

THE UNITED STATES ATTORNEYS OFFICE
SOUTHERN DISTRICT *of* NEW YORK

[U.S. Attorneys](#) » [Southern District of New York](#) » [News](#) » [Press Releases](#)

Department of Justice
U.S. Attorney's Office
Southern District of New York

FOR IMMEDIATE RELEASE

Friday, May 12, 2017

Acting Manhattan U.S. Attorney Announces \$5.9 Million Settlement Of Civil Money Laundering And Forfeiture Claims Against Real Estate Corporations Alleged To Have Laundered Proceeds Of Russian Tax Fraud

Defendant Prevezon Holdings Ltd. Agrees to Pay \$5,896,333.65, Triple the Fraud Proceeds Alleged to Be Directly Traceable to the Defendants

Joon H. Kim, the Acting United States Attorney for the Southern District of New York, announced today that the United States has settled a money laundering and civil forfeiture action against assets of 11 corporations, including some that own luxury residential and high-end commercial real estate in Manhattan. The Government's complaint alleged that the defendant corporations laundered some proceeds of a \$230 million Russian tax refund fraud scheme involving corrupt Russian officials that was uncovered by Sergei Magnitsky, a Russian lawyer who died in pretrial detention in Moscow under suspicious circumstances and was posthumously prosecuted by Russia.

In the stipulation of settlement filed with U.S. District Judge William H. Pauley III today, which is still subject to approval by the Court, one of the defendant corporations, Prevezon Holdings Ltd., agrees to pay \$5,896,333.65 to resolve the Government's claims against all defendants. This payment represents triple the value of the proceeds that the Government alleged could be traced directly from the Russian treasury fraud to the defendants (\$1,965,444.55), and more than ten times the amount of proceeds the Government alleged could be traced directly to property in New York (approximately \$582,000).

Acting Manhattan U.S. Attorney Joon H. Kim said: "We will not allow the U.S. financial system to be used to launder the proceeds of crimes committed anywhere - here in the U.S., in Russia, or anywhere else. Under the terms of this settlement, the defendants have agreed to pay not just what we alleged flowed to them from the Russian treasury fraud, but three times that amount, and roughly 10 times the money we alleged could be traced directly into U.S. accounts and real estate."

The Government's lawsuit alleged as follows:

In 2007, a Russian criminal organization engaged in an elaborate tax refund fraud scheme resulting in a fraudulently obtained tax refund of approximately \$230 million from the Russian treasury. As part of the fraud

scheme, members of the organization stole the corporate identities of portfolio companies of the Hermitage Fund, a foreign investment fund operating in Russia. The organization's members then used these stolen identities to make fraudulent claims for tax refunds.

In order to procure the refunds, the criminal organization fraudulently re-registered the Hermitage companies in the names of members of the organization, and then orchestrated sham lawsuits against these companies. These sham lawsuits involved members of the organization as both the plaintiffs (representing sham commercial counterparties suing the Hermitage companies) and the defendants (purporting to represent the Hermitage companies). In each case, the members of the organization purporting to represent the Hermitage companies confessed full liability in court, leading the courts to award large money judgments to the plaintiffs.

The purpose of the sham lawsuits was to fraudulently generate money judgments against the Hermitage companies. Members of the organization purporting to represent the Hermitage companies then used those money judgments to seek tax refunds. The basis of these refund requests was that the money judgments constituted losses eliminating the profits the Hermitage companies had earned, and thus the Hermitage companies were entitled to a refund of the taxes that had been paid on these profits. The requested refunds totaled 5.4 billion rubles, or approximately \$230 million.

Members of the organization who were officials at two Russian tax offices corruptly approved the requests within one business day, and approximately \$230 million was disbursed to members of the organization, purportedly on behalf of the Hermitage companies, two days later.

After perpetrating this fraud, members of the organization undertook illegal actions in order to conceal this fraud and retaliate against individuals who attempted to expose it. After learning of the lawsuits against its portfolio companies, Hermitage retained attorneys, including Russian lawyer Sergei Magnitsky, to investigate. Magnitsky and other attorneys for Hermitage uncovered the refund fraud scheme, and the complicity of Russian governmental officials in it, and were subject to retaliatory criminal proceedings against them. Magnitsky was arrested and died approximately a year later in pretrial detention. An independent Russian human rights council concluded that Magnitsky's arrest and detention were illegal, that Magnitsky was denied necessary medical care in custody, that he was beaten by eight guards with rubber batons on the last day of his life, and that the ambulance crew that was called to treat him as he was dying was deliberately kept outside of his cell for more than an hour until he was dead.

Members of the criminal organization, and associates of those members, have also engaged in a broad pattern of money laundering in order to conceal the proceeds of the fraud scheme. In a complex series of transfers through shell corporations, the \$230 million from the Russian treasury was laundered into numerous accounts in Russia and other countries. A portion of the funds stolen from the Russian treasury passed through several shell companies into Prevezon Holdings, Ltd., a Cyprus-based real estate corporation that is a defendant in the forfeiture action. Prevezon Holdings laundered these fraud proceeds into its real estate holdings, including investment in multiple units of high-end commercial space and luxury apartments in Manhattan, and created multiple other corporations, also subject to the forfeiture action, to hold these properties.

A chart listing the companies named as defendants in the lawsuit is attached.

Mr. Kim praised the outstanding investigative work of ICE HSI New York's El Dorado Task Force.

This case is being handled by the Office's Money Laundering and Asset Forfeiture Unit. Assistant United States Attorneys Paul M. Monteleoni, Cristine Irvin Phillips, and Tara M. LaMorte are in charge of the case.

Prevezon Holdings, Ltd.

Prevezon Alexander, LLC

Prevezon Soho USA, LLC

Prevezon Seven USA, LLC

Prevezon Pine USA, LLC

Prevezon 1711 USA, LLC

Prevezon 1810, LLC

Prevezon 2009 USA, LLC

Prevezon 2011 USA, LLC

Ferencoi Investments, Ltd.

Kolevins Ltd.

Attachment(s):

[Download Prevezon Holdings Ltd Settlement Stipulation](#)

Topic(s):

Financial Fraud

Component(s):

[USAO - New York. Southern](#)

Press Release Number:

17-134

Updated May 12,2017