

Appendix 1 - "Red Flag" Transactions and Possible Monitoring Responses

1. Red Flag Transactions - Publicly Identified Potentially Suspicious Transactions

The monitoring of transactions and/or dealing with the outcome of the results of such monitoring may be difficult for the Institution particularly where entities such as shell banks are involved. The following examples are illustrative of possible suspicious transactional correspondent activity and are derived from publicly available sources.¹ They are illustrative of wire transfers in particularly large amounts and/or in particularly large volumes/frequencies and/or in "bursts" of activity occurring within a short period of time ("Red Flag Transactions"):

- transactions involving high risk countries vulnerable to money laundering (if and to the extent this can be identified);
- transactions with those Correspondent relationships already identified as higher risk Correspondents;
- large (value or volume) transaction activity involving monetary instruments; (e.g. travellers cheques, money orders, bank drafts) - especially involving instruments that are sequentially numbered;
- transactional activity that appears unusual in the context of the relationship with a Correspondent;
- transactions involving shell banks;
- transactions involving shell corporations;
- transaction activity frequently involving amounts that are just less than any locally mandated transaction reporting requirements, or transactions or enquiries that appear to test or identify an Institution's own internal monitoring thresholds or controls.

2. Possible Monitoring Responses by Institutions

The Wolfsberg Group is committed to co-operating with, and assisting, law enforcement and government agencies in their efforts to combat money laundering by, *inter alia*, developing and operating effective and efficient transaction monitoring programmes. The Wolfsberg

¹ These sources include, *inter alia*, the FATF Report on Money Laundering typologies 2001- 2002 - Correspondent Banking; FINCEN SAR Activity Review Trends Tips & Issues (August 2004) - Indicators of possible Misuse of Shell Corporations and Shell Banks; Guidelines for Counter-Money Laundering Policies and Procedures in Correspondent Banking - The New York Clearing House Association LLC - Section 4.1 Examples of Possible Suspicious Correspondent Account Activity; Swiss Federal Banking Commission Money Laundering Ordinance 2002 - Schedule: Indicators of Money Laundering; Basel Committee on Banking Supervision, Customer Due Diligence for Banks - October 2001.

Group has identified the following possible monitoring responses that could be further investigated by Institutions, in seeking to address some of the "Red Flag" Transactions highlighted above:

- identifying Correspondents whose accounts are operating significantly outside the parameters that would otherwise be expected, based either on the information received during due diligence, or from previous behaviour regarding expected activity and/or monitoring for significant divergences from this expected activity, whether in respect of volumes, values and/or frequency of transactions are concerned. For higher risk Correspondents, consider reducing the level of acceptable divergence before identification of the relationship occurs;
- identifying Correspondent transactions which have passed through several different jurisdictions or financial institutions prior to or following the Institution's involvement, without any apparent purpose other than to disguise the nature, source, ownership or control of the funds. Particular concerns may arise where the prior or subsequent transactions involve high risk countries (particularly NCCT), vulnerable to money laundering and therefore transactions connected to such countries should be monitored;
- identifying wire transactions with the following attributes or combined attributes, for example large, even-currency amounts and/or repetitive wire transfers from a particular originator to a particular beneficiary, and/or individual wire transactions conducted within a short period of time (such as on a daily basis, twice daily or every other day);
- identifying the deposit, or withdrawal, of monetary instruments with the following attributes or combined attributes; for example, if sequentially numbered, and/or in large amounts, or just below a locally mandated transaction reporting threshold, and/or in a short space of time (e.g. on the same day);
- identifying transactions where activity appears to be structured either to avoid an Institution's monitoring systems and/or to be just below a locally mandated transaction reporting threshold or trigger;
- identifying suspected shell banks by reliance on lists provided from reliable and credible sources;²
- identifying suspicious shell corporations that do not provide adequate information about ownership by reliance on lists provided from reliable and credible sources.³

² To our knowledge no public lists are available identifying Shell Banks. The Wolfsberg Group would welcome any attempt by public authorities to make publicly available lists of Shell Banks remaining in operation. The Wolfsberg Group is not convinced that it is otherwise possible to identify Shell Banks simply from their transactional activity via an Institution, unless the Shell Bank is a Customer of the Institution, in which case the Institution should in any event close the relationship.

³ Again, to our knowledge no such public lists are available, although it appears that many governmental authorities may have information/lists of corporations that may be used as "fronts" for individuals/organisations of concern. The Wolfsberg Group would welcome any attempt by public authorities to make publicly available lists of such corporations. The Wolfsberg Group is not convinced that it is otherwise possible to identify suspicious shell corporations simply from their transactional activity via an Institution unless the shell corporation is a Customer of the Institution.