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Money Laundering Reporting Office Switzerland

MROS

8th Annual Report

2005

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Federal Department of Justice and Police
Federal Office of Police
Money Laundering Reporting Office Switzerland
3003 Berne

Tel.: (+41) 031 323 40 40
Fax: (+41) 031 323 39 39
email: mros.info@fedpol.admin.ch

Internet: <http://www.fedpol.admin.ch>

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1. Introduction

The number of incoming suspicious activity reports fell in 2005 for the second consecutive year. Whereas the decline in the number of reports in 2004 was mainly in the field of international financial transactions (so-called money transmitters), the decrease in 2005 was evident in nearly all branches subject to mandatory reporting. What stands out in particular in comparison to 2004 is the decline by 13.8% (47 fewer reports) in the banking sector in contrast to the continual increase in absolute terms in the previous reporting years (2004: +12.6% or +38 reports; 2003: +11.4% or +31 reports; 2002: +6.2% or +16 reports). This figure is especially striking in view of the new regulations on special due diligence for high-risk groups set out in the Ordinance of the Federal Banking Commission on the Prevention of Money Laundering (MLO)¹, which came into force on 1 July, 2003. These regulations go beyond the scope of Article 9 of the Federal Act on Combating Money Laundering in the Financial Sector (MLA)² by requiring banks also to report cases of attempted money laundering.

It is too early to say whether one can already talk of a falling trend, despite a decline in the number of reports for the second consecutive year and despite the fact that the decrease in 2005 has occurred simultaneously in several sectors including the banking sector. Declining or fluctuating statistics are also evident in reporting offices in other countries and are also a sign that regulation is having a preventive effect on money laundering. However, it would be naïve to believe that implementing preventive measures will reduce the number of reports completely. One reason for the decrease in the number of reports could also be that MROS did not receive any reports regarding major cases of suspected money laundering in 2005, which in the previous years have resulted in multiple reports concerning the same case. Certainly, we must continue to observe and analyse developments in the number of incoming reports. It is also possible that illegal money is being moved and laundered outside of the regular financial system such as through the so-called hawala system.

In 2005, the Swiss financial centre and its commitment to combating money laundering were for the third time the subject of a mutual evaluation report on anti-money laundering and the financing of terrorism by the working group of the Financial Action Task Force on Money Laundering (FATF)³. MROS is a member of the Swiss FATF delegation and was thus entrusted with the work of the evaluation report. The 2005 evaluation can not be compared to the two earlier evaluations in 1992 and 1997 because the assessment and methodology of the FATF evaluation has clearly become

¹ Money Laundering Ordinance of the Federal Banking Commission (GwV EBK); SR 955.022

² Money Laundering Act (GwG); SR 955.0

³ Financial Action Task Force on Money Laundering/FATF; www.fatf-gafi.org

more stringent and the analysis more subtle since the revision of the 40 recommendations. Switzerland is the first of those countries with important financial centres to be analysed in this third round of the FATF evaluations under the new stricter principles. The evaluation report⁴ assesses Switzerland's efforts at combating money laundering and terrorist financing as being, to a large extent, efficient and satisfactory although capable of improvement in certain areas⁵. The FATF experts paid two visits to MROS in April 2005 and during intensive talks received explanations regarding the office's tasks including its international cooperation with foreign reporting offices. After taking account of Swiss legislation⁶, the experts left assured of MROS' efficiency and professionalism and awarded the mark "largely compliant". The report will now serve as a basis for the revision of the Money Laundering Act⁷, especially bearing in mind that the evaluation report criticises that Swiss money laundering legislation but does not explicitly mention mandatory reporting in connection with terrorist-related assets. Even today it is clear to Switzerland's financial market that under Article 9 MLA all assets owned by a terrorist organisation or that serve to finance terrorism are subject to mandatory reporting to MROS. Current jurisprudence implies that terrorist assets are to be subsumed under "assets of a criminal organisation" and are therefore subject to mandatory reporting. The fact that MROS frequently receives suspicious activity reports concerning terrorist financing⁸, that it exchanges information on terrorist financing with other reporting offices, and that the ordinances of the supervisory bodies explicitly mention this fact, shows that mandatory reporting in connection with terrorist financing is being implemented by the financial intermediaries. However, an explicit reference to mandatory reporting in connection with terrorist-related assets is necessary in the legislation in order to create legal certainty, which is why this issue must be addressed during the revision of the Money Laundering Act.

Judith Voney

Head of the Money Laundering Reporting Office Switzerland
MROS

Bern, April 2006

⁴ Report in French: <http://www.fatf-gafi.org/dataoecd/29/11/35670903.pdf>

⁵ More information on the evaluation report is available in Chapter 5.3.1 of this report.

⁶ See point 11 of the summary evaluation report under <http://www.fatf-gafi.org/dataoecd/60/30/35529139.pdf>

⁷ More information on the revision of the Money Laundering Act under chapter 4.2 of this report (From the MROS Office / Revision of the Money Laundering Act)

⁸ See chapter 2.2 of the annual MROS report. "Search for terrorist funds"

2. Annual MROS statistics

2.1. *General remarks*

Four key figures stand out in the 2005 reporting year:

1. Once again there was a **decline in the number of reports**.
2. As in previous years, there were more reports from the non-banking sector than from the **banking sector**: 60% as opposed to **40%**.
3. The **total assets** involved **decreased** in comparison to the previous year by nearly **13%**.
4. The ratio of reports forwarded to the **law enforcement agencies** fell to **69%**.

Decrease in the number of reports

For the second consecutive year there was a decline in the number of incoming reports. Whereas MROS received 4.9% fewer reports in 2004 over the previous reporting year, there were 11.2% fewer reports in 2005; a total of 729 in comparison to 821 in 2004 (-92 reports). What is striking in comparison to 2004 is that not only did the number of reports from the largest category - the money transmitters - fall (-11% or 43 fewer reports), but also for the first time the number of reports from the banking sector decreased instead of increased.

Reports from the banks

The decrease in the number of reports from the banks (13.8% less or 47 fewer reports) is particularly noticeable in the 2005 statistics because the banking sector had shown an increase of 38 reports in the previous reporting year (2004). **However, it is important to point out that this decline does not apply to all categories of banks (see chapter 2.3.5); the two largest banks maintained their level of reports.** This development is all the more surprising given the fact that, under the Federal Banking Commission's Money Laundering Ordinance⁹, attempted money laundering is now also subject to mandatory reporting. Under Article 24 MLO, financial intermediaries who break off negotiations before entering a business relationship because they have a well-founded suspicion that the client may be engaged in money laundering or have ties to a terrorist or criminal organisation are obliged to report immediately to MROS. In its commentary on Article 24 MLO, the Banking Commission specifies this obligation as mandatory reporting along the lines of Article 9 MLA, provided that the suspi-

⁹ Money Laundering Ordinance of the Federal Banking Commission; SR 955.022

cion is well-founded and despite the fact that no business relationship is established¹⁰. If one looks at the statistics more closely, it becomes apparent that despite an increase in 2005 of 6 reports on attempted money laundering, and an increase from 28 reports in 2004 to 36 in 2005 under Article 305^{ter} of the Swiss Criminal Code (SCC) concerning the right to report, the total number of reports under Article 9 MLA concerning mandatory reporting fell sharply by 19.8%.

Reports from the banking sector	2004	2005	Difference
Art. 9 Money Laundering Act (mandatory reporting)	308	247	- 61
Art. 24 Money Laundering Ordinance together with Art. 9 Money Laundering Act (attempted money laundering)	4	10	+ 6
Art. 305 ^{ter} SCC (right to report)	28	36	+ 8
Total	340	293	- 47

Reports under Article 305ter Swiss Criminal Code (SCC)

With regard to the reports submitted under Article 305^{ter} SCC (right to report), the problem as to whom the report should be submitted arises time and time again. The paragraph defines as addressee all national law enforcement agencies and the federal authorities designated by law, which under unanimous jurisprudence¹¹ also includes MROS. MROS always recommends that reports submitted under Article 305^{ter} SCC be sent to the reporting office. MROS' position on this question is based, on the one hand, on the idea of efficiency of procedure and, on the other hand, on the basic criticism by the FATF experts during their evaluation, that the right to report under Article 305^{ter} SCC still exists alongside mandatory reporting under Article 9 MLA¹². In defining MROS as the single contact office for reports submitted under the Criminal Code, we would be responding to FATF's criticism that only one central office should be responsible for reports submitted under Article 305^{ter} SCC. In our opinion, submitting reports

¹⁰ Money Laundering Report by the Federal Banking Commission of March 2003, page 44 and 45 ; <http://www.ebk.ch/d/archiv/2003/20030327/m032703-01d.pdf>

¹¹ Niklaus Schmid, a commentary „Einziehung, Organisiertes Verbrechen, Geldwäscherei“ Volume II, § 6, p.123 ff, N 312 + 313

¹² Summary Report (English) Page 17, on recommendation # 13: <http://www.fatf-gafi.org/dataoecd/60/30/35529139.pdf>

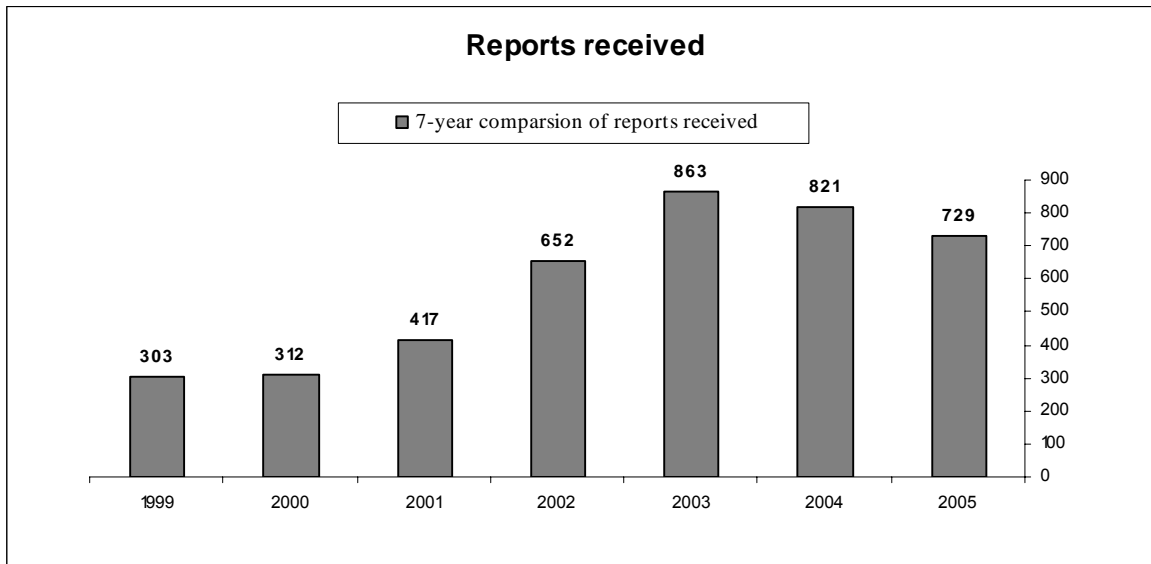
under Article 305^{ter} SCC directly to the law enforcement agencies is especially problematic if they, on closer examination, in fact qualify as cases that are subject to mandatory reporting, that is to say cases under Article 9 MLA Act that should be submitted directly to MROS. In such cases, MROS often only receives a reference copy that does not subsequently appear in the statistics. However, what is more serious is the fact that the law according to the Money Laundering Act is not being applied. We already pointed out in our 2004 Annual Report¹³ that all reports under Article 9 MLA should be submitted exclusively to MROS. The main objective and advantage of this procedure is not only to take the burden off the law enforcement agencies, but also that MROS has a broad network of contacts, which enables it to obtain in no time information both in Switzerland and from abroad, allowing the office to analyse the report and come to a conclusion more efficiently. This time-saving procedure is also especially beneficial to the financial intermediary with regard to frozen assets. With regard to this last point, financial intermediaries should remember that they are not subject to liability under Article 11 MLA if they submit a report under Article 9 MLA. This however is not the case if they submit a report under Article 305^{ter} SCC and voluntarily block the assets of the client within their own financial institution – a procedure that is often adopted. Finally, reports submitted to the law enforcement agencies under Article 305^{ter} SCC do not appear in the reporting statistics. This presents a problem: according to the criticism by the FATF experts during their evaluation of Switzerland, the number of reports submitted in Switzerland does not reflect the country's significance as a financial centre. In 2005, MROS identified 20 reports that had been submitted to the law enforcement agencies under Article 305^{ter} SCC, 19 of which came from the banking sector, 16 alone from one single bank. On examining the notification copy from the respective law enforcement agency, MROS identified most of the reports to in fact be cases, which would have qualified as Article 9 MLA reports.

Reports from the money transmitter sector

To come back to the overall decrease in the number of suspicious activity reports, it may be pointed out that the area of the money transmitters has played a significant part here, the number of reports from this sector falling by 11% (43 reports). Of the total 348 reports in 2005, 298 (85.6%) came from the money transmitters. Of these, 86% (256 reports) came from one major money-transmitter, and the remaining 14% (42 reports) from 8 others, 5 of which submitted only a single report. If one compares these figures with the 200 officially registered money transmitters, questions arise as to the conduct of the money transmitters. MROS suspects that the stricter regulations on conducting business, which major money transmitters have imposed in the last few years, have not been implemented to the same extent by smaller suppliers. There are also indications that there are still a number of unofficial suppliers of money-transmitting services; we have indications in Switzerland that money is being moved

¹³ Chapter 5.1. "Suspicious activity reports under Art. 9 MLA must always be submitted to MROS"

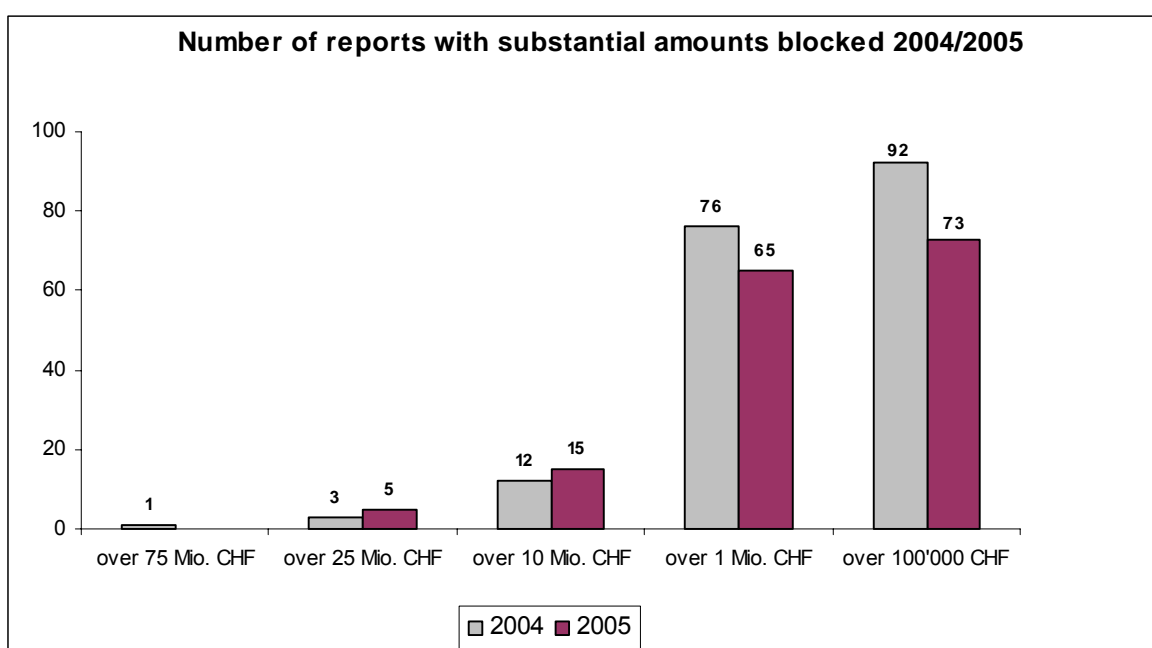
by means of the hawala System. However, it is too early to speak of a trend in this direction. The hawala System is a remittance system based on trust between individual paying offices. What sets this system apart from others is that it is not only a faster and cheaper means of transferring money, it also violates every rule on due diligence (especially the "know your customer" principle) by allowing anonymous transactions. The hawala System can also be used together with the regular financial system, as criminal proceedings in 2005 in connection with a drug-trafficking case revealed. In such cases, money that is collected via the hawala System is "horded" and administered via regular financial associations, whereby the main actor, that is to say the hawala paying office or other individuals in the network, act as the official business partner. This shows how important it is for the financial intermediary to know his client's background, to supervise transactions and not to close the client's account in the event of suspicious dealings, but rather to report the incident to MROS under Article 9 MLA.



Of the 729 reports submitted in 2005, MROS forwarded 504 or 69% to the law enforcement agencies. This is the first time that this figure is under 70%, thereby disproving MROS' assumption in its 2004 report that the percentage of reports forwarded to the law enforcement agencies would stabilise around 75%. If one analyses the percentage of reports forwarded to the law enforcement agencies from the two largest categories (the banks and the money transmitters) it becomes apparent that the ratio for the banks remains high - as expected - with 91% (92% in 2004). In comparison the smaller ratio of 45% (2004: 57%) for the money-transmitting sector is not surprising given that approximately 86% of these reports originate from money-transmitting business which due to its legal nature consists of individual transactions, which leave little conclusion on the client and the nature of his business relations. This means it would be wrong to conclude that the decrease in the ratio of reports forwarded to the law enforcement agencies is a result of the inferior quality of the reports.

In correlation to the decrease in the number of incoming reports, the total amount of blocked assets also declined by approximately 13%, from CHF 779 million in 2004 to CHF 680 million in 2005.

With regard to the volume of reports with substantial amounts blocked, there were no cases in 2005 (as opposed to the previous year) involving assets of over CHF 75 million. On the other hand, the number of reports involving assets of over CHF 25 million and CHF 10 million rose slightly, whereas cases involving assets of over CHF 1 million and of over CHF 100 000 decreased. The average amount of assets involved per report was slightly more than CHF 933 000 (2004: CHF 949 000).



2.2. *The search for terrorist funds*

Whereas only 11 reports concerning suspected terrorist financing and involving a total of approximately CHF 900 000 were submitted to MROS in 2004, this figure increased in 2005 to 20 with a total volume of assets of nearly CHF 46 million. In comparison to 2004, the figures for 2005 reveal nearly a two-fold increase in the number of reports and the second highest figure ever recorded in terms of assets. What initially appears to be a high number of reports in 2005 can be explained by the fact that several reports involved the same people or families. Similarly, the sum of CHF 46 million in assets can be explained by the fact when one considers that one report alone involved CHF 28.5 million. This case was forwarded to the law enforcement authorities who later suspended the proceedings.

Of the 20 reports in 2005 in connection with suspected terrorist financing, 5 involved people on the list published by the Bush Administration, 3 were based on the "Taliban Regulations" of Switzerland's State Secretariat for Economic Affairs (seco), and the remaining 12 originated from other, mainly public, sources such as press reports, newspaper articles and the Internet. With the exception of 2 cases, MROS forwarded all the reports to the respective law enforcement agencies who decided in 6 of the 18 cases not to investigate further. The 6 cases in question involved assets of approximately CHF 10 million. Together with the CHF 28.5 million mentioned above, this leaves only approximately CHF 7.5 million in assets, which are the subject of proceedings that are still pending.

Year	Number of reports			Factor for suspicion				Amounts involved	
	Total	Terrorist Funding (TF) reports	TF in % of total no. of reports	Bush	OFAC	Taliban (seco)	other	In connection with TF	TF in % of total amounts of reports
2001	417	95	22.8 %	33	1	4	57	131,379,332.45	4.82 %
2002	652	15	2.3 %	13			2	1,613,819.00	0.24 %
2003	863	5	0.6 %	3	1	1		153,922.90	0.02 %
2004	821	11	1.3 %		4	3	4	895,488.95	0.12 %
2005	729	20	2.7 %	5	0	3	12	45,650,766.70	6.71 %
TOTAL	3,482	146	4.19 %	54	6	11	75	179,693,330.00	3.26 %

The following table shows the 20 reports in connection with suspected terrorist funding for 2005 in detail.

a) Home canton of reporting financial intermediaries

	No. of reports	%
BS	10	50%
GE	3	15%
BE	3	15%
ZH	3	15%
SO	1	5%
Total	20	100%

The 10 cases of suspected terrorist funding from Canton Basel-Stadt all originate from the same financial intermediary and concern two different beneficial owners.

b) Type of financial intermediary

	No. of reports	%
Banks	15	75%
Money transmitters	4	20%
Forex trader	1	5%
Total	20	100%

c) Type of bank filing the report

	No. of reports	%
Foreign controlled bank	13	86%
Cantonal bank	1	7%
Regional & savings bank	1	7%
Total	15	100%

d) Nationality and domicile of client

Country	Nationality		Domicile	
	Count	Percentage	Count	Percentage
Dutch Antilles	7	35%	7	35%
Switzerland	0	0%	4	20%
Tanzania	2	10%	2	10%
Panama	2	10%	2	10%
Tunisia	2	10%	0	0%
Afghanistan	1	5%	0	0%
British Virgin Islands	1	5%	1	5%
Germany	1	5%	1	5%
Lebanon	1	5%	1	5%
Yemen	1	5%	1	5%
Greece	1	5%	0	0%
unknown	1	5%	1	5%
Total	20	100%	20	100%

e) Nationality and domicile of beneficial owner

Country	Nationality		Domicile	
	Count	Percentage	Count	Percentage
Great Britain	0	0%	6	30%
Switzerland	0	0%	5	25%
Saudi Arabia	4	20%	4	20%
Tanzania	3	15%	3	15%
Tunisia	2	10%	0	0%
Germany	1	5%	1	5%
Yemen	6	30%	0	0%
Greece	2	10%	0	0%
Afghanistan	1	5%	0	0%
unknown	1	5%	1	5%
Total	20	100%	20	100%

2.3. Detailed statistics

2.3.1 Overview of MROS statistics 2005

Business year summary (1.1.2005 - 31.12.2005)

Number of reports	2005		+/-	2004	
	Absolut	Relativ		Absolut	Relativ
Total received	729	100.0%	-11.2%	821	100.0%
Passed on to law enforcement agencies	504	69.1%	-19.1%	623	75.9%
Not passed on	224	30.7%	13.1%	198	24.1%
Pending	1	0.2%	0.0%	0	0.0%
Type of financial intermediary					
Money Transmitter	348	47.7%	-11.0%	391	47.6%
Bank	293	40.2%	-13.8%	340	41.4%
Fiduciary	31	4.3%	-13.9%	36	5.5%
Asset manager / Investment advisor	18	2.5%	38.5%	13	1.6%
Attorney	8	1.1%	-20.0%	10	1.2%
Insurance	9	1.2%	12.5%	8	1.0%
Other	12	1.6%	0.0%	12	1.5%
Casino	7	1.0%	250.0%	2	0.2%
Currency exchange	0	0.0%	-100.0%	3	0.4%
Credit card	0	0.0%	-100.0%	2	0.2%
Securities trader	3	0.4%	-25.0%	4	0.5%
Amounts involved in CHF					
(Total effective assets at time of report)					
Overall total	680'439'811	100.0%	-12.7%	779'391'715	100.0%
Total involved in reports passed on	613'031'680	90.1%	-20.1%	767'686'535	98.5%
Total involved in reports not passed on	67'408'131 *	9.9%	475.9%	11'705'180	1.5%
* 1 à CHF 40 Mio. & 1 à CHF 20 Mio.					
Average report value (total)	933'388			949'320	
Average report value (passed on)	1'216'333			1'232'242	
Average report value (not passed on)	299'592			59'117	

2.3.2 Home canton of reporting financial intermediaries

What the graph represents

This graph shows in which cantons the reporting financial intermediaries who filed reports to MROS are based, as opposed to the graph „Law enforcement agencies involved“ (Graph 2.3.12), which indicates to which law enforcement agencies the reports were passed on.

Graph analysis

- More than half the reports from Canton Zurich
- Double the number of reports from Canton Basel-Stadt.

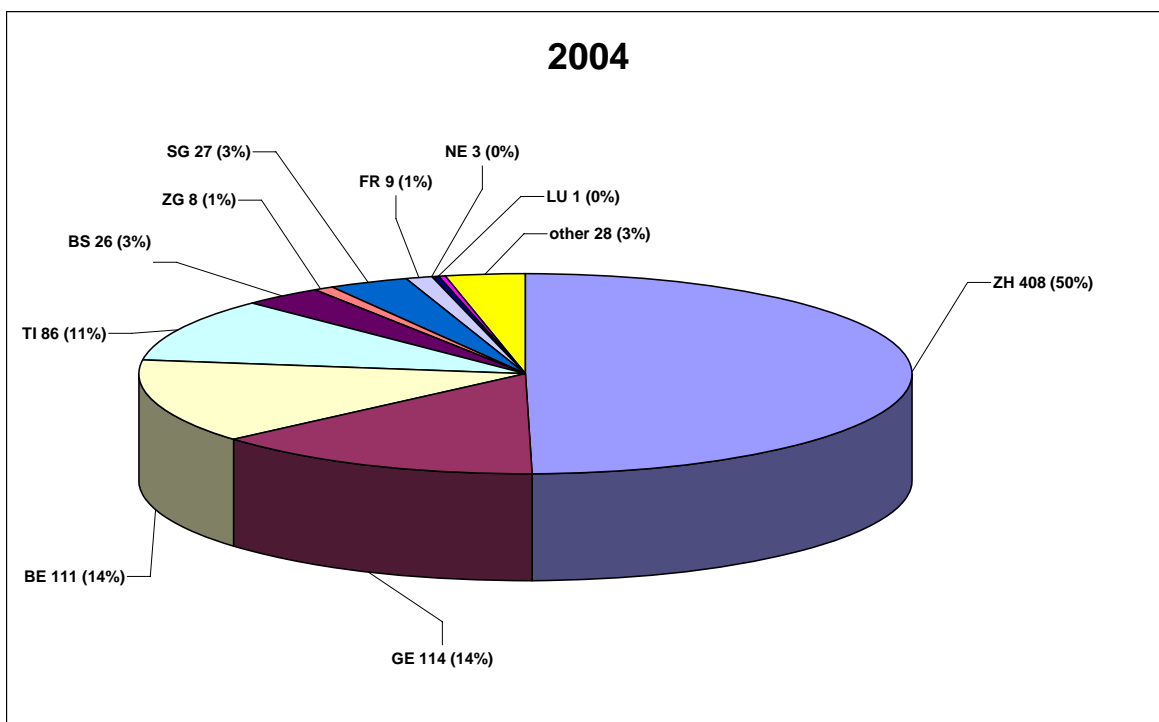
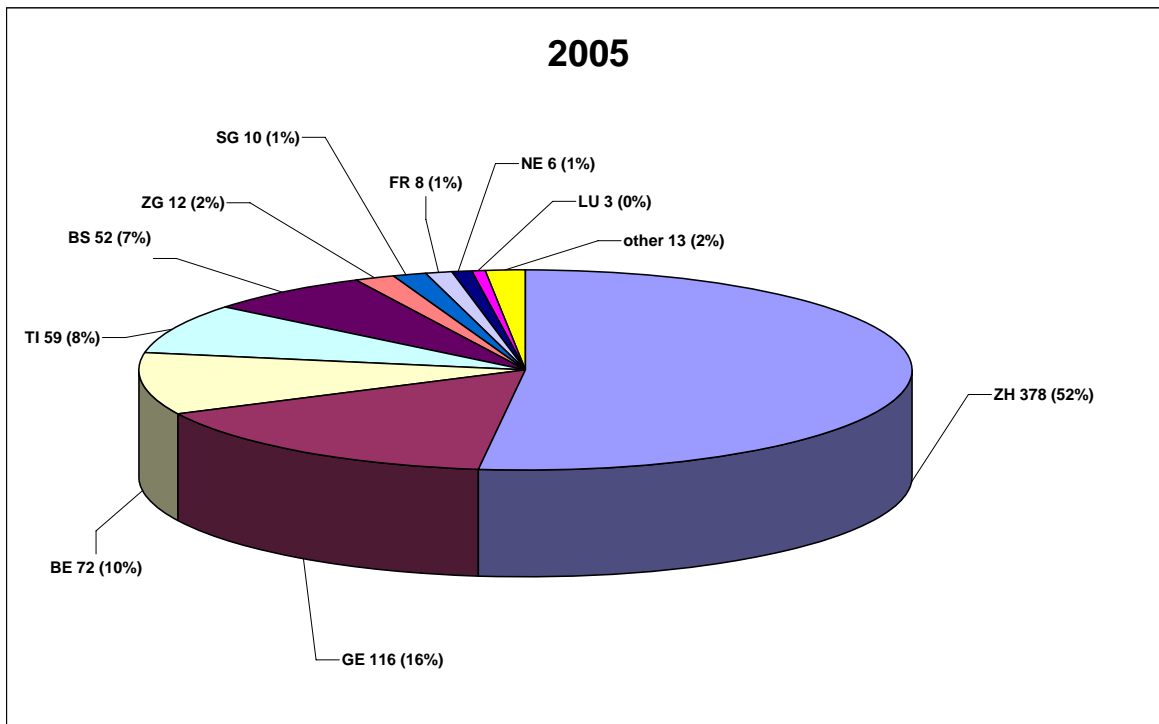
As expected the majority of reports in 2005 originated from those cantons with an important financial services sector: Just less than 93% or 677 reports came from financial intermediaries domiciled in the cantons of Zurich, Geneva, Bern, Ticino and Basel. In comparison to 2004, there was a relative increase in the number of reports from Canton Zurich: More than half (just under 52%) came from this canton, thus confirming Zurich's dominance in the statistics. However, in absolute terms, the number of reports from Zurich also declined, with 30 fewer reports from this canton in the current reporting year (2005: 378; 2004: 408). On account of a major case from Canton Basel-Stadt, the volume of reports from this canton increased two-fold in absolute terms over the previous year, with a total of 52 reports in 2005 compared to 26 in 2004. The position in the statistics of Canton Zurich is certainly due to its role as the leading financial centre in Switzerland. The situation in the cantons of Geneva, Ticino and Basel-Stadt is influenced by their role as strong financial centres with a geographical proximity to Switzerland's frontiers. Bern's position in the statistics is due to the centralisation within companies of compliance centres.

The half cantons of Appenzell Inner Rhoden and Ausser Rhoden (which have not submitted a single report since 1 April, 1998), and the cantons of Jura and Uri did not file any reports with MROS in 2005. The reason for this almost certainly lies in the centralisation of the competence centres. For this reason, we refer to the figures in the following chapter "Location of suspicious business connection" (chapter 2.3.3).

Legend

AG	Aargau	GR	Graubünden	SZ	Schwyz
AI	Appenzell Inner Rhoden	JU	Jura	TG	Thurgau
AR	Appenzell Ausser Rhoden	LU	Lucerne	TI	Ticino
BE	Bern	NE	Neuchatel	UR	Uri

BL	Basel-Land	NW	Nidwalden	VD	Vaud
BS	Basel-Stadt	OW	Obwalden	VS	Valais
FR	Fribourg	SG	St. Gallen	ZG	Zug
GE	Geneva	SH	Schaffhausen	ZH	Zurich
GL	Glarus	SO	Solothurn		



For comparison 2004/2005

Canton	2004	2005
ZH	408	378
GE	114	116
BE	111	72
TI	86	59
BS	26	52
ZG	8	12
SG	27	10
FR	9	8
NE	3	6
LU	1	3
SZ		3
VD	13	3
BL	2	2
SO		1
AG	2	1
GR	5	1
NW		1
SH		1
GL	1	
OW	1	
TG	3	
VS	1	
Total	821	729

2.3.3 Location of suspicious business connection

What the graph represents

The graph shows in which cantons the financial intermediary managed accounts or had business connections that were reported to MROS in 2005. This is meant to be a complement to the previous graph 2.3.2 showing *the home canton of the reporting financial intermediary*.

Graph analysis

The place where a reporting financial intermediary has its headquarters is not a definite indication of the location of the account or business mentioned in the report filed to MROS.

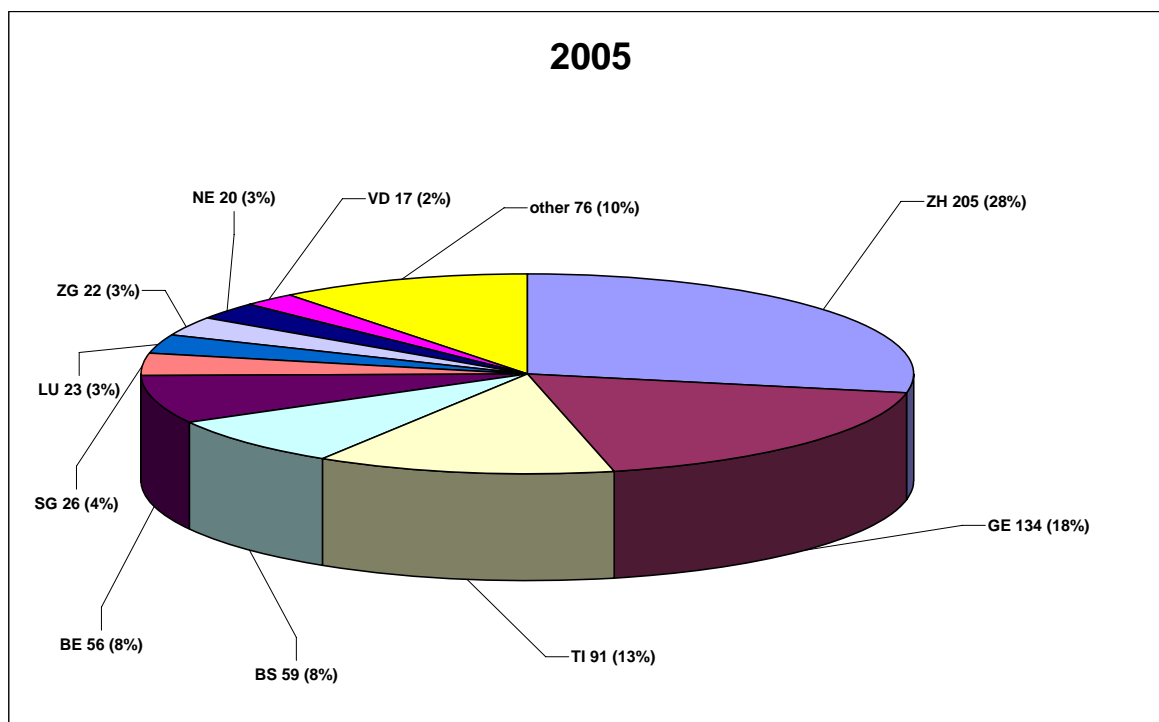
It is mainly the major banks and the money transmitters that have established regional competence centres to submit suspicious activity reports, although these reports do not, or not only involve the home canton of the reporting financial intermediary. This can lead to a distorted picture of the geographical distribution of money laundering cases in Switzerland. Moreover, a direct comparison with the statistics of the *law enforcement agencies* involved (see chapter 2.3.12) is not possible because, for one thing, not all reports submitted to MROS are passed on and, for another, as a result of federal jurisdiction in certain cases the location of the account or business alone no longer determines which judicial authority is responsible. This fact is illustrated by the previous graph on *Home canton of reporting financial intermediaries* (chapter 2.3.2). Whereas in 2005 nearly 93% of all reports (677 of a total of 729) sent to MROS came from financial intermediaries domiciled in the cantons of Zurich, Geneva, Bern, Ticino and Basel-Stadt, only approximately 75% of the reported business connections (545 out of a total of 729 reports) took place in the cantons mentioned.

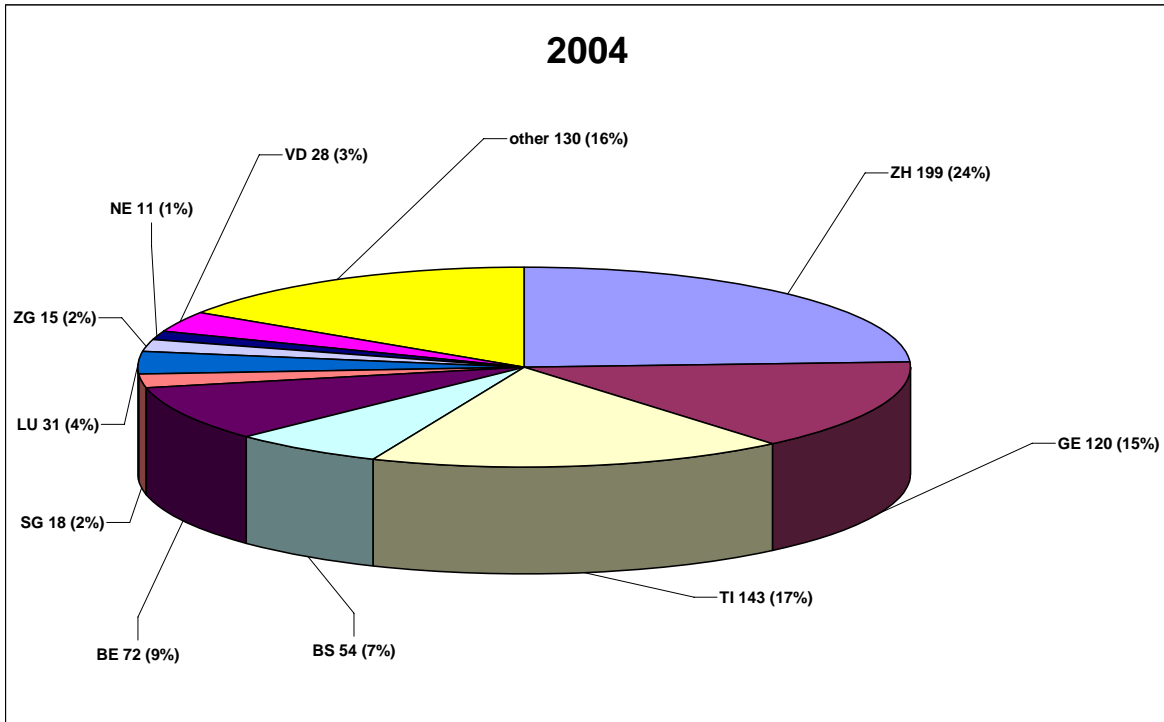
The falling significance in 2005 of Canton Ticino as the location of a suspicious business connection (91 reports in 2005 as opposed to 143 reports in 2004) can be explained especially by two major cases in 2004 that attracted the attention of the media.

The fact remains that since the establishment of MROS in April 1998 the half canton of Appenzell Inner Rhoden is the only canton that has yet to submit a suspicious activity report.

Legend

AG	Aargau	GR	Graubünden	SZ	Schwyz
AI	Appenzell Inner Rhoden	JU	Jura	TG	Thurgau
AR	Appenzell Ausser Rhoden	LU	Lucerne	TI	Ticino
BE	Bern	NE	Neuchatel	UR	Uri
BL	Basel-Land	NW	Nidwalden	VD	Vaud
BS	Basel-Stadt	OW	Obwalden	VS	Valais
FR	Fribourg	SG	St. Gallen	ZG	Zug
GE	Geneva	SH	Schaffhausen	ZH	Zurich
GL	Glarus	SO	Solothurn		





For comparison: 2004/2005

Canton	2004	2005
ZH	199	205
GE	120	134
TI	143	91
BS	54	59
BE	72	56
SG	18	26
LU	31	23
ZG	15	22
NE	11	20
VD	28	17
FR	29	15
AG	30	12
SO	12	10
VS	9	10
TG	6	7
BL	4	5
SZ	5	5
GL	8	4
GR	14	2
JU	10	2
SH	1	2
AR		1
NW	1	1
OW	1	
Total	821	729

2.3.4 Financial intermediaries according to category

What the graph represents

This graph illustrates which category of financial intermediary filed how many reports.

Graph analysis

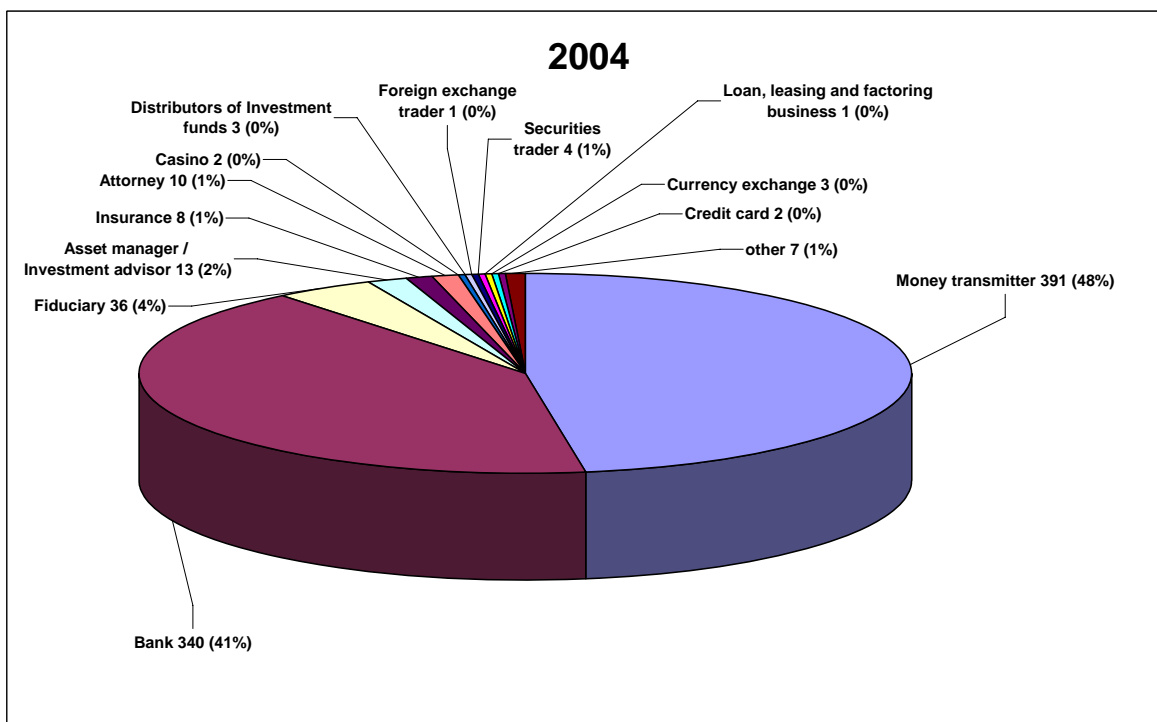
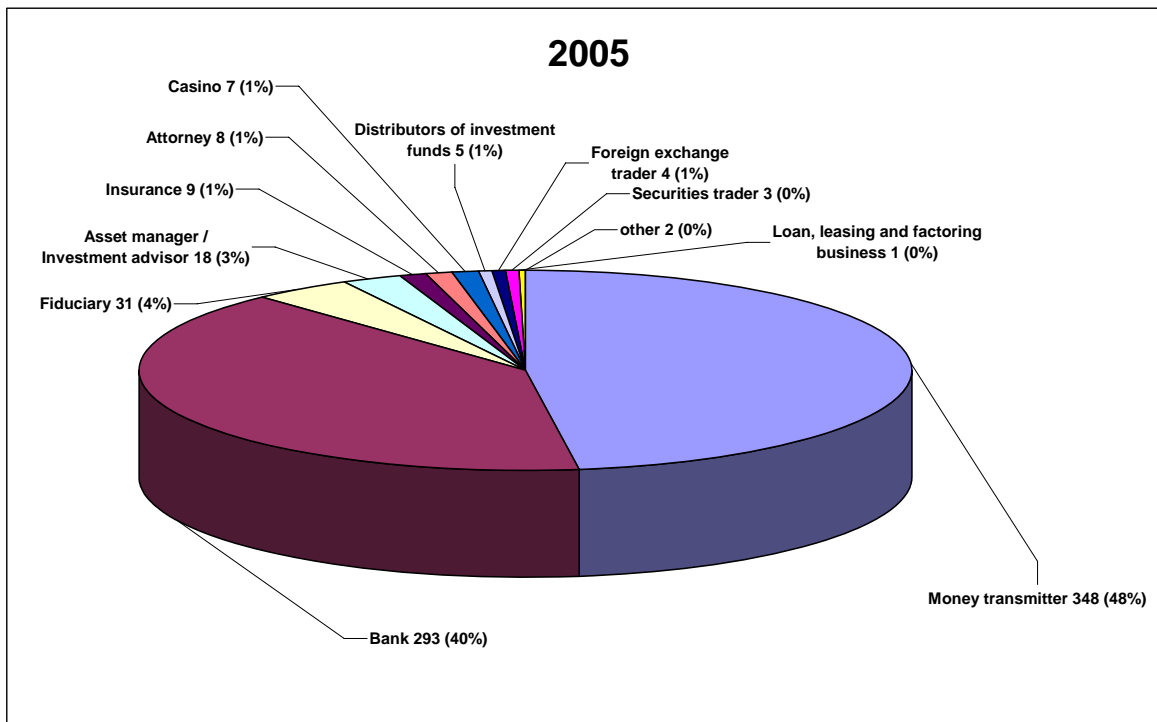
Despite a fall in the number of reports, there is little change in the proportionate breakdown of reporting financial intermediaries according to category.

When comparing the 2005 statistics with the previous reporting year, it is apparent that there has been a decrease in the number of suspicious activity reports in practically all sectors subject to mandatory reporting. What stands out is that not only did the number of reports decline in the field of the money transmitters, but also for the first time in the banking sector.

Once again it was the financial intermediaries from the field of international financial transactions who with a share of 48% filed the most reports. This figure is identical to that of the previous year. In terms of volume, this sector registered the largest decrease compared to the previous reporting year, with a total of 348 reports in 2005 compared to 391 in 2004 (-11%). This decline is in keeping with the overall decrease in the number of reports in 2005 in all sectors. Out of a total of 348 reports filed, 298 (just less than 86%) came from the money transmitters (see previous chapter 2.1 for further details).

The number of reports from the banking sector fell in 2005 in absolute terms by 47 to a total of 293. This new decrease of nearly 14% is not insignificant, and is especially striking in view of the fact that in 2003 the Federal Banking Commission introduced its Money Laundering Ordinance, which goes further than Article 9 MLA and obliges the banking sector also to report cases of *attempted* money laundering (see chapter 2.1). With a share of nearly 88% (89% in 2004) of the total, the reports filed by the money transmitters and the banking sector made up the largest share of incoming reports in 2005.

In the rest of the non-banking sector, excluding the important area of the money transmitters, the number of reports accounted for just over 12% of the total number of suspicious activity reports, whereby there were only 2 fewer reports in 2005 compared the previous year. Further categories showing a relative increase include: casinos (+250%), asset managers/investment bankers (+39%) and foreign exchange traders (+300%). Considering their importance in the Swiss financial market, it is surprising that not more reports were filed by financial intermediaries from the non-banking sector, not taking into account the category of money transmitters.



Ratio of reports forwarded to the law enforcement agencies in 2005 according to category

Category of financial intermediary	% forwarded	% not forwarded	% total
Others	83.3%	16.7%	100.0%
Bank	91.8%	8.2%	100.0%
Casino	85.7%	14.3%	100.0%
Securities trader	100.0%	0.0%	100.0%
Attorney	75.0%	25.0%	100.0%
Fiduciary	100.0%	0.0%	100.0%
Asset manager	83.3%	16.7%	100.0%
Insurance	77.8%	22.2%	100.0%
Money transmitter	45.1%	54.9%	100.0%
Total	69.1%	30.9%	100.0%

For comparison: 2004 / 2005

Branch	2004	2005
Money transmitter	391	348
Bank	340	293
Fiduciary	36	31
Asset manager / Investment advisor	13	18
Insurance	8	9
Attorney	10	8
Casino	2	7
Distributor of investment funds	3	5
Foreign exchange trader	1	4
Securities trader	4	3
Others		2
Loan, leasing and factoring business	1	1
Currency exchange	3	
Credit cards	2	
Other FI	7	
Total	821	729

2.3.5 Type of bank reporting

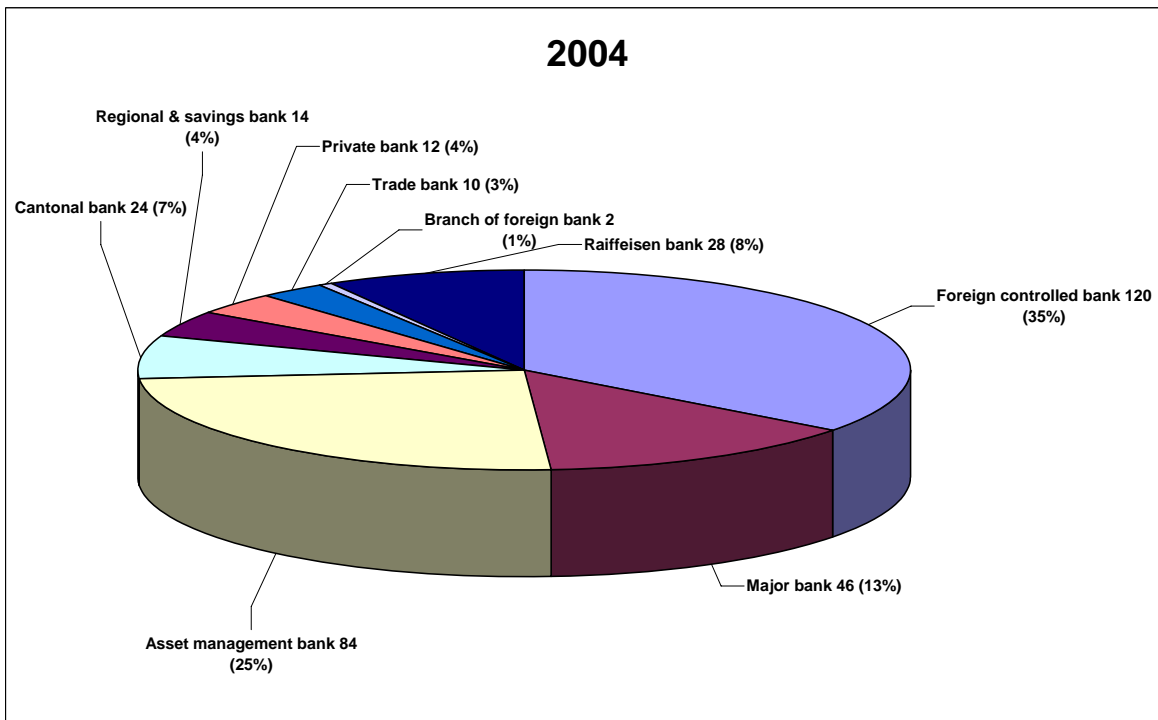
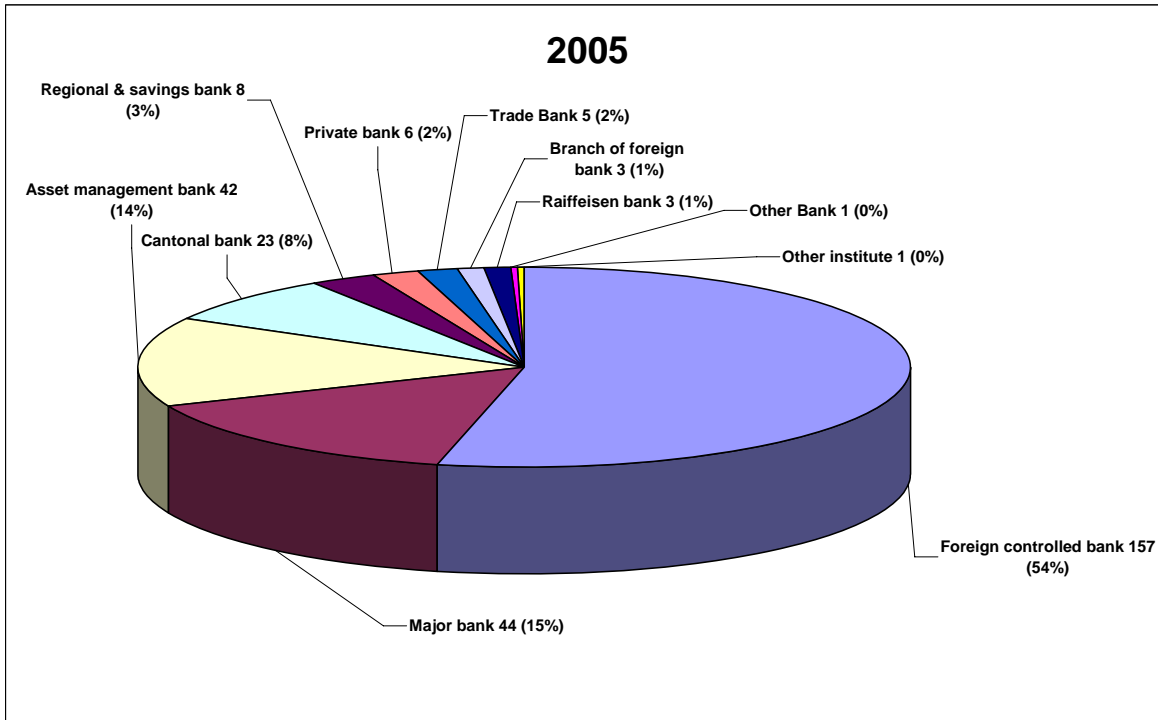
What the graph represents

This graph shows the distribution of reports from what type of bank.

Graph analysis

- *First time decrease in the number of reports from banks*
- *Substantial increase in the number of reports from foreign controlled banks. Dramatic decrease in reports from the Raiffeisen banks*
- *The securities and asset management banks once again fall behind the major banks*

In the 2005 reporting year, the financial institutions in the category *foreign controlled banks* submitted 37 more reports than in 2004 and are, once again, at the top of the statistics for the banking sector with a total of 157 reports. This may be explained by the fact that this sector is subject to fierce competition and, therefore, takes more risks. In second place were the major banks with 44 reports. In comparison to 2004, this was more than the number of reports from the stock market, securities and asset management banks with 42 reports (half as many as 2004), pushing this category down from second into third place. The most significant decline (-89%) was from the Raiffeisen banks, which only submitted 3 reports to MROS in 2005 compared to 28 the previous year. **This decrease could be a result of a refocusing of activity by the Raiffeisen banks on retail banking, which is less exposed to risks.** In total, the banking sector filed 47 fewer reports in 2005 than in the previous reporting year. In relative terms, this sector remains at the top of the statistics for 2005 with a share of 40% of the total number of reports (41% in 2004) – a consequence of the general decrease in the number of reports from nearly all branches.



For comparison: 2004/2005

Type of bank	2004	2005
Foreign controlled bank	120	157
Major bank	46	44
Asset management bank	84	42
Cantonal bank	24	23
Regional & savings bank	14	8
Private bank	12	6
Trade bank	10	5
Branch of foreign bank	2	3
Raiffeisen bank	28	3
Other bank		1
Other institute		1
Total	340	293

2.3.6 Factors arousing suspicion

What the graph represents

This graph shows what suspicions prompted a financial intermediary to file a report.

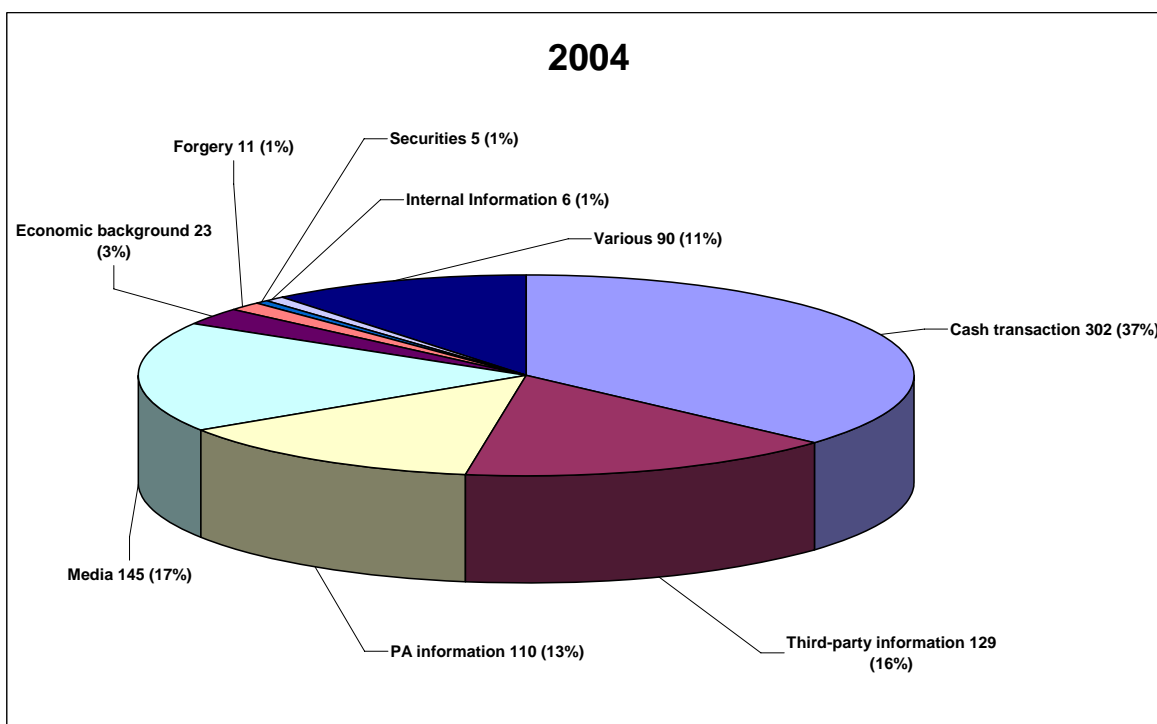
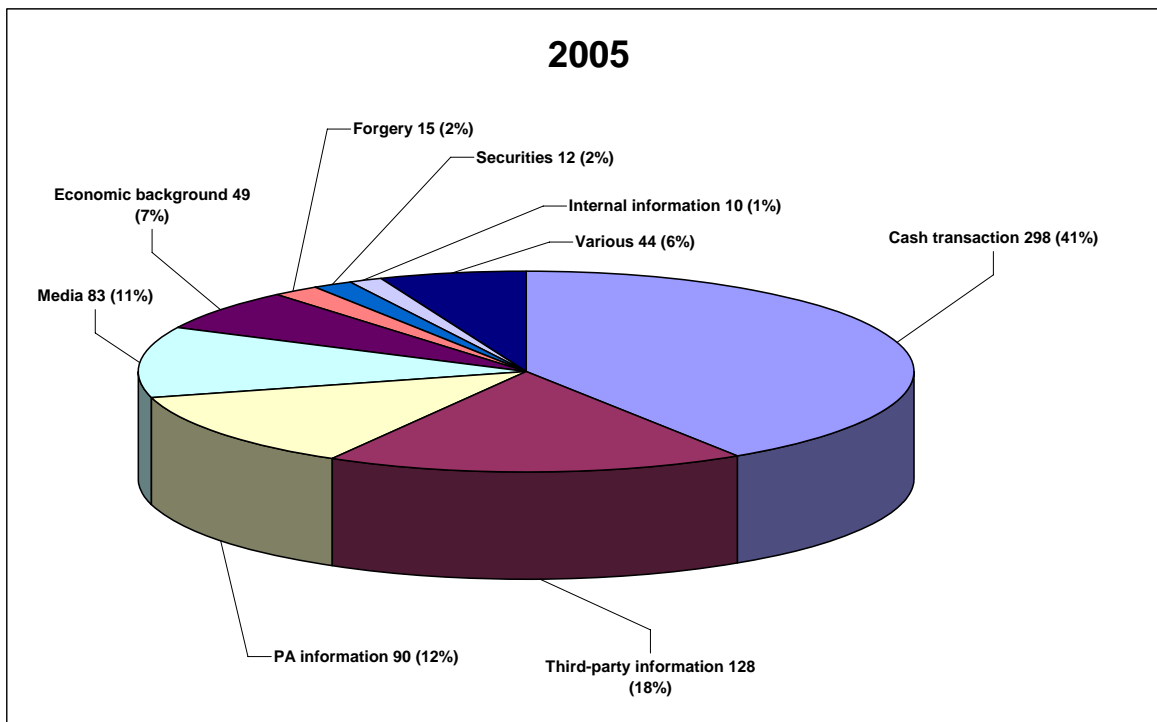
Graph analysis

- Financial intermediaries are making a critical analysis of their client and business relations
- Suspicious activity reports are often prompted by outside information

In correlation to the number of reports from the area of the money transmitters, suspicious cash transactions were once again at the top of the list in 2005. If one adds up the categories *third-party information, information from law enforcement agencies and newspaper reports*, it is evident not only that the financial intermediaries rely on outside information to fulfil their legal obligations under money laundering legislation, but also that they do indeed analyse their client relations according to the law and fulfil their special obligations to make in-depth inquiries according to Article 6 MLA.

Legend

Economic background	The economic background of a transaction is either unclear or cannot be satisfactorily explained by the customer.
PA information	Law enforcement agencies initiate proceedings against an individual connected with the financial intermediary's client.
Media	The financial intermediary finds out from media reports that one of the people involved in the financial transaction is connected with illegal activities.
Third-party information	Financial intermediaries receive information from outside sources or from within a business about clients who could pose problems.
Other	Included in this category are topics which were listed separately in previous MROS statistics such as check transactions, forgery, high-risk countries, currency exchange, securities, smurfing, life insurance, non-cash cashier transactions, fiduciary transactions, loan transactions, precious metals and various.



For comparison: 2004/2005

Factors	2004	2005
Cash transaction	302	298
Third-party information	129	128
PA information	110	90
Media	145	83
Economic background	23	49
Forgery	11	15
Securities	5	12
Internal Information	6	10
Check transaction	8	9
Opening of account	18	9
Various	32	7
Transitory account	17	6
Currency exchange	3	6
Difficult countries	3	3
Smurfing	1	3
Life insurance	1	1
Precious metals	3	
Loan transaction	3	
Non-cash cashier transaction	1	
Total	821	729

2.3.7 Nature of predicate offence

What the graph represents

This graph shows what predicate offence was suspected when MROS passed on a report to the law enforcement agencies.

It should be noted that the classification is based solely on the findings of the financial intermediary and MROS. Once a report is passed on to a law enforcement agency and proceedings are initiated, the predicate offence is then given a definite label.

The category *not classifiable* includes cases in which a variety of possible predicate offences are suspected. The heading *no suspicion* includes those cases to which no obvious predicate offence can be attributed, although the analysis of the transaction or of the economic background cannot exclude the criminal origin of the money.

Graph analysis

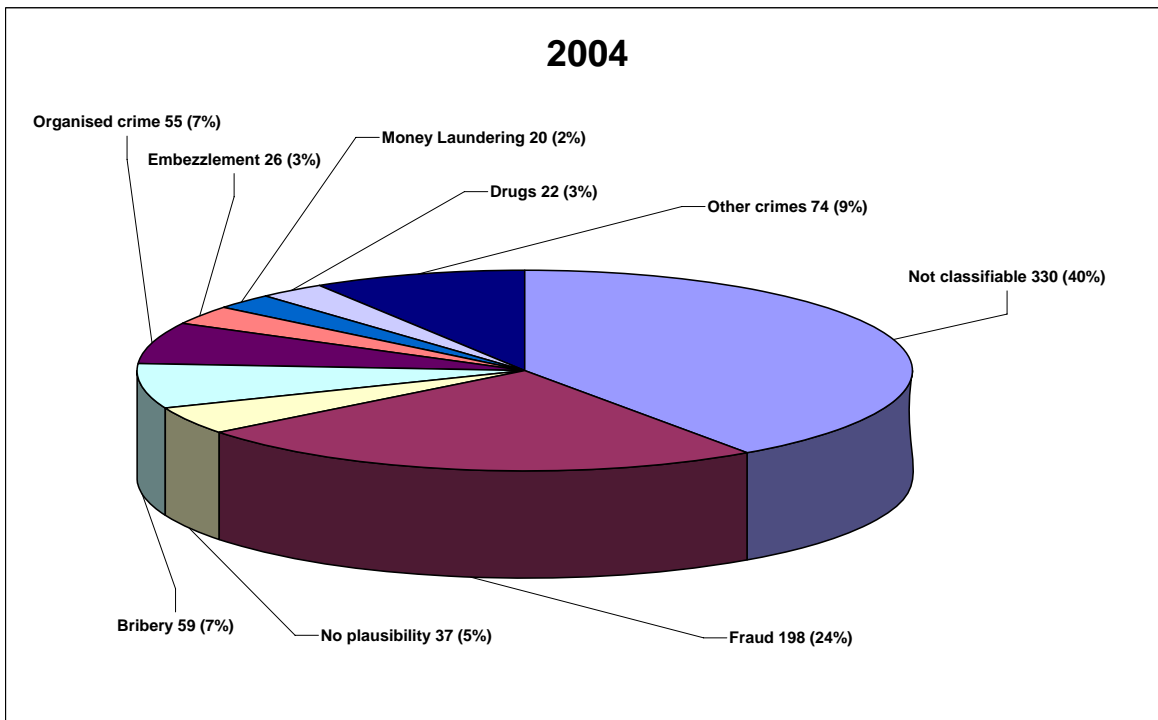
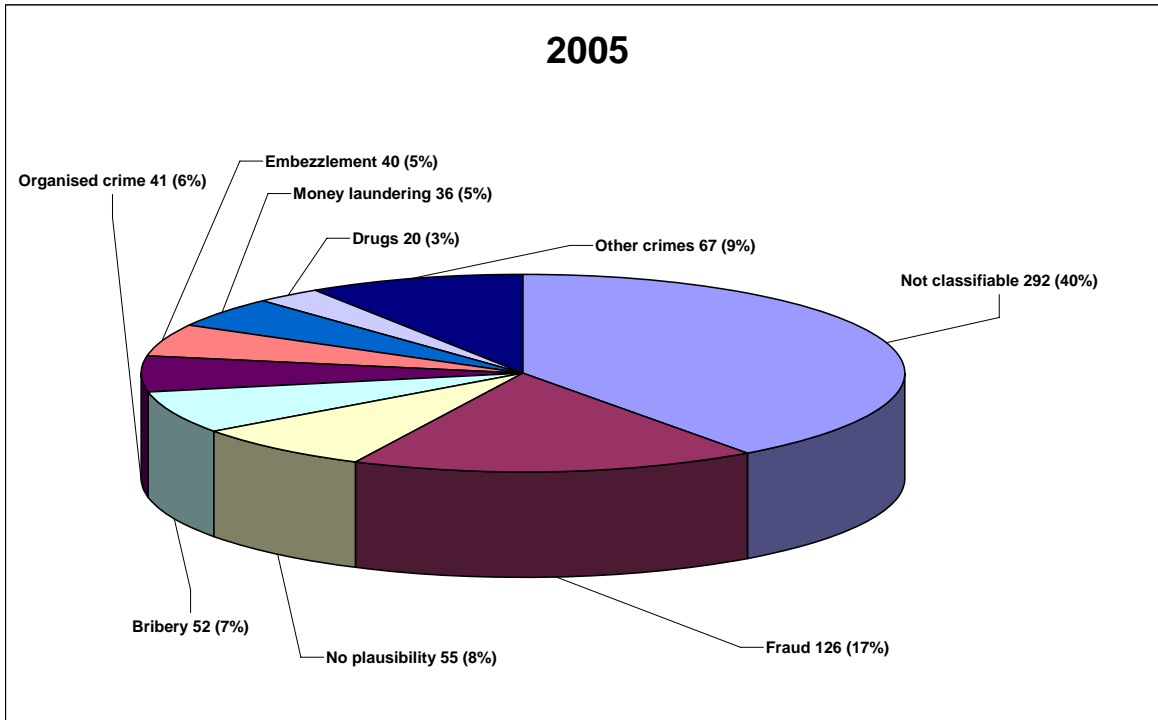
- Decrease in fraud as predicate offence
- Approximately one third of the cases involved offences against assets

Of those cases reported to MROS in 2005 that could be classified under a predicate offence, there was a decrease (as opposed to an increase in 2004) in cases involving *fraud* from 198 to 126 cases. In the same period there was an increase from 37 to 55 in the number of cases that could *not be classified*, and in the number of cases involving *money laundering* (from 20 to 36 cases). When one considers the general decline in the number of overall reports, the increase in the latter category becomes all the more significant. The remaining categories did not show any significant change over the 2004 reporting year.

The cases which can be directly attributed to *money laundering* comprise of those which MROS had not previously classified under a particular predicate offence in connection with this offence.

It must be emphasised with regard to the category *document counterfeiting* that this offence does not in itself generate criminal assets as defined by Article 9 MLA. In this report it is defined as a crime that is capable – indirectly - of yielding criminal assets such as through forged cheques and bank guarantees.

In 2005, MROS received 198 reports (just over 27%) in which offences against assets could be assumed to be the predicate offence to money laundering under Title II of the Swiss Criminal Code.



For comparison: 2004/2005

Offence	2004	2005
Not classifiable	330	292
Fraud	198	126
No plausibility	37	55
Bribery	59	52
Organised crime	55	41
Embezzlement	26	40
Money laundering	20	36
Drugs	22	20
Terrorism	11	20
Other crimes against property	14	12
Dishonest business management	4	10
Forgery	14	10
Theft	6	9
Other crimes	9	2
Blackmail	3	1
Counterfeiting		1
Violent crime	2	1
Sexual crimes	3	1
Robbery	2	
Arms dealings	6	
Total	821	729

2.3.8 Domicile of clients

What the graph represents

This graph shows the domiciles of the corporations or individuals who were customers of the financial intermediary.

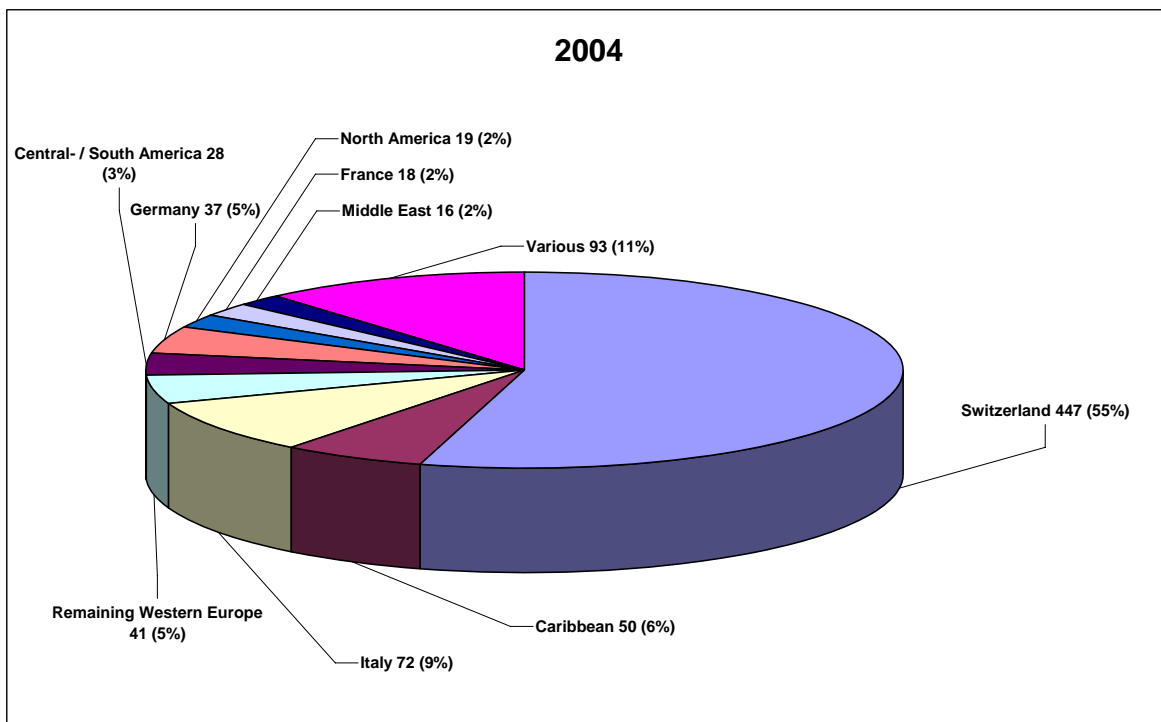
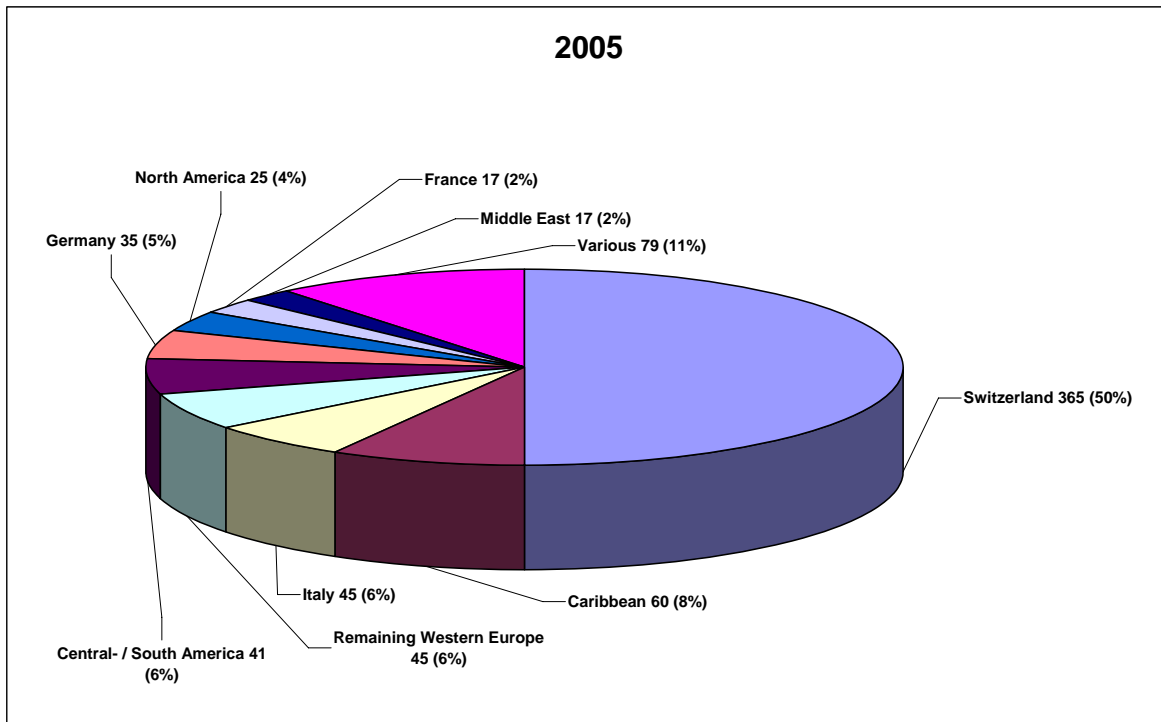
Graph analysis

- Proportionate decrease in the number of clients domiciled in Switzerland
- Increase in the number of persons domiciled in the Caribbean who, as contracting party, were the subject of a report

In 2005, 50% of the contracting parties who were the subject of a report filed to MROS were domiciled in Switzerland. In absolute terms, the number decreased in 2005 once again from 447 in 2004 to 365 in 2005. This decline is larger than expected when compared to the general decrease in the overall number of reports (2004: 55%) and is almost certainly a result of the decline in the number of reports from the money transmitters, whose clients are mainly domiciled in Switzerland. Clients domiciled in the Caribbean lie in second place surpassing those from Italy who have fallen back into third place. This is due to the large number of companies in this region that act as a contracting party to Swiss financial intermediaries. The number of clients domiciled in South, Central and North America has also increased, both in relative and absolute figures. This is probably due mainly to the increase in the number of media reports in the respective countries, which prompted the financial intermediaries to file a report to MROS.

Legend

Remaining Western Europe	Austria, Andorra, Belgium, Spain, Liechtenstein, Greece, Luxemburg, Malta, Monaco, Netherlands, Portugal, San Marino, Vatican, Gibraltar
Various	Africa, Eastern Europe, Middle East, C.I.S., Asia, Australia/Oceania, Scandinavia and unknown



For comparison: 2004 – 2005

Domicile of client	2004	2005
Switzerland	447	365
Caribbean	50	60
Italy	72	45
Remaining Western Europe	41	45
Central – / South America	28	41
Germany	37	35
North America	19	25
France	18	17
Middle East	16	17
Great Britain	18	16
Asia	12	15
Africa	18	13
Eastern Europe	17	13
Unknown	1	8
Australia/Oceania	7	6
Scandinavia	5	6
C.I.S.	15	2
Total	821	729

2.3.9 Nationality of clients

What the graph represents

This graph shows the nationality of individuals who were clients of the financial intermediary. In the case of corporations, domicile and nationality are the same.

Graph analysis

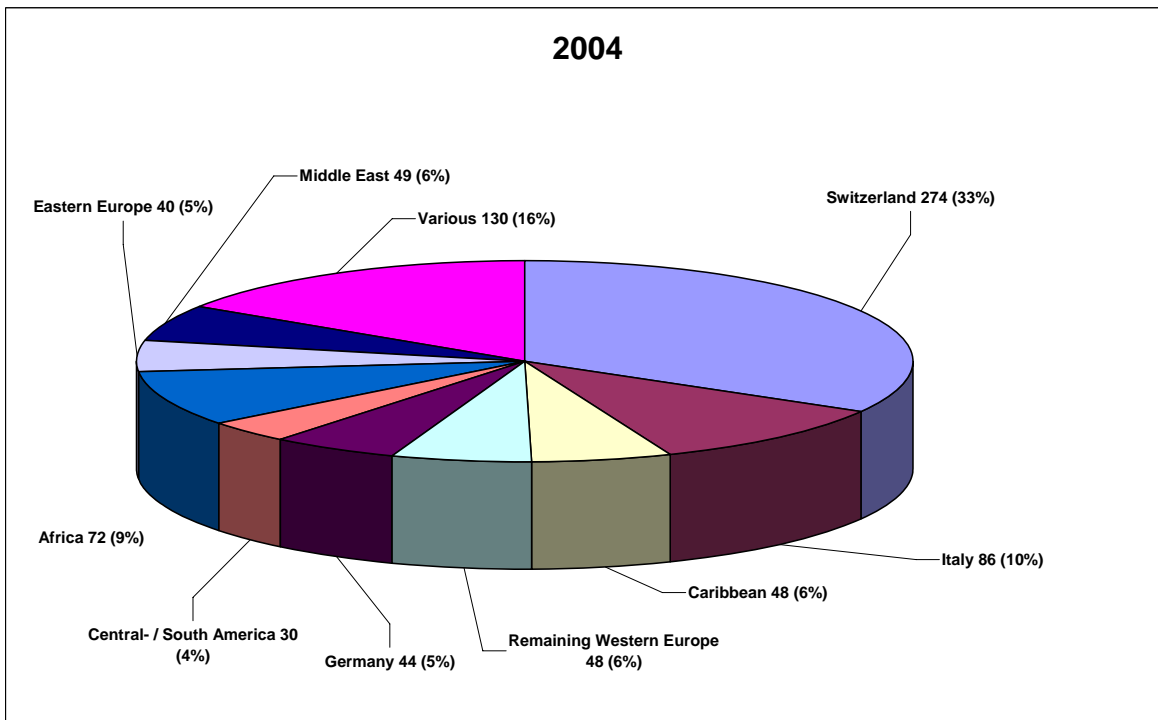
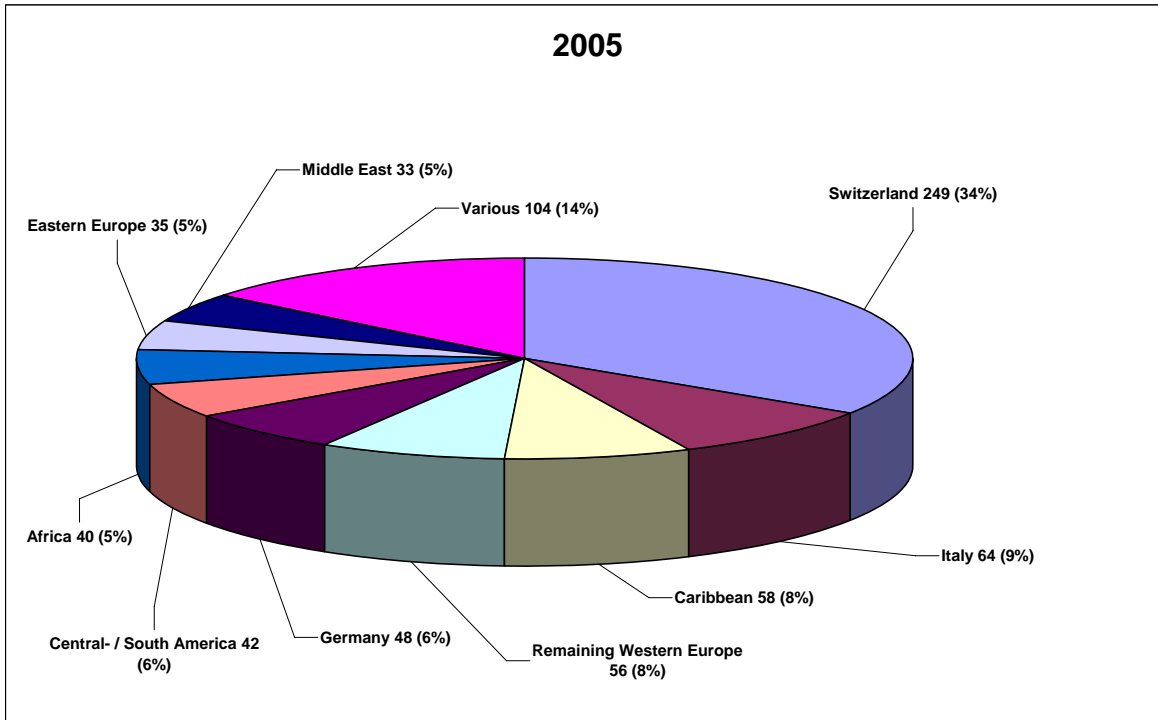
- Cases involving Swiss nationals become stable

Clients of Swiss nationality or companies with headquarters in Switzerland were once again at the top of the table in 2005, although in relative terms this category remained stable over the previous reporting year with a share of 34% in 2005 as opposed to 33% in 2004. In second place again, with a slight decrease to 9%, are Italian nationals or companies domiciled in Italy. This category is followed by persons from the Caribbean, which is hardly surprising given that the statistics include not only companies, but also offshore companies domiciled in these countries, domicile and nationality being identical in case of the latter. Cases involving African nationals showed a decrease over the previous reporting period, with 72 or 9% in 2004 compared with 40 or 5% in 2005. This decline is probably a result of the fall in the number of reports from the money transmitters, since African nationals tend to use this service in Switzerland more than other nationalities and, therefore, were registered as the contracting party more often in the previous years.

More than two-thirds of the contracting parties mentioned in the reports in 2005 came from Europe (not taking into account the nationality of clients from those C.I.S. countries that belong to Europe).

Legend

Remaining Western Europe	Austria, Andorra, Belgium, Spain, Liechtenstein, Greece, Luxemburg, Malta, Monaco, Netherlands, Portugal, San Marino, Vatican, Gibraltar
Various	Africa, Eastern Europe, Middle East, C.I.S., Asia, Australia/Oceania, Scandinavia and unknown



For comparison: 2004 – 2005

Nationality	2004	2005
Switzerland	274	249
Italy	86	64
Caribbean	48	58
Remaining Western Europe	48	56
Germany	44	48
Central- / South America	30	42
Africa	72	40
Eastern Europe	40	35
Middle East	49	33
North America	23	28
Asia	24	22
France	19	18
Grreat Britain	22	15
C.I.S.	23	8
Australia/Oceania	9	5
Unknown	2	5
Scandinavia	8	3
Total	821	729

2.3.10 Domicile of beneficial owners

What the graph represents

This graph shows the domicile of the individuals or corporations that were identified as beneficial owners of assets when the report was filed.

Graph analysis

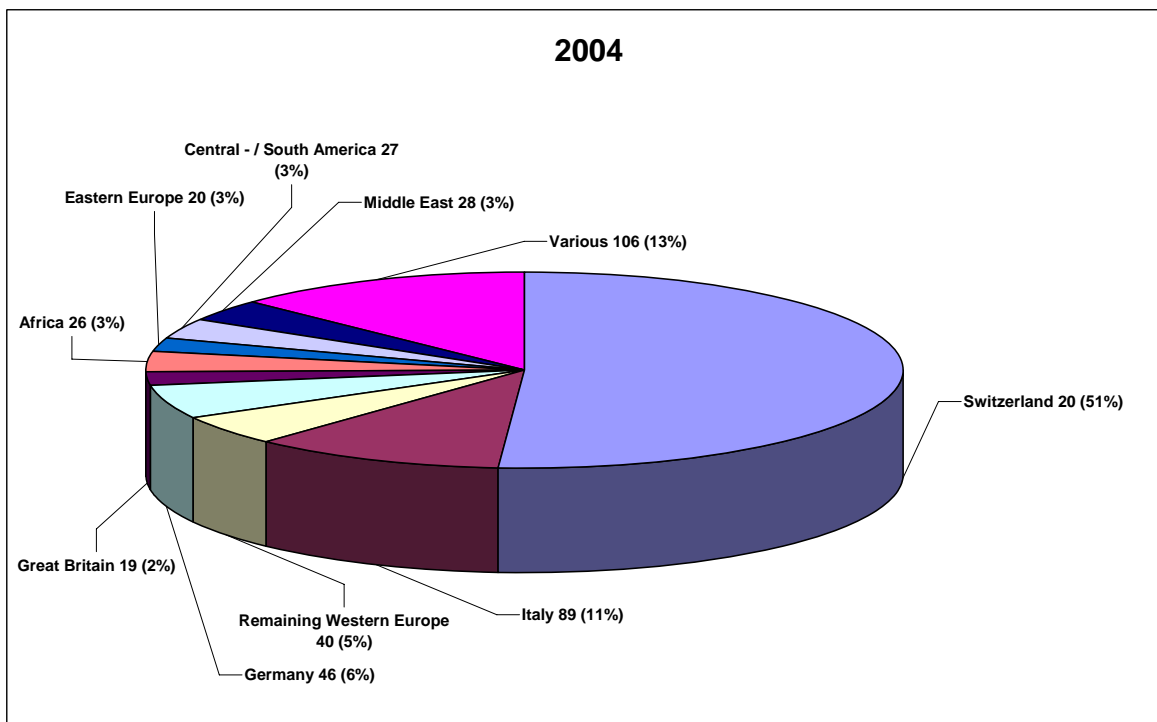
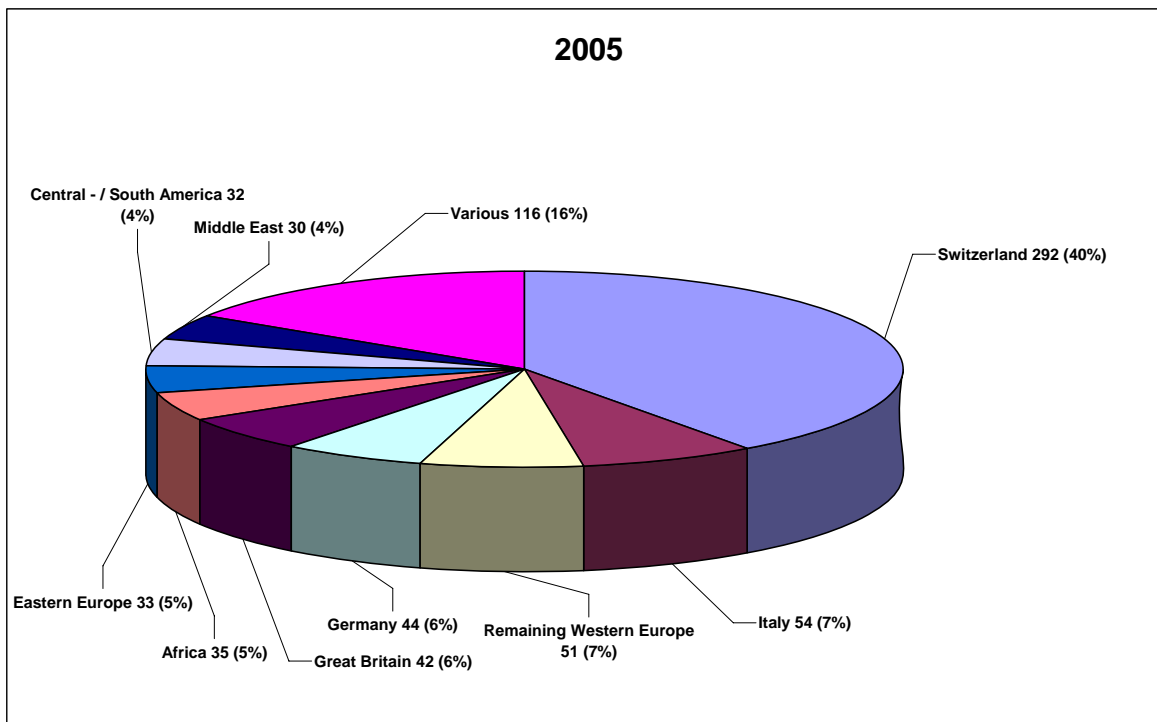
- Further decrease in the number of cases involving beneficial owners domiciled in Switzerland

Over 76% of the reports submitted to MROS in 2005 involved beneficial owners domiciled in Europe (not taking into account some of the C.I.S. countries that belong to Europe). This represents a decrease over 2004, when slightly less than 83% of the reports involved individuals in this category.

As in the previous statistics concerning *Domicile of clients (chapter 2.3.8)*, Swiss nationals once again constituted the biggest category of beneficial owners, albeit with a smaller ratio of 40% compared to 51% in 2004. This can be explained, on the one hand, by the general decline in the overall number of incoming reports from the area of the money transmitters, whose services are mostly used by persons domiciled in Switzerland who, it may be assumed, are the beneficial owners of the assets that are transferred. Moreover, it cannot be denied that Switzerland's financial centre with its know-how, infrastructure and range of services is especially attractive to foreign clientele.

Legend

Remaining Western Europe	Austria, Andorra, Belgium, Spain, Liechtenstein, Greece, Luxemburg, Malta, Monaco, Netherlands, Portugal, San Marino, Vatican, Gibraltar
Various	Africa, Eastern Europe, Middle East, C.I.S., Asia, Australia/Oceania, Scandinavia and unknown



For comparison: 2004 - 2005

Domicile beneficial owner	2004	2005
Switzerland	420	292
Italy	89	54
Remaining Western Europe	40	51
Germany	46	44
Great Britain	19	42
Africa	26	35
Eastern Europe	20	33
Central- / South America	27	32
Middle East	28	30
North America	32	29
France	20	29
Asia	14	24
Scandinavia	5	11
C.I.S.	18	8
Unknown	1	7
Australia/Oceania	9	4
Caribbean	7	4
Total	821	729

If one compares the last two reporting periods it is striking that despite a general decrease in the total number of incoming reports the number of reports concerning beneficial owners domiciled in Great Britain has risen from 19 in 2004 to 42 in 2005.

2.3.11 Nationality of beneficial owners

What the graph represents

This graph shows the nationality of those individuals who were identified as beneficial owners of assets when the report was submitted. With corporations, nationality is the same as domicile. Frequently, however, it is only during the investigations by the law enforcement agencies that the actual beneficial owners and their nationality are identified.

Graph analysis

- A further decrease in the number of Swiss beneficial owners
- Decline in the number of beneficial owners from Italy

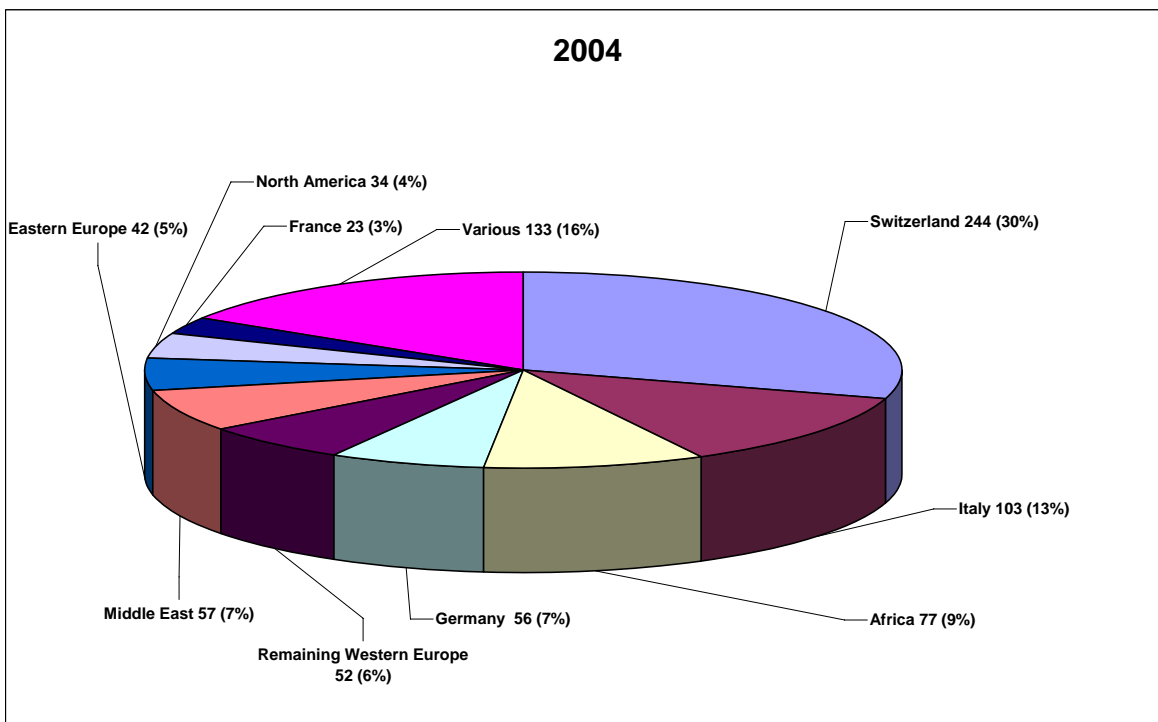
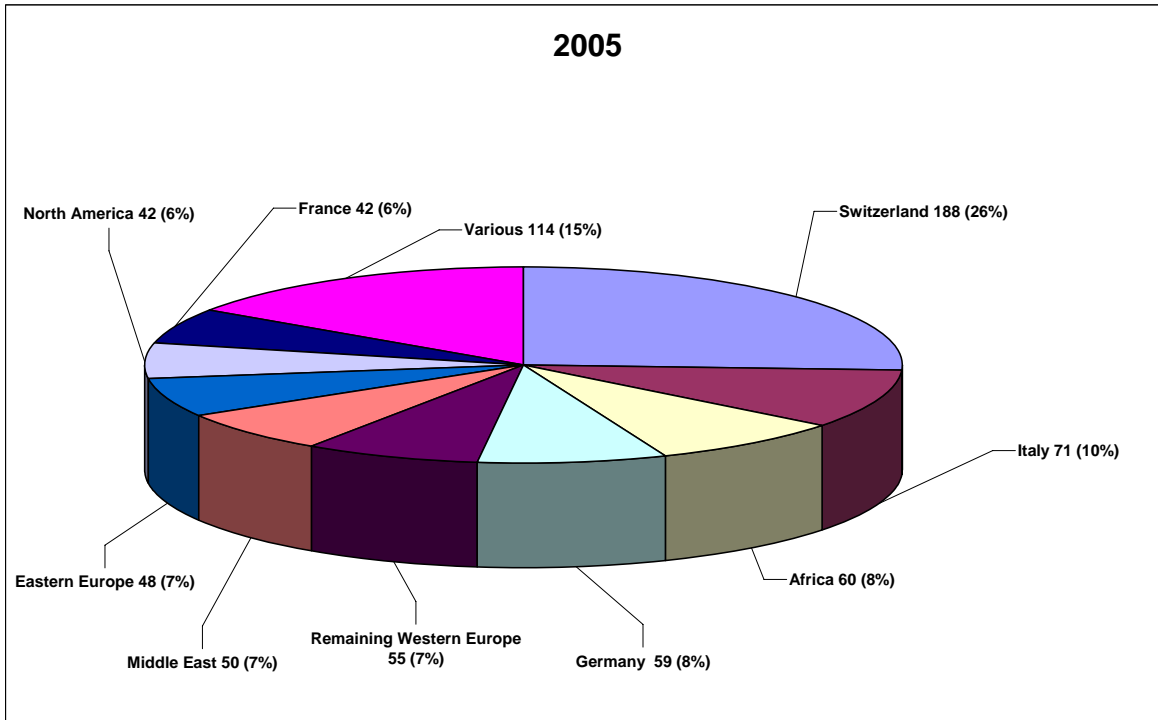
European beneficial owners (not including nationals from some of the C.I.S. countries belonging to Europe) continued to dominate this category in 2005, constituting over 67%. As to be expected, Swiss nationals once again head this group with just less than 26% - a slight decrease over the figures in 2004 (30%). In second place are beneficial owners from Italy with 10% compared to 13% in 2004.

If one compares the beneficial owners according to nationality in the years 2004 and 2005, there is not a significant shift. The only surprising difference is the decrease in the number of beneficial owners of Italian origin, which may be explained by the economic scandals in Italy in 2004 that hit the headlines and contributed to an increase in the figures for this country in the previous reporting year.

With regard to the decrease both in absolute and relative terms in the number of Swiss nationals named as beneficial owners, may we refer to the remarks in *chapter 2.3.10 Domicile of beneficial owners* on the attractiveness of the Swiss financial centre to foreign clients, since country of domicile and nationality are usually identical.

Legend

Remaining Western Europe	Austria, Andorra, Belgium, Spain, Liechtenstein, Greece, Luxemburg, Malta, Monaco, Netherlands, Portugal, San Marino, Vatican, Gibraltar
Various	Africa, Eastern Europe, Middle East, C.I.S., Asia, Australia/Oceania, Scandinavia and unknown



For comparison: 2004 - 2005

Nationality economic beneficiary	2004	2005
Switzerland	244	188
Italy	103	71
Africa	77	60
Germany	56	59
Remaining Western Europe	52	55
Middle East	57	50
Eastern Europe	42	48
North America	34	42
France	23	42
Central- / South America	31	31
Asia	27	27
Great Britain	17	23
C.I.S.	30	17
Scandinavia	8	6
unknown	2	4
Australia/Oceania	15	3
Caribbean	3	3
Total	821	729

2.3.12 Law enforcement agencies

What the graph represents

This graph shows to which law enforcement agency MROS passed on its reports. The general regulations on the court of jurisdiction and Article 340bis of the Swiss Criminal Code (SCC) determine which federal agency is responsible.

Graph analysis

- Fewer cases for the federal law enforcement agencies and Canton Zurich
- More cases for the cantons of Geneva and Zug

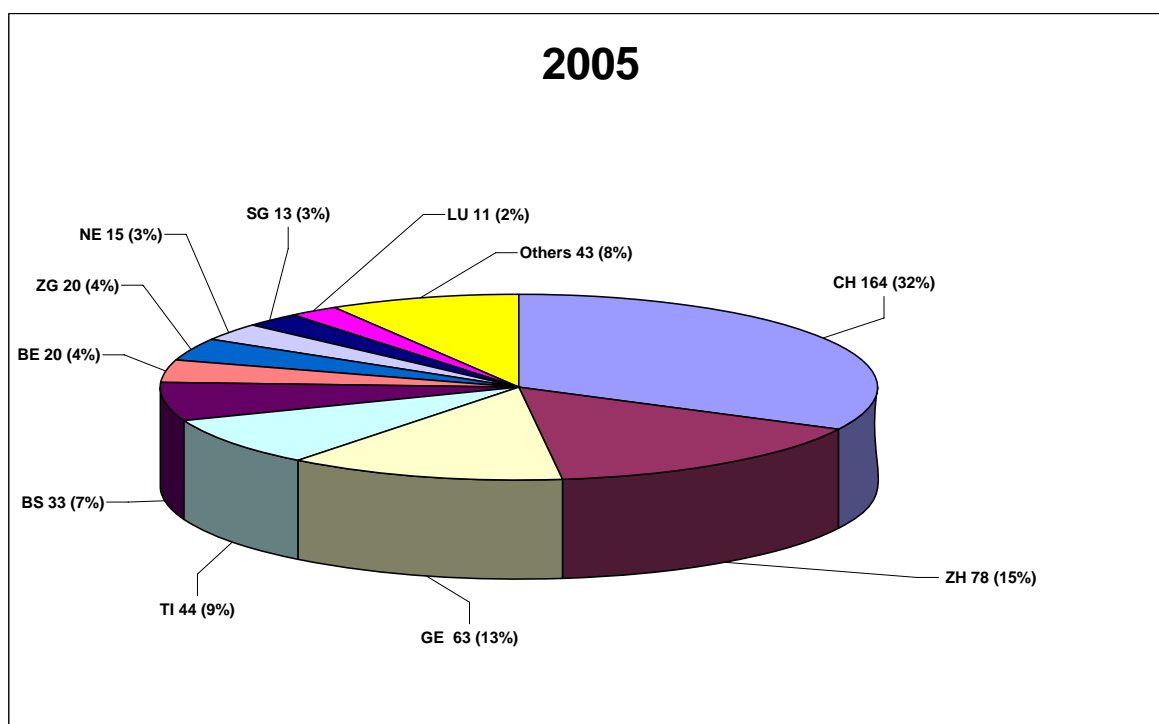
Under Article 340^{bis} SCC, the Office of the Attorney General of Switzerland is responsible for prosecuting cases involving terrorist financing, money laundering, corruption and organised crime with an international connection, or cases where the offence was committed in several cantons. Whereas in 2004 249 or 40% of the cases sent to the cantonal law enforcement agencies were subsequently passed on to the Attorney General's Office, this figure fell to 164 or 32% in 2005. This decrease can be explained not only by the overall decrease in number of incoming reports, but also by the decline in reports with a predicate offence in the fields of organised crime and corruption. There was also a decrease in the number of reports forwarded to the law enforcement agencies in Canton Zurich. Whereas this canton forwarded 122 or 20% of the reports it received from MROS in 2004 to the Attorney General's Office, this figure decreased to 78 or 15% in 2005. In comparison, MROS forwarded 63 reports to Canton Geneva (+34%) and 20 to Canton Zug (+250%), which reflects the importance of these two cantons as financial centres.

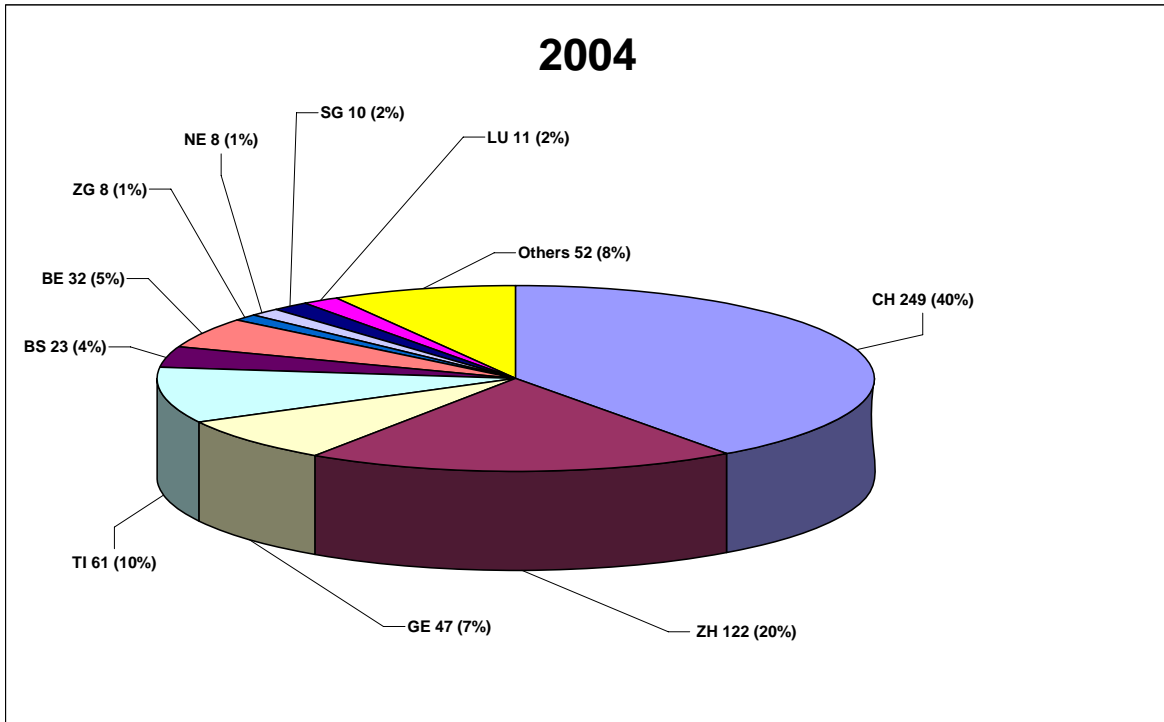
The law enforcement agencies in the cantons of Appenzell Inner Rhoden and Ausser Rhoden, Nidwalden, Obwalden and Uri handled no reports in 2005. This reflects the negligible number of reports received from these cantons (see chapters 2.3.2 and 2.3.3).

Of the 729 incoming reports in 2005, 504 or 69% were forwarded by MROS to the respective law enforcement agencies, compared to 76% in 2004. We would like to point out that in the last few years MROS has sent fewer reports to the law enforcement agencies. The reason for this is not the inferior quality of the reports, but rather that our office has more experience regarding the requirements by the cantons for filing reports and the information they require in order to follow-up a case (see our remarks in chapter 2.1).

Legend

AG	Aargau	GL	Glarus	SO	Solothurn
AI	Appenzell Inner Rhoden	GR	Graubünden	SZ	Schwyz
AR	Appenzell Ausser Rhoden	JU	Jura	TG	Thurgau
BE	Bern	LU	Lucerne	TI	Ticino
BL	Basel-Land	NE	Neuchatel	UR	Uri
BS	Basel-Stadt	NW	Nidwalden	VD	Vaud
CH	Switzerland	OW	Obwalden	VS	Valais
FR	Fribourg	SG	St. Gallen	ZG	Zug
GE	Geneva	SH	Schaffhausen	ZH	Zurich





For comparison 2004/2005

Canton	2004	2005
CH	249	164
ZH	122	78
GE	47	63
TI	61	44
BS	23	33
BE	32	20
ZG	8	20
NE	8	15
SG	10	13
LU	11	11
VD	15	11
AG	12	5
BL	2	5
FR	2	4
SO	7	4
GR	2	4
SZ	6	3
TG		3
GL		1
JU	1	1
SH		1
VS	3	1
NW	1	
OW	1	
Total	623	504

2.3.13 Status of reports forwarded to the law enforcement agencies

What the graph represents

This graph shows the current status of the reports that were forwarded to the federal and cantonal law enforcement agencies. It is to be noted that statistics regarding the Attorney General's Office have only been kept since January 2002 when the federal government was given jurisdiction over organised and economic crime under Article 340^{bis} of the Swiss Criminal Code (the so-called Efficiency Bill).

Graph analysis

- 46% of all the reports forwarded to the federal and cantonal law enforcement agencies are still under investigation

Under Article 23 paragraph 4 MLA, MROS is responsible for deciding which reports should be forwarded to the federal and cantonal law enforcement agencies.

For the second consecutive year, this report publishes detailed statistics on the decisions made by the law enforcement agencies and on how many cases are still pending.

Between 1 April, 1998 and 31 December, 2005, MROS forwarded a total of 3219 reports to the law enforcement agencies. At the end of 2005, the following verdicts had been delivered in 1748 or 54% of cases:

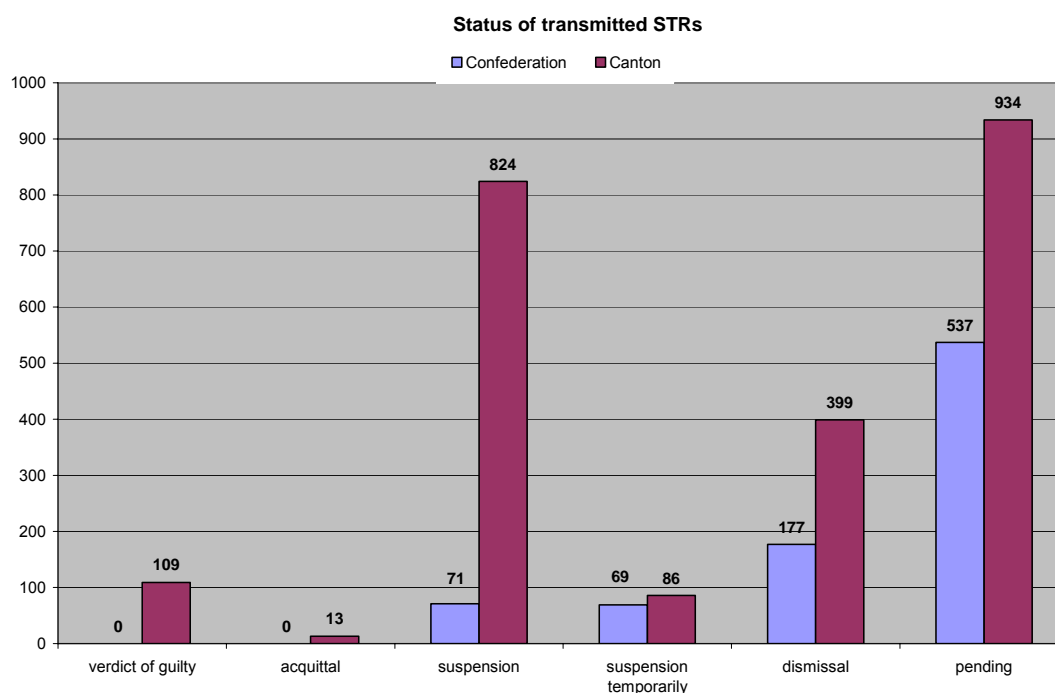
- In 122 cases there was a conviction (49 at the end of 2004).
- In 895 cases proceedings were initiated but the case was later dropped as a result of the findings of the criminal investigations (692 at the end of 2004).
- In 576 cases (453 at the end of 2004) no criminal proceedings were instigated following the preliminary investigations. This concerned mainly cases in connection with reports from the money transmitter sector.
- In 155 cases (117 at the end of 2004) legal proceedings in Switzerland were suspended or dropped because proceedings in the same matter were underway in another country.

Although the number of pending cases has been reduced in comparison to 2004, approximately 46% (52% at the end of 2004) of the cases forwarded to the law enforcement agencies – 1471 in total – are still under investigation. There are various reasons for this:

- Cases concerning money laundering and terrorist financing often have an international aspect, which makes investigations lengthy and more difficult.
- Requests for international mutual assistance in connection with such cases are often complex and time-consuming.

- The statistics on pending cases probably also include cases that led to a conviction but not under Article 260^{ter} paragraph 1 (criminal organisation), Article 305^{bis} (money laundering) or 305^{ter} (lack of due diligence) of the Swiss Criminal Code and were not, therefore, reported to MROS under Article 29 paragraph 2 MLA.

It is also to be assumed that, in violation of Article 29 paragraph 2 MLA, MROS was not informed of some cases by the law enforcement agencies¹⁴.



¹⁴ See chapter 5.2. of the MROS Annual Report 2004

2.3.14 Number of inquiries by other Financial Intelligence Units (FIU)

Financial Intelligence Units (FIUs) are foreign agencies equivalent to MROS with which a formal exchange of information exists under Article 32 of the Money Laundering Act and Article 13 of the Ordinance on Money Laundering. This exchange of information mainly takes place between the member states of the Egmont Group¹⁵.

What the graph represents

This graph shows which FIUs in other countries asked MROS for information, and how many individuals and corporations were involved in these requests.

Graph analysis

- More inquiries involving fewer individuals

With a total of 461 inquiries from 53 countries, MROS replied to more foreign FIUs than in the previous reporting year (2004: 441). These 461 inquiries involved 1561 individuals or companies, which was less than the figures for 2004.

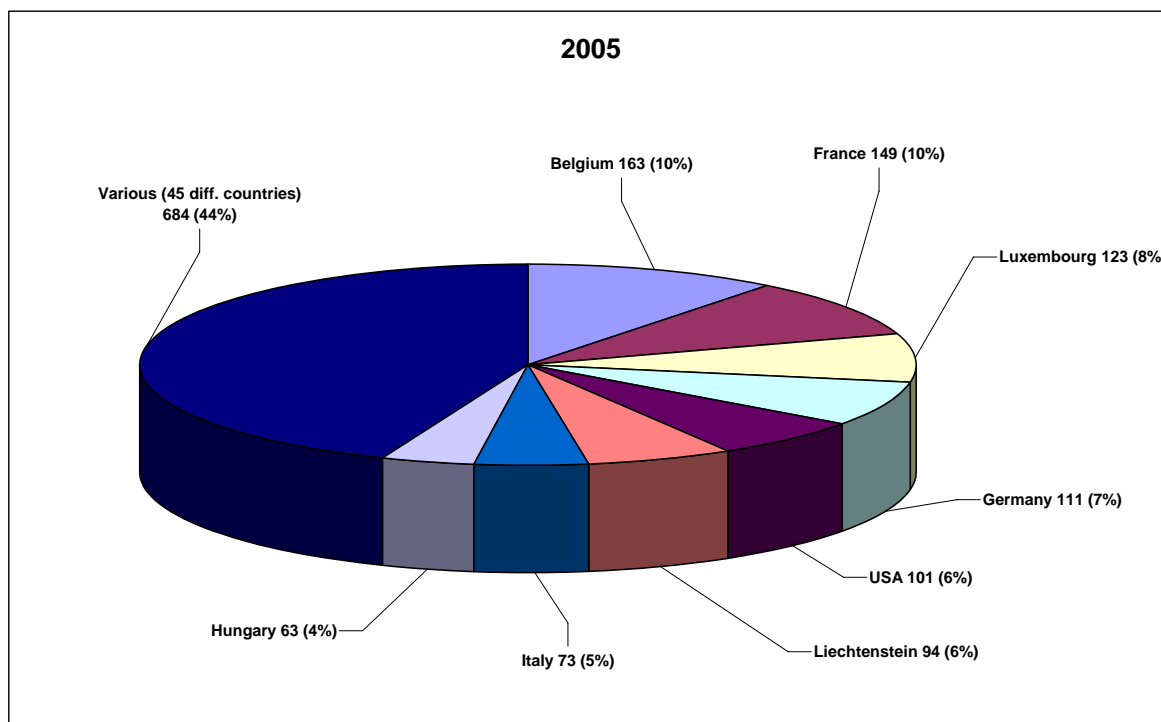
The average waiting time for a reply was 2.7 working days after receipt of the inquiry.

On average MROS ran checks on 130 individuals or companies each month at the request of other FIUs (142 in 2004).

When MROS receives an inquiry from abroad, a check is run on the individuals and companies, and details are stored in its own GEWA databank. Should the individuals or corporations later appear in the reports by Swiss financial intermediaries, then GEWA indicates possible criminal activity abroad.

¹⁵ www.egmontgroup.org

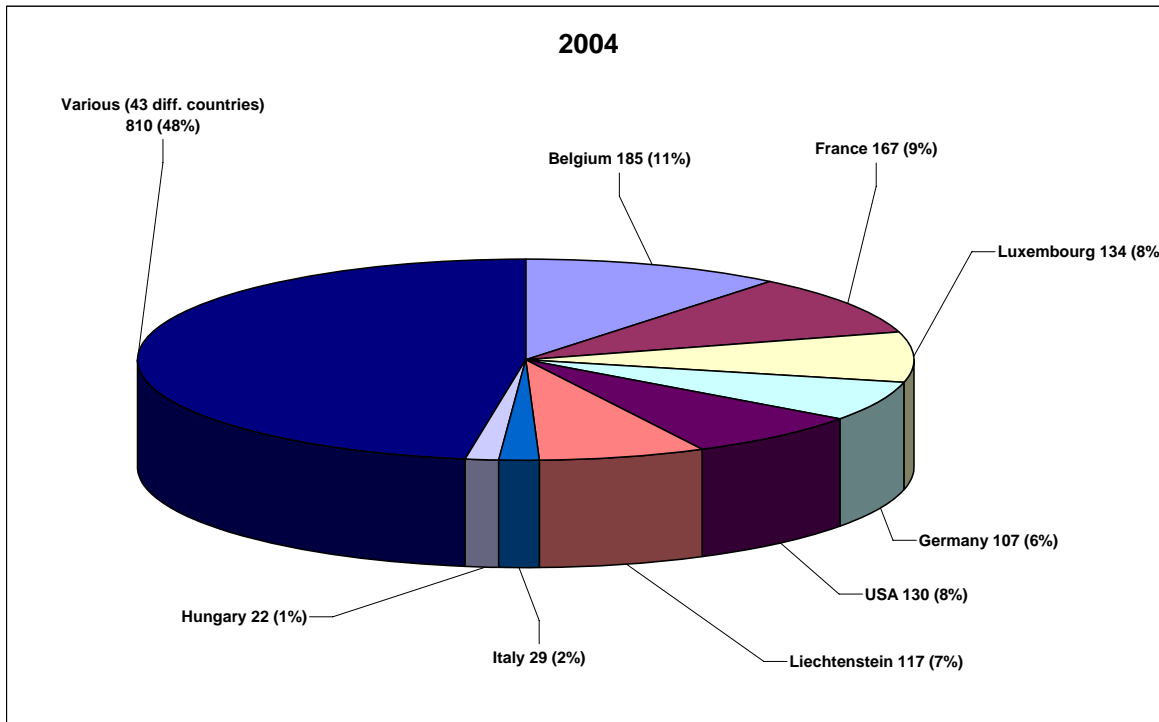
2005: 1561 persons / corporations



Legend

Various 2005							
Bulgaria	53	Portugal	21	Slovenia	9	Georgia	3
Brazil	44	Jersey	21	Monaco	8	Costa Rica	3
Argentina	44	Netherlands	20	Ukraine	8	Gibraltar	2
Guernsey	38	Spain	18	Bahamas	8	Serbia	2
Israel	36	Hong Kong	15	Estonia	8	Cayman Islands	2
Croatia	34	Slovakia	15	Lebanon	5	United Arab Emirates	1
Peru	34	Philippines	14	Mexico	5	Mauritius	1
Russia	33	Ireland	12	Indonesia	5	Sweden	1
Norway	31	Turkey	11	Lithuania	4	Dominica	1
Great Britain	30	Bermuda	10	Poland	4		
Austria	22	Finland	10	Czech Republic	3		
Isle of Man	22	Rumania	10	Latvia	3		

2004: 1701 persons / corporations



Legend

Various 2004							
Brazil	95	Chile	27	Columbia	10	Norway	2
Austria	95	Jersey	26	Czech Republic	9	Lebanon	2
Russia	76	Great Britain	15	Finland	8	Latvia	2
Croatia	61	Ireland	15	Paraguay	8	Serbia	2
Israel	45	Monaco	14	Slovakia	6	Santo Domingo	2
Portugal	44	Spain	13	Ukraine	5	Georgia	1
Guernsey	32	Hong Kong	12	Gibraltar	4	Mauritius	1
Bulgaria	31	Malta	12	Republic of Macedonia	4	Venezuela	1
Isle of Man	31	Andorra	11	Turkey	3	Singapore	1
Netherlands	29	Slovenia	10	Lithuania	3	Taiwan	1
Bermuda	28	United Arab Emirates	10	Moldova	3		

2.3.15 Number of inquiries made to other Financial Intelligence Units (FIUs) by MROS

Financial Intelligence Units (FIUs) are foreign agencies equivalent to MROS with which a formal exchange of information exists under Article 32 MLA and Article 13 MLO. This exchange of information mainly takes place between the member states of the Egmont Group.

What the graph represents

This graph shows the countries approached by MROS for information about individuals and corporations and the numbers involved.

Graph analysis

- Slight decrease in the number of inquiries made by MROS to other FIUs

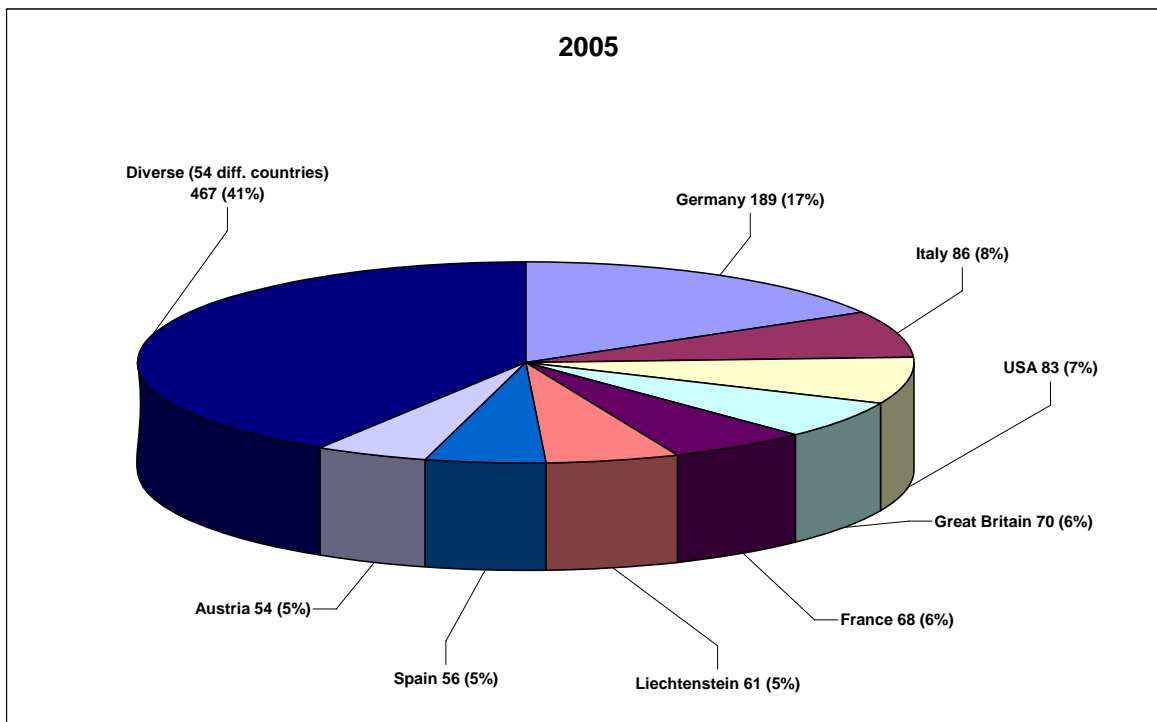
When MROS receives a suspicious activity report from a Swiss financial intermediary in which individuals or companies from abroad are involved, it may request information from the respective countries. The information received from abroad helps MROS to decide whether the case should be forwarded to the law enforcement agencies.

In 2005, MROS approached 316 (326 in 2004) FIUs in 62 countries. These inquiries involved 1134 (1148 in 2004) individuals or companies. The foreign FIUs required an average of more than 19 working days to reply to MROS' request.

On average, MROS asked FIUs abroad for information on 95 individuals or companies each month (96 in 2004).

The fall in the number of inquiries by MROS abroad and the number of persons involved in the inquiries corresponds to the decline in the total number of reports filed with MROS in 2005. In comparison, our inquiries with the authorities in Liechtenstein have increased twofold, which reflects the close cooperation between Switzerland and this important financial centre.

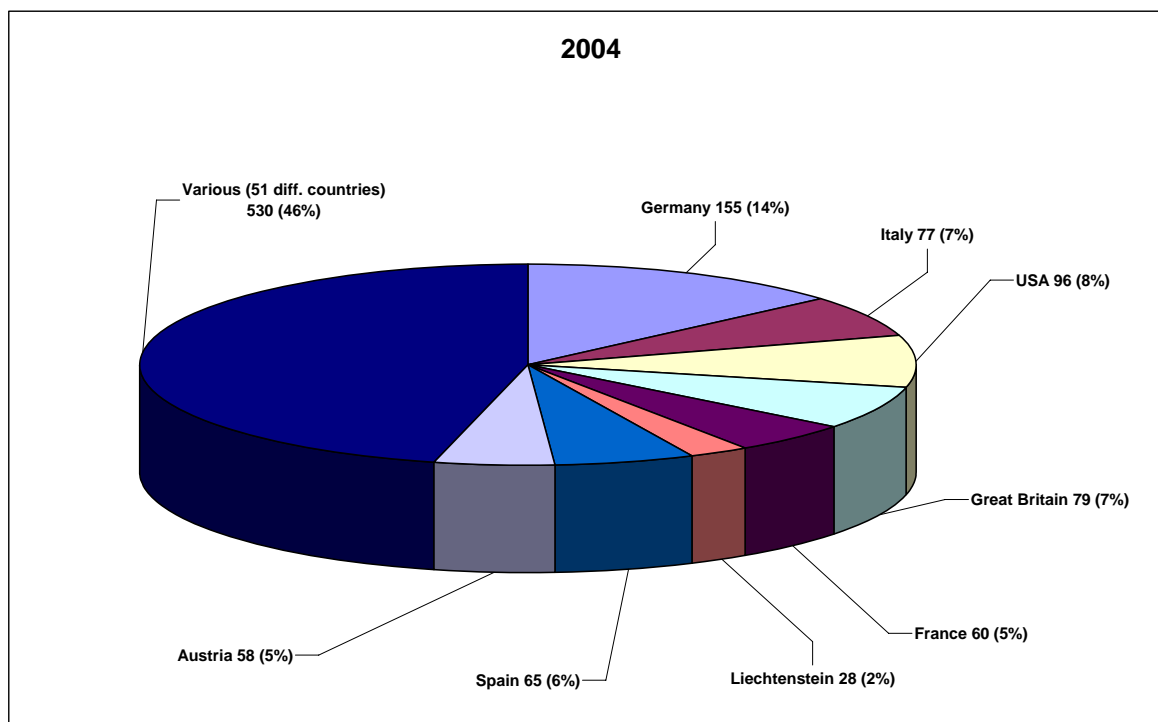
2005: 1134 persons / corporations



Legend

Various 2005							
Belgium	32	Sweden	11	Greece	6	Antilles (NL)	4
Romania	32	South Africa	11	Monaco	5	Burundi	4
Netherlands	25	San Marino	11	Ukraine	5	Bahamas	3
Luxemburg	24	Argentina	10	Rep. of Macedonia	5	Dom. Republic	3
Portugal	19	Brazil	10	Bermuda	5	Lebanon	3
Bolivia	18	Panama	10	Croatia	4	Antigua and Barbuda	3
British Virgin Islands	16	Denmark	8	Hungary	4	Thailand	2
Russia	15	Bulgaria	7	Singapore	4	Bahrain	2
Cyprus	15	Jersey (GB)	7	Poland	4	Egypt	2
United Arab Emirates	14	Serbia	6	Philippines	4	Guernsey (GB)	1
Malaysia	14	Columbia	6	Malta	4	Czech Rep.	1
Indonesia	13	Hong Kong	6	Japan	4	Qatar	1
Isle of Man	12	Israel	6	Mauritius	4		
Slovakia	12	Latvia	6	Montenegro	4		

2004: 1148 persons / corporations



Legend

Various 2004							
Netherlands	64	Denmark	15	Romania	6	Guernsey (GB)	2
Belgium	30	Turkey	13	Singapore	6	Jersey (GB)	2
Croatia	27	Cayman Islands	12	Venezuela	6	Israel	2
Russia	25	Columbia	11	Ireland	5	Latvia	2
Luxembourg	24	Hungary	11	N. Zealand	5	Portugal	2
Argentina	24	Panama	10	Poland	5	Philippines	2
Brazil	22	Sweden	10	Slovenia	5	Thailand	2
Bahamas	21	British Virgin Islands	9	Ukraine	5	United Arab Emirates	2
Isle of Man	18	Hong Kong	8	Albania	4	Gibraltar	2
Monaco	18	Lebanon	8	Mexico	4	Estonia	1
Serbia	17	Finland	8	Uruguay	3	Malta	1
Dominican Rep.	16	Norway	7	Slovakia	3	Paraguay	1
St. Kitts + Nevis	16	Cyprus	6	Bulgaria	2		

3. Typologies

3.1. *New ways of accessing money abroad*

During the period covered by this report, MROS received several suspicious activity reports from a financial intermediary who provides money-transmitting services and sells and tops up Travelcash cards. Travelcash cards are so-called prepaid debit cards which, once they are loaded up to a certain maximum amount, can be used at ATMs (Automated Teller Machines) around the world to withdraw cash in local currency up to the credit limit and against a commission.

According to the suspicious activity reports, the representatives of a company domiciled in Switzerland, or individuals who could be considered part of its sphere of influence, consistently loaded different Travelcash cards at the offices of the financial intermediary, following which these cards were regularly used to withdraw cash at ATMs elsewhere in Europe or Asia. Because the financial background to these transactions could not be satisfactorily explained (the high costs compared with bank transfers, the reasons for these transactions and because of the frequency of the withdrawals), MROS forwarded the suspicious activity reports to the responsible cantonal law enforcement agencies who opened criminal proceedings against certain representatives of this company on suspicion of fraud and money laundering. It later emerged that company shares in the order of more than CHF 1 million had been offered over-the-counter to private investors, and there was a suspicion that the money invested had been used mostly for illegal purposes.

3.2. *No predicate offence for selling medicine on the Internet*

A financial intermediary opened current accounts in various currencies for two individuals from Northern Europe residing abroad. When the accounts were opened the clients stated that they wanted to sell medicine via the Internet from Switzerland where they would be close to their suppliers. The purchasers of the medicine were living in numerous European countries, and the money they paid was credited to the accounts in Switzerland.

Regular checks by the financial intermediary revealed an annual movement of credits and debits of more than CHF 1 million. The attention of the compliance service was drawn to a series of unusual payments to one of the account holders into his account in a country in Asia. Investigations confirmed the existence of the medical business and a sideline activity by one of the account holders as a web designer. Doubts as to the legality of the business were raised, and the financial intermediary reported the case to MROS.

Although a close watch was kept on the practices of the clients and FIUs in the countries concerned were approached for information, nothing arose to support these doubts. Nevertheless, MROS decided to pass the case to criminal prosecutors. The thinking behind this decision was that at least a preliminary inquiry into the activities of the account holders should be carried out. MROS could not do this because of a lack of investigative authority.

Finally, prosecutors refused to pursue the matter because there were no indications of a predicate offence. Also, the decision pointed out that possible illegal dealings concerning the unauthorised sale of medicine could not be qualified as a crime but as a misdemeanour.

3.3. *Ingenious criminals*

A bank active in stock market trading informed us of an account opened in the name of company X.

Within one month, company X's account had been credited with around USD 100 000 from various individuals. At the end of the month, the financial intermediary received a request from an American bank for the return of the money, saying that the client who had given the order had been the victim of fraud. The same request was made not long after by a bank in Poland, one of whose clients also claimed to be a fraud victim (forged payment order).

Apparently the victims had shares in American companies that were bankrupt or being liquidated. A third party, company Y, with fictitious headquarters in the United States and a branch in Germany, procured the list of shareholders in these companies and approached them offering to sell their shares which had become difficult to market. But to go ahead with the sale, company Y asked for an advance to pay the supposed charges for "unfreezing" these shares. The payments should be made to the account of company X. As soon as the payments went through, the individuals concerned were no longer able to contact company Y.

Company Y, too, seemed to have been only recently created. The Internet site dates from October 2005, and its design was specially conceived to inspire confidence among the victims. We have not been able to ascertain the ties between company Y and company X, which received the payments. Thanks to the fast action by the clients' banks, company X was not able to take possession of the payments.

It seems that in the United States the list of shareholders of bankrupt companies are public, so, as in the present case, company Y could easily get a copy of the list and contact the shareholders to offer their so-called "services".

Our counterparts in Germany and the United States informed us that company Y was not registered.

The report was sent to the law enforcement agencies.

3.4. *Snowball effect*

During a routine check of transactions, a Swiss financial intermediary took a closer look at the private account of a client which had shown deposits of several million francs within the space of a few months. Further investigations revealed that the client was advertising his high-yield investment programme, or HYIP, on his website. The programme showed how investors in real time could increase the value of their holdings. One enthusiastic but sceptical investor spoke of returns of 6-7% a day. In fact, the investors did receive considerable returns on the money they had paid, but part of this money was also used by the account holder to buy luxury cars. As most of the money remained in the private account of the client, it was impossible that he could achieve the promised returns legally.

As the facts showed, the client had built up an investment programme based on the snowball effect and paid his longer-standing circle of investors with money from new investors. The first investors were so impressed by the growth in value of their holdings that they quickly spread the word about the website which constantly attracted new investors. The case was referred to the law enforcement agencies.

3.5. *Objets d'art – a breach of trust*

MROS received a suspicious transaction report from a fiduciary.

After reading several newspaper articles, the financial intermediary learned that the beneficial owner (X) of two accounts had been arrested for actions not in the public interest and breach of trust.

As minister of culture of his country, X used government funds to buy works of art for his country's national museum. The sums in the business accounts of X had come essentially from the national bank of the country of residence of the beneficial owner. Around CHF 10 million had been paid into his accounts and gradually used to pay art dealers in London, Paris, Germany and the United States.

An auction company was also implicated in the case for allegedly over-billing on certain pieces of art and then returning a part of the sales price to X. X is also said to have acquired certain pieces that had been auctioned as "seller unknown" and repur-

chased them for his country at exorbitant prices. The amount mentioned in the media was USD 2 billion.

A request for information was sent to our counterparts in the countries involved to verify the possibility of prosecuting X. On the basis of the facts and information received, MROS decided to refer the report to the law enforcement agencies.

3.6. Corruption

MROS received a report from an asset manager concerning an account opened in the name of two French citizens, a husband and wife, living in a country in North Africa.

At the time the account was opened, the wife was introduced to the asset manager by a banker to settle the matter of the international inheritance of her father. A numbered bank account was opened at a major bank to which the wife gave a mandate to manage EUR 140 000. This numbered account was later closed, and a joint account in the names of the husband and wife was opened.

After reading a newspaper article, the financial intermediary learned that his client had been questioned by the police and placed under custody. The client, a municipal councillor responsible for transport in a large city, was alleged to be connected with a corruption affair and in possession of stolen property. He was said to have received "an envelope" containing around CHF 135 000 to grant certain companies the right to take part in a public transport construction project in this European city. This amount was said to have been paid into the account cited in the report.

After inquiries with our counterparts abroad, and after checking the movements in the account, MROS decided to pass the report to the law enforcement agencies.

However, the prosecutor handling the case declared it to be closed without giving his reasons. It is likely that the source of the money in the account could be traced back only to the wife, hence the decision to drop any charges.

3.7. Was the client closely linked to a politically active person (PEP)?

A woman domiciled in an eastern country went to a fiduciary in Switzerland to set up an offshore company to receive funds belonging to her from her home country. When the account was opened, the client said that the assets came from a wine-making company which she owned, and that the offshore arrangement was intended to let her build up assets which would be shared by the beneficiaries in her will.

The bank looked more closely into the matter and discovered that the woman was the wife of a criminal at large who, having been a member of a toppled regime, was being sought by the police for various crimes including membership in a criminal association and war crimes. As the bank could not exclude the possibility that the money came from the husband's criminal activities, it decided to send a suspicious activity report to MROS.

An MROS database search confirmed the bank's suspicions, and information requested from the FIU in the country of origin of the husband and wife also confirmed the charges against the husband¹⁶. In view of the gravity of the predicate offence of the husband, the report was referred to the prosecuting authorities.

On the basis of a preliminary inquiry, the authorities decided not to proceed with charges, saying that the husband at no time figured in the wife's activities and had no control over how the assets were to be disposed. This decision was based on an in-depth investigation of the movements in the account and on evidence obtained by the prosecuting authorities after receiving the report from MROS.

3.8. *Special inquiries*

A foreign-controlled bank reported to us about accounts it held for an East European citizen. The client was vice-chairman of a local political party and a member of parliament. Some years before, the account holder had been acquitted by the authorities in his country for lack of evidence in connection with an affair concerning party donations and tax evasion. In spite of the acquittal, doubts remained about his integrity.

At the time the account was opened, the client explained that the assets being deposited had been paid as compensation for his lobbying work in the privatisation process of the mobile communications sector. But he could not produce any written records or contracts as the bank had requested.

Subsequent investigation by MROS in Switzerland and abroad revealed that the client was the subject of a legal assistance request by the authorities in his own country. He was suspected of illegally transferring state property in return for financial kickbacks, of concealing the origin of illegally acquired assets through deposits in foreign banks, of accepting bribe money, of bribery and possessing stolen goods. Moreover, it emerged that the client belonged to an apparent criminal organisation. On the basis of this information, MROS passed the suspicious activity report on to the law enforcement agencies.

¹⁶ Press archive; www.factiva.com

3.9. *The importance of special inquiries and of the exchange of information between FIUs*

An account opened in the name of an individual several years ago had shown modest capital movements until the time when, within two days, amounts totalling several millions flowed into the account. This prompted the bank to contact the client to get precise information on the source of the funds. Probably surprised by this action, the client could not readily provide the required information. Some days later however, the client sent the bank a payment order to transfer practically the whole balance of the account to another establishment in the region. The only reason given for the movement of funds was a reference to "fiscal difficulties". Based on these facts, the bank sent a report to MROS.

In its investigation of the client's identity, the bank established it was a foreign company that had ordered important sums to be transferred. It appeared that this company had ceased operations a short time before. A request was sent to the FIU in the country of the company's headquarters. The information received enabled a report to be sent to this foreign authority which implicated the administrator of the client company of the Swiss bank. The administrator was already involved in criminal proceedings on charges of fraud and money laundering following the fraudulent acquisition of state subsidies for non-existent companies. The client of the Swiss bank was part of a complex network of companies that were dormant or being liquidated, and whose only purpose was to receive subsidies.

The case was forwarded to the law enforcement agencies.

3.10. *Payable-through account*

A Swiss financial intermediary sent a suspicious transaction report to MROS after noticing that its client had probably put his bank account at the disposal of a third person in view of a payable-through operation.

Briefly, it seems that the client, whose financial profile was relatively modest, received an important sum of money belonging to a third person from a foreign bank. On the same day, this money was transferred to another banking institution in a third country.

Investigations by the financial intermediary reinforced suspicions about the source of the funds and the reason for this transfer operation. It was also noted that the client had received several thousand francs from the third person, which was likely his compensation for the use of his bank account.

Following its investigations, MROS sent the case to the justice authorities who began hearings and an inquiry, but who were not able to determine if the money came from a criminal source. It thus decided to close the case while waiting for possible new facts.

3.11. Insurance

Because the correspondence of an insurance company was not being received by a client, the company decided to look into the matter. It discovered that the client was wanted by the police in connection with a drug rehabilitation centre X, which he was running in Western Europe and which was part of an international organisation.

Accusations were made in the media that the centre was involved in obscure financial dealings. Allegedly the organisation was being used as a cover for crimes against property and tax fraud. On the basis of the media reports, the insurance company could not exclude that the one-time payment of CHF 200 000 had criminal origins. Subsequent investigations by MROS showed that for more than 25 years the client had managed a controversial drug self-help organisation, which had been run along the lines of a sect. The manager was the subject of several legal assistance requests in Europe for suspected embezzlement and illegal business activities. The embezzled funds were said to have found their way into Switzerland through the international headquarters of the organisation in this country. The client was accused of having embezzled more than EUR 8 million from the accounts of various firms. In Switzerland, at the request of a neighbouring state, a warrant for his arrest was issued on charges of money laundering and receiving stolen property.

MROS passed the suspicious activity report to a cantonal law enforcement agency, which, having contacted foreign prosecuting authorities, decided not to open additional proceedings against the client but to let the case be handled by the foreign justice authorities.

3.12. Casino

A foreign gambler aroused the interest of the anti-money laundering unit at a Swiss casino because of the frequency of his visits and the amounts played which were apparently not in keeping with his financial profile. The gambler, who had no real employment, had been betting large sums of money mostly in euros that he had changed into Swiss francs. The casino services also noted that the client went to the front men to convert the currency into chips and vice-versa.

Investigations by MROS strengthened the suspicions against the casino client, and it decided to pass the file to the competent judicial authority.

3.13. *Legal decision on an issue frequently occurring in Switzerland: predicate offence abroad, case dismissed but legal assistance for another country*

Following a suspicious activity report by a bank, MROS passed the case to a law enforcement agency, which ordered the client's assets to be blocked. Under Article 67 of the Federal Act on International Mutual Assistance in Criminal Matters, the law enforcement agency sent a request for information to a neighbouring state. In its reply, the justice authorities in that country confirmed the existence of several prior economic offences: fraud and forgery with regard to having hidden the existence of property (reported by the bank) in the context of taking inventory in an inheritance procedure. The foreign authority obtained the sequestration of the assets in Switzerland.

In its ruling regarding dismissal, the Swiss prosecuting authority said that the case involving the predicate offences was being heard abroad, and the only link with Switzerland was the sequestered assets. Under these conditions, the Swiss prosecuting authority allowed the continued sequestration until the foreign justice authorities had reached a final decision, and dismissed the case in Switzerland.

The handling of this case shows clearly the active participation of the Swiss justice authorities even though a case may have been formally dismissed in Switzerland. It is also apparent that these kinds of cases are statistically on the increase in Switzerland (see chapter 2.3.13 of this report).

4. From the MROS office

4.1. *Nigerian scams / advance fee fraud*

Time and time again financial intermediaries, especially those working as money transmitters, come up against the questionable dealings known colloquially as “Nigerian scams”. This is a phenomenon involving advance fee fraud¹⁷ which first appeared at the beginning of the 1980s. By e-mail, fax or personal letters, the public is offered the chance to make extraordinary profits. The senders, using fictitious names or false identities, often let it be understood that this money-making opportunity is highly confidential. Once the scam artist has won the confidence of his victim he asks for an advance fee or other financial service. Often the victim is asked for bank account details and other particulars regarding his person, or is required to sign and send documents. Through this illegal activity, the perpetrators try to enrich themselves possibly through financial transactions carried out with the help of the personal information provided by the victims. Because the first cases involved senders from Nigeria advance fee fraud in the past was often referred to as “Nigerian letters” or “Nigerian scams”. Today, however, the senders and the stories for the most part have nothing more to do with Nigeria. According to Article 146 of the Swiss Criminal Code (SCC), fraud occurs only when certain facts are present. Mainly it must be shown that the perpetrator acted with wilful deceit. This prerequisite however does not always apply, for example if it has been shown that the victim could have protected himself by paying more attention or could have avoided the mistake with a minimum of reasonable caution (Decision by the Federal Court 126 IV 165). It is also necessary to clarify in every case whether the incriminating behaviour is in fact punishable. In practice law enforcement agencies rarely take action in cases involving advance fee fraud, particularly because this scam has become too well known, and adequate warnings have been made (also by fedpol).

The mere sending of a fraudulent offer which promises high returns is essentially still not a punishable act. The Federal Office of Police and its partners, therefore, advise putting the matter to a stop there and then, and in no way to accept the offer or to reply.

Questions by the financial intermediary in connection with advance fee fraud:

Question 1: Should the financial intermediary warn the potential fraud victim?

Answer 1: The financial intermediary is under no obligation to issue a warning. However we recommend that the financial intermediary draws the attention of the potential victim to the situation and refuses the transaction.

¹⁷ The warning by the Federal Office of Police is available at www.fedpol.ch/d/aktuell/warnung/vorschussbet.htm

Question 2: Is the financial intermediary obliged to report to MROS?

Answer 2: This question has to be answered in two parts: If the transaction was carried report according to Article 9 MLA. If the financial intermediary refuses to have been transferred has criminal origins, MROS recommends that he also reporting obligation if the fraud victim's money has a legal origin.

Basically, however, we would like to warn against making a hasty conclusion that all suspicious payments to Nigeria and other African countries are the proceeds from advance fee fraud. In the drug trade so-called smurfing and structuring are common typologies in cash transactions. Therefore, we emphasise that the financial intermediary is obliged by Article 6 MLA to look into incidences of unusual transactions.

4.2. Revision of the Money Laundering Act

In the 2004 annual report we discussed the inter-departmental working group IDA-FATF¹⁸ established on the orders of the Federal Council. This working group, which is headed by the Federal Finance Administration at the Federal Department of Finance (FDF), had the task of drawing up legal adaptations for the implementation of the revised recommendations of the Financial Action Task Force against Money Laundering (GAFI/FATF).

On 12 January, 2005, the Federal Council opened the consultation procedure¹⁹ for several legislative changes, among them the revision of the money laundering act. This consultation procedure lasted until mid-April 2005.

On 30 September, 2005, the FDF published the results of the consultation procedure²⁰. The main features of the draft were welcomed, and the participants in the consultation procedure expressed their commitment to Switzerland as a financial centre, which is clean and one with integrity, and their commitment to the fight against money laundering. At the same time there was criticism - especially from economic circles and conservative political parties - that some of the proposed measures regarding the maintenance and strengthening of this mechanism went too far. The criticism concerned especially what was considered to be the overly rapid implementation of the FATF recommendations, the general over-regulation and the lack of comparisons with corresponding regulations in other countries. The criticism also targeted the proposed extension of the most important due diligence obligations to certain branches of trade.

The draft is being reworked on the basis of the results of the consultation procedure. Some of the proposed measures will be examined again in depth. The Federal Council

¹⁸ The MROS is a member of the IDA-GAFI

¹⁹ <http://www.efd.admin.ch/d/dok/medien/medienmitteilungen/2005/01/gafi.htm>

²⁰ <http://www.efd.admin.ch/d/dok/gesetzgebung/vernehmlassungen/2005/09/gafi.htm>

considers it crucial that Switzerland, as an important financial centre, continues to have an effective mechanism to fight money laundering and is in harmony with relevant international norms. At the same time the proportionality of the measures concerning the implementation of the revised FATF recommendations and their economic compatibility are to be improved in keeping with the suggestions made during the consultation procedure.

The Federal Council will decide on further action concerning the draft in 2006 based on additional fundamental decisions. This includes the report on the consultation procedure and the result of the third FATF peer-group study of Switzerland, which ended in October 2005. In addition a Federal Council report to parliament is awaited. This report, which was written in response to two parliamentary motions²¹ and which will be presented before the message is written, requests clarification on aspects of comparative law and on cost-benefit questions.

4.3. *New European Convention No. 198 on Laundering, Search, Seizure and Confiscation of the Proceeds from Crime and on the Financing of Terrorism*

The Council of Europe Convention No. 141 on Laundering, Search, Seizure and Confiscation of the Proceeds from Crime²² of 1990 was ratified by Switzerland in 1993. Convention No. 141 is one of the most important international agreements in the fight against money laundering. All 46 states of the Council of Europe are members. In 2004/2005, the Convention was reviewed by a Council of Europe expert group with a mandate to update and expand the terms of the money laundering convention. Out of this work emerged a new convention, Convention No. 198 on Laundering, Search, Seizure and Confiscation of the Proceeds from Crime and on the Financing of Terrorism²³, which besides provisions concerning terrorism also includes the obligation to operate an FIU. With the drafting of Convention No. 198 it is the first time that a binding instrument of international law includes detailed guidelines on FIUs. Switzerland has not yet signed Convention No. 198, because signing must take place in coordination with the Federal Department of Finance's draft on the implementation of the revised 40 FATF recommendations. The Federal Council will likely make a decision in summer 2006 on further procedures concerning this draft.

²¹ 05.3456 – Postulate Philipp Stähelin: Costs, benefits and success of the FATF recommendations.

Evaluation / http://www.parlament.ch/afs/data/d/gesch/2005/d_gesch_20053456.htm und

05.3175 – Postulate Philipp Stähelin: Implementation of FATF recommendations in other countries.

Evaluation / http://www.parlament.ch/afs/data/d/gesch/2005/d_gesch_20053175.htm

²²<http://www.conventions.coe.int/Treaty/Commun/QueVoulezVous.asp?NT=141&CM=8&DF=24/01/2006&CL=GER>

²³<http://www.conventions.coe.int/Treaty/Commun/QueVoulezVous.asp?NT=198&CM=8&DF=24/01/2006&CL=GER>

5. International scene

5.1. *Memorandum of Understanding (MOU)*

In the 2005 reporting year, MROS concluded a Memorandum of Understanding with two reporting offices abroad: in September with the Financial Intelligence Unit of the Principality of Liechtenstein and with the General Inspector of Financial Information in Poland in the same month. So far MROS has concluded MoUs with six FIUs (Belgium, Finland, Monaco, France, Principality of Liechtenstein and Poland).

5.2. *Egmont Group*

5.2.1 New members

In 2005, the Egmont Group broke the magic 100-member barrier for the first time. With the admission of the following seven states to the group at its plenary meeting in Washington, D.C. in June 2005, the number of members now stands at 102:

- Bosnia and Herzegovina
- Honduras
- Montenegro
- Peru
- Philippines
- Qatar
- San Marino

The “Outreach“ working group, in which the MROS is also represented, is responsible for disseminating the idea of the Egmont Group around the world and for acquiring new members. A country must meet specific conditions if it and its reporting office are to join the Egmont Group²⁴. Basically, a country must have solid legislation against money laundering and terrorist financing as well as an FIU that fulfils the definition of the Egmont Group:

²⁴ Details are available in the paper “Procedure for being recognized as an Egmont Group Financial Intelligence Unit” at www.egmontgroup.org/procedure_for_being_recognised.pdf

"A central, national agency responsible for receiving, (and as permitted, requesting), analysing and disseminating to the competent authorities, disclosures of financial information:

- (i) concerning suspected proceeds of crime and potential financing of terrorism, or*
- (ii) required by national legislation or regulation,*

in order to combat money laundering and terrorism financing."

The FIU candidate must also be willing to join the Egmont Group. It must be capable of working with other FIUs and above all, be operational. Whether an FIU candidate has an operational status, that is to say whether it really exists and is operationally active, is examined by an FIU "sponsor" during an on-site visit. Any FIU which is an Egmont Group member can sponsor an FIU candidate. In assuming this role, an FIU sponsor is responsible for technically supporting the FIU candidate during the selection procedure, for example by helping to complete the questionnaire²⁵ - a basic requirement for acceptance into the Egmont Group. In 2004/2005, MROS sponsored the FIU candidate from Montenegro which was later accepted as a member at the group's plenary meeting in 2005. MROS made its on-site visit to the FIU in Podgorica.

The complete list of all member states in the Egmont Group can be downloaded at www.egmontgroup.org/list_of_fius.pdf.

5.2.2 Benefits of the Egmont Group²⁶

The Egmont Group was established in 1995 and takes its name from the place in Brussels where it was founded²⁷. The group has grown steadily since and has been able to expand the idea of a global network of FIUs. Countries from all continents are represented. Africa, with its three FIUs from Egypt, Mauritius and South Africa, has the weakest representation. The idea behind the Egmont Group is the development of a secure exchange of information among FIUs according to generally recognized principles concerning confidentiality and respect for national legislation. The Egmont Group is also intended to be a platform where the fight against money laundering and terrorist financing can be discussed at a global level. At its meetings the group gives priority to the operational rather than the political aspects of the fight against money laundering, and its influence in other forums such as the FATF is considerable²⁸. The

²⁵ „Questionnaire“ at www.egmontgroup.org/membership_questionnaire.pdf

²⁶ „Benefits of Egmont Group membership“ at www.egmontgroup.org/BenefitsOfEgmontMembership.doc

²⁷ MROS has been a member of the Egmont Group since 1998

²⁸ „Financial Action Task Force on Money Laundering“ www.fatf-gafi.org

group has an observer status within the FATF and takes part regularly as such in FATF plenary sessions. Furthermore the group supports FIUs in recognising new typologies²⁹ in money laundering and terrorist financing and in increasing the operational efficiency of an FIU through training seminars and workshops.

5.2.3 International Bulletin of the Egmont Group

Since October 2005, a so called "International Bulletin" has been published on the Egmont Group homepage³⁰. This is a newsletter intended to provide an insight into the activities of the Egmont Group and thus raise public interest in its work.

5.3. GAFI/FATF

5.3.1 Mutual evaluation of Switzerland

Background:

Following the adoption in 2003 of the 40 revised recommendations and the special recommendations in 2001 regarding terrorist financing, the FATF began a new cycle of evaluations of member countries. These evaluations, which are based on the 2004 methodologies, began in 2004-2005 with Belgium, Norway, Switzerland, Australia and Italy.

The evaluation of Switzerland, which was conducted by experts from Belgium, Canada, France and the USA, began in the summer of 2004 with a detailed questionnaire involving the whole Swiss mechanism used in the fight against money laundering and terrorist financing. It included the input of all the administrative divisions dealing with the matter (legislative, preventive, enforcement). After various discussions to refine and complete the questionnaire the evaluation proceeded with the arrival of experts in Switzerland in spring 2005 for about 10 days to meet the main players from the federal administration, some cantonal administrations and the private sector.

In summer 2005, the preliminary evaluation was issued and followed by numerous written exchanges with the experts aimed at amplifying the report or to argue various contentious points where the evaluators thought Switzerland was in non-conformity. With the approach of the plenary session in October where the report would be ap-

²⁹ see "Egmont 100 Sanitised Cases" at www.ctif-cfi.be/en/typo/egm/100casesgb.pdf

³⁰ www.egmontgroup.org

proved, the Swiss delegation, accompanied by public prosecutors and high representatives of various institutions, travelled to Paris twice for negotiations on the final points of disagreement with the experts.

Discussions continued right up to the day before the plenary session on 13 October 2005 before the FATF approved the final version of the report, the brief version of which is at www.fatf-gafi.org.³¹ Because the final version of the evaluation is too long for this report, we have limited our coverage to the subjects relating to MROS.

MROS activities evaluated in the report:

The assessment relating to the reporting of suspicious transactions (FATF recommendation 13) gave Switzerland a PC rating (partially in conformity), the third lowest on a scale of four ranging from C (in conformity), LC (largely in conformity) to NC (non-conformity).

Formally, the assessment referred to the lack of a legal foundation in the Money Laundering Act for reporting cases of terrorist financing. This obligation will be taken up in the context of the revision of the MLA following the adoption of the 40 FATF recommendations. In the face of this objective argument, we pointed out that since the events of 2001, Swiss financial intermediaries have widely used the reporting obligation as concerns the fight against terrorist financing (see chapter 2.2 of this report).

More consistently, the evaluation report made several criticisms of the effectiveness of the Swiss system of reporting suspicious transactions. It referred mainly to the modest number of reports in view of the importance of Switzerland as a financial centre, the association between freezing funds with mandatory reporting and the co-existence of legislation on the right to report and mandatory reporting. Our arguments were based mainly on the quality of the reports (solid suspicion), which led to a very high proportion, by international comparison, of cases referred to the law enforcement agencies. But this met with little response from the evaluators. We had the same reaction as concerns the quality of communications and our effective fight against money laundering and terrorist financing, which involves an immediate freeze of assets by the financial intermediary. As to the question of the co-existence of legislation on the right to report and mandatory reporting, even if the reporting obligation has its origins in the partial superimposition of various legal sources (SCC and MLA), as we have demonstrated statistically, that does not make it any less of an alternative instrument used by financial intermediaries.

The experts also gave a negative assessment concerning the protection of the reporting financial intermediary, saying that the legal provisions in force only protect the intermediary to the extent that in making his report, the financial intermediary has shown

³¹ [http://www.fatf-](http://www.fatf-gafi.org/document/32/0,2340,en_32250379_32236982_35128416_1_1_1_1,00.html)

[gafi.org/document/32/0,2340,en_32250379_32236982_35128416_1_1_1_1,00.html](http://www.fatf-gafi.org/document/32/0,2340,en_32250379_32236982_35128416_1_1_1_1,00.html)

due diligence in similar circumstances. The experts would have liked to have seen, as set down in Recommendation 14, that the financial intermediary is protected simply on the basis of good faith at the time of reporting. Although difficult to appreciate in practice, this distinction is in fact based on distinct levels of protection.

The expert group gave MROS a rating of LC (largely in conformity) relating to Recommendation 26, particularly as concerns staff strength, organisation, statistics and teaching material, all of which received a good assessment during the visit by the experts.

In terms of the application of Recommendation 40 concerning international cooperation between the Swiss authorities and foreign FIUs, the experts found MROS to be largely in conformity thanks to statistical and qualitative proof showing the very important movement of information handled by MROS in the context of its international activity (see chapters 2.3.14 and 2.3.15 of this report).

Finally, although receiving an average grade on certain important points, the overall mark for Switzerland confirmed the basic excellence of our legal system (approach based on risks, self-regulating authorities, “know-your-customer” principle, quality of law enforcement, etc.). As to the objections raised, they must be taken into account in the forthcoming revision of Switzerland’s Money Laundering Act.

5.3.2 Work on FATF typologies

In keeping with the mandate received at the plenary session, experts from member countries, including one MROS representative and two representatives of the supervising authority, participated in the FATF typologies meeting in Rio de Janeiro from 28-30 November, 2005. The following is a brief summary of the topics dealt with by the working groups and subsequent developments:

- New payment methods: This group has taken an inventory of new payment methods and their use in money laundering and terrorist financing as well as their surveillance. Identified methods include the use of different cards and mobile telephones as well as on-line payment services. The working group referred to a rapid increase in these new methods and facility of access giving rise to a greater risk of fraud. On the normative level, it seems that the 40 FATF recommendations already deal with these methods (Recommendations 8, 23, Special Recommendation VI). Particular attention should however be given to reporting to centres equipped to manage these methods. The group should complete its work in 2006.

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- Misuse of corporate structures: This group is focussing on the misuse of various kinds of corporate structures (companies or legal structures) and of off-shore companies in particular. The main question dealt with by the group concerned the means available to identify the final beneficiary owner of such structures (Recommendation 5). The group's work has progressed relatively little so far and could lead to a list of indicators enabling a distinction to be made between a structure working within the law and one with criminal intentions. A first report is expected at the FATF plenary session in June 2006.
 - Money laundering and terrorist financing: trends and indicators: This group, which was already active in 2004, went through a change in direction following the appointment of a new chairman. It aims to define new tendencies and indicators permitting adaptations in the methods used to fight money laundering and terrorist financing. The present course should be held by setting up a widely accessible data base including all tendencies and indicators observed in practice. This database would be fed by the users themselves. Conditions for the admission of the suggested information and the users must still go through an in-depth study. An interim result is expected in June 2006.
 - Trade-based money laundering: This refers to the hiding or disguising of illegal gain by using various international business instruments for the purpose of making the criminal origins legitimate. Money laundering functions by means of falsifying prices, quantities or qualities in the framework of import or export operations. The working group has begun its work by sending participants a questionnaire aimed at gathering individual information and experience in the various states.

6. Internet Links

6.1. Switzerland

6.1.1 Money Laundering Reporting Office

http://www.fedpol.admin.ch	Federal Office of Police / MROS
http://www.fedpol.admin.ch/e/themen/geld/Formular-e.doc	STR form MROS

6.1.2 Supervising authorities

http://www.ebk.admin.ch/	Federal Banking Commission
http://www.bpv.admin.ch/	Federal Office of Private Insurance
http://www.gwg.admin.ch/	Federal Finance Administration/Money Laundering Control Authority
http://www.esbk.admin.ch/	Federal Gaming Commission

6.1.3 Self-regulating organisations

http://www.arif.ch/	Association Romande des Intermediares Financieres (ARIF)
http://www.oadfct.ch/	OAD-Fiduciari del Cantone Ticino (FCT)
http://www.oarg.ch/	Organisme d'Autorégulation du Groupement Suisse des Conseils en Gestion Indépendants ("GSCGI") et du Groupement Patronal Corporatif des Gérants de Fortune de Genève ("GPCGFG") (OAR-G)
http://www.polyreg.ch/	PolyReg
http://www.swisslawyers.com/	SRO-Schweizerischer Anwaltsverband (SAV)
http://www.leasingverband.ch/	SRO- Schweizerischer Leasingverband (SLV)
http://www.stv-usf.ch/	SRO-Schweizerischer Treuhänder-Verband (STV)
http://www.vsv-asg.ch/htm/htm_d/	SRO-Verband Schweizerischer Vermögensverwalter (VSV)
http://www.sro-vqf.ch/	Verein zur Qualitätssicherung im Bereich der Finanzdienstleistungen (VQF)

6.1.4 National associations and organisations

http://www.swissbanking.org	Swiss Bankers Association
http://www.swissprivatebankers.com	Swiss Private Bankers Association

6.1.5 Others

http://www.ezv.admin.ch/	Federal Customs Administration
http://www.snb.ch	Swiss National Bank
http://www.ba.admin.ch	Office of the Attorney General of Switzerland

6.2. International

6.2.1 Foreign reporting offices

http://www.fincen.gov/	Financial Crimes Enforcement Network/USA
http://www.ncis.co.uk	National Criminal Intelligence Service/United Kingdom
http://www.austrac.gov.au	Australian Transaction Reports and Analysis Centre
http://www.ctif-cfi.be	Cel voor Financiële Informatieverwerking / Belgium
http://www.justitie.nl/mot	Meldpunt Ongebruikelijke Transacties Ministerie van Justitie (MOT) / Netherlands
http://www.fintrac.gc.ca/	Financial Transactions and Reports Analysis Centre of Canada

6.2.2 International organisations

http://www.fatf-gafi.org	Financial Action Task Force on Money Laundering
http://www.unodc.org/	United Nations Office for Drug Control and Crime Prevention
http://www.egmontgroup.org/	Egmont-Group
http://www.cfatf.org	Caribbean Financial Action Task Force

6.3. Other Links

http://www.europa.eu.int	European Union
http://www.coe.int	European Council
http://www.ecb.int	European Central Bank
http://www.worldbank.org	World Bank
http://www.bka.de	Bundeskriminalamt Wiesbaden, Germany
http://www.fbi.gov	Federal Bureau of Investigation, USA
http://www.interpol.int	Interpol
http://www.europol.net	Europol
http://www.bis.org	Bank for International Settlements
http://www.wolfsberg-principles.com	Wolfsberg Group
http://www.swisspolice.ch	Conference of the Cantonal Police Commanders of Switzerland