19 HIGH VALUE DEALERS

19.1 Definition of *high value dealers* undertaking *supervised business*

Overview

1. Paragraph 20 of Part 3 of Schedule 2 to the *Proceeds of Crime Law* defines *high value dealers*, for the purposes of complying with the requirements of the *Money Laundering Order*.

2. *Guidelines* on the interpretation of "high value dealer" and activities and operations of *high value dealers.*

Guidance notes

3. Businesses registered as *high value dealers* need to apply the requirements of the *Money Laundering Order* to their transactions and activities on a risk-based approach. However, as part of demonstrating good practice, *high value dealers* may wish to consider applying *CDD* measures to any transactions and activity that will be paid in cash or *VA* with a value of £1,500 or more.

4. Any business that accepts cash or *VA* over the €15,000 threshold for relevant transactions (one transaction or a series of linked transactions) is required to register as a high value dealer. This means that any business that accepts payments in cash or *VA* of any amount needs to be aware of the threshold. Some businesses may decide that they will simply not accept payments over the threshold amount. Businesses that accept large amounts of cash or *VA* are vulnerable to money launderers as highlighted in the case studies above and below. Businesses that have decided not to register as *high value dealers* might support their decision by:

- A clearly documented policy known to all staff who accept payment that any significant cash or VA payments will be refused with payments only being accepted by other means (for example, by debit or credit card, or by bank transfer);
- A reasonable threshold, appropriate to the business, below the €15,000 maximum for which payments in cash or VA will be considered as significant, and refused;
- It is the *JFSC*'s expectation that this threshold for significant transactions would be approximately £1,500 or another amount that the business is able to clearly justify in its own circumstances;
- A method of being able to identify linked cash transactions to ensure they do not exceed the threshold.

5. Although the *high value dealer* population is varied, it mainly consists of retailers and wholesalers of goods who accept cash payments of €15,000 or more. Some common examples of goods subject to transactions by *high value dealers* include:

- Jewellery;
- art and antiques;
- precious metals;

- cars and yachts;
- agricultural goods.

Other examples of *high value dealers* include:

- retailers selling high-end electronics like tablets and smartphones;
- businesses selling alcohol and tobacco;
- wholesale/cash and carry businesses;
- businesses which supply tools and equipment to tradespersons, such as plumbers and electricians.

6. **Case study: Group *money laundering* – linked transactions**

- A group of criminals held £50,000 in cash obtained from drug trafficking operations. To launder their proceeds of crime, they targeted a high street jewellery business which held a high value dealer Licence. Over the course of a few days, each person in the group repeatedly visited the jewellery shop to purchase items. Whilst no one person spent more than €15,000 in any one transaction, together they laundered the full £50,000 into jewellery, which could then be enjoyed or re-sold for a profit.
- The staff who processed these transactions did not identify that the persons were operating together and therefore did not consider the total amount spent by the group. Nor did they realise that the transactions, whilst spread over multiple days, were linked to each other. As a result, they did not identify that the linked transactions carried out by this group exceeded €15,000.
- Had the business had more effective controls in place in line with *this Handbook*, they would have applied *CDD* measures to the group of money-launderers and may have formed a suspicion that *money laundering* was taking place.
- The business in this example appears to be involved in *money laundering* and may be found guilty of the offence of dealing with criminal property. The business also appears to have failed to have had adequate procedures to prevent and detect *money laundering* in line with the *Money Laundering Order*. As such, they may be found guilty of an offence of contravening or failing to comply with a requirement contained in any Order made under Article 37 of the Proceeds of Crime Law. In addition, the business may be found to have contravened *AML/CFT/CPF Codes of Practice* within *this Handbook* and therefore may be subject to proceedings by the JFSC.

7. Cash includes, for example, notes, coins, traveller's cheques, and bearer negotiable instruments. It does not include cheques or bankers drafts. Cash does not include payments by bank transfers, but it does include transactions in VA and cash payments directly into your bank account. As noted above the €15,000 threshold may be reached in respect of a single transaction or there may be several linked transactions that together total €15,000 or more.

8. Each business should assess, within its specific circumstances, which transactions it will consider to be linked for the purposes of preventing and detecting crime.

9. Transactions may be linked in the following scenarios (note this list is not exhaustive):

- they are executed by the same individual or group of individuals (including third parties connected with those persons);
- they involve the same asset;

- they occur across a specified time period, e.g., a high value item worth €15,000 or more is initially secured with a deposit, then the total value is paid in instalments over time;
- they appear designed to achieve an overarching objective (e.g., launder large sums of money);
- they do not have a commercial rationale (e.g., appear to be deliberately structured to avoid the €15,000 threshold);
- They are instalment payments for one item (e.g., cash instalments for a car) or against a single invoice.

10. It is important to note that whilst some transactions may appear to be linked from the outset, in other cases this may only become apparent at a later stage.

11. Each business should carefully assess and document the risks specific to its activities, traded goods, *customer* profiles and payment patterns.

12. Unusual sales or purchase activities may include:

- delivery methods or payment arrangements that are not consistent with normal practice;
- a new *customer* with little or no trading history and no trade references;
- a *customer* travelling to Jersey just to purchase goods, when the goods are readily available near their home location;
- a *customer* or representative making multiple smaller cash deposits into the business' bank account;
- unusual enquiries regarding the business' refund policy, e.g., *customer* asking if a refund can be made by cheque, wire transfer or paid to a third party.

13. **Case study: Less common goods sold by high value dealers**

- A couple involved in the distribution and sale of illegal substances attempted to launder £20,000 worth of proceeds from their illegal activities. They were handling bundles of Jersey £20 notes whilst trying to:
  - convert the cash into English notes.
  - deposit the cash into UK bank accounts.
  - purchase goods to be re-sold at a later date.
- The couple initially approached local banks. The banks followed their internal policies on handling cash and refused to accept a cash deposit due to the amount and unexplained/undocumented source. Similarly, the couple approached a local car dealership. The dealership was not registered as a high value dealer as its policy did not allow acceptance of significant cash payments. They refused to sell vehicles for cash. The couple then decided to approach a smaller retailer stocking a wide range of electronics. They subsequently purchased expensive laptops, computers, and smartphones.
- Despite the bill totalling over £20,000, the staff processing the transaction did not become suspicious and did not query the origin of the cash. It was later identified that the retailer did not have policies on accepting significant cash payments. Therefore, their staff were unaware of the cash value threshold set out in the *Proceeds of Crime Law*.

- The business was willing to accept transactions that fall within the *high value dealer* definition in the *Proceeds of Crime Law*. As such the electronics retailer should have been registered as a *high value dealer*. If they had been registered, they should have had appropriate *systems and controls* in place to identify the suspicious nature of the transaction. Had they been registered and had the relevant controls in place, the apparent *money laundering* above should have been identified. For example, the business would have applied *CDD* measures to the couple and may have formed a suspicion that *money laundering* was taking place.
- The business in this example appears to be involved in *money laundering* and may be found guilty of the offence of dealing with criminal property. The business also appears to be an unregistered high value dealer and may be found guilty of the offence of carrying on unauthorised *supervised business*. In addition, while they were not registered as a *high value dealer*, it appears that the business should have been registered with the *JFSC* so may be found to have contravened *AML/CFT/CPF Codes of Practice* within *this Handbook* and therefore may be subject to proceedings by the *JFSC*.

19.2 Business risk assessment

19.2.1 Service area vulnerabilities and warning signs

Overview

14. The *Business Risk Assessment* relating to *customers* and services will depend on the *supervised person's* size, type of *customers* and the business area it engages in.

15. *Supervised persons* carrying on the business of a *high value dealer* should consider the different types of *money laundering, financing of terrorism,* and *financing of proliferation* risks to which they are exposed when providing services. This service area risk assessment must also be reflected when undertaking a *CRA*.

16. Further factors to consider when evaluating the risks posed by clients and service areas are set out in section 3.3.4 of *this Handbook*.

19.2.2 Recognising suspicious behaviour and unusual transactions

Overview

17. Cash remains the mainstay of much serious organised criminal activity. It has the obvious advantage that it leaves no audit trail and is the most reliable form of payment, as well as the most flexible.

18. As illustrated in the following case study, the €500 note has become the bank note of choice for criminals, replacing the US $100 note. Consequently, *high value dealers* should always exercise additional vigilance when accepting a large number of €500 notes from any one *customer*.

19. **Case Study 6: Disappearing €500 notes**

- In 2005, the central bank of a European country advised that €500 notes were increasingly being drawn from high street banks and then disappearing. By 2006, 100 million more notes were issued to high street banks than were handed in by them. This was of significant concern because it meant the country was using over 25% of all €500 notes that were issued within the Eurozone;

- in response to the central bank's concern, an investigation was launched by the national government into the missing notes. The result was that the national treasury identified nearly 14,000 suspicious transactions totalling €6 billion that had taken place between 2003 and 2006 using €500 notes;
- for example, the deputy mayor of a seaside town was found to have nearly €400,000 in €500 notes in their safe when they were arrested by police in 2006 during the investigation of organised crime groups operating in the region.

20. Those in receipt of large sums of cash have the problem of how to dispose of it. The objective of the first stage of *money laundering* – placement – is to move the criminal cash into the financial system. It is extremely difficult to place large amounts of cash into the banking system without raising suspicions. Serious organised criminals frequently launder cash through legitimate and quasi legitimate businesses, typically those with a high cash turnover. The businesses are often owned or part–owned by the criminals or by close associates, although legitimate businesses may also be targeted to provide the means for *laundering* criminal proceeds. Retail businesses that genuinely accumulate and bank large amounts of cash are natural targets for *laundering* the cash though genuine purchases.

21. Businesses which find themselves in financial difficulties may also be targeted by criminals. Cash may be placed into the financial system by persuading the owners or managers of the business to deposit criminal money along with their normal takings. The business then transfers the criminal money to the *money launderer's* account, taking a cut along the way.

22. **Case Study 7: Disposal and exchange of cash**

- A number of banks in a European capital city were visited by the local drug squad;
- accounts had been opened for companies running cash-based businesses that received cash from *customers* and paid suppliers in cash;
- the businesses arranged to deliver cash to the banks in small denomination notes, which would then be exchanged for the larger €500 notes. The €500 notes were then either paid into other bank accounts or smuggled out of the country. No *SARs* had been made by any of the banks concerned.

19.2.2.1 Recognising stolen cash

Guidance notes

23. Stolen cash is frequently laundered through retail outlets. Sterling, and many euro banknotes, become stained with dye when cash boxes are stolen and opened during bank or cash-in-transit robberies. Criminals frequently attempt to clean the notes, but this damages the foil and other security features.

19.2.2.2 High value cash transactions

Guidance notes

24. *Money launderers* normally want to move funds quickly to avoid detection. This is more easily done in large one-off transactions. The purchase of high value goods, with good portability, paid for in cash, represents an attractive target for *money launderers*. Luxury goods paid for with cash that can easily be sold on (even at a loss) for "clean money" are especially attractive.

25. Equally an asset may be purchased to support a certain lifestyle (e.g., a high-performance car or a yacht). Alternatively, an asset may be purchased as a form of long-term investment (e.g., jewellery, an antiquity, a work of art etc.).

26. **Case Study 8: A high value lifestyle**

- In 2007, nearly £3 million was seized from two criminal families who made a fortune from car crime and tax evasion;
- The two families lived a life of luxury, shopping at Harrods and wearing designer clothes and jewellery and driving top of the range cars. However, it was all paid for through crime;
- The families made their money by dishonest car dealing – turning back the mileages of cars and then selling them on – and by selling stolen caravans. The scam involved forged documents, altered MOT certificates and fake service histories;
- The gang of eleven, none of whom had legitimate jobs, then made the money disappear by splashing out on luxury cars, designer jewellery, clothes, perfumes, chinaware and other antiques;
- When the homes of the gang were raided by 350 officers from four UK police forces, almost £1 million in cash, mostly in £50 notes, was found to be buried in the grounds or hidden around the various houses;
- Members of the gang pleaded guilty to *money laundering*, criminal conspiracy, obtaining money by deception and possessing criminal property.

19.2.2.3 Gold, precious metals, precious stones and jewellery

Guidance notes

27. Criminal funds can be used to purchase gold, which is then exported to other jurisdictions and sold, thus legitimising the funds as the proceeds of sale. The use of gold is attractive for many reasons – it is the only raw material comparable to money. It is a universally accepted medium of exchange which is traded on world markets and the *money launderer* can remain anonymous.

28. **Case Study 9: Gold moulded into tools**

- A New York gold refinery owner was found guilty of *laundering money* for Colombian drug traffickers by selling them gold moulded into tools, screws and other bulk items that could be shipped to Colombia undetected.

29. The jewellery trade can also become involved in *money laundering*. Precious stones and jewellery are easily transportable and highly concentrated forms of wealth.

30. **Case Study 10: *Money laundering* through gold and diamonds**

- A three-year investigation into drug *money laundering* in Manhattan's diamond district was undertaken. Dealers had agreed to trade 220 pounds of gold and diamonds for more than US$1 million in cash. The probe resulted in over 20 arrests, including 11 jewellers and the seizure of more than US$1.5 million in cash, US$1.3 million in gold and 118 kilograms of cocaine;
- One jeweller was charged with agreeing to exchange diamonds and gold for US$600,000 in cash.

31. **Case Study 11: Cross-border operation**

- Mr A was convicted in December 2020 of *money laundering* in connection with the importation and supply of drugs in in their jurisdiction. The wider investigation resulted in the seizure of drugs with a street value of around £900,000;
- Mr A owned and ran a jewellery business which allowed him to facilitate the movement of criminal property from their jurisdiction to the UK through the purchase and sale of bullion. This enabled cash to be removed from the country under the cover of legitimate transactions, and without the cash being physically carried out of the jurisdiction.
- The process was carried out in four steps:
  - A sum of cash, *from the sale of drugs*, would be handed to Mr A at his jewellery shop;
  - Mr A would deposit that cash into his personal and business bank accounts;
  - Mr A would use the cash to purchase gold bullion from a dealer based in Hatton Garden in London;
  - The gold would be collected from the London dealer and sold for cash.
- The cash would then be available to UK-based members of the criminal enterprise to be used to purchase drugs, or otherwise to cover the operating costs of the enterprise.

19.2.2.4 The motor trade

Guidance notes

32. Vehicles may be either the source of the laundered money or the means by which other illegal income is laundered. *Money launderers* often make contacts within trades where the use of cash is accepted, such as dealers in expensive cars.

33. **Case Study 12: Using cars to facilitate *money laundering***

- The financial intelligence unit of Country R received a *SAR* on large purchases of Country F currency totalling US$263,000 and carried out by a citizen of Country R;
- The funds in Country F currency were used for the purchase of new motor vehicles in Country F. However, the transactions detected appeared to include only part of the funds moved by the individual and their associates;
- Indeed, the organisation to which the individual belonged regularly acquired new motor vehicles in Country R for payments in cash from a large dealership – which was either in collusion with the organisation or turning a blind eye to the activity;
- The purchased vehicles (worth around US$30,900 each in the verified cases) were delivered and then driven to a neighbouring country where they were received by a close relative of the main individual in the scheme and known by authorities to be involved in narcotics trafficking. The vehicles were then exchanged for large quantities of drugs which were to be resold in Country R. Investigations revealed that the total amount of money involved in the scheme was more than US$355,000.

34. **Case Study 13: Car Importer committing tax evasion**

- Mr B bought and sold Porsche, BMW, Mercedes and other high value vehicles. He ordered the cars from mainland Europe and created a network of false identities and addresses to avoid paying import tax on the vehicles. Import documents gave false details and he built up a portfolio of false names and addresses from vehicle registration centres around the country. Police investigators traced the cars back to the importers. They found that numerous individuals had been paid £10 each to receive the vehicle registration documents through the post. Many of the cars were then sold for cash and were ultimately untraceable;
- As a result of the investigations, UK Police secured £1 million in assets following the conviction of Mr B who was jailed for two and a half years for *money laundering* and conspiracy to defraud the Revenue Authorities.

35. Outstanding finance is a big risk faced by dealers who buy second hand cars. HPI Limited have previously advised that 24 out of every 100 cars offered for sale that are checked by them are still subject to a finance agreement. If the loan remains unpaid when the vehicle is purchased, the second-hand dealer and any subsequent buyer will not acquire good title to it.

19.2.2.5 Behaviours indicative of suspicious transactions

Guidance notes

36. The following is a non-exhaustive list of examples of potentially suspicious transactions:

- reluctance to make personal contact;
- reluctance to provide the required identification information or evidence of identity;
- the size of purchase is out of line with the appearance/age of the *customer*;
- *customers* who initially indicate that they will be paying for goods over €15,000 by credit card/cheque and then at the last-minute present cash as the means of payment;
- there appear to be no genuine reasons for paying large sums of money in cash;
- cash is unusual for that type of *customer*;
- *customers* purchasing goods which are available nearer home at a similar price;
- purchases by businesses where the level of cash activity is higher than the underlying business would justify; and/or
- the *customer* is paying in small denomination used notes.

19.2.2.6 Goods that are returned for refund

Guidance notes

37. Returning high value goods paid for in cash and obtaining a refund by way of a cheque or electronic payment enables the *laundering* of the "dirty money" by exchanging it for a legitimate retailer's payment. As an example, suspicions may be raised in the following circumstances:

- the *customer* enquires about the *supervised person's* refund policy prior to purchasing;
- the *customer* seeks a refund for spurious reasons; and/or

- the *customer* seeks the repayment in the form of a cheque or electronic payment when the purchase or a deposit was made in cash.

38. **Case Study 14: The cash deposit scam**

- A professional criminal *money launderer* developed a simple technique of going into several high-priced West End jewellers and asking to inspect very expensive pieces of jewellery, saying that he was looking for a present for his wife. Dressed expensively and presenting himself well, he would choose various pieces and then ask to see the manager. Explaining that he wanted to give his wife the opportunity to choose for herself, he asked if the shop would be prepared to take the items off display and hold them for his wife's inspection. He explained that he would be prepared to deposit significant sums of cash to be held by the shop as a deposit for the items chosen, and that once his wife had chosen the item she wished, he would pay the balance. He also explained that any sums uncollected could be returned to him in the form of a cheque made payable to one of his corporate entities;
- On five separate occasions he placed significant sums of cash, a total more than £100,000, as 'deposits' for items of valuable jewellery. On each occasion, his 'wife' then went into the shop on the following day and inspected the relevant items. Finding nothing to her taste, she then asked the store to make a cheque payable to her husband's business as previously instructed;
- Both husband and wife were later arrested after one store learned about the unusual couple with so much money to spend but with such particular tastes. They shared the information among their trade members and discovered that the tactic had been used on several previous occasions. They then alerted the police.

39. **Case Study 15: Cash into wine**

- A similar technique was discovered by a leading wine trade company who discovered that a number of apparently wealthy businessmen were asking to buy significant volumes of high-value wine, and keeping it held in 'bond' by the firm. The businessmen paid for their purchases in cash but did not ask for the wine to be released from the bonded warehouse. This was not considered unusual as many wine buyers purchase investment wines in this way. Later, upon request, the businessmen asked for their wines to be re-sold back to the company, sometimes at enhanced rates, depending upon the prevailing sale-room price.

19.2.2.7 Buying second-hand goods

Guidance notes

40. *High value dealers* who buy high value second-hand items for trading on should be vigilant to avoid handling stolen property. A *money launderer* who has exchanged criminal cash for a high value asset and then trades it in has a cheque that can be paid into their bank account. They have therefore effectively 'placed' and 'integrated' the laundered money. Jewellers, art, and antique dealers should use their networking to exchange information when stolen goods are being offered around for sale. Transactions using virtual assets *High value dealers* who transact in *virtual assets* will need to consider if they need to register. For example, some dealers are advertising that jewellery or art may be purchased using cryptocurrency. The thresholds for cryptocurrency/virtual assets are the same for cash singular transaction or linked transactions of €15,000.