

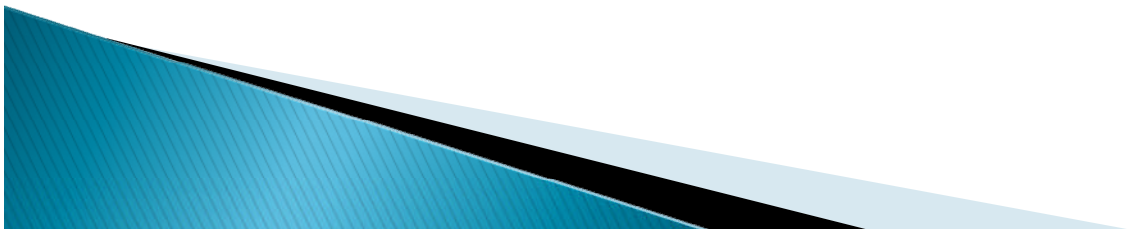
# “Integrating Fraud and AML to Protect the Banks”

Robert Targ and Michael Diaz



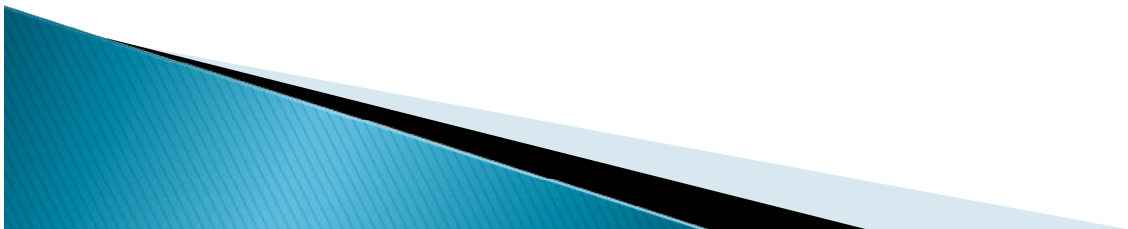
# Fact Pattern for Panel Presentation at the FIBA AML Compliance Conference

- ▶ Thomas Sterling is a prominent member of the community. He is a business owner, a political activist, and a patron of the arts. Mr. Sterling is a wealthy man who runs his own financial consulting practice.
- ▶ As part of his services, he offers his clients the opportunity to invest in certain financial products with a guaranteed high rate of return.



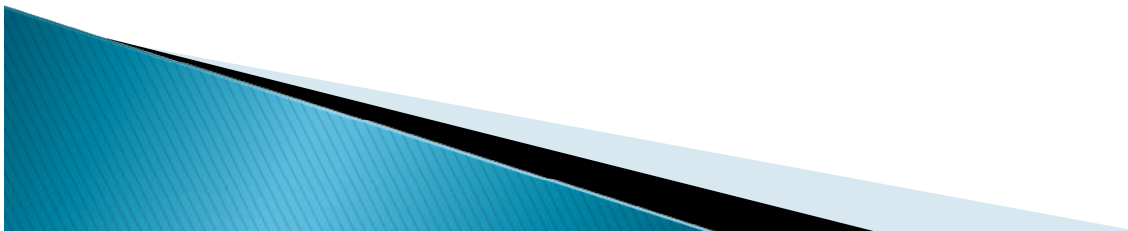
# Fact Pattern for Panel Presentation at the FIBA AML Compliance Conference

- ▶ Mr. Sterling assures his investors that he will use his extensive knowledge in investing (indeed, he claims this is how he made his millions) to secure returns that exceed the normal rate of return.
- ▶ In addition to his success in business, Mr. Sterling is also a religious leader in his community. A deeply religious person, Mr. Sterling is active in his church. Every week he hosts a seminar for fellow church members on how to invest funds and grow wealth. Mr. Sterling tells his “students” that he has been very fortunate in life, and now wants to share what he has learned with others in the community so that they too can enjoy the benefits of “a little extra money” each week.



# Fact Pattern for Panel Presentation at the FIBA AML Compliance Conference

- ▶ Over the years, many of Mr. Sterling's students have also become his investors.
- ▶ For the past several years, Mr. Sterling has maintained his business accounts at Ace Bank in Miami. In late December of 2010, Ace Bank notified Mr. Sterling that it would be closing all accounts related to his business, "Bright Futures Investments" because a number of recent transactions were deemed "suspicious."



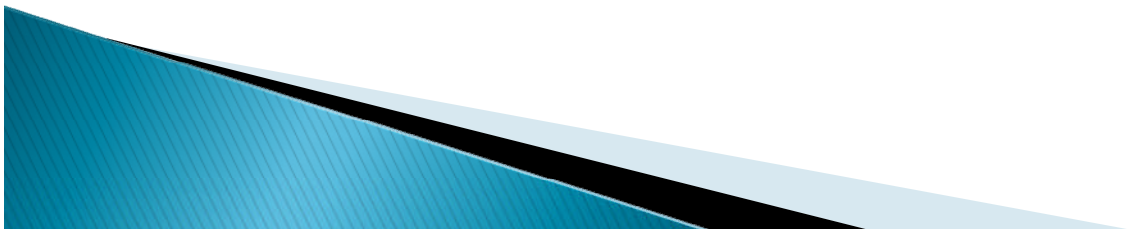
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- ▶ Among other things, Ace Bank noted that it simply could not reconcile the volume and amount of transactions flowing through its accounts with what it knew about Mr. Sterling's business.
- ▶ Shortly after of learning about Ace Bank's decision- which he did not contest- Mr. Sterling transferred all of his business accounts to the Best Bank of Miami. At a meeting with the Best Bank representative, Mr. Sterling explained that he was moving his accounts because Ace Bank was not "business friendly." Mr. Sterling explained that he needed a bank that understood the nature of his business, and the amount of money it generated.



# Fact Pattern for Panel Presentation at the FIBA AML Compliance Conference

- ▶ In order to win Mr. Sterling's business, Best Bank of Miami ignored several of its most basic internal "Know Your Customer" requirements. However, Best Bank of Miami did know that Mr. Sterling was a professional investment advisor who was investing his client's money. A simple inquiry would have revealed that neither Mr. Sterling, nor his company were properly licensed as broker-dealers, or had any securities or investment-related licenses.



# Fact Pattern for Panel Presentation at the FIBA AML Compliance Conference

- ▶ A few short days after Mr. Sterling opened his accounts, several investment clubs associated with Bright Futures Investments opened accounts at various Best Bank of Miami branches. Within weeks, 36 investment club accounts had opened at Best Bank, including accounts opened by Mr. Sterling's sister, wife, and the best man at his wedding. In the first month alone, these investment club accounts transferred \$2.2 million to various accounts owned by Bright Futures Investments.



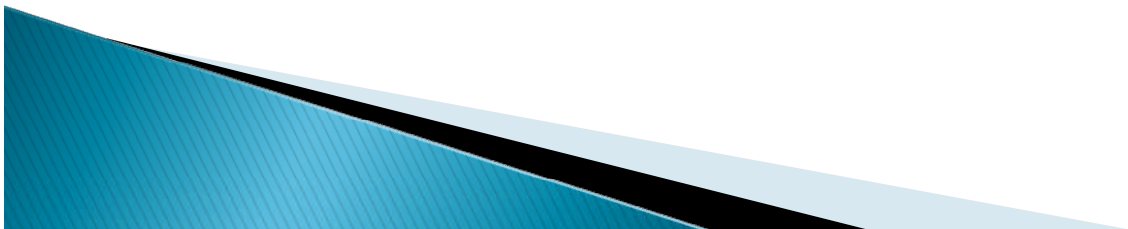
## **Fact Pattern for Panel Presentation at the FIBA AML Compliance Conference**

- ▶ Furthermore, within the first month alone, hundreds of thousands of dollars of cash bills belonging to individual investors were deposited into the new investment club accounts at Best Bank which monies were then transferred to Mr. Sterling's business accounts. Also within this time period, \$140,000 in cash was directly deposited into Bright Futures Investments accounts.



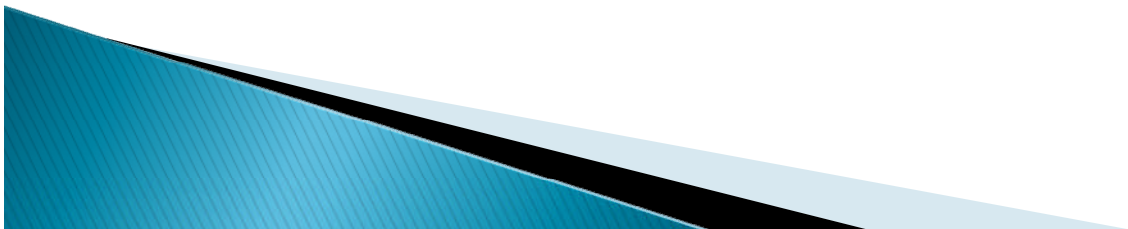
# Fact Pattern for Panel Presentation at the FIBA AML Compliance Conference

- ▶ Best Bank of Miami also permitted Mr. Sterling to withdraw \$235,000 from accounts, which Best Bank knew belonged to investors- and not to Mr. Sterling personally.
- ▶ During this time period, Best Bank failed and refused to file cash transaction reports with respect to any of these cash transactions.



# Fact Pattern for Panel Presentation at the FIBA AML Compliance Conference

- ▶ Moreover, Best Bank made special accommodations for Mr. Sterling's extraordinary cash withdrawals by agreeing to deliver large amounts of cash through the drive-thru window in order to reduce the risk of theft from having Mr. Sterling or an employee walk out of the branch carrying the large bags of cash Best Bank was providing.



# Fact Pattern for Panel Presentation at the FIBA AML Compliance Conference

- ▶ Less than 6 weeks after the Bright Future Investment accounts were open, Best Bank of Miami noted in internal documents that the activity in one of the related investment club accounts was especially suspicious. Apparently, numerous checks from individuals for small, dollar-even were received totaling \$400,000. The monies were transferred directly to the Bright Futures Investments accounts after they were deposited.



# Fact Pattern for Panel Presentation at the FIBA AML Compliance Conference

- ▶ Rather than shut down the accounts and all of the feeder investment club accounts, Best Bank merely placed a freeze on the particular investment club account. 4 days later, Best Bank unfroze the account based upon a “Business Plan” that a Bright Futures Investments employee faxed to the bank. The so-called “Business Plan” was inconsistent with the prior transactions that Mr. Sterling’s company completed.



# **Fact Pattern for Panel Presentation at the FIBA AML Compliance Conference**

- ▶ Best Bank subsequently closed most, but not all, of the Bright Futures Investments accounts and related investment club accounts.

