

Key Message

This case illustrates that the purchase of real estate by relatives of criminals is not uncommon as a practice for money laundering.

C. Precious Metals and Precious Stones Dealers

4.7

Precious metals and stones, particularly gold and diamond, offer the advantage of having a high intrinsic value in a relatively compact form. They can be “cashed” easily in most areas of the world. Hence, they are vulnerable to be used in money laundering for their ease to be hidden and transported. Terrorist groups have engaged in the gemstone trade for a long time. Historically, they engaged extensively in the profit-making trade in diamond, tanzanite, amethyst, ruby and sapphire. However, according to recent intelligence, gemstones, diamonds in particular, are being used as a way of storing terrorist assets outside the formal financial sector. The aim is no longer only in turning a profit but also acquiring as many stones as possible with crime proceeds that are being kept out of banks and businesses.



(a) Suspicious Activity Indicators

For retail market

- (i) Incommensurate background of buyer (e.g. profession and age of buyer versus value of transaction and type of precious stones and metals involved);
- (ii) High value transactions conducted in cash but not in other popular and safe methods of payment (e.g. credit card or cashier order);

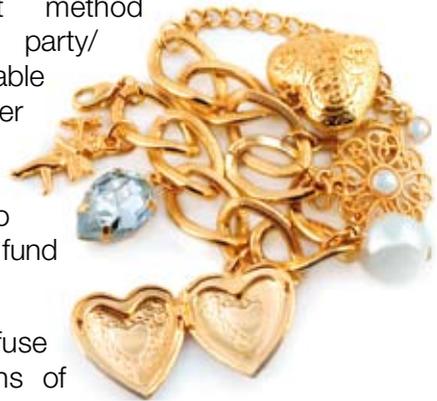
- (iii) Unusual payment method (payment by negotiable instruments in bearer form, e.g. travellers cheques and cashier orders so that the source of fund cannot be traced);
- (iv) Unusual buying behaviour/pattern (e.g. repeated purchases of luxury products without apparent reasons);
- (v) Unusual behaviour of the person or persons conducting the transactions (e.g. unusual nervousness); and
- (vi) Request for over/under-invoicing of purchases.

For wholesale market

- (i) Incommensurate background of buyer/seller (e.g. profession and age of buyers versus value of transaction and type of precious metals and stones involved);
- (ii) Unknown business background of buyer/seller;
- (iii) Transactions conducted by third party (e.g. under a power of attorney);
- (iv) Transactions conducted by shell company/offshore company (business address/registered in a tax haven e.g. British Virgin Islands);
- (v) Unknown source of precious metals/stones;
own purpose of transactions;



- (vii) Buyers/Sellers apparently not having reasonable expertise/experience in the precious metals/stones sector;
- (viii) Abnormally low pricing or with substantial discount in order to speed up transactions;
- (ix) Large amount transaction from an unfamiliar dealer;
- (x) Request for over/under-invoicing of purchases;
- (xi) Unusual payment method (payment by third party/ payment by negotiable instruments in bearer form, e.g. travellers cheques and cashier orders, so that the source of fund cannot be traced);
- (xii) Buyers/Sellers refuse to use other means of payment other than cash, while cash may be in foreign currencies (or in different foreign currencies) without apparent reasons; and
- (xiii) Unusual business pattern (e.g. business transactions of a particular dealer are rather frequent when compared to the trading history or to that of other dealers/a sudden increase in the trading volume without apparent reasons).



(b) Below are three case examples for illustrations.

Case Example 1: Retail gold purchases serve as direct method of laundering

A foreign national bought 265 ingots of gold with a total value of about US\$2.5 million and paid in cash in Country X. These transactions took place over a period of 18 months. The buyer, who did not have a bank account, alternated temporary jobs with periods of unemployment, claimed that he was acting on behalf of a third party, who was probably involved in organised and serious crimes.

Key Message

This case illustrates the direct purchases of precious metal by a buyer of incommensurate background to disguise the source of crime proceeds.

Case Example 2: Direct purchase of precious stones with crime proceeds

A lawyer of Country Y absconded with millions of US dollars from his “client escrow” account. Investigation revealed that part of these funds was used to purchase loose diamonds and jewellery from a local jeweller in Country Y.

Key Message

This case illustrates the use of direct purchase of precious stones to launder the crime proceeds. In particular, it shows the way for an absconder to conceal and move the proceeds of crime across different countries.



Case Example 3: Diamond trading used as a cover for laundering illicit funds

A company in Country Z, with its registered office in an offshore centre and diverse businesses, encompassed diamond trading. The account of this company in Country Z was found to have numerous international funds transfers in foreign currencies originating from a tax haven. The funds, in very large sums, were then systematically and immediately withdrawn in cash. These withdrawals were made in large denominations of foreign currencies by the authorised signatory of the account who was the director of a number of companies which were also active in diamond trading. Given the regularity of these systematic fund flows, which were deviated from the usual practice in the diamond sector, it appeared that this account was only used as a channelling account with the aim of disguising the origin and ultimate destination of the funds. Upon investigation, the funds were found to be associated with illicit activities.

Key Message

This case illustrates that the diamond trading may be used as a smokescreen for the laundering of crime proceeds.

