

**A MONEY LAUNDERING & TERRORISM FINANCING
RISK ASSESSMENT**

ON

LEGAL PERSONS AND OTHER BUSINESS ENTITIES



AMLC 2020

EXECUTIVE SUMMARY AND TYPOLOGY VERSION

EXECUTIVE SUMMARY

Criminals employ a range of sophisticated techniques and money laundering (ML) mechanisms to disguise the trail of criminal proceeds. In a Financial Action Task Force (FATF)¹ and Egmont Group² Report (July 2018),³ obscuring ownership and control of illicit proceeds and assets is employed through several schemes such as “hide-in-plain sight” strategy, leveraging global trade and commerce infrastructures. Criminals have set up certain services and corporations to facilitate ML, corruption, and even tax evasion.

Newly established corporations and partnerships are concentrated in mainstream types of industries, such as wholesale and retail trade real estate; rental and business activities; and hotels and restaurants. These industries typically use cash, credit cards, and checking-related transactions. These industries are exposed to ML threat as typologies suggest that criminals performing illegal and ML activities prefer to use cash as the primary instrument to facilitate transactions. Given the anonymous nature of cash, authorities face difficulty in tracing criminals and the illegal source of proceeds.

Immediate Outcome (IO) 5, as guided by Recommendations 24 and 25 as well as elements of Recommendations 1, 10, 37, and 40,⁴ is rated low in effectiveness. Measures, such as (1) timely access to accurate and up-to-date beneficial ownership by competent authorities; (2) preventive use of legal persons and arrangements for criminal activities; and (3) availability of effective, proportionate, and dissuasive sanctions for any breaches, are critical in assessing effectiveness.⁵ While the deficiencies noted in IO 5 include legal arrangements, the study is only limited to the assessment of legal persons.

This study takes a collective approach in assessing how legal persons and other business entities facilitate concealment of illegally obtained proceeds and assets. Data analysis from suspicious transaction reports (STRs), cases and investigations, and trend analysis from published reports shows that sole proprietorships and corporations, primarily engaged in wholesale/retail and general trade, are among those utilized for ML activities.

Typologies suggest that illegal drugs, violations of the Electronic Commerce Act of 2000, and fraud are the most common crimes involving legal persons and business entities. Criminals facilitate the setup of certain business types, such as wholesale/retail trading, to commingle illegal proceeds with legitimate income. In some cases, Filipinos have set up businesses on behalf of foreign nationals, who ultimately have control and ownership of said businesses. As for terrorism, the threat involving legal persons is not as evident as ML, but typologies and suspicious transactions identify certain businesses engaged in construction and petroleum; and non-stock corporations (i.e. religious/charity groups, schools) located in

¹ The Financial Action Task Force (FATF) is an inter-governmental body established in 1989 by the Ministers of its Member jurisdictions. The objectives of the FATF are to set standards and to promote effective implementation of legal, regulatory, and operational measures for combating money laundering, terrorism financing, and other related threats to the integrity of the international financial system. The FATF is therefore a “policy-making body,” which works to generate the necessary political will to bring about national legislative and regulatory reforms in these areas.

² The Egmont Group is a united body of 164 Financial Intelligence Units. The Egmont Group continues to support the efforts of its international partners and other stakeholders to give effect to the resolutions and statements by the United Nations Security Council, the FATF, and the G20 Finance Ministers.

³ FATF and Egmont Concealment of Beneficial Ownership, July 2018

⁴ FATF Recommendations and Third Mutual Evaluation Report.

⁵ The study is limited to the assessment of measures associated with legal persons. A different assessment will be conducted on legal arrangements by a different authority.

specific regions as potentially vulnerable to terrorism financing (TF). A more detailed assessment on this sector should be undertaken to determine the overall level of threat.

The Anti-Money Laundering Council (AMLC) Secretariat undertook this risk assessment with the support of the Securities and Exchange Commission (SEC). The AMLC Secretariat also solicited comments and input from members of the National Anti-Money Laundering/Combating the Financing of Terrorism Coordinating Committee's (NACC) Supervision of Financial Institutions Sub-Committee (SFISC).

The risk assessment serves as a tool to inform stakeholders on risks involving legal persons and other business entities to ML and TF; and to guide decision-makers in crafting policy initiatives.

OVERALL MONEY LAUNDERING/TERRORISM FINANCING RISK

Considering the threat/vulnerability risk and consequential impact, the overall risk of legal persons and business entities to ML is **medium high** that requires collective mitigating strategic actions that can be implemented from short to medium term. A moderately high level of risk is noted for sole proprietorships and corporations, compared with partnerships and cooperatives. Moreover, given the operational structure of cooperatives and availability of regulatory controls, the ML risk associated with external threats or factors appears insignificant at the time of assessment.

As regards TF, there appears a potential level of threat to certain types of businesses (i.e. construction, petroleum/gas) and non-stock corporations.

Collective strategy with application of concrete actions must be applied to all legal persons and business entities operating in the Philippines. The one-stop-shop business at the national level approach initiative of relevant government agencies could be an effective tool in monitoring and regulating business entities and legal persons. Moreover, supervising agencies/regulators need to determine all associated risks and to apply risk-based supervision. Covered persons and financial institutions must likewise reassess their risk profiling procedures and apply commensurate customer (CDD) and enhanced due diligence (EDD) measures to emerging vulnerable industries to ML and TF.

GENERAL FINDINGS AND CONCLUSION

Based on quantitative and qualitative assessments, the following risks and gaps exist in the sector:

1. The level of unclassified legal persons of about 29.11% poses regulatory and compliance-monitoring risks for the supervising agencies/regulators of these entities.

Likewise, unregulated or informal businesses within the sector pose a certain level of threat.

2. As for cooperatives, operations are directly controlled by and limited only to its members. With this structure and available controls, the potential ML risk

from external threats or influences may be inconsequential at the time of the assessment.

One compliance gap noted in the cooperative sector is the limited monitoring of the 2,005 or about 11% cooperatives operating in the Autonomous Region in Muslim Mindanao (ARMM), which appear to have no record in the Cooperative Development Authority's (CDA) online Cooperative Registration Information System. These cooperatives, however, are included in the master list of the CDA.

3. Newly established or registered corporations and partnerships appear to be concentrated in the mainstream type of cash-intensive businesses of industries, such as wholesale and retail trade real estate; rental and business activities; and hotels and restaurants. The typical use of cash adds anonymity to the nature of transactions.

Cash-intensive industries pose exposure to ML threat as typologies show that the use of cash as primary instrument of criminals to facilitate transactions disguises the true nature of funds. Given the anonymous character of cash, authorities face difficulties in tracing the nexus between the funds and the criminal activities.

4. Based on transaction reports and as supported by the 2015 World Bank study, banks are the preferred channel of legal persons and business entities to facilitate payments and business operations.
 - a. There is, however, a potential trend on the use of e-money issuers and money service businesses (MSBs) based on STRs filed, recording 1,148 STRs within 2017 and 2019 from naught within 2015 and 2016.
 - b. Data shows a low level of threat involving the insurance sector; and a low-medium level of threat on the use of financing companies and investment houses by entities allegedly involved in illegal transactions.
5. Corruption, illegal drugs, violations of the Electronic Commerce Act of 2000, and fraud are the most common crimes involving legal persons and business entities. Criminals facilitate the setup of certain business types, such as wholesale/retail trading, to commingle illegal proceeds with legitimate income. In some cases, the businesses have been set up by Filipinos on behalf of foreign nationals, who ultimately have the control and ownership of said businesses.
6. In terms of nominal values, violations of e-commerce, graft, and illegal drugs appear to have generated significant illegal proceeds. Estimated frozen assets, involving cases predicated on said offenses, totaled PhP4.6 billion, which is around 95% of the total frozen assets of the sample cases in the study.
7. As for terrorism and its financing, the threat to the entire legal persons and business entities sector is not as evident as ML. Typologies, suspicious transactions, and referrals from law enforcement agencies, however, identify

certain businesses, such as those engaged in the construction and the petroleum sector, and certain types of non-government organizations, such as religious/charity groups and educational schools, as potentially vulnerable to TF. A more detailed assessment on industry-specific businesses and non-stock corporations should be undertaken to determine the overall level of TF threat.

8. For suspicious transactions, violations of the Securities Regulations Code of 2000 (12.3%), illegal drug trafficking (6.4%), and swindling (6.1%) are among the most common types of offenses involving legal persons and business entities. A considerable number of STRs were also filed on suspicious indicators, accounting for 71% of the sample STRs.
 - a. Among the STRs used in the study, STRs indicating cash deposits topped at 48.56%. This may denote that legal persons and business entities subject of STRs are engaged in cash-intensive operations or businesses. Moreover, cash deposits of over PhP2.1 billion are reported on businesses allegedly associated with illegal drug activities. This may suggest that drug criminals and facilitators comingled illegal funds with legitimate business income. Nature of businesses identified in the STRs are wholesale/retail, construction, and trading.
 - b. Countries involved in suspicious international remittances to legal persons/entities include Hong Kong (15.24%), Japan (10.89%), Indonesia (10.86%), the United States of America (USA) (9.74%), and the United Kingdom (8.31%).
 - c. Cross-border risk also shows international remittances credited to accounts of legal persons and other business entities suspected to be associates of threat groups. Countries identified are those mostly from in Europe—Belgium, United Kingdom, Russia—and other parts of Africa, Middle East, and Asia.
 - d. Studies and cases show a level of abuse by certain foreign nationalities. Typologies expose the use of dummies by foreigners to engage in businesses reserved for Filipinos.
9. There are regulations in place with regard to the identification of beneficial owners. Considering the large number of legal persons operating in the Philippines, the challenge of these entities' compliance with existing regulations remains. Competent authorities also see limited mechanisms in accessing beneficial ownership information as a challenge in conducting investigations.

RECOMMENDATIONS AND MITIGATION STRATEGY

To mitigate the emerging threats and vulnerabilities based on the results of this risk assessment, the following strategies may be considered or implemented:

Enhance regulatory controls

1. The SEC and the CDA need to re-evaluate the process of issuing licenses and/or certificates of registration/operations for legal persons, such corporations, partnerships, and cooperatives. The SEC and the CDA may also need to maintain a database of legal persons with derogatory records and non-compliance issues with existing laws and regulations issued by the SEC and the CDA.

The SEC and the CDA may also need to grant access or share derogatory databases with other anti-money laundering and counter-terrorism financing (AML/CTF) supervising agencies, law enforcement agencies, and competent authorities subject to data privacy provisions or any information-sharing agreement. This supports the supervisory approach and investigations of AML/CTF supervising agencies and law enforcement agencies, respectively.

2. The SEC, as a company registry, may need to revisit and reconsider risk-based reportorial and registration requirements for corporations and partnerships. Based on industry classification, the SEC may impose stringent measures and enhance beneficial ownership identification on high-risk industries.
 - a. Companies should diligently file complete reports and financial statements at required times to the SEC and respective supervising agencies/regulators.
 - b. Companies must keep records of customers and employees; and after an investigation, companies must disclose breaches and suspicious transactions to the authorities.
3. Sole proprietorships are subject to limited supervision, considering that these entities do not possess a juridical personality separate and distinct from the natural person owning the business. To address the risks associated with certain high-risk sole proprietors – business entities, financial institutions may need to exercise prudent regulations and customer requirements on identified high-risk entities, potentially vulnerable to ML/TF.
4. Online registration of legal persons and business entities, including information on beneficial owners, is encouraged. This is to easily assess data and information disclosed by legal persons/business entities and allow the regulator to apply risk-based measures.
5. The one-stop-shop business at the national level approach initiative of relevant government agencies could be an effective tool in monitoring and regulating business entities and legal persons.

Promote effective coordination mechanisms and enhance enforcement actions

6. Regulators and supervising agencies of legal persons and other business entities (i.e. SEC, CDA, Bangko Sentral ng Pilipinas [BSP], Insurance Commission [IC], Department of Trade and Industry [DTI], etc.) should further

enhance coordination with the AMLC and other law enforcement agencies in addressing the risks associated with ML/TF, and related predicate offenses.

- a. Regulators/supervising agencies, and law enforcement agencies can utilize the NACC, National Law Enforcement Coordinating Committee (NALECC), including their sub-committees, in proposing action plans and implementing the same in order to mitigate the risks associated with legal persons.
 - b. AMLC, as the primary agency tasked with the prevention, detection, and investigation of ML/TF, needs to ensure engagement of all regulators in the National AML/CFT Strategy.
7. Limited mechanisms in accessing beneficial ownership information, though seen as a challenge by competent authorities in conducting investigations, can be mitigated through strong partnerships and domestic coordination.
- a. The AMLC, as the Philippines' Financial Intelligence Unit (FIU), holds vast information on account records, transaction reports, and other information obtained from foreign counterparts that can confirm identification of beneficial ownership.
 - b. Competent authorities, law enforcement agencies, and supervising agencies can access information in AMLC's possession through available mechanisms, such as the execution of memoranda of agreement, inter-agency task force, and other domestic coordination initiatives.
 - c. The SEC has basic and beneficial ownership details on registered corporations and partnerships submitted in the form of the revised General Information Sheet in which competent authorities can obtain access either through the online platform (SEC i-View) or direct requests to the agency for printed or hard copies. Considering timeliness in obtaining information, the SEC may need to expedite updating its SEC i-View system and allow competent authorities direct access to the system subject to data privacy and integrity controls.
8. Timely access to complete basic and beneficial ownership information should be made available to law enforcement and intelligence agencies, supervising agencies, and other competent authorities. Business and company registries and cooperatives may need to provide direct access to the aforementioned agencies.
- Law enforcement and intelligence agencies, supervising agencies, and the AMLC shall closely coordinate with the registries, particularly on sharing derogatory information, which may benefit investigations on legal persons and other business entities.
9. Supervising agencies and appropriate government agencies should issue guidance to their respective regulated covered persons to conduct EDD on

high-risk entities and pose commensurate measures before they can open accounts with the financial institutions.

10. Supervising agencies and regulators need to determine all associated risks and apply risk-based supervision to their regulated entities.
 - a. Supervising agencies should monitor transactions, particularly on certain categories of corporations and sole-proprietor types of businesses.
 - b. Supervising agencies should revisit regulations on the conduct of fit and proper screening as certain types of legal persons and business entities can be exploited for criminal activities.
 - c. Foreign capital contributions should also be actively monitored to determine the extent of funding sources from high-risk jurisdictions. Legal persons should be required to regularly report and update the status of their capital contributions.

Enhance understanding on money laundering/terrorism financing risks

11. The AMLC, in coordination with supervising agencies, appropriate government agencies, and other cooperative and company registries, must conduct AML/CTF training to legal persons, particularly identified high-risk entities, and must make them aware of potential risks and sanctions. In this manner, legal persons would improve their risk understanding, reporting obligations to their respective regulators, and KYC/CDD procedures.
12. AMLC, supervising agencies, and regulators should issue a report on typologies and list of ML/TF indicators for the guidance of covered persons and the public.
13. Supervising agencies and regulators must conduct or update their own sectoral risk assessments on ML/TF, integrating thereto legal persons and other businesses' customer risk per classification, emerging threats, and cross-sector threats to other financial institutions.
14. The AMLC should disseminate the study to the supervising agencies, appropriate government agencies, and other relevant authorities.

GENERAL ANALYSIS AND FINDINGS

Legal persons and business entities are being used by criminals as front companies to facilitate fraudulent activities. There are likewise cases on the use of corporate structure by representative directors for criminal activities.

Volume of criminal and money laundering/terrorism financing activity

Certain types of legal persons and business entities are being used by criminals for their illegal activities. Existing investigations of the AMLC and other agencies show the following:

Intelligence reports and cases investigated for ML and predicate crimes by AMLC and law enforcement agencies

From 2018 to July 2020, the AMLC acted on requests from domestic law enforcement agencies for parallel ML/TF investigations, involving 871 legal persons and business entities. Most of these cases are predicated on illegal drug offenses, graft, swindling/fraud, violations of the Securities Regulation Code (SRC), and terrorism and TF.

The AMLC also proactively shared intelligence reports, containing information on 735 companies and legal persons. These reports have been shared with ML/TF investigators, other law enforcement agencies, and competent authorities.

Strategic studies on online gaming and common funding of threat groups led to the identification and analysis of hundreds of entities.

Freeze order and civil forfeiture cases

In the investigations of 16 sample cases that involved legal persons and business entities from 2015 to 2019, the total assets frozen estimated at Php4.8 billion.

In 2019, six (6) cases on illegal drugs and securities fraud involving companies were subject of civil forfeiture orders. The estimated value of proceeds in these cases amounted to Php621 million (USD12.43 million at Php50 per 1 USD) and insurance worth Php10.9 million.

Investigations of the Securities and Exchange Commission

The SEC investigated cases on legal persons involved in investment fraud or violations of the SRC. Identified schemes or typologies include: (1) The use of legal persons to violate the Lending Company Regulation Act of 2007 or the Financing Company Act of 1998 to engage in the lending/financing business without the necessary Certificate of Authority to Operate as a Lending/Financing Company; and (2) The use of dummies by foreigners to be able to engage in businesses reserved for Philippine nationals.

Volume of Suspicious Transactions

Covered and suspicious transaction reports are filed by covered persons or reporting institutions to the AMLC for analysis and determination of potential illegal or criminal, ML, and TF activities.

Application of STR criteria for the five (5)-year period generally shows an increase in the reporting of suspicious transactions, involving legal persons and business entities from 2015 to 2019. A very noticeable 165.7% increase was observed from 2016 to 2017 as shown in Chart 1. Sample STRs⁶ filed involving legal persons and business entities, also show an estimated value of PhP52.328 trillion with a significant increase in 2019.

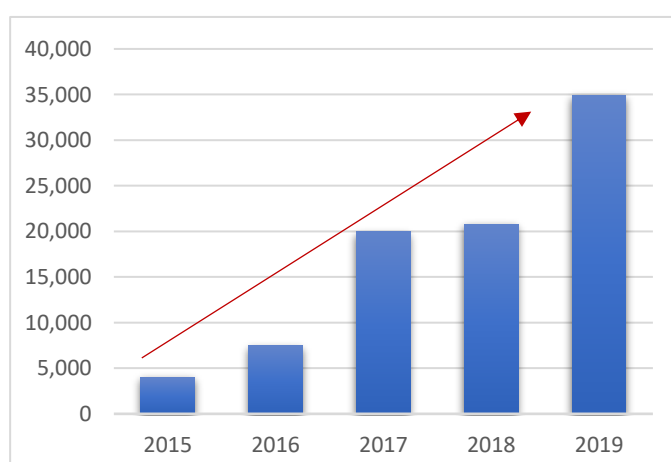
The 87,190 STRs involved 6,177 unique subjects or account names. It is not clear, however, on the number of STRs related to each type of legal person or business entity, as there is no specific field on the type of business registration.

Table 1. Suspicious Transaction Reports involving Legal Persons and other business entities

Year	Estimated STR Value (in PhP millions)
2015	267,536.24
2016	736,697.59
2017	2,819,523.06
2018	4,689,889.83
2019	43,815,251.99
Grand Total	52,328,898.71

Estimated value in PhP based on the exchange rate as of 30 October 2020

Chart 1. Yearly Summary of STR Reports on Legal Persons and other Business Entities



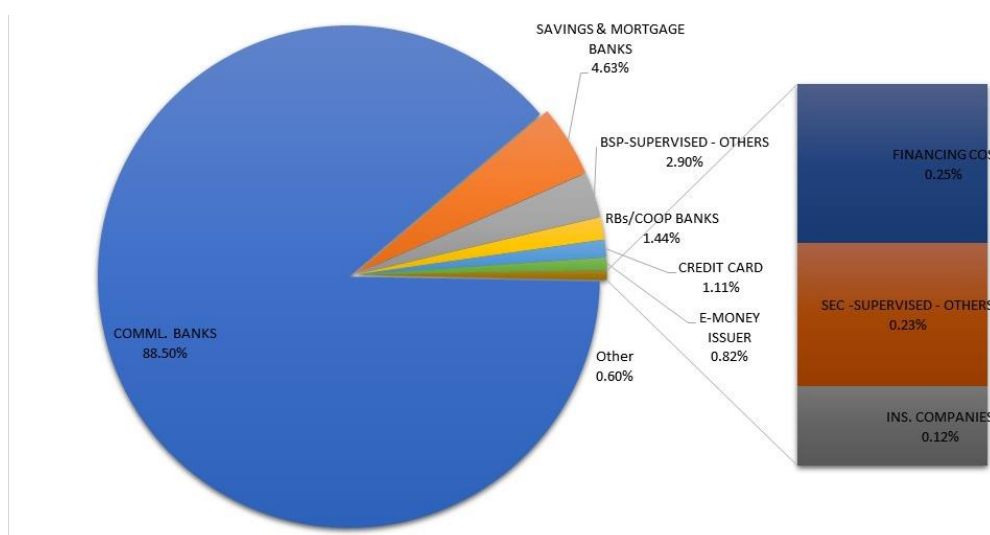
⁶ Sample STRs are collected based on the criteria of reporting corporations/companies by the CPs in accordance with the AMLC Registration and Reporting Guidelines (ARRG) and ARRG for Casinos (ARRGC). Quality of the suspicious transaction reporting is subject of another study.

The increasing number of STR submissions involving legal persons and other business entities can possibly be attributed to the existence of case typologies and typology reports that serve as guidance papers to various covered persons in transaction reporting.

Of these STRs, 95% were reported by banks [commercial banks, savings and mortgage banks, rural banks/cooperative banks, private banks, specialized government banks], followed by credit card companies at 1.11% and e-money issuers at 0.82%. Banks and credit card facilities remain the preferred channels for corporations/business entities. There is, however, a potential trend on the use of e-money issuers and MSBs, which recorded 1,148 STRs in 2017 to 2019 from nil in 2015 to 2016.

For the same period, the STRs filed by insurance companies recorded at 0.12%, while STRs filed by financing companies and investment houses, including those with quasi-banking functions, registered at 1.24%.

Chart 2. Distribution of STRs, per Reporting Institution



Based on the sample STRs, there is low threat involving the insurance sector, while there appears a low-medium threat on the use of financing companies and investment houses by entities suspected to be involved in illegal transactions.

STRs filed in relation to violations of SRC (12.3%), drug trafficking (6.4%), and swindling (6.1%) are among the most common types of offenses involving legal persons and business entities. A considerable number of STRs were also filed on transactions with no underlying legal or trade obligation or economic justification (31.5%) and transactions not commensurate with the business of financial capacity (18.6%). In terms of value, STRs related to (1) fraud and illegal exactions, (2) forgeries and counterfeiting, and (3) swindling ranked among the top predicate offenses.

Table 2. Suspicious Transaction Reports on Legal Persons and other Business Entities per Predicate Crime, 2015 to 2019

PREDICATE CRIME/SUSPICIOUS INDICATOR	% to Total Sample STRs
FRAUDULENT PRACTICES AND OTHER VIOLATIONS UNDER THE SECURITIES REGULATIONS CODE OF 2000	12.30%
DRUG TRAFFICKING AND RELATED OFFENSES	6.40%
SWINDLING	6.09%
VIOLATION OF THE ELECTRONIC COMMERCE ACT OF 2000	1.32%
GRAFT AND CORRUPT PRACTICES	1.00%
SMUGGLING	0.48%
TERRORISM AND CONSPIRACY TO COMMIT TERRORISM, AND TERRORISM FINANCING	0.20%
FORGERIES AND COUNTERFEITING	0.15%
FRAUD AND ILLEGAL EXACTIONS AND TRANSACTIONS	0.12%
FELONIES OR OFFENSES OF SIMILAR NATURE PUNISHABLE UNDER THE PENAL LAWS OF OTHER COUNTRIES	0.11%
<i>OTHER PREDICATE CRIMES</i>	0.39%
<i>OTHER SUSPICIOUS CIRCUMSTANCE</i>	71.45%
TOTAL	100.00%

Terrorism and Terrorism Financing

The terrorism- and TF-related STRs filed on accounts of legal persons and business entities account for 0.20% of the total sample STRs used in the study. STR value on terrorism- and TF-related STRs is estimated at PhP1.566 billion or about 0.003% of the total value of STRs on legal persons and business entities. Moreover, the terrorism- and TF-related STRs involved non-stock corporations (i.e. foundations, education services, etc.), and certain types of businesses, such as construction firms, gas/petroleum, and trading businesses, among others.

Terrorism- and TF-related transactions were related mostly to existing TF cases jointly handled by the AMLC and intelligence agencies. International funding with an estimated value of PhP60.2 million by foreign non-government organizations and charities is likewise observed in the sample terrorism- and TF-related STRs.

Cash-related transactions

In terms of cash-related transactions, 48.6% of the sample STRs, were reported as cash deposits to corporate accounts. This may denote that the legal persons and businesses entities subject of the STRs are engaged in cash-intensive operations or businesses.

Cash deposits range from less than PhP100,000 to over PhP1 billion. Fifty-one percent of the cash deposits ranged below PhP100,000. Significant and multiple cash deposits pose a threat as they disguise the money trail or the source of funds.

Based on sample STRs, cash deposits over PhP2.1 billion are reported on businesses allegedly associated with illegal drug activities. This suggests that drug criminals and

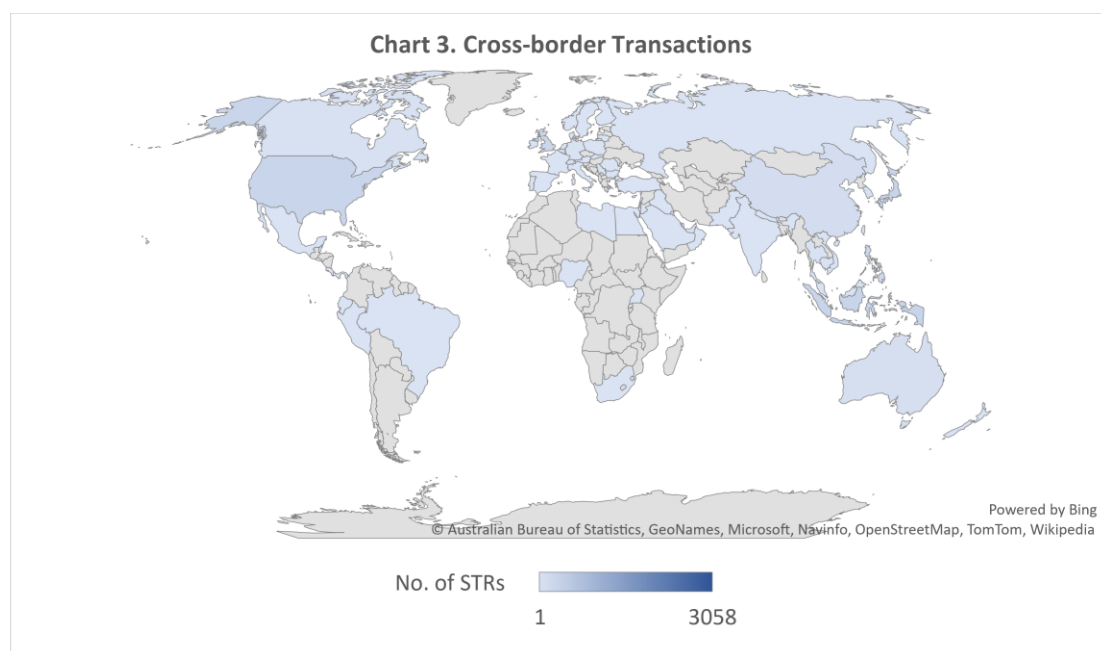
facilitators comingled illegal funds with business income. A common nature of businesses identified in the STRs include wholesale/retail, construction, and trading.

Typologies suggest that criminals performing illegal and ML activities prefer to use cash as the primary instrument to facilitate transactions. Given the anonymity nature of cash, authorities face difficulties in tracing criminals and the illegal source of proceeds.

Cross-border transactions

An assessment on the sample of 2015 to 2019 STRs on legal persons and business entities estimates cross -border related transaction movements at PhP187.8 billion. Most of these STRs were filed on transactions not commensurate with the financial capacity of the clients. As to the associated criminal activity, STRs were filed on swindling or fraud. Notable were the 27 STRs filed on terrorism and TF with an estimated value of PhP33 million inward remittances and PhP15.27 million outward remittances.

Top countries of counterparties or beneficiaries involved in cross-border transactions are Hong Kong (15.24%), Japan (10.89%), Indonesia (10.86%), USA (9.74%), United Kingdom (8.31%), and China (4.2%).



In relation to STRs on terrorism and its financing, countries identified include mostly from Europe and other parts of Africa, Middle East, and Asia.

Threat on cooperatives

From data on legal persons, an ad hoc search was conducted to assess the level of suspicious transactions associated with cooperatives. Out of the 87,190 sample STRs, only 959 or about 1.1% of the total sample STRs were filed on accounts of cooperatives. Eighty-three percent of these STRs were reported by covered persons based on transactions of their cooperative clients with no underlying legal or trade obligations or no economic justification. In terms of value, STRs filed on cooperatives

only accounted for 0.003% of the total sample of STRs for legal persons and business entities used in the study.

The Second NRA showed limited ML/TF threat assessment on cooperatives. Further, assessment on cooperatives engaged in financial services demonstrated low to medium risk, depending on the type of products/services. Thus, based on available information, the extent of threat is moderate.

CASES AND TYPOLOGIES

Criminals and launderers employ several techniques in using legal persons and business entities to conceal the illegal sources of proceeds. The following cases and typologies show how criminals exploit the business sector in illegal activities.

A. 2018 illegal drug case of A, U, and B

In 2015, a certain law enforcement agency referred a case involving persons A, U, and B for financial investigation. Ms. A allegedly declared a monthly income of PhP400,000 (USD8,300) for her boutique retail business, JM. JM boutique was only registered in the same year the account was opened. Financial investigation showed that the account of retail JM existed for less than seven (7) months and only had few transactions, yet a number of these transactions were significant cash deposits. Transaction movements in the accounts of U and B involved substantial cash deposits and withdrawals with no apparent underlying legal or trade obligation, purpose, or economic justification.

Ms. A claimed to own another company, AD, which was later found to be fictitious, based on DTI documents presented.

The behavior of the accounts clearly indicates transient accounts. Moreover, the subjects used retail businesses to hide or divert the source of illegal proceeds.

In 2018, the AMLC filed ML complaints on the subjects, which are now pending before the DOJ.

Coordination and parallel investigations of the FIU and law enforcement agency contributed to the filing of criminal and civil cases against the subjects.

B. 2019 illegal drug case using Filipinos and businesses as fronts/dummies

Chinese nationals used and enticed Filipinos to register sole proprietorship businesses and open bank accounts for the said businesses. The Filipinos were only the owners on paper, while the Chinese nationals had full control of the business and the accounts.

Person Z (Chinese) deposited millions of pesos to the accounts of Persons D (Chinese) and F (Filipino). Recipients of funds declared Company H, a Philippine-registered business, as the source of funds.

The AMLC, in coordination with the said law enforcement agency, was able to trace the accounts and froze the funds with an estimated value of PhP78 million.

C. 2018 to 2019 fraud case

In June 2019, the AMLC obtained a freeze order against the bank accounts related to KM, a corporation engaged in a Ponzi scheme, which started in the Southern region of the Philippines. KM amassed wealth through an investment scam, in the guise of religion and at the expense of the investing public. The KM Ponzi scheme was one of the biggest investment scams in the Philippines.

KM would solicit investments through donations for its supposed religious activities, promising a monthly pay-out of 30% of said donation to its member-donor. Due to the freeze order obtained by the FIU, the illegal operations of KM was put to a halt. An estimated amount of PhP100 million was frozen and eventually preserved, pursuant to an asset forfeiture order.

Money laundering typologies

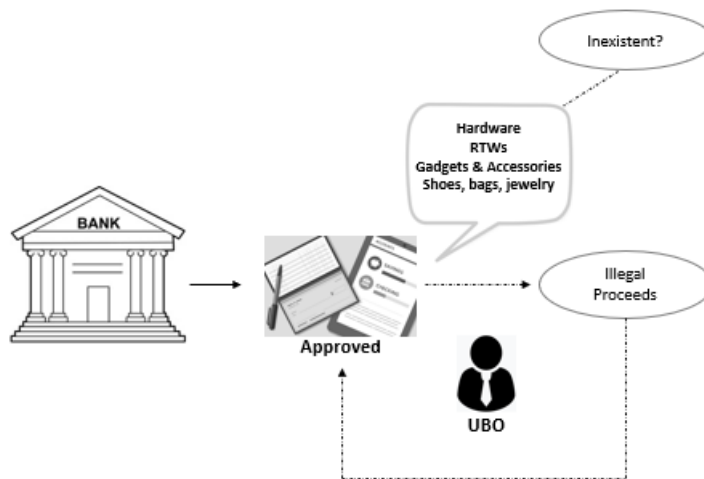
A. *Use of business entities to facilitate drug trafficking*

In August 2020, the AMLC published a typology on the use of Filipino nationals and their businesses by foreign nationals in illegal drug activities.

The identified modus operandi involves Filipino nationals (“the front”), who register sole proprietorship retail businesses with the DTI on behalf of certain foreign nationals, who are the actual and ultimate beneficial owners (UBOs) of the said businesses. The said businesses likewise operate without the capitalization required by law for foreign owners. These companies are under the complete control and operation of these foreign nationals.



After registration with the DTI, the front goes to the bank (mostly commercial and universal banks) with the newly acquired DTI registration permit to open an account in the name of the newly registered business.



The said bank account will then be managed and controlled by the foreign nationals—the UBOs—for the purpose of receiving funds from illegal proceeds. Moreover, majority of the registered sole proprietary businesses, as identified in this modus operandi, are discovered to be “shell companies” or inexistent companies.

B. Use of designated non-financial businesses and professions in setting up entities alleged to have received funds from illicit activities.

In 2018, a foreign government requested assistance from the Philippines in relation to an ongoing investigation on its nationals for alleged drug trafficking and ML. The foreign nationals transferred large funds to several jurisdictions, involving the fictitious import of goods from the Philippines. Said subjects allegedly transferred Php1.53 billion (USD30.6 million) worth of proceeds from drug trafficking to Philippine-based 21 entities and two (2) individuals. Four (4) domestically incorporated service providers were recipients of about Php189.3 million (USD3.79 million) worth of proceeds. Financial records, however, showed Php386.42 million (USD7.73 million) credited to the accounts of the said four (4) service providers.

The 21 entities of the subject request were registered as service providers, trading companies, software solutions, consultancy firms, among others. A certain lawyer and law firm facilitated the incorporation of these companies including the four (4) service providers.

Based on the typology, it was made clear that the lawyer and the law firm providing services are within the scope of the DNFBP Guidelines, e.g. acting as a formation agent, providing a correspondence address, and acting on behalf of juridical persons or arrangements, as defined in the DNFBP Guidelines, are covered persons under the Anti-Money Laundering Act of 2001 (AMLA), as amended, and as such should be registered with the AMLC.

The existence of typologies and the increasing number of STRs may demonstrate a higher threat rating because these two expose the possible emergence of threats, involving legal persons in the country.