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BY LUCY KOMISAR

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by Russian con men. Though it has not been reported until now, the Bank of New York and other New York banks—including Chemical, Chase Manhattan, and Citibank—were and most likely still are conduits for the proceeds of a still-to-be-tallied series of crimes, with at least a thousand shell company bank accounts laundering dirty cash. Indeed, O'Connell suspects that hundreds of millions of tainted dollars have passed through the New York banks into offshore havens.

O'Connell described one scam in detail after this reporter discovered the court record last year. O'Connell was then heading an inter-agency federal investigation of money laundering and other international crimes. The FBI, IRS, Customs, and O'Connell's agency, the Immigration and Naturalization Service, had monitored two Russians with unusual banking

IMMIGRATION AGENT  
THOMAS O'CONNELL SUSPECTS  
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habits. In 1993 and '94, the pair used Chemical and Chase (now merged), Citibank, and the Bank of New York to launder almost \$2 million embezzled from a St. Petersburg TV station. That case was among the many that calls into question the melodramatically proclaimed surprise of Bank of New York CEO Thomas Renyi, who told the House Banking Committee in September "how dismayed I have been by the suggestions in the press that the Bank of New York has been involved in, or been used as a vehicle for, money laundering or other illicit activities."

Another big New York bank also moved funds on a grand scale. O'Connell said investigations into the activities of one of the men in the St. Petersburg swindle revealed roughly a thousand bank accounts used by Russian crooks. "Most [of the accounts] were out of the Chemical Bank in Dag Hammarskjold Plaza in New York City. The first four or five bank statements I saw had hundreds of thousands of dollars going through them," he said. "The money would be wired in from Russia and then go out [offshore] to the Cayman Islands or the Isle of Man or Switzerland in two or three days. There's at least a thousand of them, and in each one there's money being wired into the U.S., hundreds of thousands of dollars." He said the total of the money moving through all the accounts investigators examined ran into "hundreds of millions."

This story underscores dangerous failures in U.S. bank practices and federal and state policies. Banks routinely establish accounts for phony companies without doing effective "due diligence" to check out their customers. Law enforcement agents are hamstrung by state corporation recording procedures that make it hard to ferret out bogus companies set up by crooks. Once money moves through offshore secrecy havens such as the Cayman Islands, it's generally impossible to locate or recover, because those jurisdictions won't open bank records to law enforcers.

O'Connell believes dozens of the owners of the targeted accounts were linked to Russian organized crime. He says one customer was Vyacheslav Kirillovich Ivankov, at the time the most powerful Russian organized crime leader in the United States. Ivankov was convicted of extortion in Brooklyn in 1996 and sentenced to 10 years in federal

RINSING  
RUBLES AT  
CHASE,  
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& CITIBANK  
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prison at Raybrook, New York.

The bank accounts were discovered because investigators were tapping the fax of a Russian immigrant, Alexandr Yegmenov who'd provoked the attention of law enforcement authorities from almost the moment he set foot in this country. The St. Petersburg fraud that brought Yegmenov down offers a fascinating glimpse into the money-laundering process. The details were obtained from court records and interviews with government investigators.

All the banks discussed in this piece were given several opportunities over the past several weeks to respond. A Bank of New York spokesperson declined to comment on any of the cases. PR officials at Citibank and the now merged Chase and Chemical banks promised to look into the issues. Follow-up queries brought the reply that they were still looking.

**ALEXANDR YEGMENOV ARRIVED IN THE U.S.** more than 10 years ago, when he was in his early thirties. Thomas O'Connell arrested him in 1990 as an "overstay" when he was living at a fraternity house at Rensselaer Polytechnic Institute in Troy. Seeking to block deportation, in 1990 Yegmenov filed a political asylum application. He claimed he had been an economist in the dissident organization Sintez and had been detained in a psychiatric facility for a month. Actually, the court records said, he had been convicted in Russia in 1984 on weapons and unlawful sale of goods charges and had served three years. That wasn't known by Immigration then, and Yegmenov got asylum.

A good capitalist, Yegmenov went into the corporate services business, setting up shell companies—paper corporations that don't actually operate, but are often covers to evade taxes or disguise transactions. He established New York companies through his All American Corporate Service, Inc., in Albany and filed for Delaware corporations with help from Delaware Business Incorporators in Wilmington.

"He would create a company in New York and subsidiaries outside the U.S., typically in the Caribbean," explained New York State police captain David L. McNulty of the Bureau of Criminal Investigations, who helped collect evidence. "Sometimes he was creating a couple of hundred corporations a week all over the country. People came to him and said, 'I need four companies outside the U.S. that the IRS can't get access to.'"

## RUSSIAN CONS AND NEW YORK BANKS

To incorporate U.S. "subsidiaries," Yegmenov would dummy up supporting documents to show that companies existed in Russia. O'Connell said, "I have 16 boxes and filing cabinets of his papers. I have two boxes full of Russian stamps and seals he made for every Russian entity, from federal police agencies to universities to hospitals. They bought a moderm for the stamping company and were moderming them images of the stamps they wanted. We seized a Russian typewriter. They use thin paper and bind it with white string. He had all that stuff." The Grand Jury indictment called Yegmenov "a master forger."

He promised fast service. O'Connell said, "He was buying people at the New York State Department of State drinks and dinner to expedite the incorporation process. At one time he had a box of blank New York State certificates of incorporation that an employee at the Department of State gave him. They had a watermark and seal. (Two state clerks were disciplined.)"

Yet Yegmenov was sloppy. Some clients wanted to use the companies to back up requests for business visas, claiming that the "American subsidiaries" of their "companies" needed them to work here. The INS got suspicious about the large number of applications Yegmenov was filing. Investigators discovered that he had printed business cards for many of the companies at the same two addresses,

1 Columbia Place and 283 State Street in Albany.

They tapped his fax machines and hit pay dirt. They learned that he had set up thousands of shell companies. They would find 4000 in New York, a thousand in Delaware, a few hundred in Pennsylvania, Massachusetts, Ohio, and other states, and a couple of dozen in havens such as the Isle of Man and the Cayman Islands.

The faxes led authorities to a Yegmenov client named Mikhail Syroejine and the \$2 million embezzlement case. Syroejine was 28 in 1993 and had just been appointed deputy director of St. Petersburg's GTRK Channel 5, a government television station. He was responsible for company purchases.

Prosecutors charged that Yegmenov helped Syroejine set up TV & Radio of St. Petersburg, Inc., which was registered in August 1993 in Albany in the name of Syroejine's wife, Anna Potyomkina. Syroejine was secretary, and his real boss, TV station director Bella Kurkova, and her deputy chief, Victor Pravdyuk, were listed as shareholders. Yegmenov that day also established several other shell corporations to use in the scheme. And Syroejine opened an account for TV & Radio of St. Petersburg at Chase Manhattan Bank in Manhasset, New York, with a \$200 deposit. Then, Syroejine arranged to "purchase" new Sony TV equipment from TV & Radio of St. Petersburg, also known as Channel 5. Channel 5 paid \$2 million into the account of the phony company between December 1993 and February 1994.

St. Petersburg TV officials would later insist that Syroejine had persuaded them that the cheapest way to buy the Sony equipment was via a three-way contract between GTRK, V.N. Express (one of the New York shell companies), and Jojan Consultants, Ltd., a company registered in Dublin. (Dublin offers corporate secrecy, hiding owners' names from government investigators and courts.)

But as it often does in these cases, some of the money ended up fueling the U.S. economy. In April 1993, Syroejine had gotten a nonimmigrant visa from the U.S. consulate in Vienna, and in March 1994, he disappeared from St. Petersburg and showed up in America to micromanage the scam. On March 18, 1994, half a million dollars was wired from a Liechtenstein account to a New York Citibank account he controlled, and between March and May, checks drawn on Citibank paid for a \$20,000 Rolex watch, a 1994 Jeep Grand Cherokee, and a Chris Craft 380 Continental pleasure boat.

Money launderers move cash through multiple accounts to obfuscate paper trails. Between August 1993 and May 1994, Syroejine opened accounts at Chase, Chemical, Citibank, and the Bank of New York, and shifted hundreds of thousands of dollars between them until he sent nearly \$2 million out of the country. Some \$430,000 went to Barclay's Bank in Limassol, Cyprus. Another \$400,000 was sent to an account called Mand Stiftung, opened in the name of Valeri Martioukhine at Verwaltung Und Privatbank Vaduz in Liechtenstein. More than a million dollars went to Jojan Consultants at Lloyd's Bank in the U.K.

By May 1994, close to delivery time for the illusory Sony TV equipment, V.N. Express had replaced the now defunct TV & Radio of St. Petersburg as the "supplier" and taken over its \$600,000 banked assets. Syroejine sent a fax from V.N. Express stating that because of the "provocative behavior" of one of Channel 5's representatives, V.N. Express refused to deal with it anymore. Channel 5 never got more of an explanation or the equipment, nor could it get in touch with V.N. Express or Syroejine.

MEANWHILE, U.S. INVESTIGATORS LEARNED through Interpol of Yegmenov's 1984 Russian convictions and jail term. The Justice Department's Office of International Affairs passed the information to the Russians, and in 1995, Russian prosecutors began looking into the disappearance of \$1.87 million from Channel 5.

## AMERICAN BANKS ROUTINELY ESTABLISH ACCOUNTS FOR PHONY COMPANIES WITHOUT DOING EFFECTIVE 'DUE DILIGENCE' TO CHECK OUT THEIR CUSTOMERS.

On November 13, 1995, the FBI arrested Yegmenov in Brooklyn. Agents seized Syroejine at his Santa Monica condominium. The two men were indicted in November 1995 for money laundering. Yegmenov was also charged with visa fraud. The U.S. calculated the total theft of the Channel 5 case at \$1,949,460.66. Authorities would not say whether any money was recovered.

O'Connell had the INS run a computer search to pull all the visa applications Yegmenov had filed. It found about a thousand. "They were for the Brighton Beach crowd," he said. "Ninety-eight percent of the companies were out of Brooklyn." Brighton Beach in Brooklyn is a center for Russian criminals.

Then U.S. agents used the applications to lead them to the bank accounts of the phony companies. O'Connell explained, "Each company that petitions for an alien has a file, a lot of supporting documents. I had at one time a thousand of those files, each for different companies, all sent to our service center in St. Albans, Vermont. We had the center start asking the petitioners for additional documents, including bank statements. Most were out of the Chemical Bank in Dag Hammarskjold Plaza in New York City. Some were from the Bank of New York, a couple from Citibank." He said the Russian Mafiya was using many of the bank accounts to bring in large sums by pretending that they were paying for contracts in the U.S.

## hiding the money

Lax state regulations make it easy for crooks to hide their connections to shell companies and bank accounts.

Neither New York nor Delaware, for example, demands that owners and officers be listed on incorporation filings. Company directors are supposed to be listed on the annual Delaware franchise tax filing, but lawyers often name themselves or leave a blank. A clerk at the New York State Division of Corporations said a requirement for biannual filings signed by the chairman of the board was not enforced, because the legislature hadn't passed an implementing law. A Delaware corporation division clerk said when papers come through with directors not listed, the lack of data is ignored.

Immigration agent Thomas O'Connell and Anthony Russo, the IRS agent on the Alexandr Yegmenov investigation, agreed that company owners and officers should be named in incorporation papers and that state incorporation computers should be configured to facilitate searches of owners, officers, and filers. Then, Russo said, "If we had an allegation against a suspect, we could go there right away and see that he formed 5000 corporations," instead of having to hunt for them by hand. —L.K.

When investigators sought to locate other shell companies Yegmenov had incorporated, they were stymied by state corporation department practices. There was no way to run a computer search to locate corporations by filer. New York State Police agents had to search by hand the papers of every corporation filed with the state over a period of time and pull folders with recognizable names such as Yegmenov or someone from his office. Sensing the surveillance, he started using other petitioners' names. Limited to tagging files that bore names they knew, investigators still discovered roughly 4000 New York State shell companies Yegmenov set up.

But investigators could get banking information only from corporations sponsoring people to get visas, not from those set up just to launder money. O'Connell explained, "The only reason we know about the bank accounts is because of the supporting documents. If Alex incorporated 3000 companies that didn't apply for visas, where do you start looking? Do you search every bank to see if it has accounts from those corporations? It's an impossible task."

**EXAMINING EACH COMPANY WOULD HAVE** been useful. Yegmenov's enterprises dealt in more than visas and money laundering. Officials said some Delaware companies he set up appear to have been used for exportation of stolen cars, weapons trafficking, and motor oil excise tax fraud, in which crooks import diesel and call it home heating oil to avoid paying taxes. Other Yegmenov firms specialized in bilking medicare and medicaid with phony invoices, say for fictitious wheelchairs. Yet others provided fake documents for manicurists' licenses. Authorities suspected that certain auto body shops he incorporated in New York were used by car-theft rings that changed plates and shipped cars to Russia.

Yegmenov pleaded guilty in 1995 to money laundering and visa fraud. He served about a year in prison or in INS detention, and was deported. In Russia, he was jailed for a year on the St. Petersburg TV station charge, then released. A source said that Syroejine had been freed on bond, but from January 18, 1996, most court records in his case were sealed, including any indicating its disposition. None of the other station officials in Russia were charged with crimes.

The Justice Department and U.S. attorneys who handled the case declined to provide information on grounds that aspects of it are still being investigated. There are thousands of Yegmenov companies suspected of being used for illegal purposes.

"I get calls all the time on the companies he opened," O'Connell said. "It created a lot of awareness in the U.S. State Department. Every once in a while, I'll get a call from the Office of International Affairs. The legate to Moscow or St. Petersburg has one of Yegmenov's companies on his desk and what should he do about that. I tell them, 'Don't give the guy the visa.'" He added, "I'm sure somebody by now has taken Yegmenov's place."

**THE MONEY-LAUNDERING SCANDALS** reported here and in recent months are probably the tip of the iceberg. Putting together Russian government estimates, about \$50 billion leaves that country illegally each year. Nobody knows how much is capital flight, or how much is the proceeds of embezzlement or other crimes. But U.S. government officials say that Russian organized crime is developing importance on a par with the Italian Mafiosi, Colombian drug traffickers, Japanese gangsters, and Chinese triads. Internationally, estimates are that \$500 billion to \$1 trillion in criminal money from all sources ends up in U.S. and European banks each year.

The major economic powers, led by the

United States, have failed to challenge the structures that facilitate money laundering by Russians and others. They have refused to act to end the corporate and bank secrecy that lets crooks hide behind shell companies and anonymous offshore accounts. On the contrary, major American and international banks have subsidiaries offshore where they assiduously help clients evade the laws of their own countries.

Congress shares the blame. Yegmenov's clients might not have moved their illicit money undetected so easily had Congress not killed the "Know Your Customer" rule proposed by U.S. bank regulators last December. The law already requires banks to perform "due diligence" on their big customers and report "suspicious transactions." The proposed rule would have made them spell out their procedures—to identify the owners of accounts, to determine big-money customers' sources of funds, to monitor large transactions, and to flag those that were not normal.

Now, the scandals have put anti-money-laundering legislation back on the agenda. House Banking Committee Chairman Jim Leach (Republican of Iowa) and senators Charles E. Schumer (Democrat of New York), Paul D. Coverdell (Republican of Georgia), and Carl Levin (Democrat of Michigan) have introduced measures requiring banks to keep records of account owners' identities and to ban correspondent or concentration accounts that commingle funds of an institution's customers without identifying them, a way offshore banks commonly move clients' money. The bills would make it a crime for banks in the U.S. to knowingly handle money traceable to foreign government corruption, and they would expand the list of crimes that trigger money-laundering charges.

The Clinton administration, with a Treasury Department strongly influenced by banks and investment companies and a traditional policy of

## U.S. GOVERNMENT OFFICIALS SAY THAT RUSSIAN ORGANIZED CRIME IS DEVELOPING IMPORTANCE ON A PAR WITH THE ITALIAN MAFIOSI, COLOMBIAN DRUG TRAFFICKERS, JAPANESE GANGSTERS, AND CHINESE TRIADS.

welcoming capital no matter what its origins, has introduced a much weaker bill that would merely expand the list of money-laundering crimes to include theft of public funds by officials, arms trafficking, and crimes of violence, and would give U.S. courts jurisdiction over foreign banks that violate U.S. money-laundering laws. It would not address offshore bank and corporate secrecy or the need for clear identification of U.S. company owners and bank customers.

The American Bankers Association, which fiercely lobbied against the Know Your Customer regulation, is now opposing new laws to flush out dirty money. John J. Byrne, ABA senior counsel, worries about "pressure from examiners and media and the public that may force the bank to report possible criminal activity more frequently than they would have in the past." He said international clients would say, "I don't think it's anybody's business in the U.S. how I do my business. I'm going to go to a country where they're not going to ask all these penetrating questions and take my business elsewhere."

For now, in other words, no effective law forces a bank to screen out the likes of Yegmenov and his clients. ▀