# PUERTO RICO FINANCIAL SERVICES FORUM

#### **Money Laundering Emerging Trends in Puerto Rico**

# **Money Laundering in Puerto Rico**

Major hub for transactions related to money laundering

- Location
- Economy (Tax icentives, foreign investments)
- Drug Trafficking
- Bulk Cash/ Money Mule
- Non-Federally Chartered Puerto Rican Financial Entities (IFEs, IBEs and Credit Unions)





# What is Money Laundering?

Processing assets (money or property) in ways which mask ownership of those assets and makes them appear to have come from legitimate sources.

#### Turning "dirty" money into "clean" funds

Helps criminals hide and accumulate wealth, avoid prosecution, evade taxes, increase profits through reinvestment and fund further criminal activity.

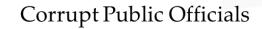
#### Who Launders Money?

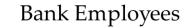


Narcotics Traffickers



Cyber Criminals





**Corrupt Military Personnel** 



# **Money Laundering Facilitation**

- Professional money launderers
  - Attorneys
  - Accountants
  - Corporate service providers
  - Finance professionals
  - Real estate professionals
  - Mule networks
- Complicit financial institutions
  - Banks
  - Money Services Businesses
  - Exchangers



# **Specified Unlawful Activity (SUA)**

- Alien Smuggling
- Bank Fraud
- Bankruptcy Fraud
- > Bribery
- Counterfeiting
- Drug Offenses
- Embezzlement
- Extortion

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#### **Methods Used to Launder Money**

Through the use of the financial system
Physical movement of cash (i.e. bulk smuggling)
Through the international trade (based) system
Real estate
Virtual currency
Layering through shell companies



# **The Financial System**

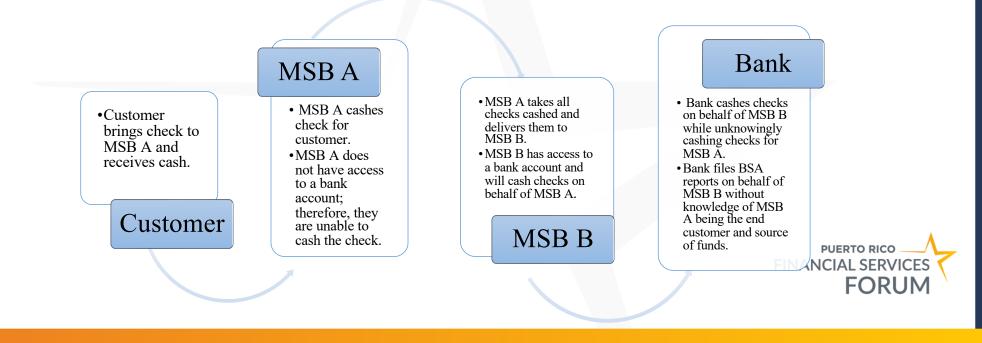
How do criminals take advantage of the banking sector? Misuse of accounts Misuse of loans Bearer negotiable instruments (BNIs) International funds transfers (wire transfers) Safe deposit boxes

What are the methods they use? Structuring fund deposits Complex company ownership Third parties or third-party accounts Stolen identities and fictitious identities



# Trends – Wholesaling/MSBs

As of June 2015, according to a FinCEN press release, FinCEN fined a Los Angeles, California-based CCF \$60,000 for BSA violations. The owner exchanged the businesses' checks for cash at another CCF, a practice known as wholesaling, "representing significant risks to transparency and can seriously inhibit efforts to follow money trails".

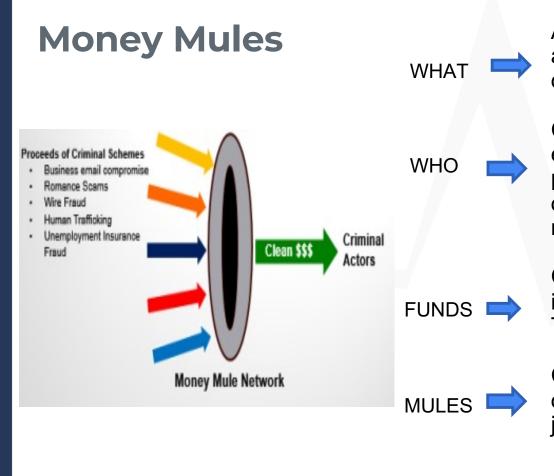


## Non-Federally Chartered Puerto Rican Financial Entities

- National Money Laundering Risk Assessment published in February 2022, had an special focus section dedicated to non-federally charted Puerto Rico financial entities, specially IFEs and IBEs deemed of particular concern because of their offshore banking model.
- IFEs & IBEs by law cannot provide services to most Puerto Rican residents; they may take deposits and offer loans only to non-resident customers and foreign business entities.

- Vulnerabilities;
  - Low staffing requirements
  - Minimal physical employees' presence (only 4 residents of PR)
  - Turn Over (Organization stability)
  - Corresponding Services (Local & US Based)
  - Cryptocurrency (no compliance program)





An individuals who transfers illegally acquired money on behalf of or at the direction of another.

Criminals recruit mules to move money electronically through bank accounts, move physical currency or assist the movement of money through a variety of other methods.

Criminals obtain money through various illegal acts. (Drug Trafficking, Human Trafficking, Scams, Frauds, etc)

College Students, small businesses owners, elderly individuals, new to country, job applications, anyone...anywhere FINANCIAL SERVICES

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#### **Trade Based Money Laundering**

The process of disguising the proceeds of crime and moving value through the use of trade transactions in an attempt to legitimize their illicit origins.

- Techniques:
- Over and under invoicing of goods and services
- Multiple invoicing of goods and services
- Over and under shipment of goods and services.
- Falsely described goods and services.

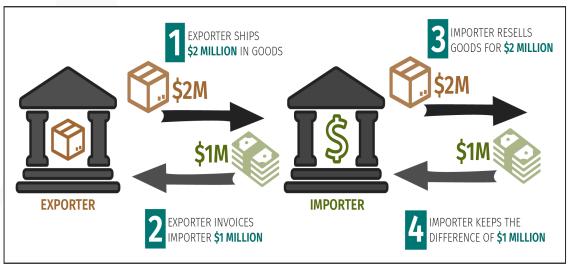


Figure 1: Example of a simple TBML scheme. Source image: <u>ACAMS</u>



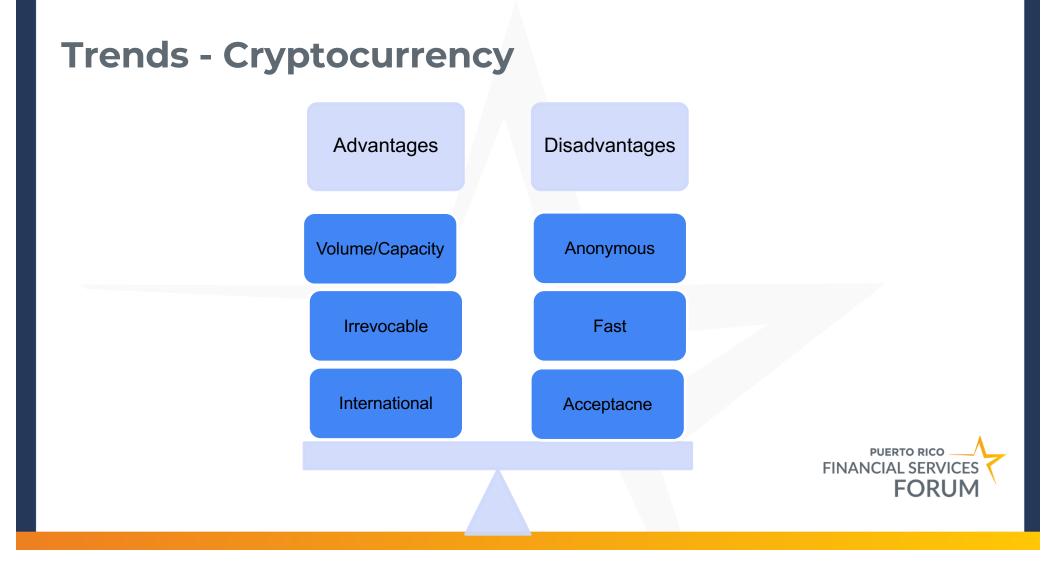
- Bitcoin is an intangible asset
- Wallets addressees serve as identifiers for Bitcoin transactions.
- Wallet are composed of 26-34
  - 1F1tAaz5x1HUXrCNLbtMDqcw6o5GNn4xqX
- Addresses are stored in wallets.
- Can be custodial, electronic or physical.



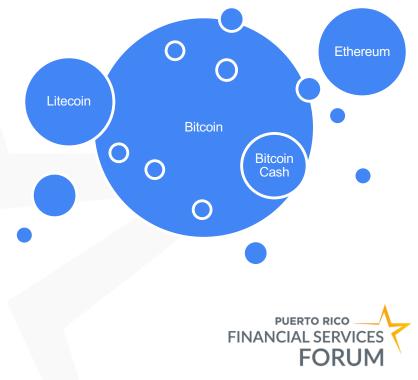
Summary		Transactions			
Address	1F1tAaz5x1HUXrCNLbtMDqcw6o5GNn4xqX	No. Transactions	873	۵	
Hash 160	99bc78ba577a95a11f1a344d4d2ae55f2f857b98	Total Received	29,672.03950384 BTC	۵	A
Tools	Taint Analysis - Related Tags - Unspent Outputs	Final Balance	13.23450384 BTC	db	FINANCIAL SERVICES

- Bitcoin addresses contain your public key.
- Bitcoin wallets can contain various cryptocurrency addresses.
- Wallets also contain your private key, allowing the owner to send crytpocurrency.
- Transactions can be traced using blockchain explorers.





- Alternatives Coins:
  - Altcoins: Litecoin, Ethereum etc.
    - Improve on deficiencies of previous cryptocurrencies
    - Provide the ability to execute smart contracts
    - Utilize less resources
  - Stablecoins
    - Their value is attached to a collateral; for example, USD.



	Compra de Bitcoin
Fecha: 2021-	11-20 18:55
Transacción	#: 3d39837287
Dirección: 3QJgAEQgcc	dYgjoV8
Tipo de cam	bio: \$69330.12+0.00001258 BTC fee
Efectivo: \$134	40
Bitcoin com	orado: 0.01931524
Kiosk operado	p por .
La asistencia t	elefónica
Correo electró	nico: support@
Sitio web:	
	Gracias!



List of major cities in Puerto Rico with bitcoin ATM installations: .

<u>Juana Díaz</u> 1
<u>Mayagüez</u> 2
Ponce 2

Cabo Rojo 1

<u>Guayama</u> 1 <u>Isabela</u> 1 <u>San Juan</u> 37

According to <u>www.coinatmradar.com</u>, as of as of October 2024, there are 45 Bitcoin ATMs in Puerto Rico

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- Cryptocurrency Exchangers are defined as MSBs
- Cryptocurrency Exchangers must comply with regulations for MSBs

#### Guidance

#### FIN-2013-G001

Issued: March 18, 2013

Subject: Application of FinCEN's Regulations to Persons Administering, Exchanging, or Using Virtual Currencies



# **Trends – Cryptocurrency Regulations**

- According to the "FinCEN Advisory" FIN-2019-G001
  - Cryptocurrencies are considered money.
  - Businesses that handle cryptocurrencies function as money transmitters (MSBs).
  - By accepting and transmitting cryptocurrencies you are obliged, to register with FinCEN as MSB and comply with the program of (AML/CFT),
  - A register must be kept and the relevant reports submitted.
  - According to the FinCEN Guide issued on May 9, 2019, P2P exchangers operate as MSBs.
  - They must meet all requirements for MSBs under BSA.
  - Financial institutions can identify P2P exchangers through account activity.
  - Exchangers deposit funds into their bank accounts in order to process transactions.

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# **Trends – Cryptocurrency Red Flags**

- According to the "FinCEN Advisory" FIN-2019-A003
  - A client receives multiple cash deposits or transfers from different jurisdictions or branches of a financial institution or individuals and soon after uses such funds to acquire cryptocurrencies.
  - A client receives a series of deposits from disparate sources that, taken together, amount to aggregate fund transfers almost identical to a well-known virtual currency exchange platform in a short period of time.
  - Structuring transactions just below the CTR threshold or the daily ATM limit of virtual currencies, either by using multiple machines.
  - Deposits into an account coming from a significantly higher than ordinary exchange with an unknown source of funds, followed by conversion to legal tender may indicate theft of funds.

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- According to the "FinCEN Advisory" FIN-2019-G001
  - Valuable information for filling out BSA reports:
    - Virtual currency addresses
    - Bank account information
    - Transaction Details:
    - Including virtual currency transaction hash and information about the originator and recipient
    - History of relevant transactions
    - Available login information (including IP addresses)
    - Mobile device information (such as device IMEI)
    - Information obtained from online public profile analysis and customer communications.





# **Questions?**

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