



# FinCEN ADVISORY

FIN-2019-A002

May 3, 2019

## Updated Advisory on Widespread Public Corruption in Venezuela

**Reports from financial institutions are critical to stopping, deterring, and preventing the proceeds tied to suspected Venezuelan public corruption from moving through the financial system, and perpetuating the humanitarian crisis of the Venezuelan people.**

**This advisory should be shared with:**

- Private Banking Units
- Chief Risk Officers
- Chief Compliance Officers
- AML/BSA Analysts
- Sanctions Analysts
- Legal Departments

The Financial Crimes Enforcement Network (FinCEN) is issuing this update to the “Advisory on Widespread Public Corruption in Venezuela” issued by FinCEN on September 20, 2017<sup>1</sup> (“2017 Venezuela Advisory”) to alert financial institutions of continuing widespread public corruption in Venezuela under the regime of Nicolas Maduro, which the U.S. Government considers illegitimate. It also alerts financial institutions to additional methods utilized by corrupt Venezuelan senior political figures<sup>2</sup> (and their associates, family members, and front persons) to move and hide corruption proceeds—money stolen from the Venezuelan people—and contribute to the dire

humanitarian situation in Venezuela, which includes, among other things, starvation, human rights violations, lack of medicine or medical care, and children and the elderly being separated from their families because they cannot care for them.<sup>3</sup>

These updates to the 2017 Venezuela Advisory primarily:

- (1) renew the description of public corruption in Venezuela;
- (2) add information regarding example U.S. Government actions;

1. See [FIN-2017-A006](#), “Advisory on Widespread Public Corruption in Venezuela,” September 20, 2017.
2. “The term ‘senior foreign political figure’ means a current or former senior official in the executive, legislative, administrative, military or judicial branches of a foreign government (whether elected or not); a senior official of a major foreign political party; or a senior executive of a foreign government-owned commercial enterprise; a corporation, business, or other entity that has been formed by, or for the benefit of, any such individual; an immediate family member of any such individual; and a person who is widely and publicly known (or is actually known by the relevant covered financial institution) to be a close associate of such individual. For the purposes of this definition, ‘senior official or executive’ means an individual with substantial authority over policy, operations, or the use of government-owned resources and ‘immediate family member’ means spouses, parents, siblings, children and a spouse’s parents and siblings.” 31 CFR § 1010.605(p). See also 31 CFR § 1010.620.
3. See FinCEN Advisory [FIN-2018-A003](#), “Advisory on Human Rights Abuses Enabled by Corrupt Senior Foreign Political Figures and their Financial Facilitators,” June 12, 2018 (highlighting the connection between corrupt senior foreign political figures and their enabling of human rights abuses).

- (3) describe how corrupt Venezuelan senior political figures exploit a Venezuelan government-administered food program by directing overvalued, no-bid contracts to co-conspirators that use an over-invoicing trade-based money laundering (TBML) scheme that can involve (i) front<sup>4</sup> or shell<sup>5</sup> companies to layer and obfuscate financial transactions; (ii) non-dollar denominated accounts; and (iii) nested accounts in an attempt to evade sanctions and anti-money laundering and countering the financing of terrorism (AML/CFT) controls;
- (4) highlight the attempt to use digital assets, specifically digital currency, to evade sanctions and AML/CFT controls by the corrupt illegitimate regime of Nicolas Maduro; and
- (5) provide revised financial red flags to assist in identifying and reporting to FinCEN suspicious activity that may be indicative of corruption by Venezuelan senior political figures, including (i) the abuse of Venezuelan government contracts, particularly those from non-official Venezuelan government accounts located in jurisdictions outside Venezuela and (ii) transactions for the purchase of high value assets, such as aircraft and real estate<sup>6</sup> that are not commensurate with the official salaries of the corrupt Venezuelan senior political figures making the purchase.

Awareness of money laundering schemes – and their associated crimes and bad acts – used by corrupt Venezuelan senior political figures may help financial institutions differentiate between illicit and legitimate transactions. It may also assist financial institutions in identifying and reporting transactions involving suspected corruption proceeds being held or moved by their customers, including through their private and correspondent banking relationships.

Consistent with a risk-based approach, financial institutions should be aware that normal business and other transactions involving Venezuelan nationals and businesses do not necessarily represent the same high risk as transactions and relationships identified as being connected to the illegitimate Maduro regime or to corrupt Venezuelan senior political figures and Venezuelan state-owned enterprises (SOEs) that exhibit the red flags below or other similar indicia of public corruption.

- 
- 4. Front companies are functioning businesses that combine illicit proceeds with earnings from legitimate operations, obscuring the source, ownership, and control of the illegal funds. When a company is used as a front to deposit, move, or use illicit proceeds it can be difficult for the bank holding the account to know that the company's banking activity includes money laundering. *See U.S. Department of the Treasury, [National Money Laundering Assessment 2015](#), pg. 43.*
  - 5. Shell companies are non-publicly traded corporations, limited liability companies (LLCs), and trusts that typically have no physical presence (other than a mailing address) and generate little to no independent economic value. Most shell companies are formed by individuals and businesses for legitimate purposes, such as to hold stock or intangible assets of another business entity or to facilitate domestic and cross-border currency and asset transfers and corporate mergers. *See FinCEN Advisory [FIN-2006-G014](#), "Potential Money Laundering Risks Related to Shell Companies," November 9, 2006.*
  - 6. *See FinCEN Advisory [FIN-2017-A003](#), "Advisory to Financial Institutions and Real Estate Firms and Professionals," August 22, 2017 (describing certain money laundering risks in the real estate sector).*

## Public Corruption in Venezuela

On January 23, 2019, the United States recognized Juan Guaidó as the Interim President of Venezuela and the legitimate leader of the Venezuelan people. The illegitimate Maduro regime has engaged in massive corruption through state-owned enterprises (SOEs) and offshore third-parties. Endemic corruption, such as that seen in Venezuela, impairs economic growth and stability. Such corruption, particularly related to government contracts and resources, deprives populations of their wealth; interferes with efforts to promote economic development; discourages private investment; destroys democratic institutions; and fosters a climate where financial crime and other forms of lawlessness can thrive.

Financial institutions have reported to FinCEN increased activity with suspected links to Venezuelan public corruption, including corruption involving government contracts. Based on this reporting and other information, it is FinCEN's assessment that all Venezuelan government agencies and bodies, including SOEs, appear vulnerable to public corruption, money laundering, and other financial crimes. The illegitimate Maduro regime appears to use its control over large parts of the economy to generate significant wealth for senior political figures and SOE executives, their families, and associates. In this regard, FinCEN assesses there is a high risk of corruption involving senior political figures of the illegitimate Maduro regime and employees at all levels, including those managing or working at Venezuelan SOEs.

## Example U.S. Government Actions

### 1. Sanctions and Related Actions

Multiple Executive Orders (E.O.s) address the situation in Venezuela, including:

- E.O. 13692 authorizes the Secretary of the Treasury to designate persons, *inter alia*, involved in public corruption by senior officials within the Government of Venezuela or persons who have materially assisted, sponsored, or provided financial, material, or technological support for, or goods or services to or in support of, such designated persons.<sup>7</sup>
- E.O. 13808 imposes additional sanctions prohibiting certain debt, equity, and profit and dividend disbursement activities with the Government of Venezuela, including Venezuelan state-owned oil company, Petroleos de Venezuela, S.A. (PDVSA).<sup>8</sup>
- E.O. 13827 prohibits a United States person or a person operating within the United States from engaging in any transactions related to, providing financing for, and other dealings in, any digital currency, digital coin, or digital token, issued by, for, or on behalf of the Government of Venezuela, including the "petro".<sup>9</sup>

7. Executive Order [13692](#) (March 8, 2015).

8. Executive Order [13808](#) (August 25, 2017).

9. Executive Order [13827](#) (March 19, 2018). *See also* the [OFAC's Frequently Asked Questions \(FAQs\) Index](#).

- E.O. 13835 prohibits certain transactions, by a U.S. person or within the United States, related to any debt owed to the Government of Venezuela or any equity interest in an entity in which the Government of Venezuela has a 50 percent or greater ownership interest.<sup>10</sup>
- E.O. 13850 authorizes the imposition of blocking sanctions on persons determined, *inter alia*, to be (i) operating in the gold sector of Venezuela's economy or in any other sector of the Venezuelan economy as determined by the Secretary of the Treasury in consultation with the Secretary of State, (ii) responsible for or complicit in, or to have directly or indirectly engaged in, any transactions involving deceptive practices or corruption and the Government of Venezuela or projects or programs administered by the Government of Venezuela, or to be an immediate adult family member of such a person.<sup>11</sup> The Secretary of the Treasury, in consultation with the Secretary of State, determined (i) on January 28, 2019, that persons operating in the oil sector of Venezuela may be subject to sanctions,<sup>12</sup> and (ii) on March 22, 2019, that persons operating in the financial sector of Venezuela may be subject to sanctions.<sup>13</sup>
- E.O. 13857 amends prior Venezuela E.O.s to define the term "Government of Venezuela" to include the state and Government of Venezuela, any political subdivision, agency, or instrumentality thereof, including the Central Bank of Venezuela and PDVSA, any person owned or controlled, directly or indirectly, by the foregoing, and any person who has acted or purported to act directly or indirectly for or on behalf of, any of the foregoing, including as a member of the illegitimate Maduro regime.<sup>14</sup>

The U.S. Department of the Treasury's Office of Foreign Assets Control (OFAC) administers sanctions-related authorities. Comprehensive information about OFAC sanctions is available at [OFAC's Resource Center for Venezuela-related Sanctions](#) and the [OFAC Recent Actions web page](#).

OFAC has designated, among others, the following Venezuela-related individuals and entities:

- *Nicolas Maduro Moros*, the illegitimate former President of Venezuela.<sup>15</sup>
- *PDVSA*, the Venezuelan state-owned oil company and primary source of Venezuela's income and foreign currency.<sup>16</sup> This designation highlighted how the state-owned oil company was the target of years of extortion and theft at the hands of government officials.<sup>17</sup>

10. Executive Order [13835](#) (May 21, 2018).

11. Executive Order [13850](#) (November 1, 2018).

12. Treasury's Resource Center, "[Issuance of a New Venezuela-related Executive Order and General Licenses; Venezuela-related Designation](#)" (January 28, 2019).

13. Treasury's Resource Center, "[Treasury Sanctions BANDES, Venezuela's National Development Bank, and Subsidiaries, in Response to Illegal Arrest of Guaido Aide](#)" (March 22, 2019).

14. Executive Order [13857](#) (January 25, 2019).

15. Treasury's Resource Center, "[Treasury Sanctions the President of Venezuela](#)" (July 31, 2017).

16. Treasury's Resource Center, "[Treasury Sanctions Venezuela's State-Owned Oil Company Petroleos de Venezuela, S.A.](#)" (January 28, 2019).

17. Treasury's Resource Center, "[Treasury Sanctions Venezuela's State-Owned Oil Company Petroleos de Venezuela, S.A.](#)" (January 28, 2019). See also, relevant Federal court cases discussed *infra* section 2(A)(i) and 2(A)(ii) of "Example U.S. Government Actions."

- *Tareck El Aissami (El Aissami)*, the illegitimate Maduro regime’s vice president, for playing a significant role in international narcotics trafficking pursuant to the Foreign Narcotics Kingpin Designation Act, as well as *Samark Lopez Bello*, for materially assisting El Aissami and acting on his behalf.<sup>18</sup>
- *Venezuela Currency Exchange Network Scheme*, a network in which Treasury targeted seven key individuals and 23 entities involved in a corruption scheme designed to take advantage of the Government of Venezuela’s currency exchange practices that generated more than \$2.4 billion in corrupt proceeds.<sup>19</sup>
- *Banco de Desarrollo Económico y Social de Venezuela (BANDES)* and four additional financial institutions owned or controlled by BANDES, for, *inter alia*, operating in the financial sector of the Venezuelan economy.<sup>20</sup>
- *Evrofinance Mosnarbank*, a Moscow-based bank jointly owned by Russian and Venezuelan state-owned companies that materially assisted, sponsored, or provided financial, material, or technological support for, or goods or services to or in support of PDVSA.<sup>21</sup> When the failed Venezuelan cryptocurrency, called the “petro”, launched in 2018, Evrofinance Mosnarbank emerged as the primary international financial institution willing to finance the petro.<sup>22</sup>
- *Banco Central de Venezuela*, or the *Central Bank of Venezuela*, for operating in the financial sector of the Venezuelan economy.<sup>23</sup>

- 
18. Treasury’s Resource Center, “[Treasury Sanctions Prominent Venezuelan Drug Trafficker Tareck El Aissami and His Primary Frontman Samark Lopez Bello](#)” (February 13, 2017). *See also*, Department of Justice Press Release, “[Venezuelan Minister and Former Vice President Tareck Zaidan El Aissami Maddah Charged with Violations of the Foreign narcotics Kingpin Designation Act](#)” (March 8, 2019).
  19. Treasury’s Resource Center, “[Treasury Targets Venezuela Currency Exchange Network Scheme Generating Billions of Dollars for Corrupt Regime Insiders](#)” (January 8, 2019). *See also*, relevant Federal court cases discussed *infra* sections 2(A)(i) and 2(B) of “Recent U.S. Government Actions.”
  20. Treasury’s Resource Center, “[Treasury Sanctions BANDES, Venezuela’s National Development Bank, and Subsidiaries, in Response to Illegal Arrest of Guaido Aide](#)” (March 22, 2019).
  21. Treasury’s Resource Center, “[Treasury Sanctions Russia-based Bank Attempting to Circumvent U.S. Sanctions on Venezuela](#)” (March 11, 2019). *See also*, relevant Federal court case discussed *infra* sections 2(A)(i) of “Recent U.S. Government Actions.”
  22. Treasury’s Resource Center, “[Treasury Sanctions Russia-based Bank Attempting to Circumvent U.S. Sanctions on Venezuela](#)” (March 11, 2019).
  23. Treasury’s Resource Center, “[Treasury Sanctions Central Bank of Venezuela and Director of the Central Bank of Venezuela](#)” (April 17, 2019).

In addition to the actions listed above, OFAC has announced other sanctions actions since FinCEN issued the 2017 Venezuela Advisory, including designations highlighting corruption among Venezuelan senior political figures.<sup>24</sup> The E.O.s and the OFAC designations increase the likelihood that other non-designated Venezuelan senior political figures of the illegitimate Maduro regime may seek to protect their assets, including those that are likely to be associated with political corruption, to avoid potential future blocking actions.

## 2. Recent Venezuela-Related Prosecutions

United States law enforcement has pursued several criminal cases involving large-scale corruption in Venezuela, some of which are described below. As of February 2019, 33 individuals have been charged by the U.S. Department of Justice and 19 individuals have already pleaded guilty in U.S. federal courts.

### A. PDVSA-Related Corruption:

(i) *United States v. Abraham Edgardo Ortega* (*Southern District of Florida*). On October 31, 2018, Abraham Edgardo Ortega, 51, a Venezuelan national who was PDVSA's executive director of financial planning, pleaded guilty to one count of conspiracy to commit money laundering. As part of his plea, Ortega admitted that in his position with PDVSA, he accepted \$5 million in bribes to give priority loan status to a French company and a Russian bank, which were both minority shareholders in joint ventures with PDVSA. Ortega was paid for this bribery scheme with the proceeds of a currency exchange scheme, through which \$1.2 billion was embezzled, through bribery and fraud from PDVSA. Ortega also admitted that in his position with PDVSA, he accepted \$12 million in bribes for his participation in a PDVSA embezzlement scheme involving a loan and foreign-exchange contract.<sup>25</sup>

24. Further information about OFAC sanctions is available at [OFAC's Resource Center for Venezuela-related Sanctions](#) and the [OFAC Recent Actions web page](#). Other OFAC sanctions actions related to Venezuela since the issuance of the 2017 Venezuela Advisory include the following: On [April 26, 2019](#), OFAC designated Jorge Alberto Arreaza Montserrat, the Venezuelan Minister of Foreign Affairs, and Carol Bealexis Padilla de Arretureta. On [April 17, 2019](#), along with designating the Central Bank of Venezuela, OFAC designated Iliana Josefa Ruzza Terán. On [April 12, 2019](#), the U.S. increased pressure on Cuba to end support to the illegitimate Maduro regime by designating four companies that operate in the oil sector of the Venezuelan economy and identifying nine vessels as blocked property. On [April 5, 2019](#), OFAC designated two companies operating in the oil sector of the Venezuelan economy and identified 35 vessels as blocked property. On [March 19, 2019](#), OFAC delisted certain persons and designated CVG Compania General de Mineria de Venezuela CA ("Minerven") and its president, to target the illicit gold operations that prop up the illegitimate Maduro regime. On [March 1, 2019](#), OFAC designated six Venezuelan government officials associated with violence and obstruction of humanitarian aid delivery. On [February 25, 2019](#), OFAC designated four officials aligned with the Maduro regime. On [February 15, 2019](#), OFAC designated five officials aligned with Maduro and involved in repression and corruption. On [September 25, 2018](#), OFAC designated four members of Maduro's inner circle and targeted proceeds of corruption in the United States. On [May 18, 2018](#), OFAC designated an influential former Venezuelan official and three individuals for being current or former officials, or for acting for or on behalf of designated individuals. On [March 19, 2018](#), OFAC designated four current or former Venezuelan government officials as part of Treasury's ongoing efforts to highlight the economic mismanagement and endemic corruption that have been the defining features of the illegitimate Maduro regime. On [January 5, 2018](#), OFAC designated four senior military officers associated with corruption and repression in Venezuela. On [November 9, 2017](#), OFAC designated 10 current or former Venezuelan government officials associated with undermining electoral processes, media censorship, or corruption in government-administered food programs in Venezuela.

25. See Department of Justice Press Release, "[Former Executive Director at Venezuelan State-Owned Oil Company, Petroleos De Venezuela, S.A., Pleads Guilty to Role in Billion-Dollar Money Laundering Conspiracy](#)" (October 31, 2018).

(ii) *United States v. Rafael Enrique Pinto Franceshi and Franz Herman Muller Huber (Southern District of Texas)*. On February 21, 2019, Rafael Enrique Pinto Franceshi (Pinto) and Franz Herman Muller Huber (Muller) were charged with foreign bribery, wire fraud, and money laundering for their alleged roles in a scheme to corruptly secure business advantages, including contracts and payment on past due invoices, from PDVSA. The defendants allegedly conspired with others to bribe three PDVSA officials in exchange for providing assistance in connection with a certain company's PDVSA business. According to the indictment, in exchange for bribe payments the PDVSA officials allegedly assisted the company in obtaining additional PDVSA contracts, inside information and payment on past due invoices. The indictment alleges that when the company received a payment from PDVSA, Pinto would alert one of the PDVSA officials who would, in turn, create a fictitious invoice from a Panamanian shell company charging the company three percent of whatever payment the company had received from PDVSA and directing the company to send payment to a Swiss bank account. The false invoice then would be sent to Muller, who would ensure that the invoices were paid.<sup>26</sup>

The indictment charging Pinto and Muller was unsealed on February 25, 2019.<sup>27</sup>

#### B. Illicit Use of Currency Exchange and Purchase of Real Estate and High-Value Assets:

*United States v. Alejandro Andrade Cedeno (Andrade) (Southern District of Florida)*. On November 27, 2018, Andrade, a former Venezuelan national treasurer, was sentenced to 10 years in prison for his role in a billion-dollar currency exchange and money laundering conspiracy. Andrade admitted receiving over \$1 billion in bribes in exchange for using his position as Venezuelan national treasurer to select co-conspirators to conduct currency exchange transactions at favorable rates for the Venezuelan government. Andrade received cash as well as private jets, yachts, cars, homes, champion horses, and high-end watches from his co-conspirators. As part of his plea agreement, Andrade agreed to a forfeiture money judgment of \$1 billion and forfeiture of all assets involved in the corrupt scheme, including real estate, vehicles, horses, watches, aircraft and bank accounts.<sup>28</sup>

## Misuse of Venezuela's CLAP Program

In addition to the United States' concerns of Venezuela's SOEs, the United States is increasingly concerned about the misuse of Venezuela's government-sponsored food distribution program: *Los Comités Locales de Abastecimiento y Producción* ("Local Supply and Production Committees"), commonly referred to as the "CLAP program." The illegitimate Maduro regime created the CLAP program in 2016 for the publicly-stated purpose of providing subsidized food rations to Venezuelan citizens. Instead, according to publicly-available information, the illegitimate Maduro regime is using

---

26. Department of Justice Press Release, "[Two Businessmen Charged with Foreign Bribery in Connection with Venezuela Bribery Scheme](#)" (February 26, 2019).

27. *Ibid.*

28. Department of Justice Press Release, "[Former Venezuelan National Treasurer Sentenced to 10 Years in Prison for Money Laundering Conspiracy Involving Over \\$1 Billion in Bribes](#)" (November 27, 2018).

the CLAP program as a political weapon, providing subsidized food shipments to its supporters, withholding those shipments from Venezuelan citizens who do not support the illegitimate Maduro regime, and forcing innocent citizens to choose between political support or starvation.

According to FinCEN analysis of Bank Secrecy Act (BSA) data and other information, corrupt Venezuelan government officials and their support networks also profit from the CLAP program through embezzlement and price manipulation schemes involving TBML and front and shell companies. Senior Venezuelan officials and business associates affiliated with the illegitimate Maduro regime have been identified as increasing their wealth and assets by colluding with front persons who use their shell companies to skim money from the commercial contracts and business activity facilitated through the program. These front persons typically rely on offshore, non-Venezuelan entities—which may be located in Mexico, Turkey, Panama, or Hong Kong, among other geographies—to support CLAP operations. This in turn may impede U.S. financial institutions' ability to identify activity not consistent with CLAP-related food operations.

## Venezuela-Related TBML Schemes

FinCEN analysis of BSA data and other information has identified TBML as a primary mechanism used by high-level, corrupt Venezuelan senior political figures, their family members, and associates to evade sanctions and facilitate the movement and laundering of proceeds related to corruption, fraud, and embezzlement, including to divert Venezuelan government funding for the CLAP program into their own accounts. These sophisticated TBML schemes use layered international wire transfers, over-invoicing methods, front and shell companies across multiple international jurisdictions, and nested accounts<sup>29</sup> in foreign-denominated currency to divert illicit gains into personal accounts. Many of these front and shell companies and their nested accounts are located in jurisdictions whose corporate formation regimes and financial sector offer limited transparency that impedes AML/CFT controls.

The TBML scheme that exploits the CLAP program shows that corrupt Venezuelan senior political figures direct CLAP-related, no-bid, and overvalued contracts to front and shell companies (“CLAP-contracted companies”) controlled by co-conspirators who are also the beneficial owners of these companies. The contract issuance process is non-transparent. Typically, the CLAP-contracted companies and their related companies bearing similar names are incorporated in Hong Kong, Spain, Portugal, Panama, Florida, and Delaware (some of the companies incorporated in Delaware have disclosed Miami-area addresses to their financial institutions). Having received the no-bid contract, the CLAP-contracted companies obtain the required authorization from the Venezuelan Corporation

29. “Nested accounts” occur when a foreign financial institution gains access to the U.S. financial system by operating through a U.S. correspondent account belonging to another foreign financial institution. If the U.S. bank is unaware that its foreign correspondent financial institution customer is providing such access to third-party foreign financial institutions, these third-party financial institutions can effectively gain anonymous access to the U.S. financial system. Unacceptable nested activity and other potentially suspicious activity include transactions to jurisdictions in which the foreign financial institution has no known business activities or interests and transactions in which the total volume and frequency significantly exceeds expected activity for the foreign financial institution, considering its customer base or asset size. U.S. banks should also focus on nested account transactions with any entities the bank has designated as higher risk. See Federal Financial Institutions Examination Council Bank Secrecy Act/Anti-Money Laundering Examination Manual—[Correspondent Accounts \(Foreign\)—Overview](#).

of Foreign Trade (CORPOVEX) to import food into Venezuela. Often, these CLAP-contracted companies receive a prepayment for the contract from CORPOVEX or through BANDES. Both the importers and the receiving corrupt government officials often divert a portion of the merchandise to the black market, where profits are higher.

In the past, corrupt Venezuelan senior political figures awarded these overvalued CLAP-related contracts for payment in U.S. dollars. However, more recently, the corrupt Venezuelan senior political figures have issued such contracts in euros to evade U.S. dollar clearing and the sanctions and AML controls implemented by U.S. financial institutions. In some cases, CLAP-contracted companies received these prepayments in their euro-denominated accounts held in offshore banking sectors or at institutions such as the International Banking Entities or the International Financial Entities established under the laws of Puerto Rico. Then, using the same financial institution that holds the euro-denominated accounts, they convert the currency to U.S. dollars by transferring the funds to their U.S.-dollar accounts held at the same financial institution or potentially to separate, foreign-based financial institutions.

After receiving the prepayment, the beneficial owners of the CLAP-contracted shell or front companies act as intermediaries for kickbacks to the corrupt Venezuelan senior political figures. The value of the kickbacks is the difference in value between the deliberately-inflated contract price and the market-rate value of the goods and services.

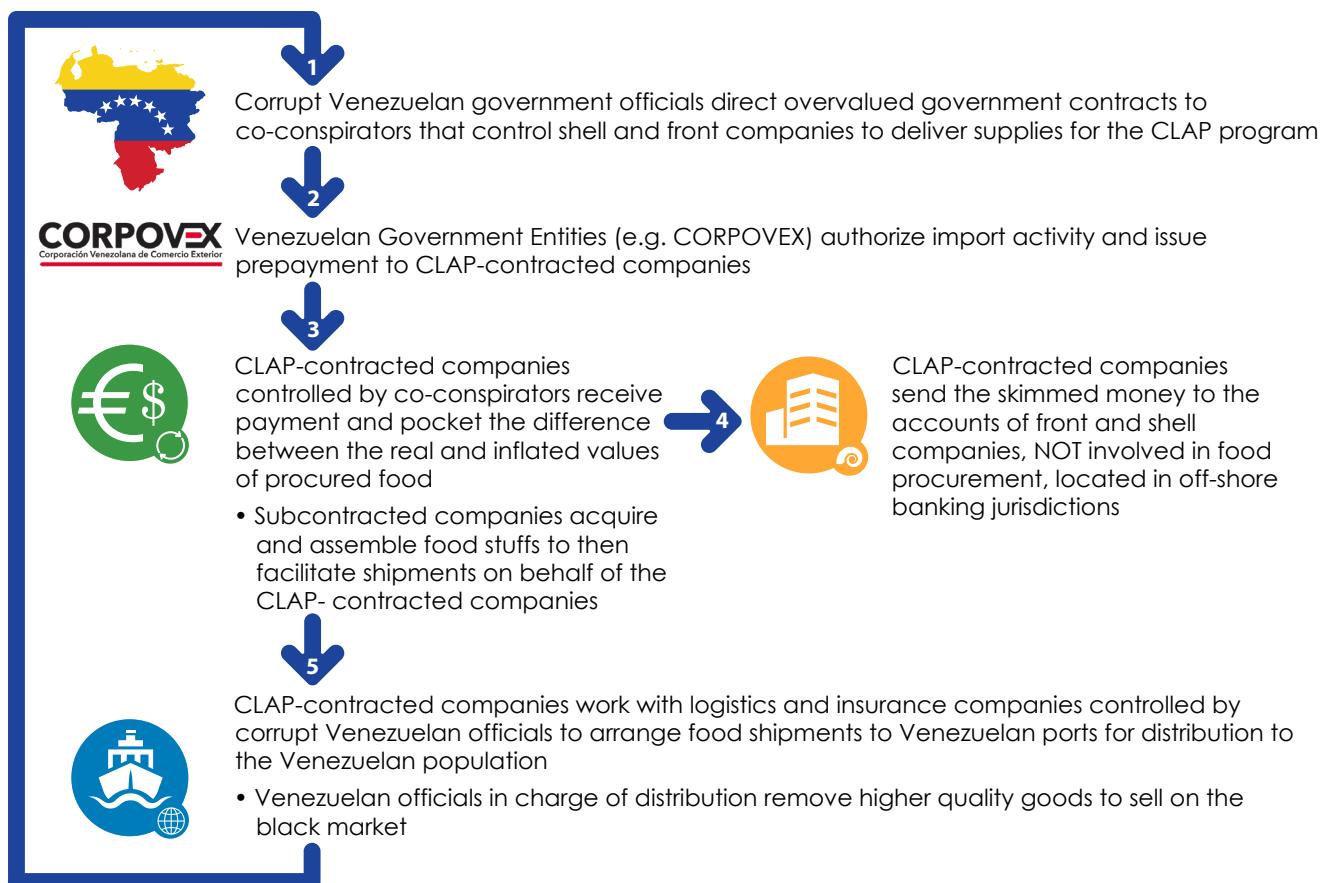
Acting as intermediaries, the beneficial owners of the CLAP-contracted shell or front companies divert the kickback amount, minus commissions into nested corporate accounts they control through their ownership and control of other front and shell companies. These nested correspondent bank accounts are typically held at financial institutions in the Caribbean, Panama, and Hong Kong. As part of this layering process, the intermediaries may transfer funds to U.S. financial institutions that are unknowingly holding accounts for these front or shell companies or accounts for the beneficial owners of these companies. Sometimes funds are diverted into personal bank accounts that are often located in the Caribbean, Panama, Switzerland, and Hong Kong.

Additional layering occurs when the front and shell companies send a portion of the skimmed money to the business accounts of related companies—whose commercial financial activity does not suggest food supply facilitation—to further obscure that funds originate from exploited contracts under the CLAP program. To avoid attracting increased scrutiny, the beneficial owners of these related companies rely on the diverse nature of the business activities of their companies to justify the high volumes of wire transfers to counterparties in foreign jurisdictions generated by this scheme. Then, using these business accounts, the co-conspirators send a portion of the skimmed amount to the corrupt Venezuelan senior political figures, their family members, and associates via wire transactions to the foreign accounts of those front and shell companies controlled by the corrupt Venezuelan senior political figures, their family members, and associates. Often, these accounts that receive kickbacks are located in foreign jurisdictions where bank secrecy and corporate formation structures impede AML/CFT controls. The series of transactions between contracted companies, nested corporate

accounts, and front and shell companies controlled by corrupt Venezuelan senior political figures, their family members, and associates is designed to obfuscate payments to corrupt figures; and to attempt to circumvent sanctions and AML/CFT controls implemented by U.S. financial institutions.

In furtherance of the TBML schemes, the CLAP-contracted companies will create a fraudulent invoice reflecting the purchase of goods worth an amount consistent with the original, overvalued contract. Typically, the CLAP-contracted company will sub-contract with other companies to fulfill the obligations of the CLAP-related contract, such as purchasing food and assembling food boxes. In some instances, CLAP-contracted companies controlled by corrupt Venezuelan senior political officials, their family members, and associates also control the subcontracted companies, which provides additional vehicles to layer any remaining CLAP contract payment overages.

The final step in the process occurs throughout the transport of food shipments to Venezuelan Ports of Entry. This step provides yet another opportunity to make money through corruption. For example, CLAP-contracted companies work with shipping and insurance companies controlled by corrupt Venezuelan senior political officials or their business associates to participate in the physical transport of food to Venezuelan ports. Upon port arrival, an SOE, such as Corporación Única de Servicios Productivos y Alimentarios C.A. (CUSPAL), takes custody of the food shipments for further distribution to the Venezuelan population. Prior to distribution, sometimes corrupt Venezuelan senior political officials, their family members, and associates remove higher-quality items to sell on the black market. This corrupt activity further decreases the aid supplied to the intended recipients of the CLAP program.



## Venezuelan Government Agencies and State-Owned Enterprises

Transactions involving Venezuelan government agencies and SOEs, particularly those engaged in government contracting, can be used as vehicles to move, launder, and conceal embezzled and stolen corruption proceeds. SOEs (as well as their officials) may try to use the U.S. financial system to move or hide proceeds of public corruption. Among the SOEs referenced in OFAC's designations related to Venezuela are the National Center for Foreign Commerce (CENCOEX), Suministros Venezolanos Industriales, CA (SUVINCA), the Foreign Trade Bank (BANCOEX), the National Telephone Company (CANTV), the National Electric Corporation (CORPOELEC), BANDES,<sup>30</sup> and similar state-controlled entities. As law enforcement and financial institutions increase scrutiny of transactions involving Venezuelan SOEs, corrupt officials may try to channel illicit proceeds through lesser-known or newly-created SOEs or affiliated enterprises.

## Venezuelan Government-Issued Digital Currency

Venezuela has experimented with the use of digital currency to circumvent sanctions and generate revenue.<sup>31</sup> It has developed a state-backed digital currency called the "petro" and reportedly continues to develop new tokens. Financial institutions are reminded that E.O. 13827, issued on March 19, 2018, prohibits U.S. persons from any involvement in the petro digital currency.

In 2018, Evrofinance Mosnarbank, a Moscow-based bank jointly owned by Russian and Venezuelan state-owned companies, emerged as the primary international financial institution willing to finance the petro. Early investors in the petro were invited to buy the digital currency by wiring funds to a Venezuelan government account at Evrofinance Mosnarbank. Evrofinance Mosnarbank's involvement in the petro demonstrated the illegitimate Maduro regime's continuing efforts to develop the petro and increase its utility to circumvent U.S. financial sanctions. On March 11, 2019, OFAC designated Evrofinance Mosnarbank, pursuant to E.O. 13850.<sup>32</sup>

---

30. On [March 22, 2019](#), OFAC designated BANDES and four additional financial institutions owned or controlled by BANDES, *inter alia*, for operating in the financial sector of the Venezuelan economy. *See supra* "Recent U.S. Government Actions."

31. Treasury's Resource Center, "[OFAC FAQs: Sanctions Compliance - Questions on Virtual Currency](#)" (March 19, 2018). As stated in the FAQs, for the purposes of OFAC sanctions programs, the term "digital currency" includes digital fiat currency or sovereign cryptocurrency, virtual currency (non-fiat), and digital representations of fiat currency.

32. OFAC designated Evrofinance on March 11, 2019. *See* Treasury's Resource Center, "[Treasury Sanctions Russia-based Bank Attempting to Circumvent U.S. Sanctions on Venezuela](#)" (March 11, 2019) and *see supra* section 1 of "Recent U.S. Government Actions."

## The Role of Currency Controls

Currency controls in Venezuela limit the supply of U.S. dollars for most economic activities, which encourages demand for foreign currency and smuggled goods in the parallel market. Although illegal, Venezuela's parallel market is a highly profitable business for those with connections to the illegitimate Maduro regime, enabling them to access inexpensive U.S. dollars and goods. The parallel market relies upon unregulated brokers, whose clients often include criminals who integrate illicit proceeds into the legal economy. Venezuelan officials and select business associates who receive preferential access to U.S. dollars at a more favorable, official exchange rate also exploit the multi-tier exchange rate system for profit.<sup>33</sup>

On January 8, 2019, the U.S. Department of the Treasury sanctioned Venezuelan individuals and companies involved in a significant corruption scheme designed to take advantage of the Government of Venezuela's currency exchange practices, which had generated more than \$2.4 billion in corrupt proceeds.<sup>34</sup> This designation, pursuant to E.O. 13850, targeted seven individuals<sup>35</sup>, including former Venezuelan National Treasurer Claudia Patricia Diaz Guillen (Diaz) and Raul Antonio Gorrin Belisario (Gorrin), who bribed the Venezuelan Office of the National Treasury (ONT, or Oficina Nacional del Tesoro) in order to conduct illicit foreign exchange operations in Venezuela.<sup>36</sup> In addition to Diaz and Gorrin, OFAC designated five other individuals and 23 entities, pursuant to E.O. 13850, for their roles in the bribery scheme, and identified one private aircraft as blocked property.<sup>37</sup>

## Venezuelan Government Corruption – Red Flags

The red flags below may help financial institutions identify and report suspicious activity related to corrupt Venezuelan senior political figures, their family members, and associates.

- 1** Transactions involving government contracts of the illegitimate Maduro regime that are directed to personal accounts.
- 2** Transactions involving government contracts of the illegitimate Maduro regime that are directed to companies that operate in an unrelated line of business (e.g., payments for construction projects directed to textile merchants).

33. See *supra* at "Sanctions and Related Actions."

34. Treasury's Resource Center, "[Treasury Targets Venezuela Currency Exchange Network Scheme Generating Billions of Dollars for Corrupt Regime Insiders](#)" (January 8, 2019) and *supra* at "Sanctions and Related Actions."

35. OFAC has since delisted two of these seven individuals. See Treasury's Resource Center, "[Venezuela-related Designations, Designations Updates, and Designations Removals](#)" (March 19, 2019).

36. Treasury's Resource Center, "[Treasury Targets Venezuela Currency Exchange Network Scheme Generating Billions of Dollars for Corrupt Regime Insiders](#)" (January 8, 2019) and see *supra* "Sanctions and Related Actions."

37. *Ibid.*

- 3 Transactions involving government contracts of the illegitimate Maduro regime that originate with, or are directed to, entities that are front and shell corporations, general “trading companies,” or companies that lack a general business purpose.
- 4 Documentation corroborating transactions involving government contracts of the illegitimate Maduro regime (e.g., invoices) that include charges at substantially higher prices than market rates or that include over-simplified documentation or lack expected details (e.g., valuations for goods and services).
- 5 Payments involving government contracts of the illegitimate Maduro regime that originate from non-official Venezuelan accounts, particularly accounts located in jurisdictions outside of Venezuela (e.g., Panama or the Caribbean) and held by offshore financial institutions (e.g., in Dominica).
- 6 Export businesses operating in South Florida—especially those with subsidiaries in Venezuela, or that own companies incorporated in Venezuela with similar names—that are engaged in the trade of heavy equipment, auto parts, and electronics from Florida to Venezuela pose a higher risk of being facilitators of TBML.
- 7 Payments involving government contracts of the illegitimate Maduro regime that originate from third parties that are not official Venezuelan government entities (e.g., shell companies). Third parties, or brokers, may be used to deal with government entities in Venezuela and are a significant source of risk. Brokers, particularly when colluding with corrupt government officials, can facilitate overseas transactions in a way that circumvents currency controls and masks payments from SOEs.
- 8 Cash deposits instead of wire transfers in the accounts of companies involved in Venezuelan government contracts originating from the illegitimate Maduro regime.
- 9 Transactions for high-value assets such as the purchase of real estate or aircraft involving corrupt senior political figures, family members, or associates of the illegitimate Maduro regime that are not commensurate with the official salaries of the purchaser. Regions of concern include: South Florida; the area of Houston, Texas; the Caribbean; and southern Europe.
- 10 Corrupt Venezuelan senior political figures, their family members, and associates seeking to abuse a U.S. or foreign bank’s wealth management units by using complex financial transactions to move and hide corruption proceeds.

## Reminder of Bank Secrecy Act Obligations for U.S. Financial Institutions

FinCEN reminds U.S. financial institutions that they must comply with their due diligence obligations under the BSA and its implementing regulations.<sup>38</sup> In addition to their general due diligence requirements, covered financial institutions are required to implement a due diligence program for private banking accounts held for non-U.S. persons designed to detect and report any known or suspected money laundering or other suspicious activity through those accounts.<sup>39</sup> This program must also be designed to determine whether any such account is held by, or on behalf of, a senior foreign political figure; and, if so, these institutions must apply enhanced scrutiny reasonably designed to detect and report “transactions that may involve the proceeds of foreign corruption.”<sup>40</sup> As part of their risk-based implementation of these requirements, financial institutions should consider whether they have any financial contact with persons or entities (foreign or otherwise) that may be acting directly or indirectly for or on behalf of any senior political figures of the Government of Venezuela.

FinCEN also reminds covered financial institutions of their obligation to implement due diligence programs for correspondent accounts they maintain for foreign financial institutions that include appropriate, specific, risk-based and, where necessary, enhanced policies, procedures and controls reasonably designed to detect and report known or suspected money laundering activity involving such accounts.<sup>41</sup>

### Suspicious Activity Reporting (SAR)

A financial institution is required to file a SAR if it knows, suspects, or has reason to suspect a transaction conducted or attempted by, at, or through the financial institution involves funds derived from illegal activity, or attempts to disguise funds derived from illegal activity; is designed to evade regulations promulgated under the BSA; lacks a business or apparent lawful purpose; or involves the use of the financial institution to facilitate criminal activity, including foreign corruption.<sup>42</sup> FinCEN issued Guidance in April 2008 and similar information in a SAR Activity Review issued in May 2011 to assist financial institutions with reporting suspicious activity regarding proceeds of foreign corruption.<sup>43</sup>

- 38. See 31 U.S.C § 5318(h) and 31 CFR § 1010.210 for AML program requirements, and as applied to specific financial institutions in 31 CFR §§ 1020.210, 1021.210, 1022.210, 1023.210, 1024.210, 1025.210, 1026.210, 1027.210, 1028.210, 1029.210, and 1030.210.
- 39. See USA PATRIOT Act § 312, codified at 31 U.S.C. § 5318(i) and 31 CFR § 1010.620(a). The definition of “covered financial institution” is found in 31 CFR § 1010.605(e). The definition of “private banking account” is found in 31 CFR § 1010.605(m). The definition for the term “non-U.S. person” is found in 31 CFR § 1010.605(h).
- 40. See 31 CFR § 1010.620(b)-(c).
- 41. See USA PATRIOT Act § 312 (31 U.S.C. § 5318(i)); 31 CFR § 1010.610(a).
- 42. See 31 CFR §§ 1020.320, 1021.320, 1022.320, 1023.320, 1024.320, 1025.320, 1026.320, 1029.320, and 1030.320.
- 43. See FinCEN Guidance [FIN-2008-G005](#), “Guidance to Financial Institutions on Filing Suspicious Activity Reports Regarding the Proceeds of Foreign Corruption,” April 17, 2008; and [The SAR Activity Review, Issue 19](#), “In focus: Foreign Corruption,” Sections 4 and 5, May 2011.

## SAR Filing Instructions

When filing a SAR, financial institutions should provide all pertinent available information in the SAR form and narrative. FinCEN requests financial institutions only use the updated mandatory SAR form (as of February 1, 2019). FinCEN further requests that financial institutions select SAR field 38(m) ("Suspected Public/Private Corruption (Foreign)") and reference this advisory by including the key term:

**"Venezuela Corruption FIN-2019-A002"**

in SAR field 2 ("Filing Institution Note to FinCEN") to indicate a connection between the suspicious activity being reported and the persons and activities highlighted in this advisory.

SAR reporting, in conjunction with effective implementation of due diligence requirements and OFAC obligations by financial institutions, has been crucial to identifying money laundering and other financial crimes associated with foreign and domestic political corruption. SAR reporting is consistently beneficial and critical to FinCEN and U.S. law enforcement analytical and investigative efforts, OFAC designation efforts, and the overall security and stability of the U.S. financial system.<sup>44</sup>

## For Further Information

Questions or comments regarding the contents of this advisory should be addressed to the FinCEN Regulatory Support Section at [frc@fincen.gov](mailto:frc@fincen.gov).

Financial institutions wanting to report suspicious transactions that may potentially relate to terrorist activity should call the Financial Institutions Toll-Free Hotline at (866) 556-3974 (7 days a week, 24 hours a day). The purpose of the hotline is to expedite the delivery of this information to law enforcement. Financial institutions should immediately report any imminent threat to local-area law enforcement officials.

**The mission of the Financial Crimes Enforcement Network is to safeguard the financial system from illicit use, combat money laundering, and promote national security through the strategic use of financial authorities and the collection, analysis, and dissemination of financial intelligence.**

44. For example case studies, see SAR Activity Review, Issue 19, beginning on page 25 and [Law Enforcement Case Examples](#).