

APPENDIX E

INDICATORS OF SUSPICIOUS TRANSACTIONS

- E1. Money launderers use many different and sophisticated types of schemes, techniques and transactions to accomplish their ends. While it would be difficult to describe all money laundering methodologies, the following are the more frequently observed signs of suspicions:
- (a) Broadly, transactions that appear inconsistent with a client's known legitimate (business or personal) activities or means; unusual deviations from normal account and transaction;
 - (b) Any situation where personal identity is difficult to determine;
 - (c) Unauthorised or improperly recorded transactions; inadequate audit trails;
 - (d) Unconventionally large currency transactions, particularly in exchange for negotiable instruments or for the direct purchase of funds transfer services;
 - (e) Apparent structuring of transactions to avoid dealing with identification requirements or regulatory record-keeping and reporting thresholds;
 - (f) Transactions passed through intermediaries for no apparent business reason; and
 - (g) Introduction of a client by an overseas associate or financial institution based in a country or jurisdiction known for drug trafficking and production, other financial crimes and "bank secrecy".
- E2. The following sets out examples of common indicators of suspicious transactions. Indicators to help establish that a transaction is related to terrorist financing mostly resemble those relating to money laundering. While each individual indicator may not be sufficient to suggest that suspicious transaction is taking place, a combination of such situations may be indicative of a suspicious transaction. The list is intended as a guide and shall not be applied as a routine checklist in place of common sense.
- E3. **Common Indicators**
- (a) **General**
 - Frequent address changes.
 - Client does not want correspondence sent to home address.
 - Client repeatedly uses an address but frequently changes the names involved.
 - Client uses a post office box or general delivery address, or other type of mail drop address, instead of a street address when this is not the norm for that area.
 - Client's home or business telephone number has been disconnected or there is no such number when an attempt is made to contact client shortly after he/she has opened an account.
 - Client is accompanied and watched.
 - Client shows uncommon curiosity about internal systems, controls, policies and reporting; client has unusual knowledge of the law in relation to suspicious transaction reporting.
 - Client has only vague knowledge of the amount of a deposit.
 - Client gives unrealistic, confusing or inconsistent explanation for transaction or account activity.
 - Defensive stance to questioning or over-justification of the transaction.
 - Client is secretive and reluctant to meet in person.
 - Unusual nervousness of the person conducting the transaction.
 - Client is involved in transactions that are suspicious but seems blind to being involved in money laundering activities.
 - Client insists on a transaction being done quickly.

- Client appears to have recently established a series of new relationships with different financial entities.
- Client attempts to develop close rapport with staff.
- Client offers money, gratuities or unusual favors for the provision of services that may appear unusual or suspicious.
- Client attempts to convince employee not to complete any documentation required for the transaction.
- Large contracts or transactions with apparently unrelated third parties, particularly from abroad.
- Large lump-sum payments to or from abroad, particularly with countries known or suspected to facilitate money laundering activities.
- Client is quick to volunteer that funds are “clean” or “not being laundered”.
- Client’s lack of business knowledge atypical of trade practitioners.
- Forming companies or trusts with no apparent business purpose.
- Unusual transference of negotiable instruments.
- Uncharacteristically premature redemption of investment vehicles, particularly with requests to remit proceeds to apparently unrelated third parties or with little regard to tax or other cancellation charges.
- Large or unusual currency settlements for investments or payment for investments made from an account that is not the client’s.
- Clients seeking investment management services where the source of funds is difficult to pinpoint or appears inconsistent with the client’s means or expected behavior.
- Purchase of large cash value investments, soon followed by heavy borrowing against them.
- Buying or selling investments for no apparent reason, or in circumstances that appear unusual, e.g. losing money without the principals seeming concerned.
- Forming overseas subsidiaries or branches that do not seem necessary to the business and manipulating transfer prices with them.
- Extensive and unnecessary foreign travel.
- Purchasing at prices significantly below or above market.
- Excessive or unusual sales commissions or agents fees; large payments for unspecified services or loans to consultants, related parties, employees or government employees.

(b) **Cash Transactions**

- Client frequently exchanges small bills for large ones.
- Deposit of bank notes with a suspect appearance (very old notes, notes covered in powder, etc).
- Use of unusually large amounts in traveler’s checks.
- Frequent domestic and international ATM activity.
- Client asks to hold or transmit large sums of money or other assets when this type of activity is unusual for the client.
- Purchase or sale of gold, diamonds or other precious metals or stones in cash.
- Shared address for individuals involved in cash transactions, particularly when the address is also for a business location, or does not seem to correspond to the stated occupation (for example, student, unemployed, self-employed, etc.).

(c) **Transactions Involving Accounts**

- Apparent use of personal account for business purposes.
- Opening accounts when the client’s address is outside the local service area.
- Opening accounts with names very similar to other established business entities.
- Opening an account that is credited exclusively with cash deposits in foreign currencies.
- Use of nominees who act as holders of, or who hold power of attorney over, bank accounts.

- Account with a large number of small cash deposits and a small number of large cash withdrawals.
- Funds being deposited into several accounts, consolidated into one and transferred outside the country.
- Use of wire transfers and the Internet to move funds to/from high-risk countries and geographic locations.
- Accounts receiving frequent deposits of bearer instruments (e.g. bearer cheques, money orders, bearer bonds) followed by wire transactions.
- Deposit at a variety of locations and times for no logical reason.
- Multiple transactions are carried out on the same day at the same branch but with an apparent attempt to use different tellers.
- Establishment of multiple accounts, some of which appear to remain dormant for extended periods.
- Account that was reactivated from inactive or dormant status suddenly sees significant activity.
- Cash advances from credit card accounts to purchase cashier's checks or to wire funds to foreign destinations.
- Large cash payments on small or zero-balance credit card accounts followed by "credit balance refund checks" sent to account holders.
- Attempting to open accounts for the sole purpose of obtaining online banking capabilities.

(d) **Transactions Related to Offshore Business Activity**

- Loans secured by obligations from offshore banks.
- Loans to or from offshore companies.
- Offers of multimillion-dollar deposits from a confidential source to be sent from an offshore bank or somehow guaranteed by an offshore bank.
- Transactions involving an offshore "shell" bank whose name may be very similar to the name of a major legitimate institution.

(e) **Accountants**

- Client receives unusual payments from unlikely sources which is inconsistent with sales.
- Use of many different firms of auditors and advisers for connected companies and businesses.
- Client has a history of changing bookkeepers or accountants yearly.
- Client is uncertain about location of company records.
- Company records consistently reflect sales at less than cost, thus putting the company into a loss position, but the company continues without reasonable explanation of the continued loss.
- Company shareholder loans are not consistent with business activity.
- Company makes large payments to subsidiaries or other entities within the group that do not appear within normal course of business.
- Company is invoiced by organizations located in a country that does not have adequate money laundering laws and is known as a highly secretive banking and corporate tax haven.

(f) **Tax Practitioners**

- Client appears to be living beyond his or her means.
- Client has no or low income compared to normal cost of living.
- Client has unusual rise in net worth arising from gambling and lottery gains.
- Client has unusual rise in net worth arising from inheritance from a criminal family member.
- Client owns assets located abroad, not declared in the tax return.
- Client obtains loan from unidentified parties.

- Client obtains mortgage on a relatively low income.

(g) **Factors arising from action by the entity or its directors**

Where an entity is actively involved in money laundering, the signs are likely to be similar to those where there is a risk of fraud, and include:

- Complex corporate structure where complexity does not seem to be warranted.
- Complex or unusual transactions, possibly with related parties.
- Transactions with little commercial logic taking place in the normal course of business.
- Transactions not in the normal course of business.
- Transactions where there is a lack of information or explanations, or where explanations are unsatisfactory.
- Transactions at an undervalue.
- Transactions with companies whose identity is difficult to establish as they are registered in countries known for their commercial secrecy.
- Extensive or unusual related party transactions.
- Many large cash transactions when not expected.
- Payments for unspecified services, or payments for services that appear excessive in relation to the services provided.
- The forming of companies or trusts with no apparent commercial or other purpose.
- Long delays in the production of company or trust accounts.
- Foreign travel which is apparently unnecessary and extensive.