



Republic of the Philippines

ANTI-MONEY LAUNDERING COUNCIL



**USE OF FILIPINOS AND BUSINESSES AS DUMMIES  
BY FOREIGN NATIONALS**

**The Modus Operandi**

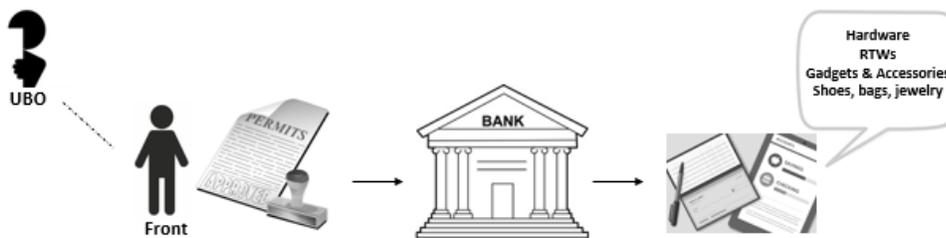


As illustrated above, the identified modus operandi involves Filipino nationals (“the front”), who register sole proprietorship retail businesses with the Department of Trade and Industry (DTI) on behalf of certain foreign nationals, who are the actual and ultimate beneficial owners (UBOs) of the said businesses. The said businesses likewise operate without the capitalization required by law for foreign owners.<sup>A</sup>

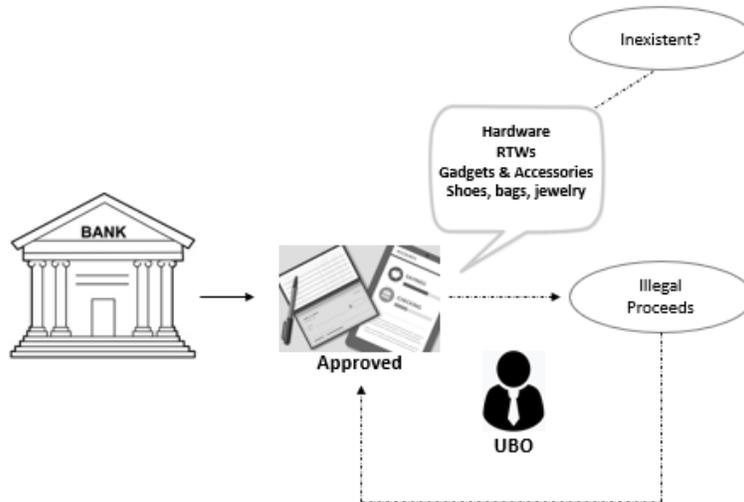
**Sole proprietorship** is a business structure owned by an individual, who has full control/authority of its business and who owns all the assets, personally owes answers to all liabilities, or suffers all losses but enjoys all the profits to the exclusion of others. A sole proprietorship must apply for a business name and be registered with the DTI.

<sup>A</sup>**The Retail Trade Liberalization Act of 2000**  
*Foreign equity participation – Foreign-owned partnerships, associations, and corporations formed and organized under the laws of the Philippines, upon registration with the Securities and Exchange Commission (SEC) and the DTI or, in case of foreign-owned single proprietorships, with the DTI, may engage or invest in the retail trade business.*

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, as illustrated above.



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.

The receiving and/or transacting of proceeds of illegal activities, using the scheme and accounts setup by Filipinos and foreign nationals for said purpose, as illustrated above, is a violation of the Anti-Money Laundering Act of 2001 (AMLA), as amended.<sup>B</sup>

A **shell company** is an incorporated company with no independent operations, significant assets, ongoing business activities, or employees.

The Financial Action Task Force (FATF) noted that, in its analysis of 106 cases, legal persons, principally shell companies, are a key feature in schemes designed to disguise beneficial ownership. (*Concealment of Beneficial Ownership, July 2018*)

<sup>B</sup>**Anti-Money Laundering Act of 2001, as amended**

*Money laundering offense – Money laundering is a crime whereby the proceeds of an unlawful activity, as defined by the AMLA, as amended, are transacted, thereby making them appear to have originated from legitimate sources.*

**Typology 1**

The bank account of General Merchandise Store X (Store X), which is located in a shopping mall in Metro Manila, is used by illegal drug traffickers as a remittance account for illegal drug proceeds. DTI records show that Person J is the registered owner of Store X. A certain Person Z, who is a resident of Country C, however, has full control of the said account. Person Z also opened other bank accounts, using fictitious identification documents. In one account, Person Z even declared sales from Store X as a source of income. These accounts are used by various illegal drug traffickers in depositing illegal drug proceeds.

Store X was established in 2017, and within one (1) year, deposits in Store X's bank account totaled approximately PHP109 million. This averages gross sales of PHP9.12 million per month, equivalent to PHP350,780 worth of sales per day, which is highly unlikely for a newly established store.

Per DTI, although Store X is owned by Person J, it is managed by Person Z. As observed in similar illegal drug-based money laundering cases, the modus operandi often involves foreigners, mostly from Country C, directing Filipino nationals to open retail/wholesale businesses (sole proprietary type) under their names. These businesses are used to open bank accounts, which will be fully controlled by foreigners, using a Special Power of Attorney (SPA).

Another modus operandi is the use of a bank account with an automatic transfer facility. Person J, the owner of Store X, executed an SPA in favor of Person Z to manage and control the said bank account, thus, making Person Z the authorized signatory of the account. Also, Person Z declared that the source of income of the account is from Store X, raising the suspicion that Person Z is the beneficial owner.

Person Z's deep connection with illegal drug trafficking was further established when Person Z's name and bank account were associated with a drug suspect, who was caught in Region IV-A. In 2018, the said bank account had one (1) transaction worth PHP120,000 linked to the said drug suspect. The said bank account was also referred by another informant as the recipient account of illegal drug proceeds in the Visayas region. Further, Person Z and the said bank account appeared in the mobile phone recovered from another drug suspect arrested in the Autonomous Region of Muslim Mindanao (ARMM).

For a period of three (3) months in 2017, Person Z's account had deposits/credits, totaling PHP114.6 million and averaging PHP548,000 per transaction. These significant deposits appeared to have no legal trade or underlying economic justification. In 2018, the same account received PHP4.12 million worth of funds from SS, who was involved in one of the biggest illegal drug cases (W Enterprise Case) under investigation by the AMLC.

In summary, this scheme involves two (2) separate bank accounts from two (2) universal banks: (1) Store X's bank account, which is managed and controlled by Person Z; and (2) Person Z's bank account. Both are recipient accounts of illegal drug proceeds.

The account of Person Z with an estimated value of PHP2.61 million was frozen in 2018.

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## **Typology 2**

Persons W and X, both residents of Country C, opened bank accounts in the Philippines and transacted hundreds of millions of pesos. They declared Hardware J as their source of income. DTI records showed that Hardware J was registered under the name of Person Y, a Filipino national.

In one of its investigations, a local drug law enforcement agency noted that Person A, who was in prison for illegal drug trade, was still involved in illegal drug activities and still received proceeds of illegal drug

trafficking through associates, using several bank accounts maintained at different universal banks. It was further discovered that Person A received messages from cohorts and associates, regarding cash deposits from illegal drug proceeds and the laundering of these proceeds.

One of the bank accounts used by Person A was the joint bank account of Persons W and Y. The said account received an approximate amount of Php6 million in less than two (2) months. Persons W and Y declared that their source of funds is Hardware J, which is located in Metro Manila.

The local drug enforcement agency also established a connection between Person W and W Enterprise (Typology 1) due to recovered deposit slips from arrested drug suspects. It was noted that Person W's bank account in Universal Bank B received a Php295,000 cash deposit from arrested drug suspects and the W Enterprise's bank account in Universal Bank C also received approximately Php2.7 million from the arrested drug suspects. In a separate buy-bust operation in 2018, a deposit slip, bearing the joint account number of Persons W and Y was recovered, raising suspicion that the joint bank account of Persons W and Y was used in laundering the proceeds of illegal drugs.

DTI and SEC both certified that there were no businesses registered under the name of Persons W and X. Also, per the investigation of Universal Bank C and Thrift Bank A,<sup>1</sup> the submitted registration documents of Person W were all fictitious. Moreover, DTI certified that a certain Hardware J, located in an address different from what was stated in the bank account opening form, is owned by Person Y. There were also no records in the SEC of any business associated with Person Y.

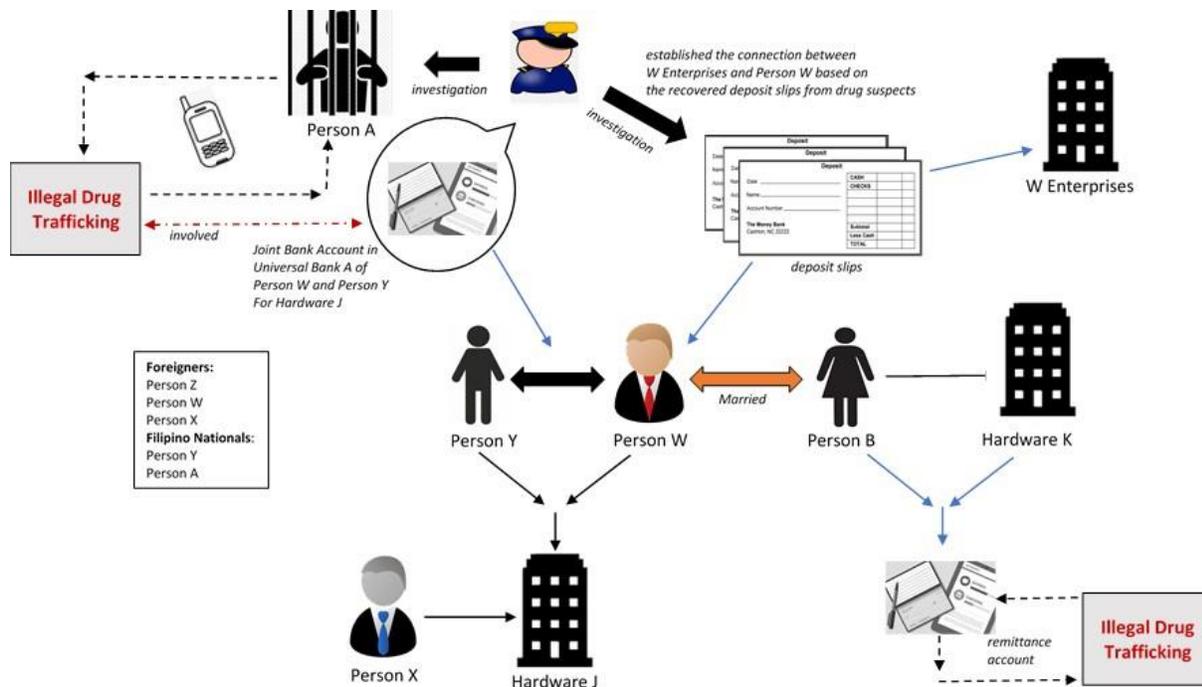
The declaration of Hardware J as business by the accountholders (Persons W, Y, and X) indicated deceit to hide activities and the source of substantial transactions with several banks. The joint bank account of Persons W and Y made millions' worth of transactions, despite the lack of legitimate sources or business operations.

Person X, on the other hand, transacted about Php1.5 billion in a span of one (1) year. Two (2) universal banks noted that there were substantial debit and credit transactions that were not commensurate with the client's declared source of funds. Person X had six (6) accounts from six (6) universal banks.

Filipino national Person B, the wife of Person W, was also involved in illegal drug-based money laundering. Her modus is to register Hardware K with the DTI under her name and provide the accounts of Hardware K to different drug personalities to be used to facilitate illegal drug proceeds. Hardware K has no business operations and, thus, classifies as a shell company similar to Hardware J.

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<sup>1</sup> Person W has another bank account with Thrift Bank A.



Person B's bank accounts had numerous cash deposits, totaling approximately PhP800 million in a span of one (1) year. The total cash inflow amounted to PhP184 million, while cash outflow totaled PhP50 million in a span of seven (7) months. Furthermore, the said bank accounts had 503 cash and check deposit transactions, totaling PhP133 million; and 89 check issuances, encashment, and withdrawals, totaling PhP128 million in a span of two (2) months. Also, Universal Bank A noted that the account of Person B with them is a pass-thru account.

Hardware K has been registered with the DTI since 2019, and within one (1) year of operation, its cash deposits reached an approximate amount of PhP1.04 billion. Hardware K, which is registered under the name of Person B, has seven (7) bank accounts from universal and commercial banks. All of which are linked to the illegal drug trade.

### Typology 3

In a similar scheme, Person L used a Filipino national to justify transactions worth hundreds of millions. Person L's bank account with Commercial Bank B was one of the 12 identified accounts as disclosed by an arrested drug suspect, Person D. Per Person D, after distributing a number of grams of methamphetamine or "shabu" to his trusted pushers, these pushers would, in turn, remit funds, ranging from PhP200,000 to PhP600,000 to him, representing the proceeds of illegal drug sales. Person D would then remit said proceeds to the 12 bank accounts provided to him by another drug suspect.

Person L is a foreigner from Country C. Similar with other modus operandi, Person C presented business documents of a certain G Enterprise under the name of a Filipino national, Person E. Person L was unable to provide supporting documents for deposit transactions worth PhP473 million and withdrawal

transactions, estimating PhP28.7 million in a span of fifteen (15) years. Person L also sent PhP5 million worth of funds to Person E, whose accounts have been frozen and who is facing a money laundering complaint for engaging and transacting proceeds of illegal drug trafficking.

Person L also sent funds to Person F via an inter-account transfer, amounting to PhP1.2 million. Person F is a subject of a separate investigation for being a recipient of illegal drug proceeds.

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### **RED FLAG INDICATORS AND SUSPICIOUS BEHAVIORS**

Based on the aforementioned typologies, the following are some red flag indicators and suspicious behaviors of possible money laundering activities associated with illegal drug trade:

1. Significant or large transactions incurred in a short period of time;
2. Unjustified large cash deposits;
3. Transactions that appear to be inconsistent with the customer's financial standing;
4. Transaction activity that is inconsistent with what is expected from the business declaration; or unusual transactions or activities compared with normal everyday trade or dealings;
5. Application of sophisticated products or use of complex techniques (i.e. automatic transfer facility) without legal basis;
6. Multiple accounts associated with a single business;
7. Structured cash deposits and money transfers:
  - Use of multiple accounts by a single transactor; and
  - Use of several money service businesses to send funds; and
8. Use of Special Power of Attorney (SPA) or authorized representative with no clear and underlying valid reason or justification.