

# FSC Newsletter

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## Fraud : "Ghost Money", "Funny Money", "Ready, Willing, Able To Deliver (Rwad)" "Advance Fee Fraud"

**W**e are becoming increasingly aware both from local contacts and from authorities in other countries that Gibraltar has become the target of fraudsters involved particularly in the types of fraud mentioned above.

These scams have been on the increase world-wide in the last few years and we have recently seen two 'live' transactions in Gibraltar which could have resulted in substantial losses for the Banks concerned if they had not exercised due diligence.

For the purpose of this newsletter we will call the fraudulent transactions 'Ghost Money'.

So what is this fraud?

### Advance Fee

In its simplest form, the Advance Fee operator persuades a company or person requiring a loan that he has the capability to arrange such a facility. An agreement is signed by which the operator will use his best endeavours to obtain the required loan in exchange for an up front fee. This fee can be as small as £5000 or as large as £100,000 depending on the credibility of the scam and the gullibility of the borrower.

Needless to say rarely does a facility materialise whilst the up front fee disappears. Other authorities are aware of several operators who have continued for years using method to finance a high life style.

### Ghost Money

Interlinked, but more complex than the Advance Fee Fraud is the extensive Ghost Money deal.

What are the characteristics of a Ghost Money transaction? You will be made aware of:-

- Large transactions (US\$25 million to \$100 million or much more).
  - Promises of further sizeable transactions. (Often huge sums US\$100 billion).
  - Small first transaction with several subsequent tranches to follow.
  - Unusual currencies (i.e Billions of New Kuwaiti Dinars).
  - Prime Bank Guarantees (PBG's) being offered or being the "Product" to be financed.
  - Proposals received by FAX.
  - Letterheads of companies which could have been easily produced by Laser Printer.
  - Letters, possibly forged, from respectable banks being used to support the documentation.
  - Strange, weird, confusing and complex transactions, hazy descriptions.
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- Overwhelming amount of transaction description along with supporting papers and even flowcharts of the transaction.
- **Further Common Characteristics Of Ghost Money Transactions.**

Text in the transaction documents may include phrases such as:

- Ready Willing and Able.
- Prime Bank Guarantees.
- Guaranteed by Top 100 World Prime Bank.
- Collateral First.
- Unconditional S.W.I.F.T. Wire Transfer.
- Reference to I.C.C. Rules (ICC 400).
- Key Tested Telex (KTT).
- Closing Bank.
- Issuing Bank.
- Large commission, even large "Bonus" or large "Discount" or "Spread" being offered to the bank.
- Outlandish projects, difficult to verify.e.g Financing of Island Resort on far away (unknown) island.
- Retirement Home Village in far away country.
- Documents will invariably be signed by "The President" or "The Chairman of the Board" or "Chief Executive Officer".
- A Power of Attorney document may be produced, duly authenticated by a bank and/or lawyer.

The Ghost Money fraudster appears to have his own vocabulary and some of his most frequently used verbiage is as follows:-

- Top 50 (100) banks in the world.
- Bank Menu.
- International Banking Days.
- ICC (International Chamber of Commerce ) 400.
- UCC (Uniform Commercial Code) Form references.
- KTT (Key Tested Telex).
- Banking co-ordinates.
- Collateral First Transaction.
- Fresh Cut Paper.
- Seasoned Paper.
- Collateral Houses, Collateral Source, Collateral Supplier.
- Grand Master Collateral Commitment.
- Validation of the MCC (Master Collateral Commitment).
- Collateral Purchase Orders.
- Instruments delivered free of all liens and/or encumbrances.
- Prime Bank Guarantees. (PBG's).
- Prime Bank Notes. (PBN's).
- Non-Circumvention and Non-disclosure agreements.
- Freely negotiable, irrevocable, clear SWIFT wire transfers.
- Irrevocable Pay Order.
- Irrevocable, irtractable commitment of funds to purchase instruments.
- Lending Bank, Funding Bank, Closing Bank, Collateral Provider, Fiduciary Bank.
- Good Clean cleared funds of non-criminal origin.
- With full corporate and legal responsibility.
- Interest at seven and one half per cent, payable annually in arrears.
- 5, 10, 20 years etc, plus one week or one day.

- Fully binding commercial letter contract.
  - Client Company Principals.
  - Transaction Tranches.
  - Millions or Billions of US dollars with rolls and extensions.
  - Emissions, remissions, commissions and fallout.
  - Transaction parameters.
  - There is to be no communication with our bank other than through normal bank channels, no phone calls allowed.
- **What Is The Aim Of A Ghost Money Fraudster?**

His aim is to convince a bank that he legitimately represents either an investor, or sometimes both the investor and a borrower (in which case he will request a bank to act as the CLOSING BANK) and therefore seeks a bank's endorsement to the proposed deal. This endorsement usually takes the form of:-

A letter issued by a bank undertaking to provide finance at some future date is called a "Funding Commitment" or a;

*"Ready, Willing and Able" ..... RWA Letter.*

There is a further letter of undertaking known as a "Collateral Commitment" whereby a confirmation is given of the receipt by the writer of some form of security to be held to the order of the bank which is to advance funds against that security.

In this case, the Ghost Money scam will be referred to as a;

*"Collateral First Transaction"*

Such commitments have a value, as they can be used by a potential borrower to convince other banks to provide "Prime Bank Guarantees" ..... PBG's". More of which later.

## **How Does The Ghost Money Fraudster Set About His Task?**

The Fraudster may allege that he represents an "Investor", however, he will be deliberately misleading in describing both the "Investor" and the funds alleged to be available for investment, so that no checks may be made. The Fraudster may state that he is the representative of an "Investor" who wishes to remain anonymous.

The Fraudster may use as a front a variety of "Company" names which may often mix up the words: "Nation-wide"; "Universal"; "International"; "World-wide"; "Resources"; "Capital"; "Commercial"; "Trading"; etc. Many may claim to represent recognised bodies, such as; The United Nations, or, Government Departments abroad.

The Companies that the Fraudster may allege to represent may be evidenced by letterheads, which are nearly always submitted in Fax copy form and could have been easily manufactured on a Laser printer. Those Companies, if indeed they exist, (although the professional fraudster is likely to have incorporated such), may well be described as having been incorporated in such places as the Isle of Man, Monaco, Luxembourg, Liechtenstein, the United States, as well as the old favourite, certain islands of the Caribbean (and Gibraltar!). For sure they will almost always be incorporated somewhere in the world that will make it difficult for you to run a check. Any letters demonstrated originating from such companies are rarely written by anyone other than the: "Chairman of the Board" and "Chief Executive Officer" or "The President".

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It is possible that the Fraudster may be in possession of a letter of endorsement or confirmation from another "bank" seeking to legitimise the availability of funds and confirming the genuineness of the Company name chosen. Take care, for the name of that "bank" may well be either than of a well known genuine bank, but at an address where there is no legitimate branch, or, it may be a described very closely to the name of a genuine bank. ANY ATTEMPT BY YOU TO MAKE CONTACT WITH THAT "BANK" BY TELEPHONE, LETTER OR TELEX MAY WELL BE ANSWERED BY ASSOCIATES OF THE FRAUDSTER.

The Fraudster may well be in possession of a "Power of Attorney" document from those he is alleged to represent. Such document may have been duly notarised somewhere in the world, where, once again it will be difficult for you to check its validity. That notarisation may well be by a genuine Law Firm and the signature of the Fraudster may additionally carry an endorsement from a banker as to its genuineness. That Power of Attorney may appear authentic and add credence to the transaction, however, it should be viewed with suspicion and as serving only to confirm that the Fraudster may have identified himself and signed the document in the presence of the banker and/or the lawyer, who otherwise probably does not know him.

**You may well be presented with a letter from a genuine Law Firm in another jurisdiction confirming that they act for the Fraudster. They may very well do so, and in most cases the lawyer will have no idea of the underlying activity of their client.**

The types of funds available to be invested may be variously described as "Trusts", "Foundations", "Private funds belonging to wealthy individuals (middle East perhaps)" "Investment Consortiums"; "Pension Funds" and "Health Insurance Funds". All of which you are told are seeking a better return on their huge cash reserves.

You will be led to believe that enormous sums will be available for the proposed transactions, these may range from US\$25 million to US\$100 million or even amounts in billions of dollars. Although other currencies may be specified, US dollars seem to be the favourite. Those funds may be offered in tranches, with perhaps a small first tranche.

## What Is His Aim?

He wishes to obtain endorsements for his scheme, particularly from banks but will use legitimate organisations (particularly in our jurisdiction those entities that have the stamp of respectability, i.e a Financial Services Licensee) to do so.

He will certainly seek a letter either from a bank or any respected organisation, addressed to himself, his "company" or a third party.

He would like to open a bank account, awaiting receipt of funds, of course, there may be talk of PRIME BANK GUARANTEES also known as PBG's.

## What Is A PBG:-

A Prime Bank Guarantee is a promise by the issuing bank to pay at some future date the amount shown on the guarantee.

The Guarantee can cover the Capital element of the loan, the Interest only, or both Capital and Interest.

It is not only the issue of the PBG which is sought after by those intent on fraud. Any letter or representation by a first class bank which states, or implies, that a particular

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transaction or proposed facility is being viewed favourably is valuable to the fraudster, who would wish to use it in order to obtain credit from another bank.

## How Is The Approach Made By The Ghost Money Fraudster?

Many operators will attempt the direct cold contact with banks by phone, mail fax or in person.

However, the truly professional and sophisticated fraudster will direct his thrust through apparently legitimate fronts, organisations including lawyers, company managers, etc in many jurisdictions.

The two live transactions mentioned at the beginning of this letter involved accounts being opened with local banks with introductions (seemingly genuine) from intermediaries outside Gibraltar, through local licensees.

Unfortunately, experience has shown elsewhere that legitimate organisations who have innocently or otherwise (particularly when staff fraud has occurred) have been persuaded to participate in such transactions and have incurred substantial losses, even several years later.

## What Advice Can We Give From All The Information We Have Received?

(1) When you receive a direct approach from such operators, obviously use extreme care.

***Never send anything by fax, letter or memo to them. DO NOT even give out your business card.***

In need, consult us, as we have a database of previous operators. We now have access to other authorities who are only too keen to help, either from their records or establishing the credentials of the operator concerned.

Where a Gibraltar company has been registered, always keep us informed.

***(2) Indirect approaches from intermediaries in either jurisdictions may not give rise to any suspicion. We can only reiterate the guidance we gave in our Money Laundering Newsletter in that all licensees should "know their customer" not only in the form of references etc, but by obtaining greater detail on why a Gibraltar company is required.***

On our part, we have made recommendations to Government that "Loan Arranging" becomes a "controlled activity" and will be subjected to the normal Financial Services Ordinance requirements. This should be in place shortly.

## West Africa:

You may already have seen in the local press details of a scam originating from Nigeria, or you may even have received a specific request yourselves. The initial contact is usually via means of a letter or fax with a West African address. The originator's purport, generally, to have strong relations with the government of the country, holding themselves to have access to some government sponsored contract. The intermediary is asked to provide a bank account into which funds will be transferred from their country for onward transmission to their contractors, with a subsequent slice of the funds for the intermediary.

Prospective intermediaries are asked to submit blank:-

- letterheaded paper;
- pro-forma invoices;
- bank account name, number, swift number etc;
- names of bank officials.

***NO ATTEMPT SHOULD BE MADE TO REPLY TO THIS ENQUIRY.*** The originators will attempt to use the company letterhead paper and names to provide a bona-fide for some other part of the fraudulent transaction or to make a transfer out of the bank accounts for which the details have been provided.

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