AML/CFT 101

CFATF Secretariat Research Desk
October 27th, 2020

Ponzi or Pyramid Schemes: ML/TF Risks

What are Ponzi/Pyramid Schemes?

- A Ponzi/Pyramid scheme is a type of investment fraud named after Charles Ponzi, who operated such a scheme in the U.S. in the 1920s.
- Under the scheme, investors are offered unsustainably high rates of interest and are initially paid their interest from a fund consisting of new deposits. When the deposits dry up, the scheme collapses*.
- These types of schemes are designed to defraud persons for financial gains.
- It is a predicate crime category for ML.

* Source: FATF Report on ML/TF in the Securities Sector

Pyramid schemes in the Caribbean

- Pyramid schemes emerged within several CFATF member jurisdictions during the COVID-19 pandemic.
- These schemes were of varying patterns, structures and investment amounts and occurred through several means including via the internet (social media).
- The use of pyramid schemes poses significant ML/TF risks to some of our Member countries including Suriname, Dominica and Trinidad and Tobago.

Did you know?

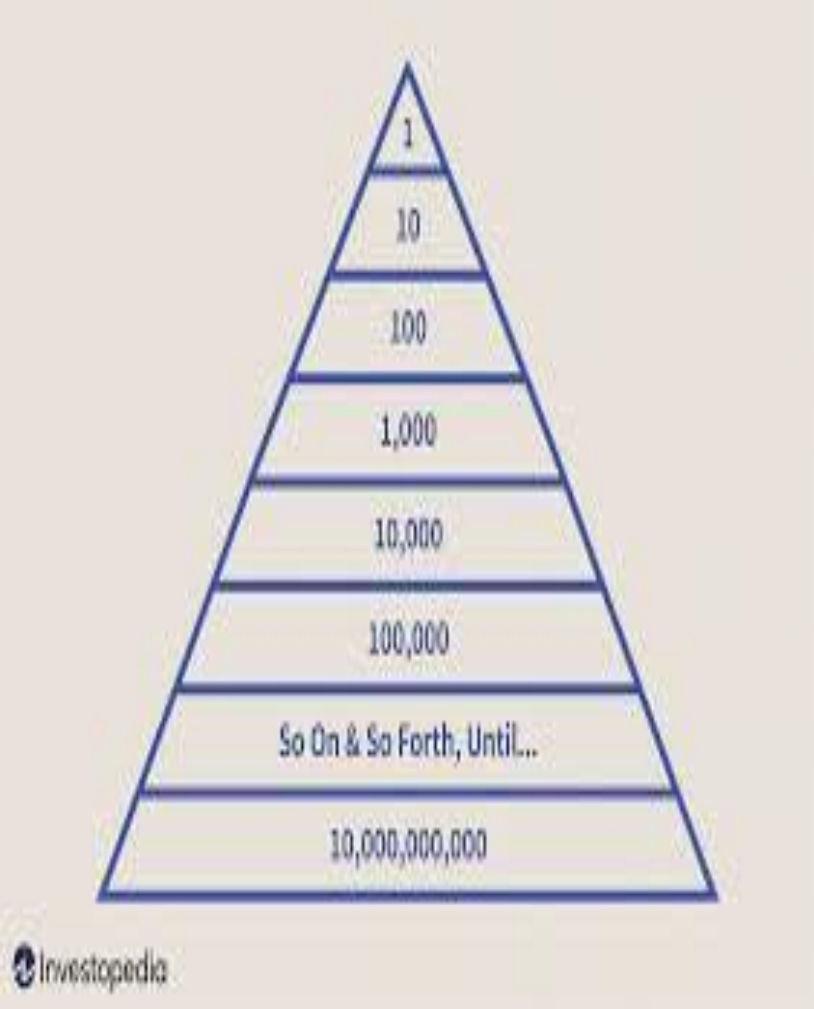
Several of Caribbean FIUs reported a significant rise of pyramid schemes during the COVID-19 period due to persons' loss of income and job insecurity. This is because the pyramid schemes lure persons with a quick and significant financial return within a short period of time.

The schemes are operated via different mechanisms inclusive of social media, virtual meeting platforms and even direct face to face meetings.

A pyramid scheme requires persons to make an initial contribution with the promise of receiving higher returns.

In several instances, members of the schemes are also required to recruit new members with the incentive of receiving a higher pay-out.

HOW TO RECOGNIZE PYRAMID SCHEMES



- Large start up costs.
- Emphasis on recruitment rather than sales. Income is based upon number of people recruited.
- No interest in consumer demand or market research.
- Requirement to buy significant inventory.
- Forced to buy other unnecessary items just to stay in good standing with the company.

ML TRENDS NOTIFICATION AND ADVISORIES

TRINIDAD AND TOBAGO FINANCIAL INTELLIGENCE UNIT ADVISORY

GOVERNMENT OF THE REPUBLIC OF TRINIDAD AND TOBAGO

FINANCIAL INTELLIGENCE UNIT

MINISTRY OF FINANCE

BEWARE OF ROMANCE SCAM

S: Social Media Platforms utilised; victims are usually at a vulnerable stage in their lives. COVID-19 pandemic: perpetrators take advantage of increase use of social media to identify potential victims.

C: Communication is usually done through email, Facebook, Instagram, text or phone calls. There is NO physical meeting.

1. Social Media Platforms Used
2. 'Relationship' develops; promises of gifts
3. Request for money to 'clear packages'
4. ATM/In-branch cash withdrawals

The perpetrator can continue to 'engineer' the relationship or target a new victim

Requests for money can be made multiple times

M: Minimal information about the purpose of the transaction. Once the 'payment' is made, the perpetrator or co-conspirator makes ATM or in-branch cash withdrawals.

A: Abnormal transactions conducted by Victim following requests by the perpetrator or an 'alleged Courier Service' to make deposits into named individual accounts for the purpose of 'clearing a package'.

BEWARE OF ROMANCE SCAM

August 10, 2020

Source: WWW.FIU.GOV.TT

ML TRENDS NOTIFICATION AND ADVISORIES

The Eastern Caribbean Securities Regulatory Commission: Pyramid Scheme

WARNING NOTICE: COVID-19 RELATED SCAMS

Author: ECSRC Date: Fri, Jul 24th,2020

The Eastern Caribbean Securities Regulatory Commission (ECSRC) advises the public in the member countries of the Eastern Caribbean Currency Union (ECCU) to be aware of fraudulent investment offerings that are being circulated via the internet and other channels.

These scams are currently being promoted using the COVID-19 pandemic as a cover to target unsuspecting or vulnerable individuals in times of economic stagnation and downturns. They include: Pyramid Schemes, Unauthorised Forex Trading, false COVID-19 related investments and Work From Home and Personal Finance Scams.

Pyramid Schemes

A Pyramid Scheme is a fraudulent investment offering that profits almost solely through the recruitment of other participants into the programme. The ECSRC warns the public to be on the alert for the following red flags of a Pyramid Scheme:

1. Emphasis on recruiting new participants to join the scheme;
2. Promise of a high return over a short time;
3. No genuine product or service is offered; and
4. Complex commission

Source: https://www.ecsrc.com/gallery/NewsItems/detail/150

ML TRENDS NOTIFICATION AND ADVISORIES
The Eastern Caribbean Securities Regulatory Commission: Pyramid Scheme (Cont'd)

UNAUTHORISED FOREIGN EXCHANGE MARKET (FOREX) TRADING

Unauthorised Forex Trading Scams offer the chance to trade in foreign exchange, contracts for difference, binary options, crypto-assets and other commodities. These scams offer very high returns and guaranteed profits either through managed accounts where the firm makes trades on the investor's behalf or by trading using the firm's trading platform.

The ECSRC also warns of other types of financial scams which all seek to capitalise on the unprecedented anxiety caused by the COVID 19 pandemic, such as:

Work-From-Home Scams: fraudsters seek to take advantage of individuals seeking alternative sources of financing due to COVID 19.

Personal Finance Scams: using the fear of current economic conditions, fraudsters target individuals by posing as a financial institution requesting sensitive personal or financial

All of these schemes are usually operated in violation of the law by evading legal requirements such as obtaining the necessary licences or authorisations to raise funds from the public for collective investment purposes.

How to Protect Yourself

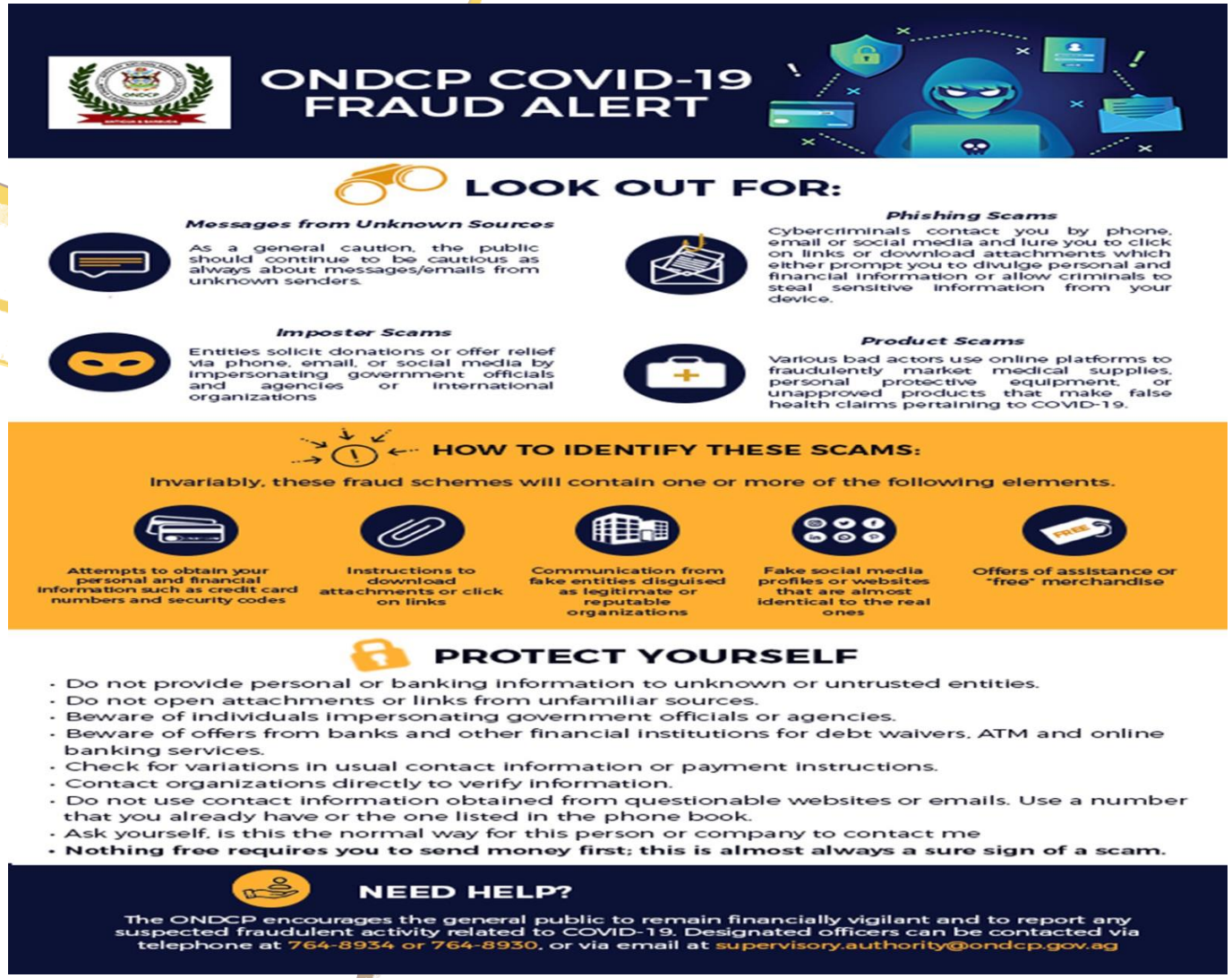
1. Be suspicious of persons who contact you to invest quickly or promise high returns on your
2. Consider seeking financial advice or guidance before you
3. Ensure that any individual or firm with which you conduct business is licensed or authorised by the ECSRC or other relevant government

The ECSRC will continue to take the necessary measures to prevent securities fraud in the Eastern Caribbean Securities Market, therefore, if you are aware of or have been the victim of a fraudulent scheme in the ECCU, we encourage you to contact the ECSRC via email at ecsrc@eccb-centralbank.org or the law enforcement authorities in your country.

Click here to view ECCB Connects Season 13 Episode 11 – Avoiding Financial Scams.

Source: https://www.ecsrc.com/gallery/NewsItems/detail/150

ML TRENDS NOTIFICATION AND ADVISORIES
The Office of National Drug and Money Laundering Control Policy Antigua and Barbuda (ONDCP)



Source: http://ondcp.gov.ag/ondcp-public-advisory-covid-19-fraud-alert/

Pyramid schemes and effective ML/TF Supervision

Criminals continue to find new creative means by which they exploit the financial system and bypass the existing requirements moreso during the COVID-19 pandemic.

The FATF has continuously emphasised the risk-based approach in the implementation of their Standards. The effective application of the following FATF Recommendations is critical during this time to defend countries' financial systems against the ML/TF risks of Pyramid Schemes:

Rec. 10 - Customer Due Diligence (CDD)

Rec. 26 - Regulation and supervision of financial institutions

Rec. 27 - Powers of supervisors

Rec. 28 - Regulation and supervision of DNFBPs

FATF Recommendations: http://www.fatf-gafi.org/publications/fatfrecommendations/documents/fatf-recommendations.html

FATF GUIDANCE

The FATF has published numerous risk-based guidance which provide comprehensive best practices on how its member jurisdictions and the private sector should implement the FATF requirements. The following is a list (hyperlinked for easy access) of some of the guidance that are useful to countries' FIs, DNFBPs and VASPs in the fight against ML/TF including pyramid schemes as a predicate offence:

Risk-based approach for the banking sector (2014)

Risk-based approach for money or value transfer services (2016)

Risk-based approach for life insurance sector (2018)

Risk- based approach for the Security Sector (2018)

Risk-based Approach virtual assets and virtual asset services providers (2019)

Guidance on Digital Identification (2020)

Guidance on the effective supervision by AML/CFT Supervisors and Law Enforcement Authorities