

The Nexus between financial crime, money laundering and terrorist financing

Raj Rajaratnam, is the founder of the large technology hedge fund, Galleon. According to *Forbes Magazine*, he ranked as the world's 559th richest person with a net worth of US \$1.3 billion, and is one of Sri Lanka's most successful entrepreneurs. He reportedly came under scrutiny during a federal probe into the Tamil Rehabilitation Organization (TRO), a charity, which was charged with funnelling large funds to the Sri Lankan terrorist organisation, the Liberation Tigers of Tamil Eelam (also known as Tamil Tigers or LTTE)¹.

In October 2009, Raj Rajaratnam was arrested and accused of earning some US \$20 million from stock trades, based on insider information provided by corporate executives. The SEC filed parallel civil lawsuits² against him and more than 20 other hedge fund executives and corporate insiders. The US media reports referred to the Galleon case as the country's largest hedge fund insider trading case³ (see also SEC Chart⁴).

The Federal prosecutors in New York have charged Rajaratnam with securities fraud and conspiracy to commit securities fraud. In December 2009, Rajaratnam was indicted for securities fraud and conspiracy. He pleaded not guilty and requested that the court reduce his bail to US \$20 million. The *Wall Street Journal* reported

– The Raj Rajaratnam case

¹The Liberation Tigers of Tamil Eelam ("LTTE") are considered a terrorist organisation by Sri Lanka, the United States and the European Union. After decades of civil war, the government declared victory over the LTTE in May.

²See SEC website for further details: <http://www.sec.gov/litigation/litreleases/2009/lr21255.htm>

³See following link for graphical representation of the allegations as reported in the Wall Street Journal http://online.wsj.com/article/SB126204917965408363.html?mod=WSJ_hpp_sections_tech-project=GALLEONWEB3%26articleTabs=interactive

⁴<http://www.sec.gov/news/press/2009/2009-235-chart.pdf>

on 6 January that his request was rejected and that federal prosecutors had instead planned to file additional insider trading charges against him, as evidence had been uncovered suggesting that he had already started his illegal activities in 2004 rather than in 2007 as previously believed. Based on this additional evidence, the prosecutors reportedly estimated that Galleon had generated at least US \$36 million in illegal profits rather than the original estimate of US \$17 million when the case was first reported in October 2009.

Investments in Sri Lanka and allegations of terrorist financing

The *Financial Times* reported that Rajaratnam returned to his country of birth, Sri Lanka, in 2002 after the declaration of a ceasefire in the civil war and began investing in the stock market. One of his first investments was in Hayleys, a leading Sri Lankan producer of rubber gloves. When the insider trading case emerged in the US, Rajaratnam allegedly held US \$100 million in Sri Lankan stocks, including nearly 10 per cent of the country's biggest listed company, John Keells Holdings. His New York brusqueness reportedly got him into trouble in a country increasingly polarized between the dominant Sinhalese Buddhist community and the Hindu Tamil minority. This conflict was made worse by the terrorist financing claims.

Interestingly, Rajaratnam was also investigated in Sri Lanka. The investigations are linked to donations he, among several wealthy overseas Sri Lankans, made to the TRO following the Tsunami in 2004. The TRO is thought to have been a front organization for the LTTE. The US Treasury Department froze TRO's assets in November 2007 because of alleged links to LTTE.

The *Financial Times* reported that after the 2004 Tsunami, Rajaratnam provided relief funds to projects for each of the island's ethnic groups, Tamils and Muslims, as well as Sinhalese. He also gave millions of dollars to the TRO, which two years later was found by the US to be funding LTTE.

According to ABC News, the TRO received more than US \$3.5 million from Rajaratnam. The Sri Lankan Central Bank reportedly said that it is still probing him, and a Sri Lankan military spokesman has warned he would be arrested if he returned. Other sources claim that the Sri Lankan central bank investigations found Rajaratnam to be innocent based on the fact that the TRO had not been banned by the Sri Lankan or US government when Rajaratnam made the donations. Rajaratnam and his father have also been named in a civil lawsuit in the US alleging they supported LTTE. A case in the US District Court in Brooklyn reportedly identified Rajaratnam's name in connection with funds funnelled to LTTE through a fake charity. His lawyer has rejected the allegations and denied that his client supports LTTE.

Risk-based approach required – the need for adequate enhanced due diligence and political risk assessment

Whether Rajaratnam knowingly funded LTTE or not, the Galleon case is another good example of how sophisticated financial crime, money laundering and terrorist financing activities can be inextricably linked.

This case highlights the money laundering and terrorist financing risks faced by investors and financial institutions, and underlines the importance attached to conducting enhanced client due diligence. Equally important is including an appropriate political risk assessment in order to effectively manage and mitigate the risks attached to non-governmental organization (NGO) and other charitable organizations, as well as their associations and activities, particularly those located in high-risk jurisdictions.

Although it is always important to look for what is not there and to try to understand why information is either lacking or illogical, the Galleon case, like many other recent Ponzi schemes which have surfaced the question of whether a client and or business is "too good to be true?" equally needs to be at the focus of AML research and enquires. 

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