



WORLD-CHECK™

REDUCING RISK THROUGH INTELLIGENCE



Building an Effective Due Diligence Program

Exposing the limits of fall-back industry crutches.

Introduction



As the gatekeeper for your company's program, you too (i.e. your career and reputation) have never been at greater risk.

- Are your efforts sufficient for passing government scrutiny? Will you pass this litmus test:

You are discovered to be facilitating the financial interests of a third party (customer, business partner, employee, or otherwise) with illicit interests. Are you confident your program will hold up to scrutiny? Are you doing enough?

- Many of us could not confidently answer this question.
- Further exacerbated by this economy, are the ever-present budget limitations on your due diligence program.
- The bottom line: **You will fight an uphill battle trying to enhance your program unless you expose its shortcomings.**
- The purpose of this presentation is to expose the shortcomings of several old due diligence standards. You can use these statistics and facts to illustrate the limitations of your program and the imperative to “upgrade”.

The 'Sanctions List' Only Argument



- Screening against government lists has become the industry standard strategy for due diligence.
- Much of the industry relies on one or more of the following Sanctions Lists.
 - OFAC SDN, UN, UK HMT, EU, etc.
- Screening against these government lists is very inexpensive and very easy.

THIS STRATEGY IS INEFFECTIVE!

Sanctions List Misconceptions

Misconception #1: Sanction Lists are large and all-inclusive.



- ➔ Eg. As of Sept 2011, the OFAC list contains only **5391** entries.
- ➔ So far this year, the US government has only added **351** entries to the list.

Sanctions List Misconceptions

Misconception #2: Sanctions List predominantly tracks terrorists.



- ➔ Many institutions believe that Sanctions lists are list of terrorists.
- ➔ Terrorists make up only aprox **28%** of the EU & UK HMT lists.
- ➔ Terrorists make up only **15%** of the OFAC list.
- ➔ In reality, **1/3** of the OFAC list refers to narcotics traffickers.

Unparalleled Terrorism Content



- ✦ World-Check's Terrorism and Insurgency Research Unit (TIRU) has, to date, identified and profiled over 53,304 terrorism-related individuals and entities.
- ✦ OFAC + UKHMT + EU + UN, have only listed approximately 996 unique terrorism-related entries -- making up only approx 2% of World-Check's overall terrorism-related content.
- ✦ Total regulatory content = 3142 entries - of which 2817 are individuals and 595 entities.

OFAC Misconceptions

Misconception #3: OFAC has complete world wide coverage.



- **30%** of the OFAC list is comprised of individuals and entities in Colombia.
- Of the 145 countries listed in OFAC, **80 countries** have less than 10 entries.
- There are only **11 countries** listed by OFAC with more than **100 entries**.



Bosnia



Columbia



Mexico



Panama



Zimbabwe



Sudan



Iraq



Iran



UK



Palestine



Myanmar
(Burma)

OFAC Misconceptions

Misconception #4: Using more lists provides more coverage.

REJECTED



- Many institutions believe that by covering all four major lists, they're covering **2,613** terrorists.
- In fact, they're only covering about **996**.
- This is a duplication rate of over **250%**

Sanctions List Misconceptions



Al-Qaida coverage uncovers even greater duplication

- Unique Al-Qaida entries on OFAC, UK HMT, OFAC, and UN add up to only **481** unique entries.
- By relying only on the four major sanction lists, you are missing over **3,880** Al-Qaida entities.

Al-Qaida	No. of Entries
HM Treasure (Bank of England)	407
European Union List	403
OFAC List	481
United Nations List	404
Total Unique Entries	481
Total World-Check Al-Qaida Entries	4365

OFAC Misconceptions



World-Check consistently beats OFAC on uncovering and identifying risk.

- In the last five years (2005-2010), World-Check has profiled entities before OFAC **503 times**.
- This total includes **117** terrorists, **188** narcotics traffickers, **80** corporations, and **45** political individuals.
- Some additional examples of World-Check beating OFAC in uncovering risk:

Haji Juma Khan	Leopold Muzyambere	Muhammad Saeed	Hermagoras Gonzalez Polanco
Syvestre Madacumra	Stanislas Nzeyimana	Haji Muhammad Ashraf	Sinaloa Cartel
Callixte Mbarushimana	Jamaat-ud-Dawa	Mahmoud Mohammad Ahmed Bahaziq	Los Zetas
Pacifique Ntawunguka	Zaki-ur-Rehman Lakhvi	Marcos Arturo Beltran Leyva	La Familia Michoacana
Fritz Martin Gelowicz	Daniel Martin Schneider	Adem Yilmaz	Ahmed Abdi aw-Mohammed

OFAC coverage: beyond comparison



Example:

OFAC SDN entry for Viktor Bout May 2008:

It doesn't really tell you much

Networks Exposed

- Victor Bout

- Viktor Anatolijevitch Bout is considered the most significant firearms trafficker to conflict zones in African countries and Afghanistan.
- The UN accuse him of violating embargoes in Liberia, Sierra Leone and Angola.
- Reportedly supplied firearms to Osama Bin Laden's terrorists, the Taliban in Afghanistan, the Revolutionary Armed Forces of Colombia (FARC) and to members of the al-Qaeda terrorist network.
- 2004 - Victor Bout placed on the UKHMT, OFAC, EU and UN (2003) watch lists among others.



Viktor Anatolijevitch Bout

Russian

АМИНОВ, Вадим Маркович
БОУТ, Виктор Анатольевич
БУДД, Виктор
БУЛАКИН, Виктор
БУТ, Виктор Анатолиевич
БУТ, Виктор Анатольевич

Thai

วิคเตอร์ อนาโตลเจวิช บุต

Japanese

セルギトヴ
ボント
ヴィクトーアナトルジェヴィッチバウト
ヴィタリ

Networks Exposed

- Connected to the right people

- Bout's connections were influential both politically and regionally and are said to have included among others:

Charles Taylor

Former Liberian President

Jonas Savimbi (deceased)

Former Angolan UNITA leader.

Mobutu Sese Seko (deceased)

Former President of Zaire

Muammar Gaddafi

Libyan President

Oleg Orlov (deceased) Russian Federation

involved in illegal exports of Ukrainian missiles to

Iran and **China** (2000-2001)

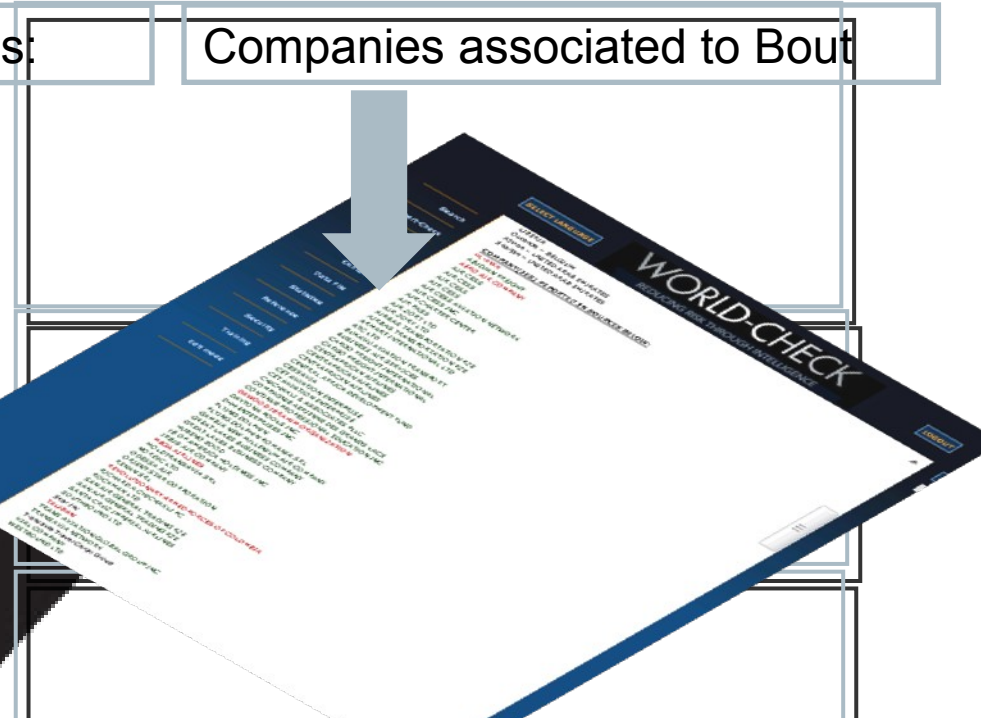


Networks Exposed - The vast Bout Network

Bout's companies with UAE connections:

Companies associated to Bout

Air Cess
Airbus Transportation FZE
Centrafrican Airlines
CET Aviation Enterprise FZE
Flying Dolphin
San Air General Trading FZE Santa
Cruz Imperial Airlines
Southern Gateway
Corporation Transavia
Network Transavia Travel Company



Networks Exposed

- Bout Disconnected?

- March 2008 – Thai authorities arrest Bout and his alleged middle-man Andrew Smulian in Bangkok, Thailand.
- The U.S. run sting operation had fooled Bout into believing he was dealing with representatives from the Revolutionary Armed Forces of Colombia (FARC).
- He was lured from his home in Moscow to Bangkok for the alleged 'deal'.
- Both Thai and USA authorities reportedly said they could file terrorism charges against Bout.



Interpol praised the operation to capture Bout in which US undercover agents travelled to the Caribbean, Europe and Asia in their efforts to snare Bout.

Sanction List Solution

What sources should you rely on for your risk mitigation?

- Relying on one or more government lists at all, even in their totality is a grossly insufficient screening procedure.
- One must augment their program with significant additional research



Financial Action Task Force PEP Definition:

Politically Exposed Persons' (PEPs) are individuals who are or have been entrusted with prominent public functions in a foreign country, for example Heads of State or of government, senior politicians, senior government, judicial or military officials, senior executives of state owned corporations, important political party officials. Business relationships with family members or close associates of PEPs involve reputational risks similar to those with PEPs themselves. The definition is not intended to cover middle ranking or more junior individuals in the foregoing categories.

PEP Coverage



PEP Pitfalls:

PEP Source

- Where are you getting your list of PEPs?

PEP Tracking

- Are you just tracking the PEP or are you also tracking their associates?

PEP Coverage

- Are you eliminating PEPs because they are domestic?

PEP Coverage

Are you just tracking the PEP or are you also tracking their associates?

- PEPs are very sophisticated individuals with extensive resources.
- By only tracking the PEP and their immediate family, you are missing a huge piece of their network.
- For true PEP coverage, one must also track all their associates.



Screening Company Relationships

Why do you need to screen my corporate relationships?

- Screen for any political corruption or hidden interests that would expose your business and reputation to risk.
- It is worth noting, as it is often missed, that companies with illicit interests or political ties will go out of their way to hide this.
- Many companies ask their business partners to fill out a form to acknowledge whether or not they have hidden interests. This concept is unreliable.
- Others rely on services to gather this information directly from the entity in question, which exposes the organization to risk. This approach is no better.



Screening Company Relationships



Why do you need to screen my corporate relationships?

- Domestic or international business development involving third parties can become a liability.
- It is essential to retrieve company filings, business licenses, criminal history, litigation, uncover the majority shareholders and principals.
- Often companies are prone to embellish with regards to continuity and incorporation. Credibility and viability of a business should be scrutinized
- Companies should be screened regardless of location – FCPA & UK Bribery Act requires that companies screen their overseas business relationships.
- Criminals are **global** & know no boundaries.



Screening Company Relationships

Why can't I just rely on company self-reporting and company credit reports?

Principle Subject

Human Analysis

Corporate Filings

Foreign Language Web and Media Searches

Historical English Language Searches up to 25 years.

In-Country Resources for Government / Non-Government Hard Copy Records

Country Specific Data Sources

- The need for EDD is a matter of credibility and requires real time delivery of the most up to date and accurate information.
- Companies' self-reporting for credit reports is unreliable at best.
- Taking company information from an entity trying to enter into a business deal abroad or domestically without seeking further legitimacy of that business is reckless.
- Even accurate credit reports many times do not disclose information on the principals, their conduct, criminal and civil, local sanctions.
- The need for independent human analysis is critical to


Conclusion



Hopefully this presentation exposed the shortcomings of your current due diligence program



Use this presentation to expose those limitations to your organization.



Obtain the endorsement and budgeting from management to put in place tools that **WILL** hold up to scrutiny **WHEN** your organization is judged.



THANK YOU FOR YOUR ATTENTION!