

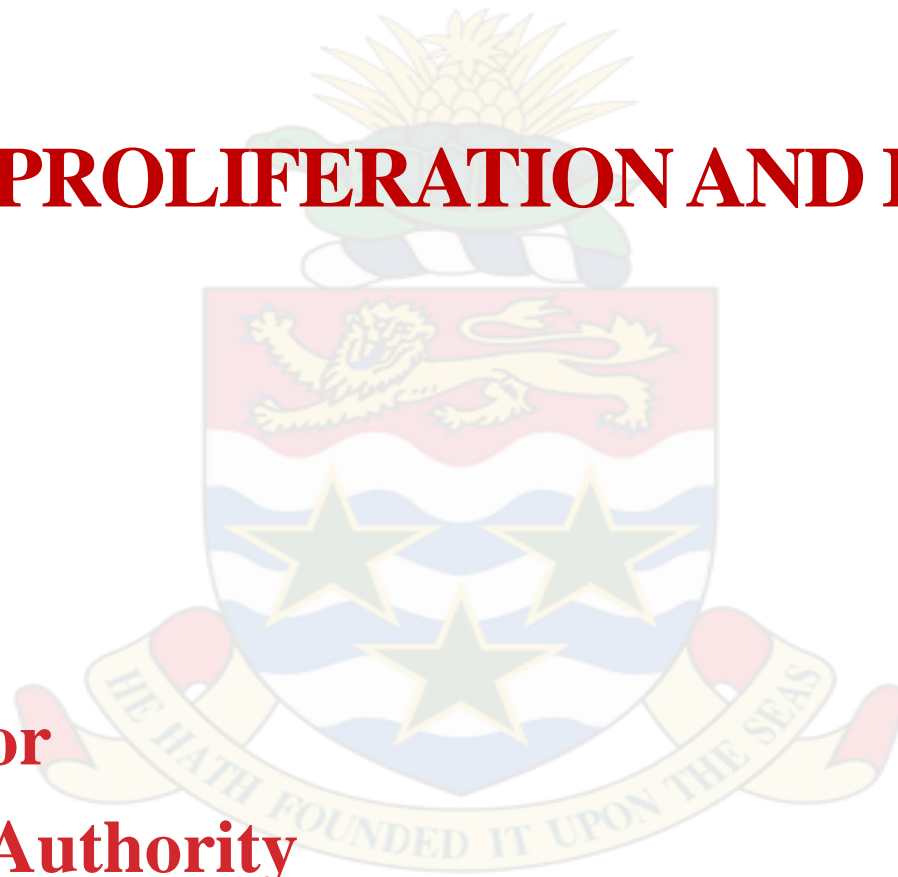
IDENTIFYING PROLIFERATION AND ITS FINANCING

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AGENDA

- Definitions – Proliferation and Proliferation Financing
- Why should you be concerned with the prevention and detection of proliferation and its financing?
- Difficulties faced in identifying proliferation and its financing
- Two Case studies:
 - Caribbean case studies of proximate risk
 - AML risk indicators trigger account freeze for sectoral sanctions related proliferation finance
- Red flags
- Trade-related transactions indicative of Possible PF
- What you must do?

DEFINITIONS

- **Proliferation** is the manufacture, acquisition, possession, development, export, transshipment, brokering, transport, transfer, stockpiling or use of nuclear, chemical or biological weapons and their means of delivery and related materials (including both technologies and dual-use goods used for non-legitimate purposes), in contravention of national laws or, where applicable, international obligations. It includes technology, goods, software, services or expertise.
- **Proliferation financing** refers to the act of providing funds or financial services which are used, in whole or in part, for the manufacture, acquisition, possession, development, export, trans-shipment, brokering, transport, transfer, stockpiling or use of nuclear, chemical or biological weapons and their means of delivery and related materials (including both technologies and dual use goods used for non-legitimate purposes), in contravention of national laws or, where applicable, international obligations.

Why should you be concerned with the prevention and detection of proliferation and its financing?

- Proliferation financing facilitates the movement and development of proliferation-sensitive goods. The movement and development of such items can contribute to global instability and may ultimately result in a loss of life, if proliferation-sensitive items are deployed.
- A sample of publicized cases gives indication of reputational damage which may cause investors to shy away from jurisdiction perceived as accessible to proliferators.
- Caribbean case studies of proximate risk include:
 - Actual and attempted violations of the UN arms embargo on DPRK which involved entities registered in Caribbean jurisdictions.

A sample of publicized cases

The Guardian International edition

British banker set up firm 'used by North Korea to sell weapons'

Nigel Cowie's front company also allegedly helped regime expand nuclear programme, Panama Papers show



▲ Nigel Cowie moved to North Korea in 1995 and became head of its first foreign bank. Photograph: Bloomberg/Bloomberg via Getty Images

A British banker who spent two decades living in communist North Korea set up a secret offshore finance company allegedly used by the Pyongyang regime to help sell arms and expand its nuclear weapons programme.

Nigel Cowie - a fluent Korean and Chinese speaker, who studied at Edinburgh University - was behind a Pyongyang front company, DCB Finance Limited, registered in the British Virgin Islands, papers show.

ABC NEWS

Just in: Politics World Business Analysis Sport Science Health Arts Fast Check

Panama Papers: Australian pair linked to companies striking mining deals with North Korea

7:38 By the National Reporting Team's Lisa Walsh, Mark Willacy and Steve Condon

Sydney-based businessman David Henty Sutton and South African born, Brisbane-based geologist Louis Schurmann were directors of two companies which announced the mining sub-license agreements on the Australian Stock Exchange (ASX).

A former United Nations official told the ABC the deals announced were with North Korean entities under sanctions, and the revelations warrant an inquiry.

The United Nations has banned individuals and companies from dealing with a range of North Korean companies.

Mr Sutton's involvement was uncovered by the leak of over 11 million documents from law firm Mossack Fonseca known as the Panama Papers.

The documents show the Australian is connected to a network of international businessmen who use shell companies to hide their identities.

Mr Sutton was Chairman of AAT Corporation in December 2012, when it announced on the ASX a mining sub-license with a North Korean entity, National Resources and Development Investment



EXPRESS

Home of the Daily and Sunday Express

North Korea: How Pyongyang dodges sanctions by using shell companies on BRITISH soil

NORTH Korean agents used fake companies based on BRITISH territory to subvert international sanctions and funnel funds back to Kim Jong-un's cash strapped government, experts have discovered.



Using a complex network of shell companies, diplomats and banks to launder money, the regime has been able to skirt around some sanctions to fund Kim's nuclear weapons programme.

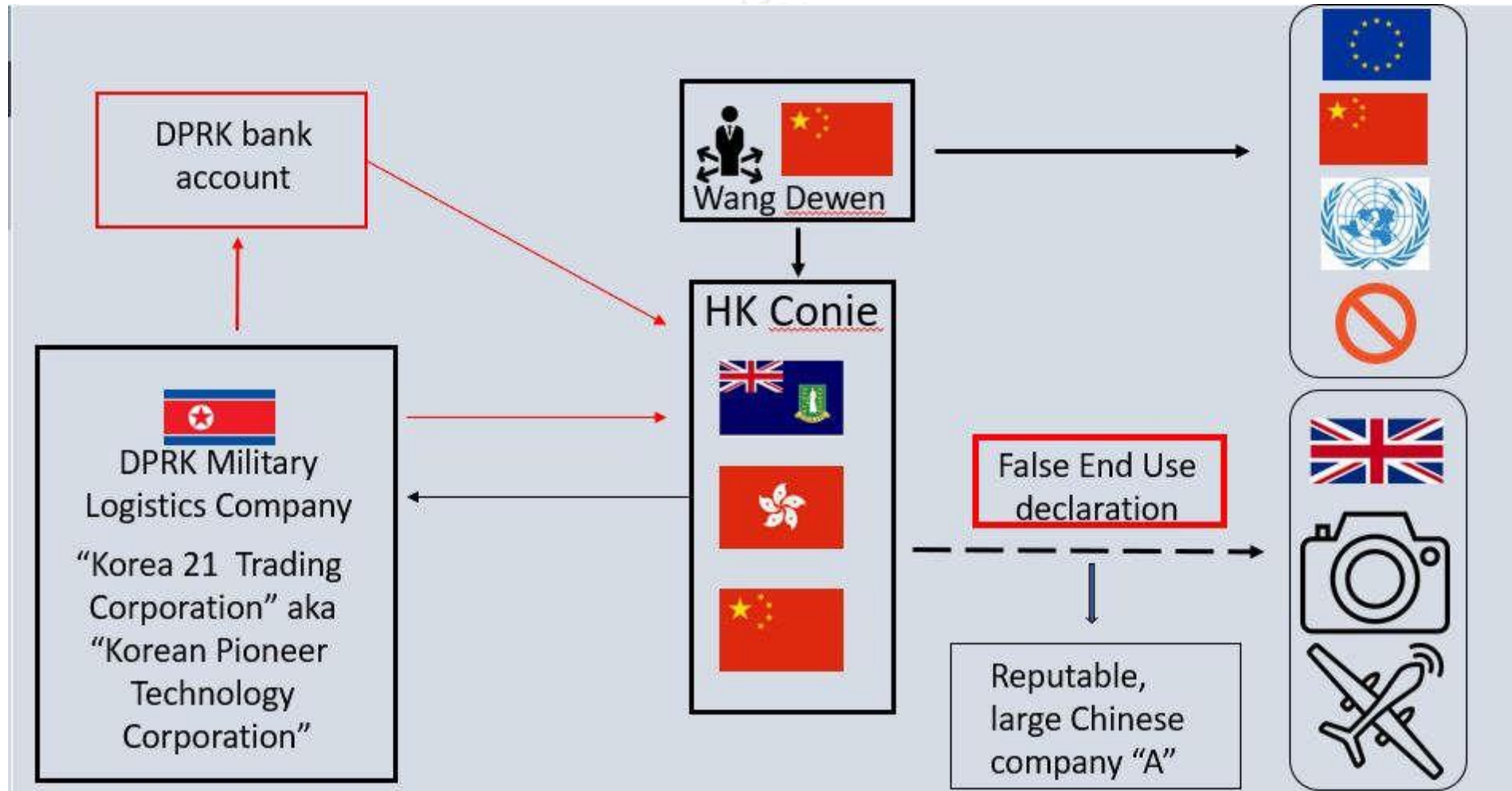
And some of the pieces of the puzzle can be traced back to the British Virgin Islands, an overseas territory in the Caribbean well known as a tax haven.

Difficulties faced in identifying proliferation and its financing

- A growing trend in the purchase and sale of elementary components
- Dual-use goods are difficult to identify
- Networks through which proliferation-sensitive goods may be obtained tend to be complex
- Risk of proliferation financing is more likely to be present in cases where the source of funds is legal and the end-user of a type of goods involved is obscured
- PF activity is not limited to individuals and entities designated on sanctions lists
- Most transactions occur within normal business transaction pathways, and can be masked with all legitimate transactions.
- What does this mean for the Cayman Islands? – risk exists

Caribbean case studies of proximate risk

- Caribbean entity & attempted UN arms embargo violation



HK Conie as a Caribbean company in transport documentation for shipments to the DPRK



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Packing List

Consigner : HK CONIE TECH.
 Conignee : KOREA 21 TRADING COMPANY
 Date : 2012.1.18

Port of loading : SHENYANG
 Port of Destination : PYONGYANG
 Name of Vesel : _____

No		
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Total number of package: 3 PCS

HK CONIE TECHNOLOGY CO.,LTD

HK Conie letterhead in 2015



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HK Conie invitation to DPRK company Pioneer indicates North Koreans working for HK Conie

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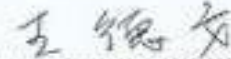
초 청 장 jn.pak@163.com

홍콩코니기술유한공사는 연마공구와 관련한 기술합의 및 변답을
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성원들을 중국상해시, 정주시에 우리측 부담으로 초청합니다.

초청날자: 2013 년 2 월 20 일부터 15 일간

2013 년 1 월 15 일

For and on behalf of
HK CONIE TECHNOLOGY CO., LTD


.....
Authorized Signature(s)

HK Conie: Caribbean visibility



Chinese identity card provided to Caribbean authorities
Source: <https://www.undocs.org/S/2016/157> p160

AML risk indicators trigger account freeze for sectoral sanctions-related proliferation finance

- **Summary: Supplying prohibited fuel oil to North Korea - AML risk indicators trigger investigation and subsequent account freeze**
- **Risk indicators: AML**
 - Fairly inactive account established 11 months previously received \$850,000+ in 5 payments over seven day period
 - Payees were 2 offshore-registered entities
 - UBO of account was a foreign national from neighboring Member State
- **Risk indicators (Proliferation Finance, DPRK)**
 - DPRK railway station listed as one DAP (delivery at place)
 - Consignee for marine fuel oil identified as North Korean entity
 - Company's stated business was trade in petroleum products
 - Payment received from entity registered in Hong Kong
 - Client later provided conflicting sets of contract documentation at variance with transfer

Background: Bank account in European Member State jurisdiction



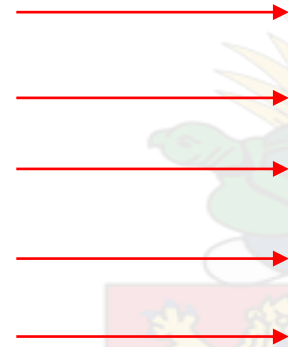
Company account holder
registered as entity in
European Member State
and lists its business activity
as trade in petroleum
Products

“Authorized” individuals is
not a foreign national

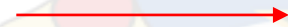
Ultimate Beneficial Owner is
foreign national

Account relatively inactive
for first 11 months

Background: Six transfers worth more than \$950,000 is paid in a 7 day period beginning nine days after UN prohibition on petroleum product exports to DPRK.



“marine fuel oil”
specified for
payment

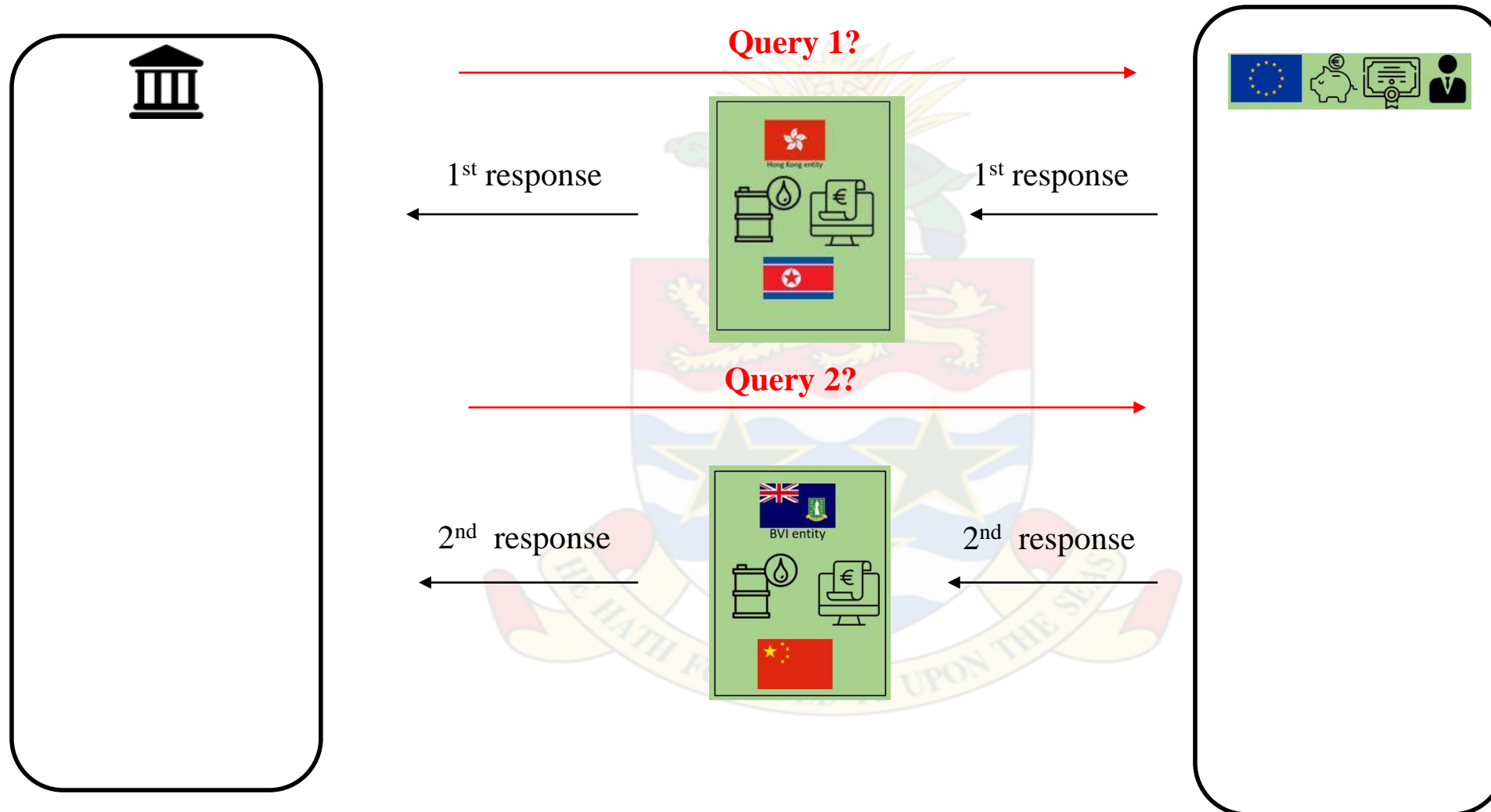


Account operated by domestically-
registered entity

Account’s “authorized person” is
a citizen of European Member State

Account UBO remains a foreign
citizen

Background: Bank queries payment and asks for additional information



Background: Bank queries payment and asks for additional information

- This case highlights the importance of integrating proliferation finance risk indicators and specifically DPRK sanctions key risk indicators into queries, assessments and analysis arising from AML key risk indicators and aggregated data-driven
- The case also highlights the importance of appropriate proliferation finance training for FIU or other government officials should such transfers be simply reported in the form of a Suspicion Activity Report (SAR)
- Mistakes were made by individuals working on behalf of the proliferation financing network early in the new petroleum sanctions regime. These are less likely to be repeated now.

Red flags (To assist with awareness of potential proliferation financing)

Customer	Transaction	Documentation/Other
<ul style="list-style-type: none"> • Individual or entity targeted by sanctions, or connected to targeted person • Customer is involved in the supply, sale, delivery or purchase of dual-use, proliferation-sensitive or military goods, particularly to higher risk jurisdictions. • Customer or counter-party, or its address, is the same or similar to one of the parties found on public available lists or has a history of export control contraventions. • The customer is a military or research body connected with a higher risk jurisdiction of proliferation concern. • Activity does not match the business profile • Customer is vague, particularly about user, provides incomplete information or is resistant to providing additional information when sought. 	<ul style="list-style-type: none"> • Transaction concerns dual use, proliferation-sensitive or military goods whether licensable or not. • Transaction demonstrates a link between representatives of companies exchanging goods e.g. same owners or management, in order to evade scrutiny of the goods exchanged • Transaction involves the shipment of goods inconsistent with normal geographic trade patterns i.e. where the country involved does not normally export or import the types of goods concerned. • Order for goods is placed by firms or individuals from foreign countries, other than the country of the stated end-use • Transaction involves financial institutions with known deficiencies in AML/CFT controls and/or domiciled in countries with weak export control laws or weak enforcement of export control laws 	<ul style="list-style-type: none"> • Inconsistencies in information contained in trade documents and financial flows e.g. names, addresses, final destination etc. • Use of fraudulent documents and identities e.g. false end-use certificates and forged export or re-export certificates. • Declared value of shipment under-valued in relation to shipping cost • Trivial description on customs declaration/export licence e.g. agriculture, electronics and pump (without further explanation of purpose/use). • Missing document • Technical description altered. • Transaction involves shipment of goods incompatible with the technical level of the country to which it is being shipped, (e.g. semiconductor manufacturing equipment being shipped to a country that has no electronics industry)

Trade-related transactions indicative of Possible PF

Highly indicative of PF	Moderately indicative of PF	Weakly indicative of PF
<ul style="list-style-type: none"> • Involvement of individuals or entities in foreign country of proliferation concern • Involvement of individuals or entities in foreign country of diversion concern (such as a neighboring country or country actively engaged with country of proliferation concern) • Individuals or entities involved (for example, customers, counterparties, end-users), or their details (such as addresses or telephone numbers), are similar to, or may be connected to, parties listed at the time under WMD-related sanctions or export-control regimes, or they have a history of involvement in export control contraventions • Presence of items controlled under WMD export control regimes or national control regimes Controlled items 	<ul style="list-style-type: none"> • Involvement of front companies, also shell companies (e.g. companies that do not have a high level of capitalization or display other shell company indicators such as absence of online or physical presence) • Involvement of a small trading, brokering or intermediary company (may be carrying out business inconsistent with their normal business) • Customer is a manufacturer/dealer in products which are subject to export controls • Customers or counterparties to transactions are linked (for example they share a common physical address, IP address or telephone number, or their activities may be coordinated) • Description of goods on trade or financial documentation is non-specific, innocuous or misleading 	<ul style="list-style-type: none"> • Based on the documentation obtained in the transaction, the declared value of the shipment was obviously under-valued vis-à-vis the shipping cost • Inconsistencies in information contained in trade documents and financial flows, such as names, companies, addresses, final destination etc. • Customer vague/incomplete on information it provides, may be resistant to providing additional information when queried • New customer requests letter of credit transaction awaiting approval of new account • Wire instructions or payment from or due to parties not identified on the original letter of credit or other documentation

What you must do?

- Accept that proliferation finance is a common problem - from the British Virgin Islands through to Hong Kong with many major financial centers used for proliferation finance transactions due to the unwitting involvement of many correspondent banks; and that North Korean proliferation finance transactions have been regularly conducted via a wide variety of regional and global banks and other financial institutions; and associated shell companies are established in many offshore jurisdictions but also in the territories of Member States of the UN Security Council
- Conduct risk assessment of customers and products, country/geographic – with special attention to trade finance and insurance
- Be alert to the possibility that your customers may be engaging in, or facilitating, proliferation activities
- Enhanced due diligence on high-risk transactions and entities
- Develop situational awareness around various sanctions regimes by reading Panel of Experts reports
- As soon as practicable, if you know or have a reasonable cause to suspect that a person is a designated person or has committed an offence under any sanctions legislation, complete and submit a Compliance Reporting Form (CRF) to the FRA