

# MONITORING CUSTOMER ACCOUNTS FOR SUSPICIOUS ACTIVITY (ANTI-MONEY LAUNDERING & IDENTITY PROTECTION)

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In accordance with the US Patriot Act, KCD Financial, Inc. monitors account activity to identify patterns of unusual size, volume, pattern or type of transactions, geographic factors such as whether jurisdictions designated as “non cooperative” are involved. We also review transactions in the context of other account activity to determine if a transaction lacks financial sense or is suspicious because it is an unusual transaction or strategy for that customer. KCD’s Anti-Money Laundering Program is available upon request or on KCD Financial, Inc. website.

KCD Financial, Inc. also monitors accounts for “Red Flags”. When a red flag is detected, the AML Compliance Officer or Supervisor must be notified. If you encounter any suspicious activity that falls into these guidelines, an Activity Escalation Report must be completed and submitted to the AML Compliance Officer for the firm. The situation will be reviewed in order to make further decisions regarding procedures to be followed. Common red flags are listed below.

## Customers – Insufficient or Suspicious Information

- Provides unusual or suspicious identification documents that cannot be readily verified.
- Reluctant to provide complete information about nature and purpose of business, prior banking relationships, anticipated account activity, officers and directors, or business location.
- Refuses to identify a legitimate source for funds or information is false, misleading, or substantially incorrect.
- Background is questionable or differs from expectations based on business activities.
- Customer with no discernable reason for using the firm’s service.

## Efforts to Avoid Reporting and Recordkeeping

- Reluctant to provide information needed to file reports or fails to proceed with transaction.
- Tries to persuade an employee not to file required reports or not to maintain required records.
- “Structures” deposits, withdrawals, or purchase of monetary instruments below a certain amount to avoid reporting or recordkeeping requirements.
- Unusual concern with the firm’s compliance with government reporting requirements and firm’s AML policies.

## Certain Funds Transfer Activities

- Wire transfers to/from financial secrecy havens or high-risk geographic location without an apparent business reason.
- Many small, incoming wire transfers or deposits made using checks and money orders. Almost immediately withdrawn or wired out in manner inconsistent with customer’s business or history. This may indicate a Ponzi scheme.
- Wire activity that is unexplained, repetitive, unusually large, shows unusual patterns, or with no apparent business purpose.

### **Certain Deposits or Dispositions of Physical Certificates**

- Physical certificate is titled differently than the account.
- Physical certificate does not bear a restrictive legend, but based on history of the stock and/or volume of shares trading, it should have such a legend.
- Customer's explanation of how he or she acquired the certificate does not make sense or changes.
- Customer deposits the certificate with a request to journal the shares to multiple accounts, or to sell or otherwise transfer ownership of the shares.

### **Certain Securities Transactions**

- Customer engages in prearranged or other non-competitive trading, including wash or cross trades of illiquid securities.
- Two or more accounts trade an illiquid stock suddenly and simultaneously.
- Customer journals securities between unrelated accounts for no apparent business reason.
- Customer has opened multiple accounts with the same beneficial owners or controlling parties for no apparent business reason.
- Customer transactions include a pattern of receiving stock in physical form or the incoming transfer of shares, selling the position, and wiring out proceeds.
- Customer's trading patterns suggest that he or she may have inside information.

### **Transactions Involving Penny Stock Companies**

- Company has no business, no revenues, and no product.
- Company has experienced frequent or continuous changes in its business structure.
- Officers or insiders of the issuer are associated with multiple penny stock issuers.
- Company undergoes frequent material changes in business strategy or its line of business.
- Officers or insiders of the issuer have a history of securities violations.
- Company has not made disclosures in SEC or other regulatory filings.
- Company has been the subject of a prior trading suspension.

### **Transactions Involving Insurance Products**

- Cancels an insurance contract and directs funds to a third party.
- Structures withdrawals of funds following deposits of insurance annuity checks signaling an effort to avoid BSA reporting requirements.
- Rapidly withdraws funds shortly after a deposit of a large insurance check when the purpose of the fund withdrawal cannot be determined.

- Cancels annuity products within the free look period which, although could be legitimate, may signal a method of laundering funds if accompanied with other suspicious indicators.
- Opens and closes accounts with one insurance company then reopens a new account shortly thereafter with the same insurance company, each time with new ownership information.
- Purchases an insurance product with no concern for investment objective or performance.
- Purchases an insurance product with unknown or unverifiable sources of funds, such as cash, official checks, or sequentially numbered money orders.

#### **Activity Inconsistent With Business**

- Transactions patterns show a sudden change inconsistent with normal activities.
- Unusual transfers of funds or journal entries among accounts without any apparent business purpose.
- Maintains multiple accounts, or maintains accounts in the names of family members or corporate entities with no apparent business or other purpose.
- Appears to be acting as an agent for an undisclosed principal, but is reluctant to provide information.

#### **Other Suspicious Customer Activity**

- Unexplained high level of account activity with very low levels of securities transactions.
- Funds deposits for purchase of a long-term investment followed shortly by a request to liquidate the position and transfer the proceeds out of the account.
- Law enforcement subpoenas.
- Large numbers of securities transactions across a number of jurisdictions.
- Buying and selling securities with no purpose or in unusual circumstances (*e.g.*, churning at customer's request).
- Payment by third-party check or money transfer without an apparent connection to the customer.
- Payments to third-party without apparent connection to customer.
- No concern regarding the cost of transactions or fees (*i.e.*, surrender fees, higher than necessary commissions, etc.).