High-value goods

Risks related to high-value goods

Buying and selling high-value assets is attractive for criminals because such transactions can avoid interaction with the financial sector. Many such assets may be easily hidden and can be transferred to third parties with limited documentation. In particular, criminals may buy such goods with cash (that is, physical currency) and give them to other parties to avoid detection by financial institutions.

The ML/TF risks associated with high-value goods include:

- In New Zealand, valuable assets such as silver and gold, jewellery and precious stones, cars, boats, artwork and other items have been associated with offenders.
- NZ Police have identified purchases of high-value items, such as precious metals or gems and vehicles, as having a high inherent risk of being misused for ML/TF purposes.
- High-risk red flags include significant or frequent use of cash to purchase valuable commodities and assets, which can then be resold to disguise the origin of illicit funds.
- Criminals may also use cash to buy high-value goods such as jewellery or watches, then travel overseas with them to transfer value while avoiding detection by financial institutions.
- Organised crime groups may use cash to purchase high-value goods then sell them for cash, so they can disguise the origin of the funds and deposit the money into the financial system without raising red flags.
- Criminals use criminal proceeds to buy real estate and luxury goods such as motor vehicles and boats for personal use.

Case study 1: cash purchase of high-value goods

In June 2016, Northland Police seized a record-breaking amount of methamphetamine in Kaitaia – 448 kilos, thought to have an approximate NZ street value of around $448 million. The investigation revealed a cash payment for a $98,000 boat which was used by criminals involved in the importation of significant amounts of methamphetamine found on Ninety Mile beach in June 2016. The investigation is ongoing.

Case study 2: purchase of high-value items with illicit proceeds

In May 2016, 18 people were arrested and charged as part of a large-scale Police operation against the manufacture and supply of methamphetamine. Search warrants were carried out at more than 30 different addresses in Northland, Auckland, Bay of Plenty, Waikato and Canterbury. The Police Asset Recovery Unit seized several high-end vehicles including a highly modified Nissan GTL Skyline vehicle, a Harley Davidson, a Chevrolet Camaro a 2015 Kawasaki motorbike and a boat.

Case study 3: Operation Wigram

In 2013, NZ Police Operation Wigram identified a simple scheme of buying and selling vehicles to launder criminal funds. The offenders used the proceeds of commercial burglaries and methamphetamine dealing to purchase less expensive vehicles in cash. These less expensive vehicles were soon after traded in for a single more expensive vehicle. Although simple, this structure allowed the offenders to structure the effective cash purchase of the final high-value vehicle and establish an origin of funds for the final transaction (the trade-ins).

Source: NZ Police

Issues for consultation

To help ensure we establish a practical regime based on money laundering and terrorist financing risks, please consider the following issues.

Which types of dealers and what cash amounts should the Act apply to?

We seek your views about how to apply the AML/CFT requirements to high-value goods dealers.

In line with international standards, it’s proposed that businesses dealing in precious metals and stones above a specific (but yet to be determined) cash threshold will be required to comply with the Act. These obligations are outlined in Appendix 1.

However, given the risks of criminals exploiting other businesses in this sector, it may be appropriate to include dealers in other high-value goods which may accept significant amounts of cash.

We seek your feedback on the following 2 options:

Option 1: dealers in particular high-risk goods

One approach is to require businesses that deal in particular high-risk goods to comply with AML/CFT requirements when selling or buying goods, and when the transaction is made using an amount of cash (physical currency) above an specific threshold.

This may mean the laws would only apply to dealers of precious metals and stones, jewellery, motor vehicles and boats, which are high-value goods that have been identified in criminal cases and proceeds of crime actions.

Under an international standard recommended by the Financial Action Task Force, dealers in precious metals and stones are required to undertake customer identity verification on cash transactions above USD/EUR15,000. However, as the 3 case studies above demonstrate, there may be other high-risk goods in New Zealand.

This approach of focusing on particular high-value goods would address the known risks. However, it may have a displacement effect where criminals buy other high-value goods to avoid detection when using illicit cash.

In considering an appropriate cash threshold, one approach may be to choose the same threshold – $10,000 – as under new prescribed transaction reporting requirements[5] which are yet to come into effect.

Option 2: dealers in all high-value goods

Another option is to extend AML/CFT obligations to all businesses which engage in cash transactions above an applicable threshold.

The scope of this sector could include auctioneers, brokers, bullion dealers, jewellers, precious metal and stone dealers, motor vehicle and boat dealers, antique and art dealers, and any other business that accepts or provides large amounts of cash.

This approach was adopted in the United Kingdom, where any business that accepts or provides cash of EUR15,000 must register with HM Revenue and Customs and implement AML/CFT requirements. In the UK, businesses that don't accept cash above this threshold aren't subject to AML/CFT regulations.

This approach of focusing on all high-value goods would ensure protections are in place for all high-value goods which may be misused by criminals. However, it may be challenging to ensure the wide range of businesses that may be affected by this approach are aware of and put in place AML/CFT requirements.

As with Option 1, in considering an appropriate cash threshold, one approach may be to choose the same threshold – $10,000 – as under new prescribed transaction reporting requirements, which are yet to come into effect.

Questions

1. Should the Act apply to all dealers of high-value goods or just particular ones?
2. What is the appropriate threshold for cash transactions that would trigger AML/CFT customer due diligence and reporting requirements? Please tell us why.

5 Prescribed transactions are international wire transfers of $1,000 or more and domestic physical cash transactions of $10,000 or more. Reporting entities will need to report all transactions that meet the threshold value to Police's Financial Intelligence Unit (FIU).