A was receiving payments from a third party totalling approximately £200,000. Person A informed the bank that a further sum of £225,000 would be arriving from the third party in respect of a gift. The bank suspected that the monies could be undeclared taxable income and made a SAR to the FIU. The FIU established that third party payments originated from a member of the family whose portfolio Person A had managed while working for the TCSP. The FIU further established that this portfolio had moved to a TCSP in another jurisdiction. The FIU disseminated the information to the Revenue Service. An investigation by the Revenue Service established that after ceasing to work for the TCSP, Person A had commenced employment as a financial advisor to the same wealthy family, and the third party payments which Person A had claimed were gifts were in fact payments made in return for the provision of financial services that Person A was providing to the family. The investigation also uncovered further undeclared income which Person A had attempted to evade paying tax on.

The Revenue Service raised additional assessments to collect the unpaid tax and applied late payment surcharges and civil fiscal penalties, with a total settlement figure falling within the £50,000 to £100,000 bracket.



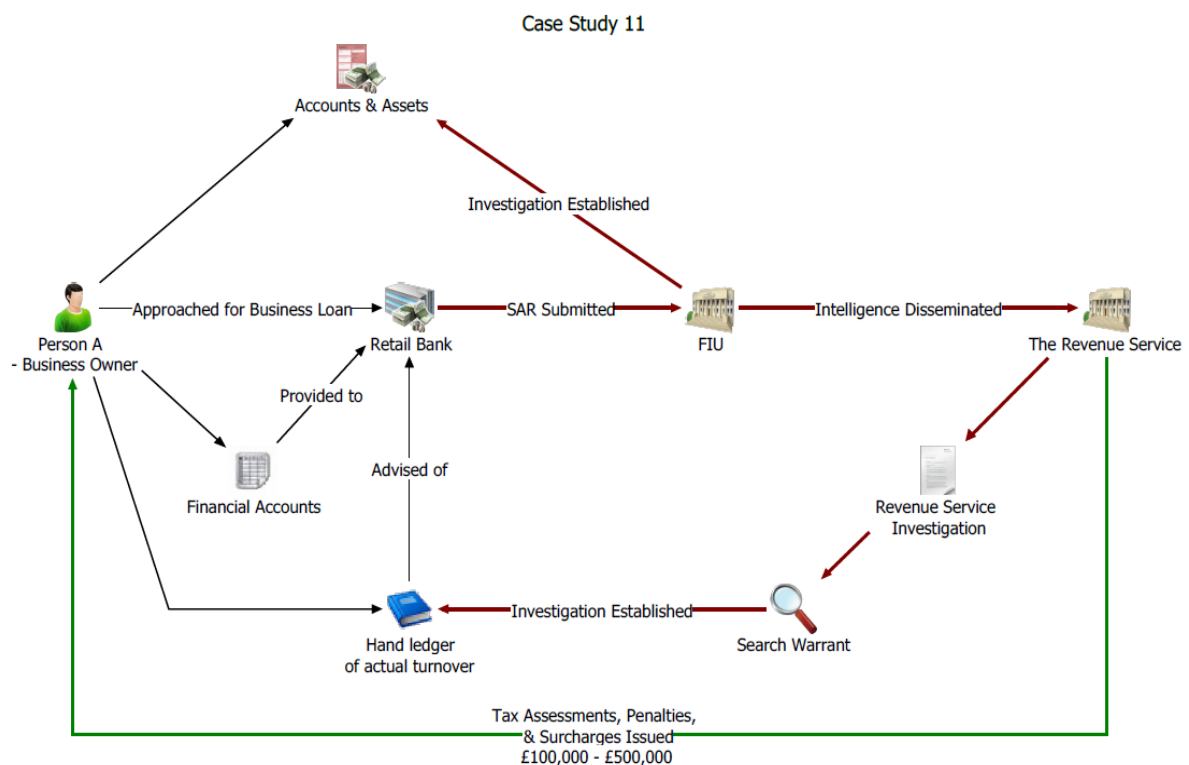
CASE STUDY 11

Sector/product: accountancy sector/banking sector

Underlying offence: domestic tax evasion

Person A was the owner of a number of local businesses that primarily received payments in cash. Person A approached a retail bank to obtain a loan to improve the premises of one of the businesses. Person A provided the bank with a set of detailed financial accounts, and informed the bank that there was also a handwritten ledger which gave more information on the actual turnover of the business, which was considerably more than the financial accounts listed. The bank suspected that Person A might not be declaring all earnings from the business to the Revenue Service, and made a SAR to the FIU. The FIU subsequently identified further accounts and assets attributed to Person A and a detailed report was provided to the Revenue Service.

Based on the information provided, the Revenue Service suspected that Person A was evading income tax in Guernsey and there was a significant risk that records could be destroyed. It therefore used its investigatory powers to obtain a search warrant. Working with the FIU, the Revenue Service established that Person A was running two financial ledgers, one detailing the actual income of the businesses and one which was provided to an accountant and grossly understated of the income from those businesses. The accountant had produced the annual accounts and tax computations in good faith based on the false information supplied, which had enabled Person A to evade liability for income tax. The Revenue Service raised additional assessments to collect the unpaid tax and applied late payment surcharges and civil fiscal penalties, with a total settlement figure within the £100,000 to £500,000 bracket.



CASE STUDY 12

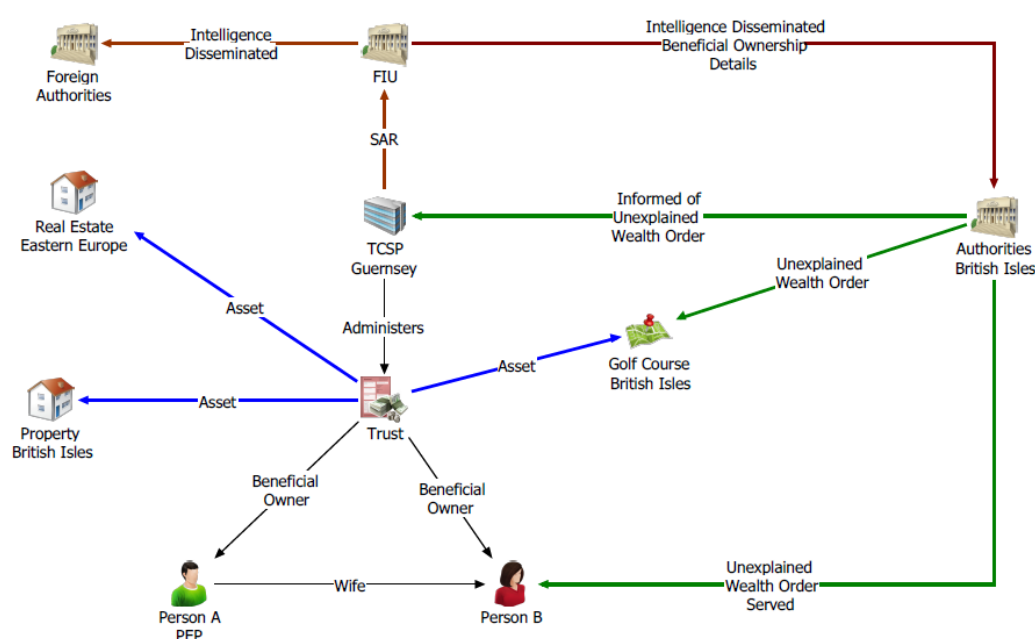
Sector/product: TCSP sector/legal arrangement

Underlying offence: foreign corruption

A TCSP administered a trust structure for a foreign PEP (person A) who was the chairman of a major state-owned international bank. The trust assets included properties in the British Isles and Europe, a golf club in the British Isles and commercial real estate in Eastern Europe. The beneficiaries of the trust were person A and his wife (person B). Person B resided in the British Isles. The TCSP established that following person A's resignation from the bank, the trust structure experienced liquidity issues. Person A's advisors stated that person A's income had reduced and person A was looking at restructuring the trust and nominee arrangements. The TCSP then conducted checks on person A and identified open source information in relation to possible involvement in corruption and defrauding the state-owned bank, including the fact that person A had been arrested in the foreign country in 2015. The TCSP submitted a SAR and the FIU disseminated intelligence in relation to persons A and B to the country of residence of person B and to the foreign country. The administration of the trust was then transferred from Guernsey to another jurisdiction in 2017 (the relevant authorities were duly informed of the transfer).

Subsequently the FIU in the country of residence of person B obtained beneficial ownership information from the FIU in relation to Person A and the trust administered by the TCSP. The authorities in the country of residence of person B then served an Unexplained Wealth Order (UWO) application on person B, and obtained information from the TCSP about a property in the UK which it had administered on behalf of person A. The investigation in Person B's country of residence established that she had used fraudulently obtained funds from person A to purchase assets and property but no legitimate source for the funds from person A could be determined. Consequently an UWO was made against Person B requiring her to establish the source of the funds that she had acquired. The case is ongoing.

Case Study 12



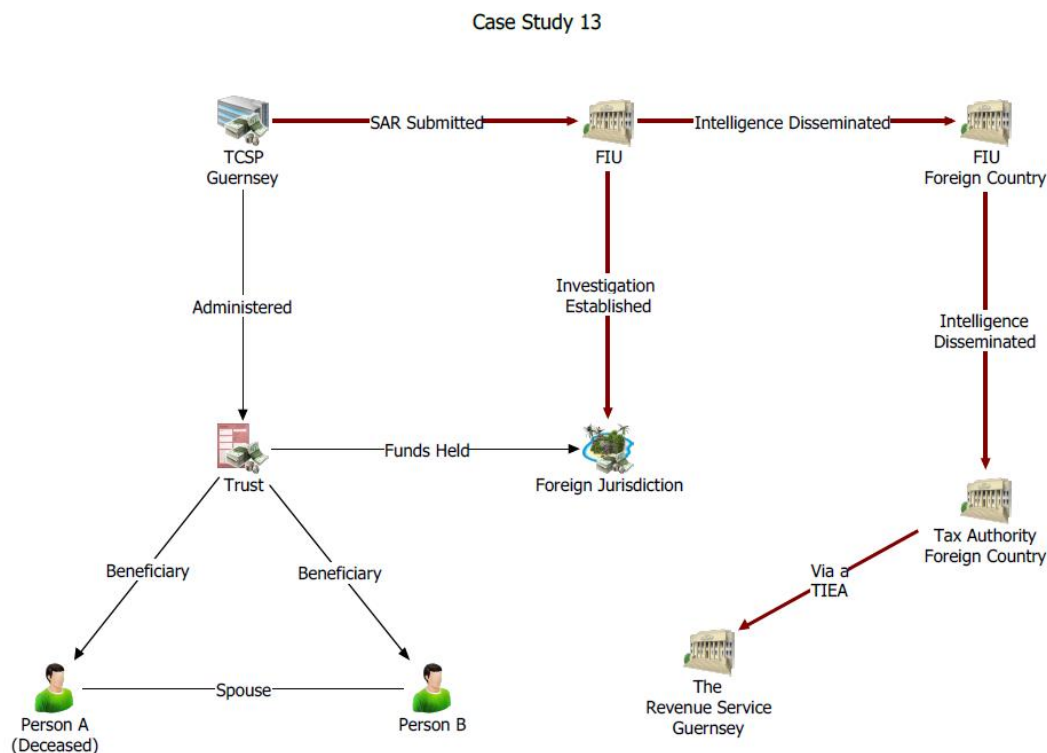
CASE STUDY 13

Sector/product: TCSP sector

Underlying offence: foreign tax evasion

A TCSP administered a trust with a settlor resident in a foreign jurisdiction. The primary beneficiary of the trust (Person A) had died 5 years previously and the beneficiary was now Person A's spouse (Person B). The funds for the trust were held in a bank account in another jurisdiction. The TCSP could not establish the source of the trust funds and suspected that the trust had been established to circumvent tax or foreign exchange regulations. It therefore made a SAR to the FIU.

The FIU disseminated intelligence from the SAR to the FIU in Person B's country of residence and subsequently received a request from that FIU to disseminate the intelligence to their tax authority, which was granted. The foreign tax authority then commenced an investigation and obtained information from the Revenue Service via a TIEA.



CASE STUDY 14

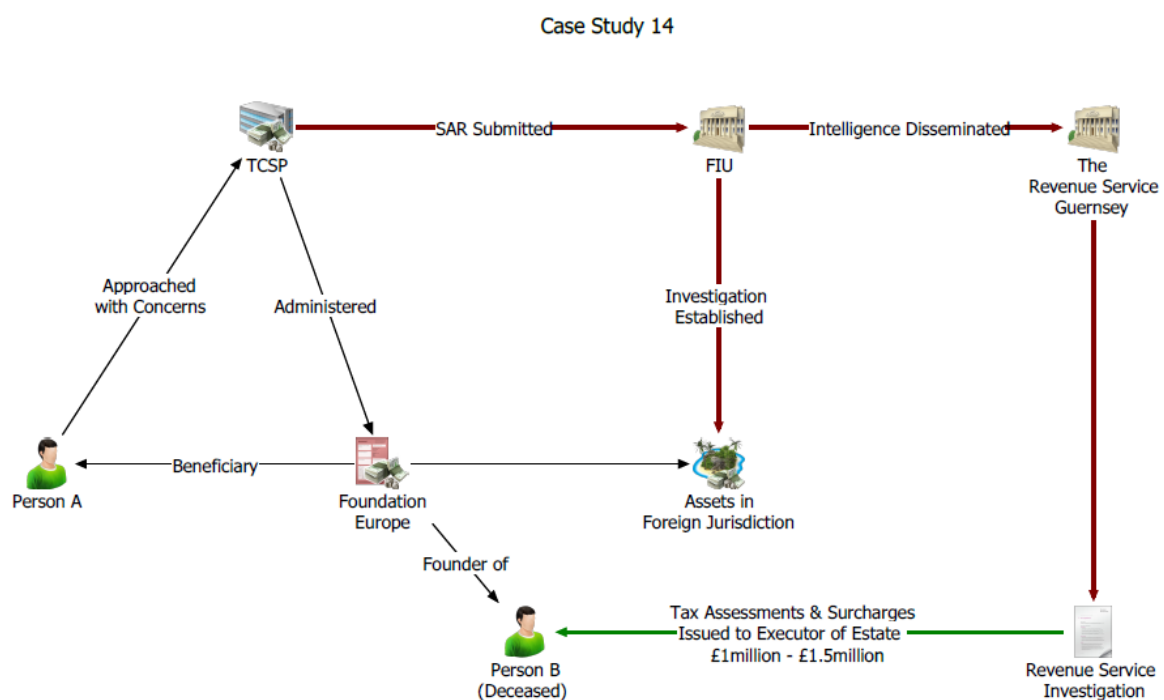
Sector/product: TCSP sector/foreign legal person

Underlying offence: domestic tax evasion

A TCSP received an application for a new business relationship with a client from another jurisdiction within the British Isles (Person A). Person A was a beneficiary of a foundation established in an IFC in Europe which was administered in a different IFC (also in Europe) on behalf of a deceased Guernsey resident (Person B). Person A raised concern with the TCSP that Person B had not declared the foundation assets to the Revenue Service while resident in Guernsey. The TCSP therefore made a SAR to the FIU.

The FIU established that the foundation assets, which totalled more than £8.5 million, were invested in a foreign jurisdiction. The Revenue Service commenced an investigation, which established that Person B was the founder of the foundation and should have declared the income generated from the assets of the foundation to the Revenue Service.

The Revenue Service raised additional assessments upon the executor of the estate to collect the unpaid tax and applied late payment surcharges, with a total settlement figure falling in the £1m to £1.5m bracket. (It was not possible to impose civil fiscal penalties, as Person B was deceased).



CASE STUDY 15

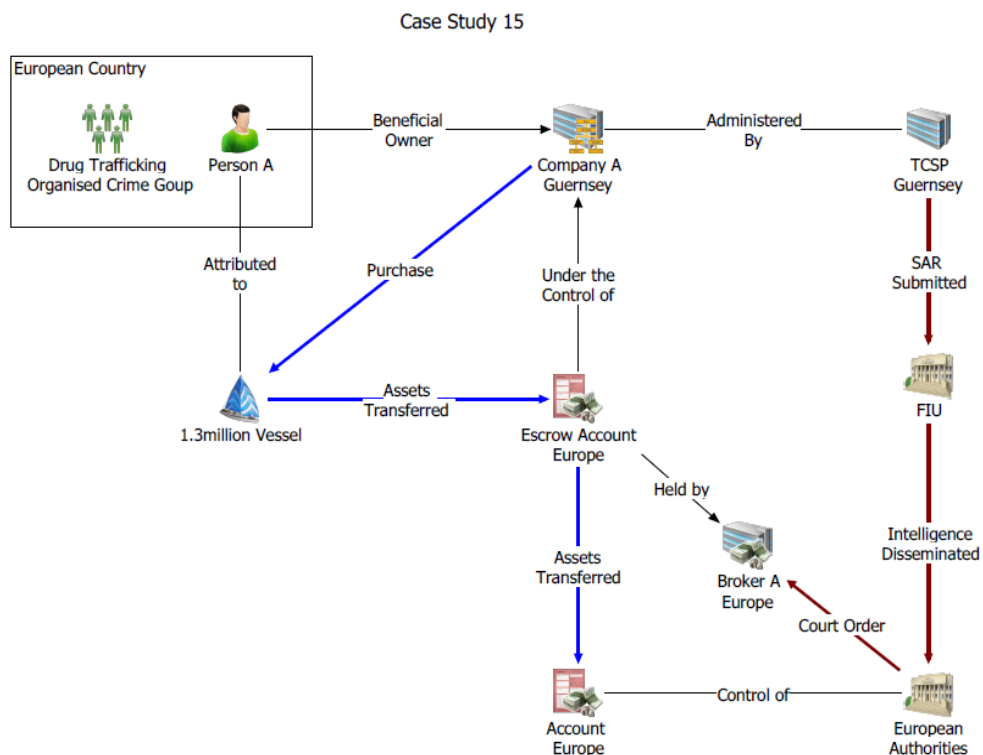
Sector/product: TCSP sector/legal person

Underlying offence: foreign drug trafficking

A national of a European country, person A, was in custody in that country pending trial for drug trafficking, money laundering and participation in an organised crime group following the seizure by the authorities of 1.2 tonnes of cocaine. Person A was the ultimate beneficial owner of a Guernsey company (company A), which was administered by a TCSP and which had purchased a vessel (vessel A) for €1.3 million.

The TCSP filed a SAR and as the value of vessel A was dissipating, sought consent from the FIU to sell it and transfer the assets to a bank account under the control of company A, which was granted. A yacht broker (Broker A) sold vessel A, and the TCSP attempted to open a bank account in Guernsey for company A in which to deposit the funds from Broker A. The bank refused the business as its CDD identified that the funds were attributed to person A and therefore suspected to represent the proceeds of crime. The funds were therefore transferred to an escrow account in person A's home country held by Broker A and remained under the control of company A.

The FIU disseminated the intelligence analysed from the SAR to the FIU in person A's home country and continued to liaise closely with the authorities there. In October 2017 a court in that country ordered Broker A to transfer the money attributed to person A to a bank account under the court's control. This was done with the consent of the Guernsey FIU. Person A was subsequently convicted of drug trafficking in his home country and received a substantial prison sentence and fine.



CASE STUDY 16

Sector/product: TCSP sector/legal arrangement

Underlying offence: foreign sanctions breach

The FIU received a SAR from a TCSP administering a Guernsey pension scheme about a possible sanctions breach by a UK national who had invested in the scheme (person A).

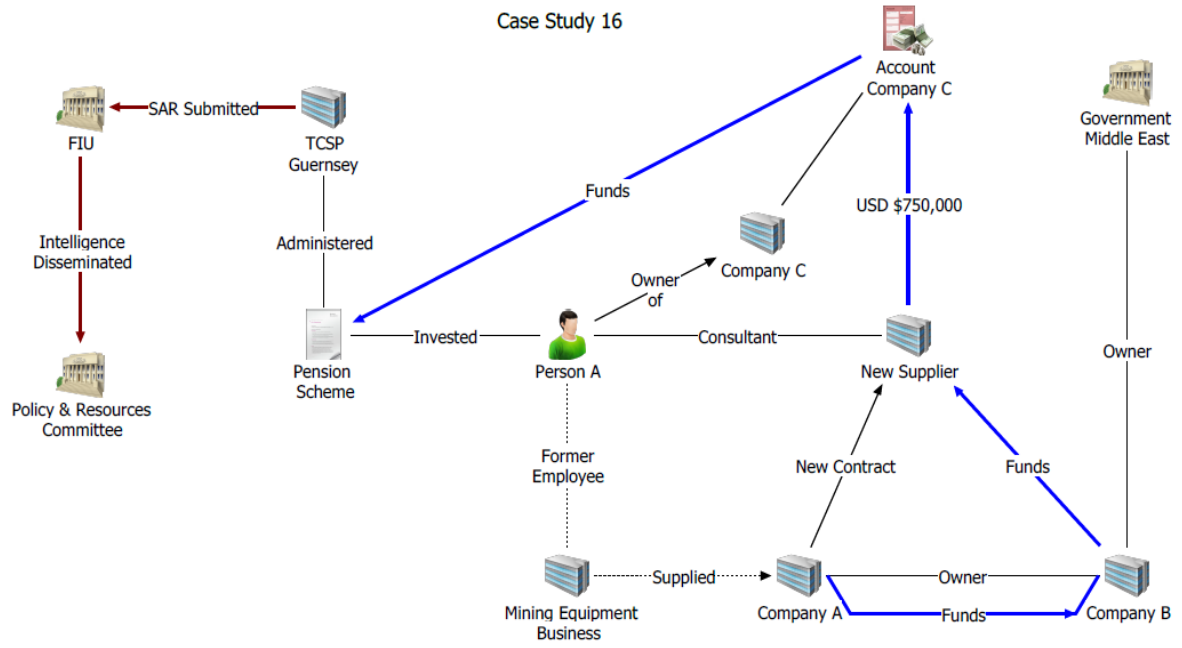
Person A was a former employee of a business that supplied mining equipment to a company (company A) that was a wholly owned subsidiary of another company (company B), which in turn was wholly owned by the government of a country in the Middle East. Person A's employers had ceased to contract with company A following the designation of company B under international sanctions imposed on the country. Company A therefore contracted with a new supplier for the purchase of pump trains to remove waste from a mine it owned and controlled. Person A was engaged by the new supplier as a consultant providing technical services to ensure that the pumps it obtained were in line with the specification in the contract.

Person A was remunerated for his services by a payment of approximately USD \$750,000 which the new supplier made to a bank account in another Middle Eastern country in the name of a company in that country owned and controlled by person A (company C). The payment was made from funds the new supplier had received from company B and therefore, indirectly, from company A.

Person A's investment in the Guernsey pension scheme was made from funds in company C's bank account, which included the payment he had received in connection with the mining operation. On receiving the SAR from the TCSP administering the pension scheme, the FIU liaised with the Policy & Resources Committee (Guernsey's competent authority for sanctions). It was established that although Person A's actions were potentially prohibited under sanctions legislation that had been implemented in Guernsey, there was no breach of Guernsey's sanctions framework because there was no Guernsey nexus to the relevant activity at the time when it took place. However, as a national of a country elsewhere in the British Isles, person A was subject to the sanctions regime of that country at the relevant time and therefore the FIU disseminated intelligence about the case to the authorities in that country.

The authorities in Person A's home country established that person A had failed to obtain the necessary prior authorisation from them for the indirect transfer of funds from Company A. They classified this as a technical breach which would not normally result in enforcement action, other than contacting the party concerned to remind them of their obligations under sanctions legislation. Consideration was given to confiscating the relevant part of the money in the pension scheme using civil recovery powers, on the grounds that it was the proceeds of unlawful conduct. In the event the authorities in Person A's home country decided not to proceed on that basis and the case was closed.

Case Study 16



Mutual legal assistance

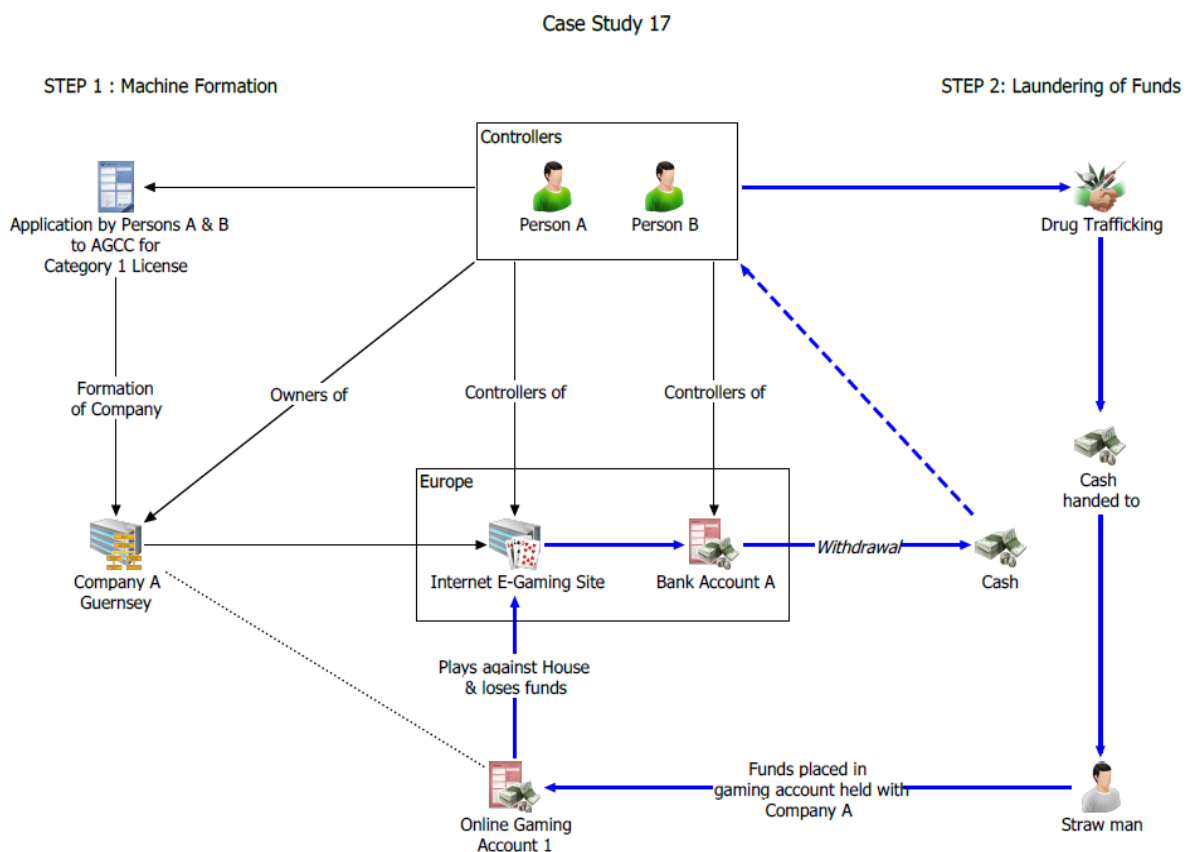
CASE STUDY 17

Sector/product: eCasino sector/TCSP sector/legal person

Underlying offence: foreign drug trafficking

An organised criminal group based in a European country was using an internet based e-gaming casino to launder the proceeds of drug trafficking. Two foreign nationals (Person A and Person B) applied for a licence from the AGCC and formed a Guernsey company (Company A) to set-up the internet e-gaming platform. Persons A and B controlled the e-gaming site and a bank account (bank account A), both of which were based in their home country in Europe. The proceeds of drug trafficking by Person A and B were given to straw men who then set up accounts with the internet casino and subsequently deposited the cash into those accounts. The straw men would then lose the funds which were transferred to bank Account A and then transferred or withdrawn by persons A and B.

Information about the details supplied in support of the licensing application to the AGCC was provided to the authorities in the European country under the mutual legal assistance process. In addition, the AGCC undertook a special investigation and revoked the licence.



CASE STUDY 18

Sector/product: banking sector/TCSP sector/legal person

Underlying offence: foreign bribery and corruption

A request for mutual legal assistance was received from a former Soviet bloc country in connection with a criminal investigation into the activities of person A, the beneficial owner of a TCSP – administered company in another jurisdiction (company A). The case concerned a contract between company A and the Ministry of Defence in the requesting jurisdiction (MOD). Under the contract, company A was to provide the MOD with training for the country's armed forces in return for payment of €5,685,000.00. No training had ever been provided but the MOD had made a payment of €5,060,000 into a bank account in the name of Company A at a Guernsey private bank. The payment was believed to have been made at the instruction of the country's Minister of Defence (person B), who had been charged with aggravated embezzlement and abuse of official authority.

In support of the request the Guernsey bank was approached and it confirmed that it held an account in the name of Company A which was controlled and administered by a TCSP. The TCSP and bank informed the authorities that four transfer of funds had been made from Guernsey to an account in the name of Company B at a bank in the Middle East. Information was obtained from the bank and the TCSP in evidential form and was then provided to the requesting country.

The discovery of the link to the Middle Eastern country in the information provided by Guernsey led the authorities in the requesting country to make a request for mutual assistance to the Middle Eastern country. This in turn resulted in the authorities in the Middle Eastern country making a request for mutual assistance to the Guernsey authorities in support of its own related investigation into the activities of seven individuals and a company concerning suspected offences of fraud, money laundering, foreign bribery and tax offences.

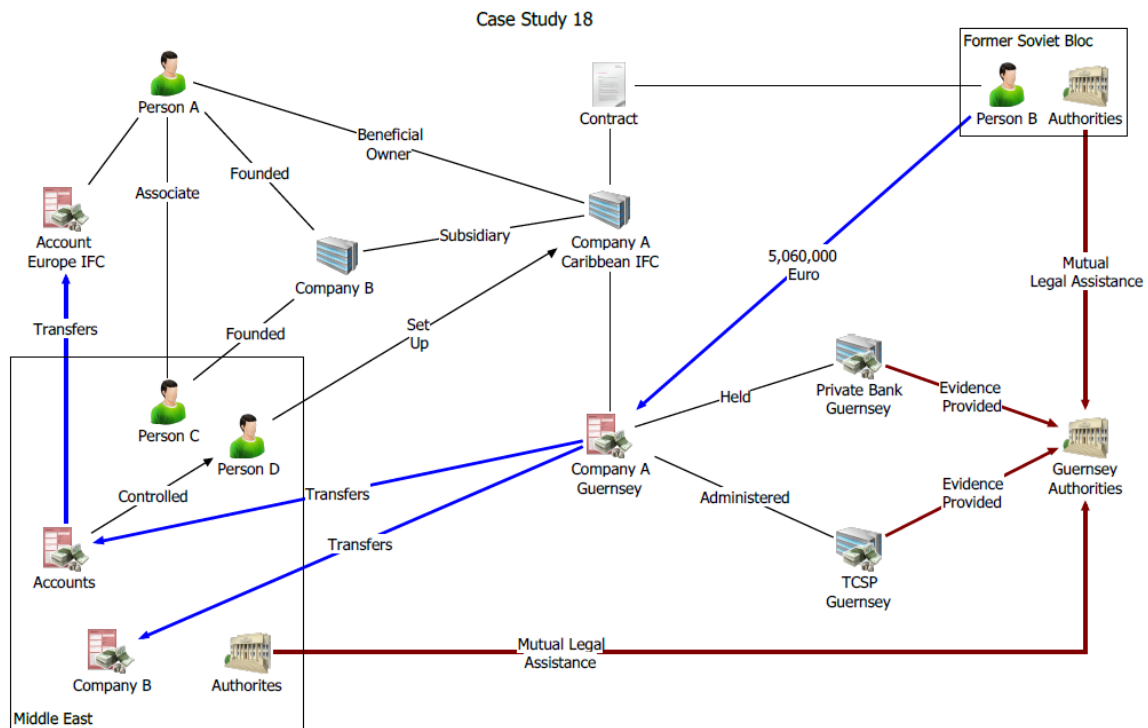
The main subject of the Middle Eastern investigation was a former senior Israeli army officer (person C) who, together with person A and his father, founded a business entity in the Middle Eastern country (company B) which was involved in providing military equipment and training outside that country. Person A and an attorney in the Middle Eastern country (person D) founded company A as a subsidiary of company B.

The Middle Eastern investigation focused on the contract that company A had signed with the MOD in the former Soviet bloc country and the resulting payments made into a Guernsey bank account detailed above. On the basis of information provided by Guernsey the investigation established that Person D had set up company A and the Guernsey bank account with persons A and C to facilitate the movement of funds for criminal purposes.

The Middle Eastern investigation also identified the fact that persons A and D had provided false and misleading information to the Guernsey bank and TCSP in relation to the transfer of funds between the MOD in the former Soviet bloc country and Company A, claiming that two of the payments were made in error and that a third related to the purchase of a property. The investigation further established that transfers amounting to circa €1 million were made from company A's bank account to bank accounts controlled by person D in the Middle

Eastern country and from there, circa €990,000 was transferred to an account held by person A in an IFC in Europe.

In addition, two other persons associated to company B had received payments suspected to be the proceeds of corruption arising from the MOD contract with the former Soviet bloc country. Persons A and D had a close relationship with person B, who was a citizen of the Middle Eastern country but resident in the former Soviet bloc country.



CASE STUDY 19

Sector/product: TCSP sector/legal person

Underlying offence: foreign corruption

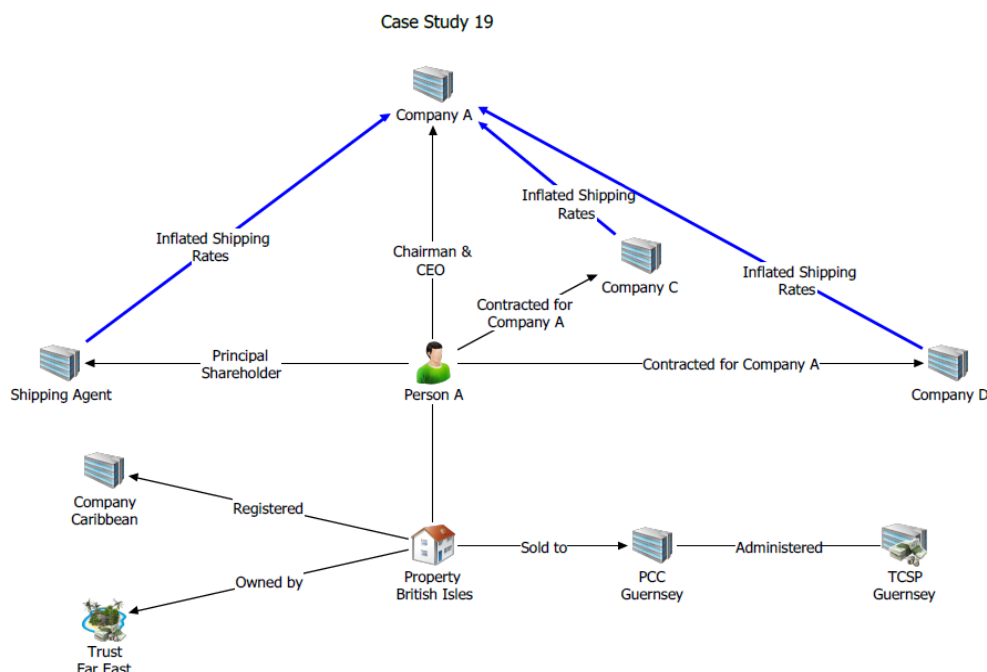
The Guernsey authorities received a request for mutual legal assistance from a Middle Eastern country in relation to a criminal investigation being conducted by the authorities into the activities of one of their nationals (person A).

Person A was the Chairman and Chief Executive Officer (CEO) of a publicly owned company (company A). Person A abused his position in the company by changing the dealing mechanism of the company in respect of shipping contracts.

Prior to Person A assuming management of company A, the shipping contracts were administered and controlled through a company owned by company A and another company (company B). Once in control, Person A replaced company B with two other companies (companies C and D) which were both registered outside the Middle Eastern country. Companies C and D charged company A higher shipping rates than they themselves were paying for the same services, leading to increased profits from Company A.

Person A also entered into a contract with an unspecified shipping agent, of which he was the principal shareholder, under which he ordered two long-term shipping contracts for company A. The shipping agent had no experience or competence in the maritime services or in the field of chartering vessels and charged company A inflated shipping rates, causing loss to company A estimated at in excess of US\$50 million.

The investigation identified that person A was linked to a property in the British Isles registered by a Caribbean IFC owned by a trust in an IFC in the Far East. The investigation further established that in 2009 the property had been sold to a Guernsey protected cell company (PCC) administered by a TCSP. The authorities in the Middle Eastern country suspected that the initial property purchase had been funded with the monies misappropriated from company A. The Guernsey authorities obtained information about the property from the TCSP and provided it to the authorities in the Middle Eastern country in evidential form.



CASE STUDY 20

Sector/product: banking sector

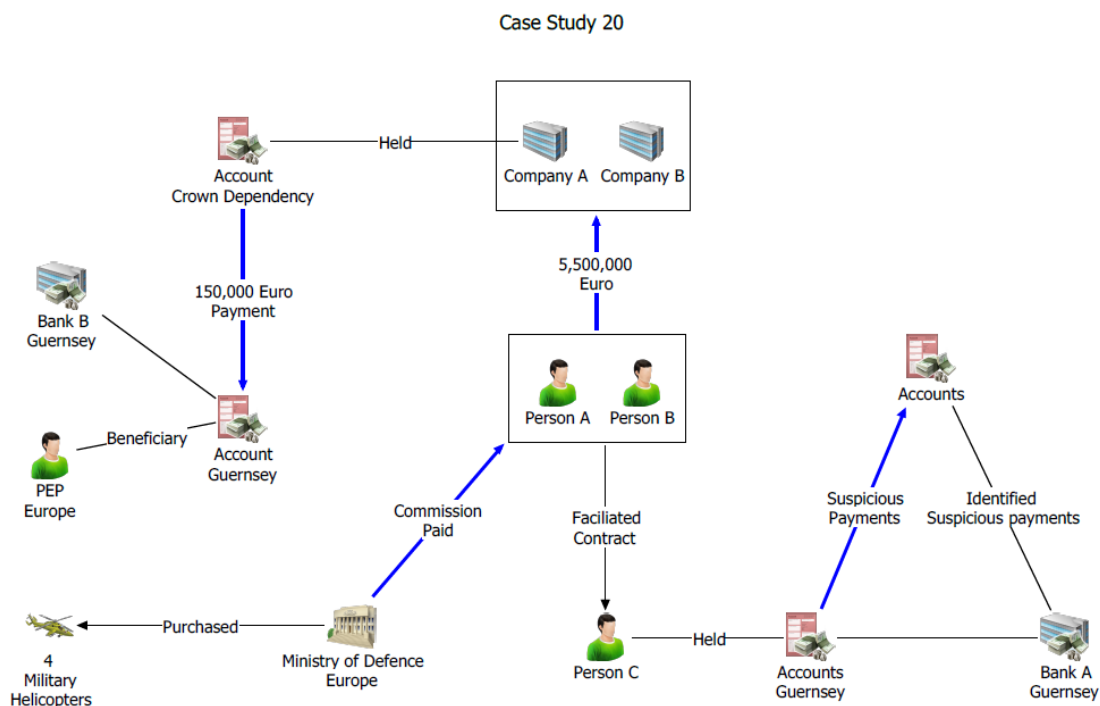
Underlying offence: foreign bribery and corruption

The authorities in a European country requested assistance in relation to a criminal investigation involving corruption by a number of their nationals. The investigation related to the purchase of four military helicopters by the Ministry of Defence from a company in another European country.

Two companies (companies A and B) had received payments totally €5,500,000.00 as commission paid to persons A and B, the directors of the two companies, for arranging the purchase contract. However, these payments were not detailed on the government contract. The investigation established that persons A and B had interacted with person C, an ex-member of the armed forces in the requesting country, to facilitate the contract. Person C maintained bank accounts at bank A in Guernsey. Bank A subsequently identified a number of suspicious payments from Person C to other accounts.

It was further established that company A had a bank account in another Crown Dependency and that a payment of €150,000 was made from Company A to a bank account at bank B in Guernsey. The beneficiary of the bank account at Bank B was a politician in the requesting country i.e. a PEP.

Information was obtained from bank A and bank B in evidential form and provided to the requesting country.



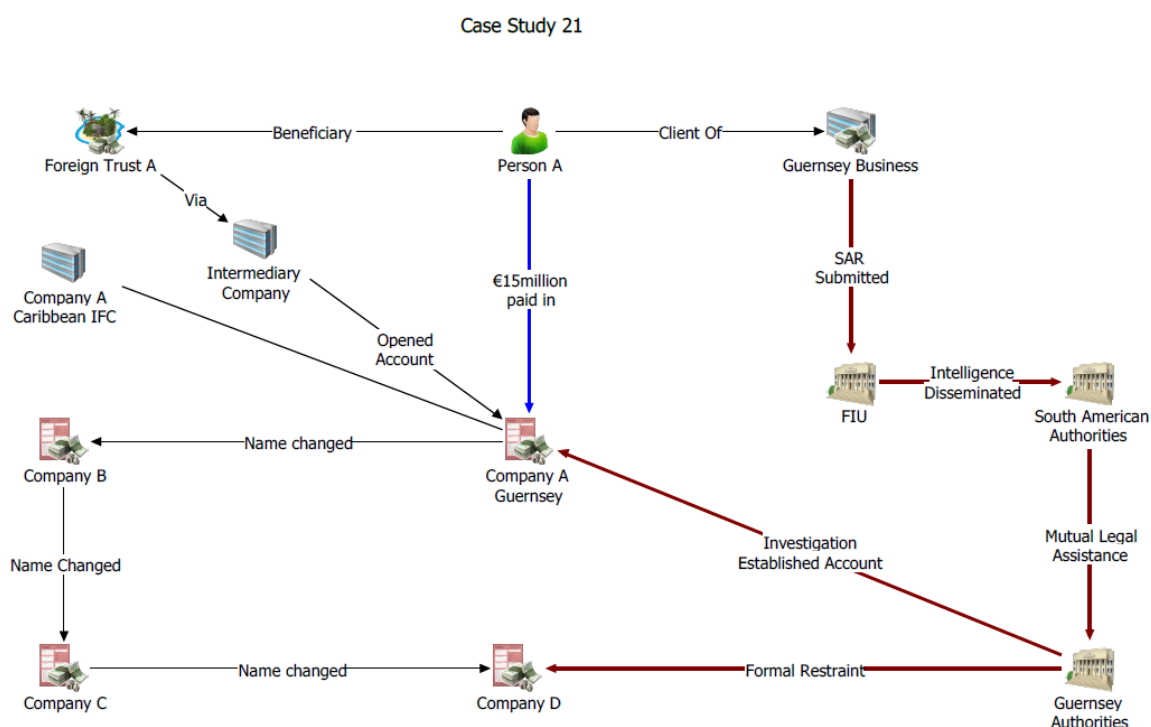
CASE STUDY 21

Sector/product: banking sector/TCSP sector/legal person/foreign legal person

Underlying offence: foreign money laundering and racketeering

The FIU made a dissemination to the authorities in a South American country of financial intelligence which resulted from a SAR concerning an individual (person A) who had invested approximately \$16 million in a Guernsey company administered by a TCSP. The authorities in the South American country then sought evidence to support charges of money laundering and racketeering that were pending against person A, and also requested that any funds under the control of person A be formally restrained by the Guernsey Court. The Guernsey authorities made enquiries which revealed that person A was introduced to a private bank in Guernsey by a subsidiary bank in another jurisdiction. Person A established a foreign trust (trust A) of which he was the ultimate beneficiary together with his wife and children. Trust A, via an intermediary company, opened an account at the Guernsey bank in the name of a company registered in another jurisdiction (company A). The account received funds from Person A amounting to approximately €15 million. Trust A, via the intermediary, changed the names of the accounts on three separate occasions to company B, company C and company D.

The Guernsey court formally restrained the bank account of company D. Information in evidential form was obtained from the bank and the TCSP and provided to the authorities in the South American country.



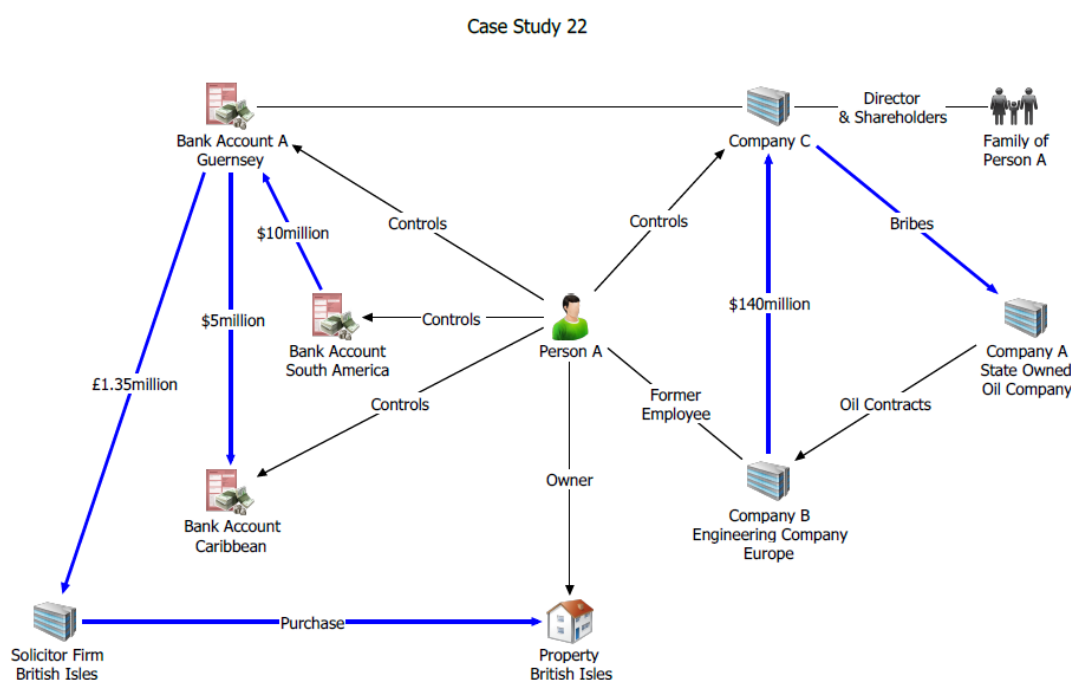
CASE STUDY 22

Sector/product: banking sector

Underlying offence: foreign bribery and corruption

A South American national (person A) had an account with a Guernsey retail bank (bank account A). Bank account A was also linked to a company attributed to person A (company C). The bank made a SAR based on open source information indicating that person A was under investigation in his home country for bribery and corruption, which the FIU disseminated to that country. The authorities there then made a mutual legal assistance request for the information in evidential form in support of their investigation into a state-owned oil company (company A) and an engineering group based in Europe (company B). Person A was a former employee of company B and had used company C to facilitate the payment of bribes to company A in order to secure contracts to supply specialist water floating oil rigs for company B. Approximately USD \$140 million was paid to from company B to companies attributed to person A, including company C and a company located in South America. The directors and shareholders of company C were all family members of person A. Bank account A had received approximately USD\$10 million in 2013 and 2014 from two bank accounts controlled by person A in South America, which were then transferred to a bank account controlled by person A in another IFC and to a firm of solicitors based in the British Isles. The requested information was obtained in evidential form and provided to the requesting country.

Subsequently the FIU received a request for intelligence from an FIU in the British Isles in relation to person A, who was under investigation there for bribery and corruption and associated money laundering offences. The FIU provided the requesting FIU with the intelligence it held on Person A. The authorities in the requesting country then made a mutual legal assistance request for the information in evidential form in support of an investigation into the provenance of funds used to acquire a property there. The property had been purchased by a firm of solicitors on behalf of person A, and a total of £1.35 million used to fund the purchase originated from bank account A. The requested information was obtained in evidential form and provided to the requesting country.



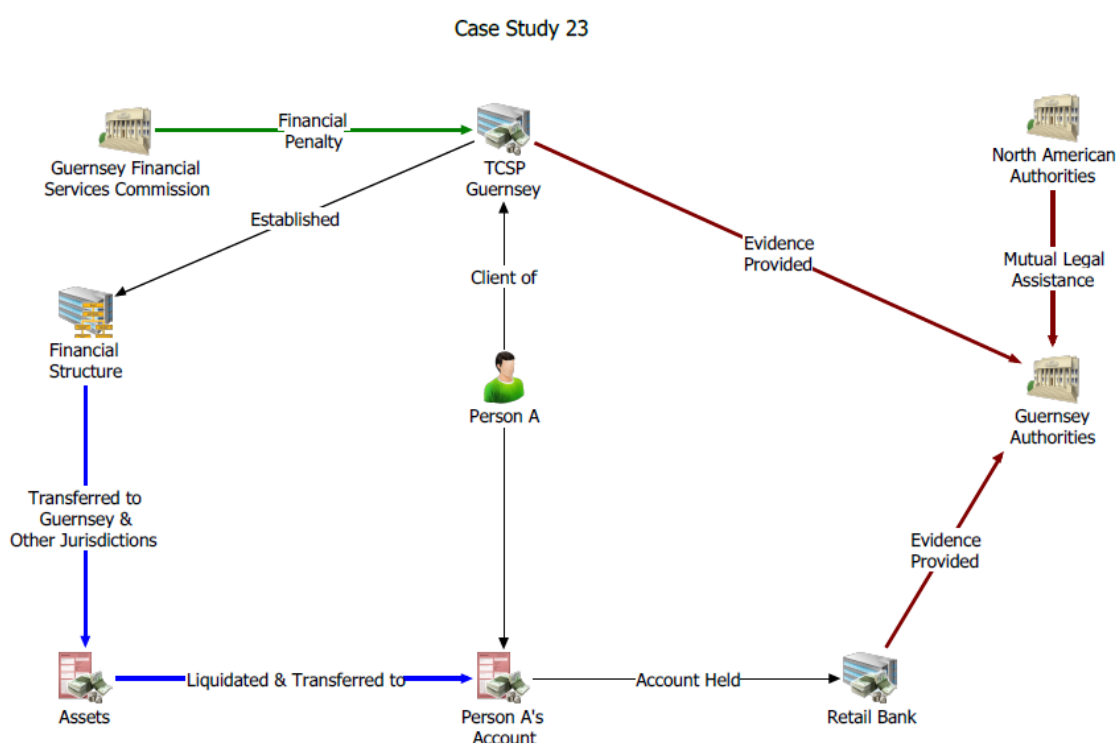
CASE STUDY 23

Sector/product: TCSP sector/banking sector/ legal arrangement

Underlying offence: foreign tax evasion

The authorities in a North American country requested assistance in relation to a criminal investigation into tax evasion offences by one of their nationals (Person A). The investigation related to the failure to disclose financial interests in foreign-held bank accounts and entities to the tax authorities over a 5 year period. The investigation established that a Guernsey TCSP had established a financial structure for Person A through which to transfer assets to entities in Guernsey and other jurisdictions. This included one bank account in Guernsey. The entities liquidated the assets and then transferred a portion back to Person A. Person A did not disclose any financial interest in the Guernsey entities or their accounts to the tax authorities in the requesting country, despite benefiting from their assets.

Information was obtained from Guernsey in evidential form from the TCSP and the bank, and was provided to the requesting country. The investigation into Person A in that country is ongoing. The TCSP was subject to a financial penalty imposed by the GFSC for a number of regulatory offences related to this case. (This is Case 1 on the TCSP sector in the supervisory case studies below).



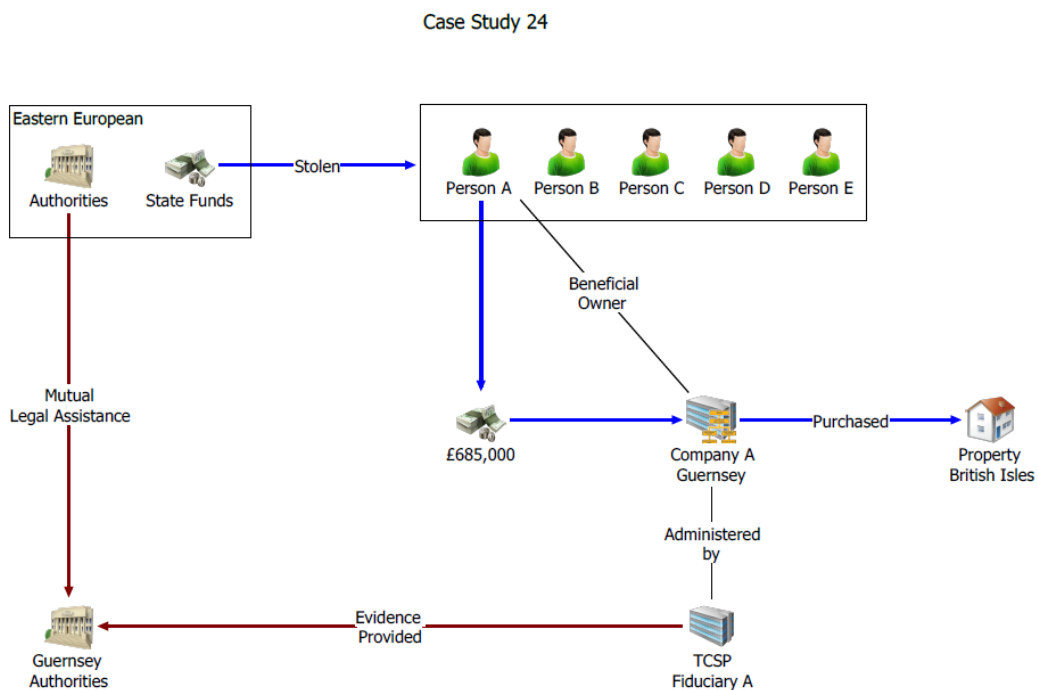
CASE STUDY 24

Sector/product: TCSP sector/legal person

Underlying offence: foreign embezzlement

An eastern European country requested assistance in relation to a case concerning the embezzlement of state funds by five individuals. The authorities had identified that one of the individuals involved (person A) had transferred £685,000 of stolen funds to a Guernsey company (company A) administered by a TCSP (Fiduciary A).

The Guernsey authorities approached Fiduciary A, who confirmed that person A was the ultimate beneficial owner of company A and that company A had received approximately £685,000 from Person A. Company A utilised the funds to purchase a property in the United Kingdom on behalf of Person A. This information was provided to the authorities in the requesting state in evidential form.



CASE STUDY 25

Sector/product: TCSP sector/legal person

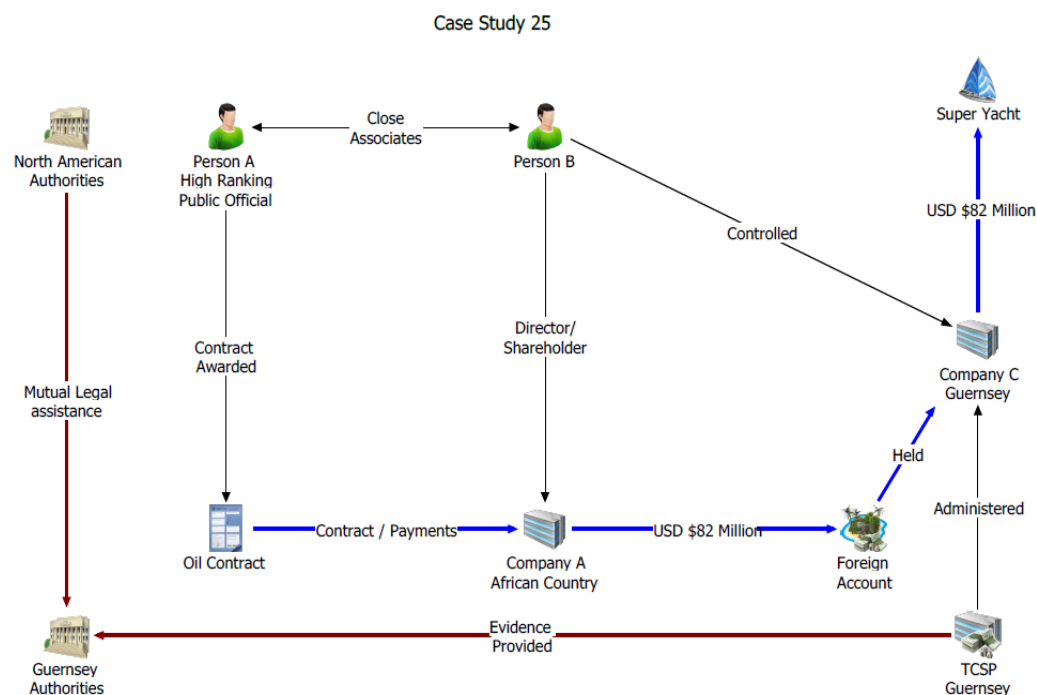
Underlying offence: foreign corruption

The authorities in a North American country requested assistance in relation to a criminal investigation being conducted into the activities of a public official from an African country (person A) involving embezzlement, theft, misappropriation of public funds and money laundering.

The investigation in the requesting country had identified that person A was a high ranking public official in his home country with close links to petroleum resources. The investigation established that person A directed that lucrative contracts relating to the production, marketing and importation of oil and petroleum be awarded to companies owned and controlled by person A and a close associate (person B). The investigation established that person B was a director and shareholder of a company in person A's home country (company A). It was further established that persons A and B laundered the proceeds of person A's criminality through North America and elsewhere. This included the purchase of a luxury super yacht for approximately USD \$82 million by Person B.

The investigation also identified that a TCSP formed a company (company C) on behalf of person B to broker the purchase of the luxury super yacht. In July 2013 two payments amounting to a total of USD \$82 million were made into company C's bank account (which was not in Guernsey). The investigation also established that the funds used to purchase the yacht originated from company A and related to the lifting and selling of oil from the African country under the corrupt contracts awarded by Person A.

Material relating to the yacht purchase was obtained from the TCSP in evidential form and provided to the authorities in the requesting country, who subsequently brought a USD \$144 million civil complaint against Person A.



Joint working & investigation

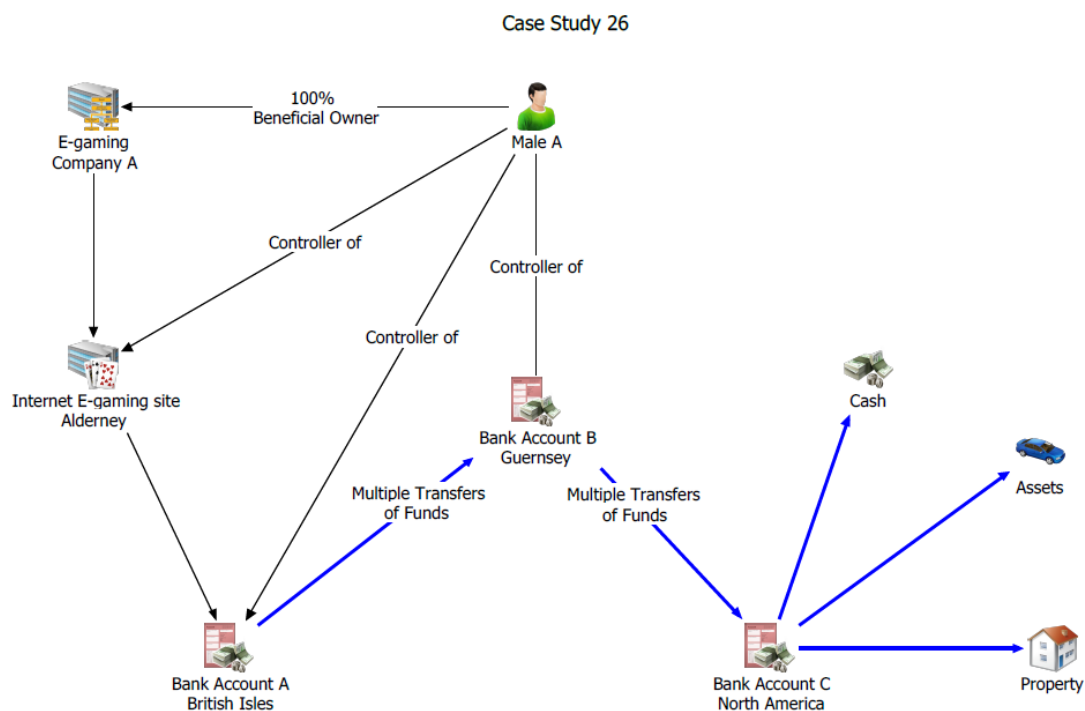
CASE STUDY 26

Sector/product: *banking sector/eCasino sector/TCSP sector/legal person*

Underlying offence: *foreign embezzlement*

Male A, a North American national, was the 100% beneficial owner of an e-gaming company (company A) that owned an e-gaming platform based in Alderney. Male A, assisted by other associates, controlled the company and e-gaming platform from offices in a jurisdiction elsewhere within the British Isles. Male A also controlled a bank account in that country (bank account A) and had accounts in a number of other jurisdictions, including an account with a Guernsey private bank (bank account B) and an account in North America (bank account C). Male A and his associates then made multiple transfers of funds from the British Isles jurisdiction to other jurisdictions, including Guernsey, without the knowledge of the e-gaming company clients. Male A subsequently transferred funds from Guernsey to bank account C used the funds to purchase high value goods and properties in North America and elsewhere.

The Guernsey authorities assisted the authorities in the North American country in seizing USD \$18.5 million and £5.3 million from bank account B. Male A was subsequently prosecuted for fraud in the North American country and as part of a plea bargain agreed to forfeit USD \$40 million from 18 different bank accounts including bank account B. By agreement with the North American country the Guernsey investigation did not proceed and instead the sums in bank account B were taken by the Guernsey authorities through the enforcement of an *in rem* order under civil asset recovery legislation.



CASE STUDY 27

Sector/product: DPMS sector

Underlying offence: tax evasion

The Guernsey Border Agency in conjunction with the Guernsey Police Special Branch Division intercepted two individuals (Person A and Person B) on their arrival into the jurisdiction on a day trip from another jurisdiction within the British Isles. Both were subjected to law enforcement checks. Person A was identified as having served a custodial sentence in his home jurisdiction. Intelligence checks suggested that Person A was also known for having been radicalised by an extremist organisation within the British Isles. Collaborative working between the different law enforcement authorities could not identify links to any criminal offences but based on the information provided, there were suspicions as to the purpose of the visit to the jurisdiction by persons A and B.

Persons A and B subsequently returned to their original destination, no further information as to their activity in the jurisdiction having been identified. Law Enforcement checks subsequently identified Person A and B re-entering the jurisdiction in a vehicle from another location within the British Isles. After a further law enforcement search which identified no criminal offences persons A and B were allowed to proceed.

The FIU were requested to undertake checks to establish any suspicious activity by persons A and B whilst in the jurisdiction. The FIU subsequently received information from a DPMS that persons A and B had collected a quantity of silver bullion, collection having been arranged during their previous visit. The DPMS had undertaken compliance checks in respect of Person A and B and the payment method for the purchase of the bullion that did not generate any grounds for suspicion. The DPMS also advised Person A and B that they had an obligation to declare the bullion to the British Isles tax authorities (as silver is not value added tax free) on entering the British Isles from the Bailiwick.

The Guernsey law enforcement authorities suspected that persons A and B had entered the jurisdiction to commit money laundering offences linked tax evasions. The FIU therefore disseminated intelligence about the activities of persons A and B to the relevant authorities in the other jurisdiction.

Case Study 27

