

Money Laundering in the High Value Goods Sector

High-Value Goods Dealers and the Risk of Money Laundering

In the ever-evolving landscape of financial crime, High-Value Goods Dealers (HVGDs) find themselves at the forefront of Money Laundering (ML) risks. From art galleries and luxury car dealerships to jewelers and antique shops, businesses dealing in HVGDs are increasingly being targeted by criminals looking to launder illicit funds. This newsletter delves into the specific risks faced by HVGDs, the mechanisms through which ML occurs in this sector and best practices for mitigating these risks.

Understanding Money Laundering in High-Value Transactions

What is Money Laundering?

ML is the process by which criminals disguise the original ownership and control of the proceeds of criminal activities by making such proceeds appear to be derived from a legitimate source. The aim is to integrate illicit funds into the financial system in a way that make the funds indistinguishable from legitimately earned money.

Why are HVGDs Targeted?

HVGDs are attractive to money launderers for several reasons:

- **High-value transactions:** The purchase and sale of luxury goods often involve large sums of money making it easier to launder significant amounts of money.
- **Acceptance of Cash payments:** These businesses usually accept large payments providing an easy way for criminals to introduce illicit cash into the legitimate economy.
- **Lack of Knowledge of AML Regulations:** Some HVGDs may not be fully aware of or compliant with Anti-Money Laundering (AML) regulations making them easier targets.

Mechanisms for Money Laundering in High-Value Goods

Layering Techniques

Layering involves moving illicit funds through a series of transactions to obscure their origin. In the context of HVGDs, this involves buying high-value items with illicit cash and reselling these items to generate “clean” money. The use of third parties to make purchases, further distances the criminal from the transaction.

Use of Shell Companies

Criminals may set up shell companies that appear legitimate and use these companies to buy luxury goods. This creates a layer of separation between the illicit funds and the final transaction, making detection more difficult.

Over- or Under-Invoicing

This technique involves manipulating the price of goods to ease the transfer of value. For example, an over-invoiced sale allows the criminal to move more money than the goods are worth, while under-invoicing can help transfer value out of a country covertly.

Best Practices for High-Value Goods Dealers

Know Your Customer (KYC) - Implementing robust KYC procedures is critical for HVGDs. This includes verifying the identity of customers, especially for high-value transactions and understanding the source of funds particularly for large cash payments. Monitoring and reviewing transactions for suspicious patterns would reduce the risk of doing business with illicit persons.

Compliance with AML Regulations - HVGDs must stay informed about and follow all relevant AML regulations. This includes registering with regulatory bodies, conducting regular AML training for all staff and establishing internal controls, record-keeping procedures and reporting mechanisms.

Suspicious Activity Reporting (SAR) - Dealers should be trained to recognize red flags associated with ML and report suspicious activities to the relevant authorities. This includes generally large cash transactions, customers who are reluctant to provide identification or information about the source of funds and customers with changed behaviours or unusual transactions. Transactions that seem inconsistent with a customer’s known business or personal activities should be reported.

Conclusion

As facilitators of high-value transactions, HVGDs play a critical role in the fight against ML. By implementing robust KYC procedures, following AML regulations and being vigilant to recognize suspicious activities, HVGDs can help safeguard their businesses and contribute to the broader effort to combat financial crime. By staying informed and through initiative-taking, HVGDs can protect themselves from becoming unwitting participants in ML schemes, ensuring their operations remain legitimate and secure.

Case Study

Background

In 2021, authorities uncovered a sophisticated ML operation involving a prominent international art dealer, Michael Sullivan, who used his gallery to launder proceeds from various illegal activities including drug trafficking and embezzlement. Sullivan's gallery is in a major global city and renowned for dealing in high-value art pieces attracting wealthy clients from around the world.

Mechanisms of Money Laundering Used:

Layering Techniques Use of Shell Companies Over-and Under-Invoicing Integration

Detection and Investigation

The ML operation was eventually uncovered through a combination of regulatory scrutiny and whistleblower information:

- **Suspicious Activity Reports (SAR):** Financial institutions handling the gallery's transaction filed multiple SARs due to unusual patterns and large cash deposits.
- **Enhanced Due Diligence:** Authorities conducted enhanced due diligence on the gallery, uncovering inconsistencies in sales records and connections to known criminal entities.
- **International Cooperation:** The investigation involved multiple law enforcement agencies across different countries, reflecting the international nature of the laundering scheme.

Measures Taken

In response to this case, several measures were implemented to prevent similar ML activities in the future:

- **Stricter AML Regulations:** Governments introduced stricter anti-money laundering (AML) regulations for HVGDs, requiring more rigorous customer due diligence and transaction reporting.
- **Increased Transparency:** The art market was encouraged to increase transparency through provenance documentation and clear ownership records.
- **Training and Awareness:** HVGDs received training on recognizing and reporting suspicious activities to enhance their ability to prevent ML.

The case of Michael Sullivan's art gallery illustrates the sophisticated mechanisms used by criminals to launder money through high-value dealings. Through the use of employing layering techniques, shell companies and price manipulation, Sullivan was able to obscure the illicit origins of the funds. This case underscores the importance of stringent AML measures, enhanced due diligence and international cooperation in combating ML in the high-value goods sector.

References

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