



PROLIFERATION FINANCING THREAT ASSESSMENT

MAY 2020

Prepared by the Proliferation Interagency Group (PIAG)

Contents

Executive Summary 2

SUMMARY OF RECOMMENDATIONS 4

Introduction..... 5

Scope and Definition 5

Methodology 8

Sources 8

Participants..... 10

SECTION 1 - TYPOLOGY REVIEW: IDENTIFICATION AND ANALYSIS OF PF..... 11

Section 2- ANALYSIS OF POTENTIAL THREAT OF PF EXPOSURE..... 16

Financial activities, products and services with the potential threat of PF 16

Cayman Islands Maritime insurance and re-insurance 19

Financial and corporate infrastructure with the potential to be misused for movement or procurement of PF 19

New Technologies, Products, Sectors 20

Section 3 – PF RELATED VULNERABILITIES TO INSTITUTIONAL AND OPERATIONAL STRUCTURES 23

Section 4 – ANALYSIS OF NON-IMPLEMENTATION, POTENTIAL BREACH, OR EVASION OF TFS RELATED TO PF 30

Section 5 – MEASURES TO MITIGATE BREACHES, NON-IMPLEMENTATION OR EVASION OF TFS RELATED TO PF 33

OVERALL SUMMARY AND CONCLUSION 36

Acronyms 38

Annex..... 40

Endnotes 45

Executive Summary

1. Preventing the financing of the proliferation of weapons of mass destruction (WMD), particularly to Democratic People's Republic of North Korea (DPRK), has become of significant importance to the global non-proliferation and counter-proliferation endeavours. With the shifts in the DPRK's tactics, the UN Security Council (UNSC) has applied increasingly expansive and incentivised sanctions on DPRK's proliferation/nuclear related activities. A significant focus in these sanctions relates to the prevention of assets from being made available to State or non-state actors which would enable proliferation activities or financing entities involved in proliferation activities.
2. The 2020 Proliferation Financing (PF) Threat Assessment revisits the threats and vulnerabilities of the 2015 National Risk Assessment (NRA), with specific focus on the exposure of the activities that could be linked to PF in the future. The assessment also evaluates where the most exposure to PF originates and the underlying threats to the Cayman Islands as an international financial centre. The report is the product of the Cayman Islands Proliferation Inter-Agency Group ("PIAG"), composed of professionals from CI Government agencies, offices and authorities with responsibilities to combat PF.
3. This assessment enables government agencies to better understand their vulnerabilities, enhance domestic coordination and cooperation, and allow for resources to be allocated to areas of greater risk. The Threat Assessment will contribute to the development of a PF risk assessment, which will guide government and private sector understanding of the PF pathways that can be used in the Cayman Islands; it will further guide government and the private sector in the detection of the unique types of financial flows linked with PF and in the understanding of the risks that these activities pose to the security of the Cayman Islands financial system. This assessment will also help AML/CFT Supervisors to develop a robust understanding of proliferation risks, identify PF, and apply a risk-based approach to their CPF measures.
4. In order to inform the Threat Assessment, PIAG analysed law enforcement statistics and observations, regulatory data specific to banking inflows/outflows, trade finance and maritime insurance, regulated sector studies, immigration export control data and public information to develop a list of threats and vulnerabilities that are the potential enablers of PF threats in the context of the Cayman Islands.
5. There is currently no evidence to suggest that Cayman Islands regulated entities are involved in financing proliferation activities for the procurement of technology, equipment or materials directly related to the development of WMD. However, whilst there may be no direct PF links, the exposure of financial systems when conducting business with neighbouring jurisdictions of proliferation concern, poses potential PF threats.
6. As previously mentioned, DPRK uses a variety of tactics such as the use of front companies to obscure their connection to sanctioned DPRK entities and engage in illicit activity. As an international financial centre, the Cayman Islands is exposed to PF threats arising from external and internal sources. Financial services accounts for 40% of the GDP with the majority of the financial services targeted towards non-resident customers, which contribute to higher PF risks.
7. Other threats include the financing of PF through the misuse of legal persons and financial institutions with foreign branches operating in countries of PF concern. FIs and Designated Non-

Financial Businesses and Professions (“DNFBPs”) are vulnerable to the potential breach of non-implementation of Targeted Financial Sanctions (“TFS”) obligation by not being able to identify illicit PF transactions or methods that could be used to facilitate PF on behalf of designated persons. This can be attributed to the fact the DPRK uses nesting and layering mechanisms through intermediaries and non-state proliferation countries to evade sanctions and conduct PF activities. Furthermore, not all proliferators such as those who are not working on behalf of North Korea or Iran, results in an entity or individual being placed on the UN sanctions list which makes screening for PF using only third-party software a vulnerability.

8. Emerging DPRK PF activities namely, cybercrime and crypto jacking also poses a potential threat to the Cayman Islands; there are no reported cases of such activity in the jurisdiction to date. New technologies, such as virtual assets, pose a threat to the Cayman Islands. As such, recent legislative measures will bring virtual assets and virtual assets providers under scope of supervision. A framework to undertake an in-depth virtual assets risk assessment at the national level has been initiated to determine the level of threat to the financial system.
9. Should there be a complex PF case, a lack of PF intelligence and limited specialist experience by analysts, investigators and prosecutors in dealing with illicit PF activity poses a challenge to investigations and ultimately prosecution. Such expertise is usually secured by the jurisdiction on a consultancy basis or secondment from the UK as needed.
10. Complying with international obligations and standards on countering proliferation financing (CPF) more broadly is important for the identification of non-implementation or breaches of UNSC sanctions. International CPF obligations require countries to implement and enforce targeted financial sanctions (TFS). PIAG conducted a review of UNSCRs and the FATF standards and practices and how they measure up. Institutional and operational structures of agencies rarely engaged in CPF, such as the Cayman Islands Land Registry and the Cayman Islands Airport Authority were also reviewed.
11. Accordingly, the Cayman Islands will be developing a more effective national countering PF (“CPF”) framework, based on the true understanding of PF risks and therefore will make a positive and tangible impact on the global CPF efforts. Engagement with industry and training are fundamental to continued understanding and mitigation of PF risks in the Cayman Islands. Much has already taken place, pioneered by Government, to educate FIs and DNFBPs and this will continue to take place going forward.

SUMMARY OF RECOMMENDATIONS

12. Based on the vulnerabilities identified throughout this assessment, the following recommendations are proposed:

- **Recommendation 1:** Conduct a comprehensive PF risk assessment to build awareness of CPF issues among key government and industry stakeholders.
- **Recommendation 2:** Conduct a study of all industries that are involved in or linked to dual-use, proliferation-sensitive or other high-tech goods or expertise and relevant government agencies. Include financial institutions and stakeholders (as well as brokerage firms etc.) working on CPF in this discussion.
- **Recommendation 3:** Assess country-specific exposure to cybercrime and develop appropriate guidance (where necessary) to enhance awareness among all stakeholders.
- **Recommendation 4:** Conduct a Virtual Assets Risk Assessment to focus on the AML, CFT and PF risks and vulnerabilities in the virtual assets sector. Additionally, to develop policy options on whether crowdfunding requires regulation and how.
- **Recommendation 5:** Continue outreach and raising awareness to assist the private sector (including CAACI) to develop an appropriate understanding of the PF vulnerabilities and TFS obligations.
- **Recommendation 6:** Raise awareness of cyber threats, including from DPRK, among financial institutions and provide best practices on cyber security including for Virtual Assets.
- **Recommendation 7:** Increase the Financial Reporting Authority (“FRA”) and law enforcement agencies (“LEAs”) communication of illicit finance typologies and red flags through policy documents (i.e., guidance, advisories, and other public reports).
- **Recommendation 8:** Promote full compliance with international obligations on non-proliferation and export controls, including the provisions of the Orders in Council.
- **Recommendation 9:** Build specialist financial investigation and analysis skills (e.g. forensic analysis), for FRA staff and LEAs. This includes sensitisation and training for competent authorities on identification of illicit Virtual Assets activity.
- **Recommendation 10:** Increase capacity building, knowledge sharing and experience to assist LEAs to better identify illicit PF activities, through the Financial Crime Focus Group.
- **Recommendation 11:** Formalise a framework to implement effective export control of dual-use items including software and technology, as prohibited by UNSCRs and included in the relevant Overseas Orders in Council. Obtain specialised training for Customs and Border Control in identifying and detecting dual use items.
- **Recommendation 12:** Ensure government registries (e.g. Land Registry, Aircraft Registry, General Registry) have resources to collect, maintain and disseminate UBO data and to make this data electronically available or otherwise easily accessible to competent authorities, SRBs and law enforcement agencies.

Introduction

1. The Cayman Islands' ability to combat PF was assessed as moderate in the Caribbean Financial Action Task Force's 2018 Mutual Evaluation Report. This rating was assigned following a review of the jurisdiction's high-level legal commitment, domestic and international cooperation and a robust legal framework. Whilst the FATF does not currently require jurisdictions to assess PF risks, the effective implementation of Immediate Outcome 11 (IO 11) would require an understanding of the PF threats and vulnerabilities to foster greater coordination in the development of policies to CPF. Without an understanding of PF threats and vulnerabilities, the Cayman Islands would not be able to effectively implement FATF PF standards.
2. In 2015, the Cayman Islands National Risk Assessment ("NRA") assessed the risks of PF, which was found to be low. As with other risk assessments, the risks of PF require monitoring and updating. This PF Threat Assessment revisits the threats and vulnerabilities of the NRA, with specific focus on the exposure of the activities that could be linked to PF in the future. The assessment also evaluates where the most exposure to PF originates and the underlying threats to the Cayman Islands as an international financial centre. In particular, the assessment:
 - considers the FATF obligations along with the UN mandated sanctions measures that relates to PF;
 - examines the methods used in PF;
 - identifies potential proliferation threats and vulnerabilities with a focus on illicit financial activity related to proliferation; and
 - draws from the expertise, work, and unique capacities of the Cayman Islands Proliferation Inter Agency Group.
3. The risks associated with the Cayman Islands Non-Profit Organisations ("NPO") sector for Terrorism Financing purposes has been determined to be low. Nine (9) NPOs were identified as posing high risk and would be subject to ongoing monitoring.
4. The threat assessment aims to promote a clearer understanding among competent authorities of the evolving PF threats for the effective implementation of FATF standards and will in turn enable Supervisors to promote a clear understanding to the Private sector of their regulatory expectations.
5. The information and insights from this assessment will contribute to the overall PF Risk Assessment and the International Financial Centre Risk Assessment which will be undertaken to foster common understanding of international components of risks faced by the jurisdiction as a significant international centre.

Scope and Definition

6. In determining the scope of this assessment, the Cayman Islands considered the potential risks of the contravention of the FATF mandate as set out in Recommendation 7 (breach, non-implementation, or evasion of the TFS). The focus was placed on how contravention of these elements can specifically contribute to PF through the Cayman Islands as an International Financial Centre. The ability to identify PF beyond sanctions screening was assessed considering the contraventions in Operational Paragraphs 2 and 3 of UNSCR 1540 (*laws to prohibit non-state actors to finance nuclear, chemical or biological weapons (WMD) and their means of delivery; implement*

effective controls to prevent financing of exports or trans-shipments of WMD and their means of delivery):.

Proliferation Financing

7. There is no precise definition of PF. The FATF (2018), Guidance on Counter Proliferation Financing, refers to PF as the act of providing funds or financial services which are used in whole or part, for 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 purpose), in contravention of national laws, where applicable, international obligations.
8. PF may not only be limited to the financing of the procurement of WMD and missile components and technology, but also widely providing financial services and financial relationships that sustain North Korea’s other sanctioned activities. UNSCR 1540 provides other examples of what constitutes PF. Operational paragraph (“OP”) 2 requires all States to have effective laws to prohibit non-state actors to finance WMD and their delivery’ OP 3(d) requires all States to implement effective controls to prevent financing of exports or transshipment of WMD and their means of delivery.
9. In addition to UNSCR 1540, the UN maintains TFS under UNSCR 1718 (2006) against DPRK and against Iran under UNSCR 2231(2015). UNSCR OP 11 prohibits the provision of financial services and any financial assets or resources that could contribute to DPRK WMD programs or associated activities. The ability to identify PF is not limited to individuals and entities designated on sanctions lists as PF may involve other actors with no immediately obvious connection to designated entities and individuals, and can be disconnected from the physical flow of proliferation-sensitive goods; as such when monitoring transactions, increased attention should be on underlying activities etc., beyond the sanctions screening. UNSCR 1540 (2004) requires states to prevent the proliferation of weapons of mass destruction and their delivery systems by non-State actors which goes beyond the sanctions lists. The table¹ below are list of Non-NPT (NPT refers to the *Treaty on Non-Proliferation of Nuclear Weapons*) countries with actual or potential risks in the context of nuclear proliferation.

Non-NPT States that are expected to maintain or improve nuclear capabilities via illicit overseas procurement	Potential Nuclear Weapons States Dependent on Illicit Procurement	Sates that might consider developing a nuclear weapons Capability via illicit overseas procurement	States that might consider developing a nuclear weapons capability via illicit overseas procurement (Perhaps due to developments in Iran)
--	--	---	--

¹ Table adapted from Institute for Science and International Security report [“Future World of Illicit Nuclear Trade: Mitigating the Threat.” \(July 29, 2013\).](#)

Pakistan(high)	Iran(high)	South Korea (Low Probability)	Egypt (Low to Medium Probability)
India(high)		Taiwan (Low)	Algeria (Low)
DPRK (high)		Japan (Low)	Turkey (Medium)
Israel (on occasion) (high)			Saudi Arabia (Medium)
			Syria (Low, Given Civil War)
			Failed States of Africa and Asia (Low)

10. A breakdown of the UN Security Council and FATF Standards that constitute PF and the international obligations can be found at Annex 1.

Threats

11. A threat is a person, group of people, entities or activity with the potential to cause harm to the state, the society and the economy etc. In the context of ML, threats are generally posed by the existence of predicate offences, whilst the TF threats are posed by the existence of terrorist actors; however, neither of these categories of threats adequately captures the complex nature of PF and the range of possible threats. PF threats include proliferation support networks, some of which depends on non-proliferation actors acting on behalf of someone else (e.g. on behalf of a sanctioned person). These individuals or groups might use the Cayman Islands financial system to transfer funds that are or will be used for PF.

Vulnerabilities

12. Vulnerability to the Cayman Islands includes possible deficiencies in the legal framework, enforcement, control system or in case of particular circumstances, namely when difficulties arise in differentiating legal and illegal transactions; vulnerability arises from threat.

Consequences

13. Consequences refer to the impact or harm caused by the presence of PF activities in an economy. This could be the catastrophic loss of life, damage to the environment and infrastructure posed by using WMD. It is also referring to the impact on the stability of international or regional peace and security and the impact of national economy or financial system and industry or reputational damage. An important consequential impact to the Cayman Islands is reputational. Engaging in business with entities that may knowingly or unknowingly involved in PF or sanctions evasion also impacts the business in question and may make it liable to prosecution in its home jurisdiction.

Risks

14. Risk is assessed by analysing the potential threats and vulnerabilities, as well as consequences that these may cause. The risk of PF is the risk that the controls outlined in UNSCR 1540 could be evaded to finance proliferation efforts regardless of the end users. There is also the risk that PF will be carried out by persons or organisations that are not included in the TFS lists.

Methodology

15. This PF threat assessment offers a detailed analysis of four (4) areas of PF threats to the Cayman Islands financial system. Each area focuses on a specific PF threat and provides a brief overview of the methodology, an assessment of vulnerabilities – including geographic or other noted concentrations – and the regulatory/public policy framework to mitigate the threat.
16. In assessing the PF threats and vulnerabilities a review of case studies was conducted to identify factors that could be manifested into potential threats to the Cayman Islands. A jurisdictional review was also conducted of similar Caribbean international financial centres, to identify PF networks and the elements that were similar in the Cayman Islands that could become a PF threat in the future. Jurisdictional reviews were also conducted of countries that identified PF in their jurisdictions to identify any PF links to the Cayman Islands. For the purpose of the case study analysis, PIAG focused on countries that were identified in the Institute for Science and International Security 2017² and 2019³ reports, alleged sanctions violations relating to business and financial relations, including through joint ventures and alleged shipping related sanctions.
17. These countries are: Algeria, Angola, Barbados, Belize, Bolivia, Botswana, Brazil, British Virgin Islands, Bulgaria, Cambodia, Chile, China, Colombia, Comoros, Congo (Dem Rep of the), Cook Islands, Costa Rica, Côte d'Ivoire, Cuba, Dominica, Egypt, El Salvador, Equatorial Guinea, Eritrea, Ethiopia, Fiji, France, Georgia, Germany, Ghana, Greece, Honduras, Hong Kong, India, Indonesia, Iran, Ireland, Italy, Japan, Kiribati, Laos, Lebanon, Libya, Madagascar, Malaysia, Malta, Marshall Islands, Mexico, Mongolia, Mozambique, Myanmar, Namibia, New Zealand, Nicaragua, Nigeria, Pakistan, Palau, Panama, Peru, Philippines, Poland, Republic of Korea, Romania, Russian Federation, Samoa, Saudi Arabia, Serbia, Seychelles, Sierra Leone, Singapore, South Africa, Sri Lanka, Sudan, Syria, Taiwan, Tanzania, Thailand, Togo, Uganda, United Arab Emirates, United Kingdom of Great Britain and Northern Ireland, Vietnam, Zambia, Zimbabwe.
18. To determine the potential exposure to PF an analysis was conducted of the inflows and outflows from the Cayman Islands against countries with actual or potential risks in the context of nuclear proliferation. Finally, an analysis was conducted of the PF vulnerabilities as well factors that could lead to potential breach or non-implementation of TFS related to PF, or to the failure to identify PF.

Sources

- Maritime Authority of the Cayman Islands (MACI):
 - Protection and Indemnity (P&I)ⁱ Club information and resources on sanctions

² [Institute for Science and International Security Report - 52 Countries involved in violating UNSCRs on DPRK in 2017](#)

³ [Institute for Science and International Security Report - 56 Countries involved in violating UNSCRs on DPRK 2018 - 2019](#)

- Internal Records of ship owners, “representative persons”, authorised signatories for the owners, holder of the owners’ power of attorney, etc.
- Cayman Islands Monetary Authority (CIMA):
 - Statistics on cross-border flows of funds from/to the Cayman Islands for the years 2017 to 2019 as provided and made available by SWIFT
 - Statistics on maritime and aviation insurance and re-insurance issued from/to the Cayman Islands for the years 2017 to 2019
 - Trade finance cash flows for the years 2017 to 2019
 - Information on due diligence practices of supervised entities
- General Registry (GR):
 - Statistics from the General Registry for the last ten years
- Financial Reporting Authority (FRA):
 - STRs filed with the FRA, including Cayman legal entities or arrangements
 - Designations and sanctions list
 - Sanctions related reports on suspected targeted entities
- Royal Cayman Islands Police Service (RCIPS):
 - Intelligence involving criminal conduct including Cayman legal entities or arrangements
 - Criminal investigations and prosecutions in Cayman Islands including Cayman legal entities or arrangements
- Customs and Border Control (CBC):
 - Data on migrant labour, including individuals from countries of proliferation concern
 - Import/export data, and information on international transport/transit routes
 - Passenger travel data (aircraft, cruise ship and private yacht) for the years 2017 to 2019
- Department of Commerce of Investment (DCI):
 - Statistics on SEZ companies
- Civil Aviation Authority of the Cayman Islands (CAACI)
- Department of Lands and Survey
- Jurisdictional review of PF cases in International Financial Centres similar to the Cayman Islands
- United Nations Panel of Experts Reports
- Scholarly Articles and reports, e.g. ⁴Kings College London Typologies of Financing of Proliferation of WMD; ⁵

⁴ <https://projectalpha.eu/wp-content/uploads/sites/21/2018/05/FoP-13-October-2017-Final.pdf>

⁵ <https://www.cnas.org/press/press-release/the-financing-of-wmd-proliferation-conducting-risk-assessments>

- Centre for a New American Security (CNAS) October 2018 report, “The Financing of WMD Proliferation: Conducting Risk Assessments, Johnathan Brewer; Institute for Science and International Security June 2019 report, *Albright, Burkhard, Gostelow, Lim, Stricker*⁶.
 - Royal United Service Institute Guidance on Conduction Proliferation Finance Risk Assessments
 - FATF Guidance on Counter Proliferation Financing, 2018
19. Based on the information reviewed, the Cayman Islands does not have any parts of the local population that are nationals of DPRK, and there is no information or intelligence to suggest that any diaspora would be presenting a higher risk. Neither has there been any hits from the sanctions checks made by the Land Registry to indicate that DPRK designated persons or the DPRK Government hold lands or property in the Cayman Islands. There is no information to indicate that DPRK nationals are employed or living as residents in the Cayman Islands, neither is there history of any sanctioned individuals entering the Cayman Islands. There is also no history of links from the jurisdiction to financial institutions based in DPRK. Additionally, the review of the banking and SWIFT data between 2017 and 2019 did not identify any funds transferred to/or from DPRK or Iran.

Participants

20. This assessment of Cayman PF threat and vulnerabilities was drafted by PIAGⁱⁱ, drawing from the work and expertise of its membership (Financial Reporting Authority Sanctions Coordinator, General Registry, Shipping/Maritime Registry, Customs and Border Control, Office of the Director of Public Prosecution, Cayman Islands Monetary Authority, Department of Commerce and Investment, Anti-Money Laundering Unit, Ministry of Financial Services, Treasury Department and the RCIPS, Financial Crime Investigation Unit.
21. The results and conclusion are based on the collation and analysis of qualitative and quantitative information provided by the participants.

⁶ http://isis-online.org/uploads/isis-reports/documents/DPRK_Report_June_6%2C_2019_Final.pdf

SECTION 1 - TYPOLOGY REVIEW: IDENTIFICATION AND ANALYSIS OF PF

22. Governments and financial institutions face challenges in the identification of PF, including those related to TFS, as distinctly as the activities associated with ML and TF. Given that most transactions for PF occur within normal business transactions, it makes it difficult to track and identify the PF pathways⁷.
23. It has been observed that the methods identified in the various schemes generally follow consistent patterns with similar characteristics. The schemes tend to involve a complex network of companies, correspondent banks and transactions which seem to be unrelated. Very often, they begin with a non-DPRK financial facilitator, who has established a non-DPRK trading company, acting as the central point of contact to fulfil commodity orders on behalf of the DPRK.
24. The following reports and research provide relevant sources of information with regards to the evolving threats facing the Cayman Islands in relation to PF. Likely potential threats include the WMD programmes of the DPRK and Iran.

Case Study 1 - Use of network of legal arrangements to circumvent sanctions

25. The FATF Proliferation Financing (Typologies) Report (2008) identified basic foreign trade patterns used in PF and the FATF Guidance on Countering Proliferation Financing (2018) provides guidance in understanding how the financial system of foreign jurisdictions can be manipulated by proliferation networks. One such useful item is a case study (located at pg. 26-27 of the Guidance) which addresses the use of front companies by a father-son team in a proliferation network. The case study also highlights the effectiveness of inter-agency coordination in the disruption of such a network. For the purpose of this text, the Case Study referred to in the Guidance has been summarised.

Facts

26. Country 1 took action against a global procurement network that sought to evade sanctions by illegally exporting controlled machinery with WMD development applications to Country 2, which was subject to UN WMD-related sanctions. The network centred around a father-son team along with other individuals who together, established a series of front companies in a number of jurisdictions. These companies were established to act on behalf of designated entities and ultimately, to export the controlled goods to the country subject to sanctions.
27. The network spanned a number of decades. Individual A (the father) had from in the 1990s, assisted Country 1 in procuring WMD-related goods through a network of companies connected to a sanctioned entity from Country 1 and its subordinates and was involved in shipping items to Country 1 that could be used to support the country's ballistic missile program. He was indicted by the Prosecutor's Office of Country 3 for forging shipping invoices and illegally shipping restricted materials to Country 1 in mid-2008 and was found to have used at least two front companies based in Country 3 to accomplish this scheme.

⁷ Study of Typologies of Financing of WMD Proliferation - Jonathan Brewer

28. As a result of these schemes, Individual A and his front companies were designated by the Finance Ministry of Country 1 in January 2009 for providing financial, technological, or other support to the Country 1 entity, which itself was designated by the Country 1 in 2005 and by the UN in 2006.
29. After the Country 1 designations, Individual A, his son (Individual B), and a third person (Individual C) continued to conduct business together but attempted to hide the now-designated Individual A and his companies' involvement in those transactions by conducting business under different company names. An example of this was reflected in the fact that by August of 2009, approximately eight months after the Country 1 designations – the three individuals (A, B and C) began using a new company to purchase and export WMD-sensitive machinery on behalf of the designated individuals.
30. Individuals A and B used bank accounts located in Country 3 banks to transfer funds to Country 1 bank accounts of their Country 1-based facilitators, who would in turn use the funds to procure the goods and ship them to Country 3. Due to the 2009 Country 1 designations of the network, these transactions were already part of an illegal sanctions evasion scheme, which would become the focus of the criminal charges to be filed.
31. There was a coordinated investigation carried out by agencies within Country 1, namely its Justice, Customs, and Commerce. In May 2013, both Individual A and Individual B were arrested on charges which included conspiracy to evade prohibitions and restrictions imposed by Country 1 and conspiracy to commit money laundering. Both eventually pleaded guilty to various criminal charges in their indictments.

Considerations relevant to the Cayman Islands

32. Case study 1 shows how legal persons and arrangements can be misused in the furtherance of proliferation and PF activity. It illustrates the ingenuity with which criminal enterprises will employ tactics to breach sanctions, including means by which designated entities circumvent designations and have financial resources made available to them.
33. The types of legal persons and arrangements which exist within the Cayman Islands and the products available, in tandem with the varying requirements for the establishment of such, enable multiple complex structures to be established in which there may be difficulties ascertaining the ultimate beneficial owner. Corporate Structures may be multi-layered, with members of arrangements being other legal persons. Outside of asset management, Cayman Islands companies are used as joint venture vehicles, holding companies, acquisition vehicles, listing companies for IPOs, for the financing and leasing of aircraft by major global airlines and leasing companies, and more recently also for the issuance of Initial Coin Offerings (ICOs)⁸.
34. Lawyers, who play a significant role in the creation of legal persons and arrangements, have only recently become subject to an AML/CFT/CFP supervisory regime. The Cayman Islands Legal Practitioners Association (CILPA) is the designated professional supervisory body for firms of attorneys and sole practitioners in the Cayman Islands. Membership to CILPA is open to everyone who has been admitted as an attorney in good standing and has a current practicing certificate and must also comply with the Code of Conduct and to the Articles of Association. CILPA delegated

⁸ Cayman Islands Legal Entities and Arrangements Risk Assessment 2020

the supervisory AML/CFT/CFP function to its operationally independent regulatory arm, the Cayman Attorneys Regulation Authority ('CARA').

Threats and Vulnerabilities

35. There is the threat of legal persons and arrangements being misused for PF. In relation to compliance and monitoring, the Registrar of Companies has limited knowledge of the different functions of the corporate investors such as controllers, administrators, advisors, managers, and service providers located outside of the jurisdiction, making it difficult in most cases to know the actual controllers or beneficial owners. Additionally, there is the potential vulnerability of Cayman dormant or struck-off companies that may be used for PF.

Case Study 2 - Use of Front Companies to facilitate sanctions breaches by a designated entity

36. Case study 2 involves the use of front companies created by the Dandong Hongxiang Industrial Development Co. Ltd (DHID) management personnel. A front company in the British Virgin Islands was also involved in this case.
37. DHID is a trading company based in Dandong, China, but which is located on the border with DPRK. DHID was instrumental in assisting an OFAC listed bank's financing of the urea trade. The designated bank, namely the Korea Kwangson Banking Corporation, had been listed for providing financial services in support of DPRK's WMD and ballistic missile programs.
38. Whilst this case study relates to relations between the DHID and an OFAC designated entity, the observations which stem therefrom are equally useful in assessing activity which takes place with OFSI designated entities.

Facts

39. In March 2013, DHID agreed to sell 20,000 metric tons of urea fertiliser to a DPRK company, subject to a guarantee from the designated bank that payment had been made by the company before the cargo was to be loaded.
40. A DHID front company thereafter arranged the purchase of 10,000 metric tons of urea from a Singapore Distributor. Bank records show that Fully Max Trading Ltd, a BVI-based DHID front company, paid the Singapore supplier almost USD 3.9 million, in a series of seven instalments between May and June 2013. All the payments transited the US financial system. Bank records also show that between May and June 2013, Fully Max Trading Ltd received a deposit of about USD 4.8 million into its account at China Merchants Bank from a DHID account. These funds transited the U.S. financial system through a US correspondent banking account at Standard Chartered Bank. DHID made a profit of about 23% on the deal.

Considerations relevant to the Cayman Islands

41. Case study 2 has considerations similar to those previously addressed in relation to misuse of legal persons and arrangements and associated developments. It however, provides an example of the use of a BVI front company, clearly showing exposure of IFCs to these illicit schemes.

Case study 3: Threat of Foreign flagged ship owned or controlled by a Cayman Islands entity

42. It has been noted that IFCs with foreign flagged vessels owned by entities domiciled in other Caribbean countries (British Virgin Islands) have also featured in media and UN Panel of Experts reports. According to the UN Panel of Expert Report, partner companies included for example Treadwell Marketing, British Virgin Islands, registered in 2007 and the (Syrian BVI Firm linked to Magnitsky case paid Russia USD 37 million, Cyprus Business Mail, 19 June 2017) Tredwell Marketing shared the BVI address with at least one other company suspected of support to the Syrian Scientific Studies and Research Centre (SSRC), Balec Ventures Inc. According to the media reporting, the Central Bank of Cyprus suspected Tredwell Marketing of being a front company for the SSRC.

Vulnerabilities

43. There is no readily available information regarding the number of foreign flagged ships owned or controlled by Cayman entities, or the underlying beneficial ownership of those Cayman entities. In addition, there is no readily available information regarding what processes the shipping registries in the relevant foreign jurisdictions have implemented to mitigate and combat the risk of proliferation or PF.
44. There is also the threat that Cayman owned foreign vessels are exploited to assist in the evasion of sanctions.
45. Significant progress has been made to gather information on holders of International Maritime Organization (IMO) Registered Owner Numbers who are registered in the Cayman Islands - to identify Caymanian companies who own ships registered outside the Islands. Negotiations are currently in progress with the commercial company [IHS Markit](#) which administers this scheme on behalf of IMO to provide this information with the assistance of MACI and the Registrar of Companies.

Case Study 4: Cyber-attack Virtual Assets as a means of Sanctions Evasion

46. According to Panel of Experts Reports, the DPRK has used cyberspace to launch increasingly sophisticated attacks to steal funds from financial institutions and cryptocurrency exchanges to generate income. The increasing scope and sophistication of cyberattacks allows the country to evade financial sanctions and generate income in ways that are harder to trace and subject to less government oversight and regulation.
47. The main cyber activities carried out by DPRK actors have included the following: attacks through the SWIFT network (with bank employee computers and infrastructure accessed to send fraudulent messages and destroy evidence), the theft of cryptocurrency (through attacks on both exchanges and users) and the mining of cryptocurrency as a source of funds for a professional branch of the military. The Panel notes that, in addition to DPRK cyberattacks on cryptocurrency exchanges and individual users, DPRK cyber actors have also engaged in the mining of cryptocurrency. The panel also investigated alleged instances of crypto jacking, in which malware is used to infect a computer for the purposes of illicitly using its resources to generate cryptocurrency. The Panel also notes that

cyber actors have raise funds for the DPRK's WMD programmes with total proceeds estimated at up to \$2 billion⁹.

Considerations relevant to the Cayman Islands

48. With cyber-attack being an increasingly global challenge, the Cayman Islands is susceptible to cyber-attacks for PF purposes. DPRK actors, do not have to be in the jurisdiction to engage or initiate cybercrimes, as these attacks are usually down remotely.

Case Study 5: Maritime Insurance as a means of Sanctions Evasion

49. The area of maritime insurance and re-insurance has also been highlighted in UN Panel of Experts Reports. In its Report of February 23, 2015, the Panel found that the Korea Ship owners' Protection & Indemnity Association continued to act as the insurance provider for a number of vessels controlled by the OMM even subsequent to the entity having been designated. This included vessel 'Mu Du Bong.' The Association had also been the insurance provider for the 'Chong Chon Gang' when it was involved in the 2013 sanctions violation. According to the Panel, the Association possibly provided insurance for all North Korea flagged ships due to the reluctance of reputable companies to insure these due to the risks which may exist in this regard.
50. By re-registering under foreign flags, (for example, Cambodia), the vessels could readily access ports and routes closed to North Korea flagged ships. This enabled North Korea's vessels to avoid identification as high-risk vessels and allowed OMM to evade detection of financial transactions involving the ships. OMM extensively used some Singaporean companies to conduct financial transactions associated with its operations both in Singapore and in other countries; one such company was the Chinpo Shipping Company (Private) Ltd.

Considerations relevant to the Cayman Islands

51. Given that the Cayman Islands offers flag of convenience services, there is the vulnerability that a Cayman Islands registered vessel could be exploited as a vessel that does not attract proliferation concern to access ports and routes prohibited to the DPRK.

Conclusions on Typology Review

52. Analysis of the above-mentioned cases show that increased attention should be focused on financial institutions, but in particular legal persons and arrangements. Increased attention should also be paid to new and evolving threats such as virtual currencies and cyber-attacks, as mentioned in the UN Panel of Experts reports. The methods identified in the various schemes above generally follow consistent patterns with similar characteristics. These schemes tend to involve a complex network of companies, correspondent banks and transactions which seem to be unrelated. Usually, they begin with a non-DPRK financial facilitator, who has established a non-DPRK trading company, acting as the central point of contact to fulfil commodity orders on behalf of the DPRK. Commercial trading companies also tend to deal with goods that can be used for procurement although they are not officially WMD materials.
53. The nesting and layering process through jurisdiction-hopping is also an observable trend within DPRK proliferation finance networks. Of note is the fact that several of the typologies does not

⁹ UN Panel of Experts Report on DPRK – 30 August 2019

always result in an entity or individual be placed on the sanctions list. This could result in the potential breach of TFS obligations where only sanctions screening is used to identify or verify PF transactions.

Section 2- ANALYSIS OF POTENTIAL THREAT OF PF EXPOSURE

54. The Cayman Islands offers a range of products and services which makes it attractive for non-residents to establish businesses in the jurisdiction without having a physical presence in the Cayman Islands. Additionally, as an international financial centre, most products and services offered are targeted towards non-resident customers, including high net-worth and institutional clients, resulting in the establishment of some business relationships on a non-face-to-face basis. These factors contribute to markedly higher inherent TFS/PF risks.

Financial activities, products and services with the potential threat of PF

Banking inflows and outflows

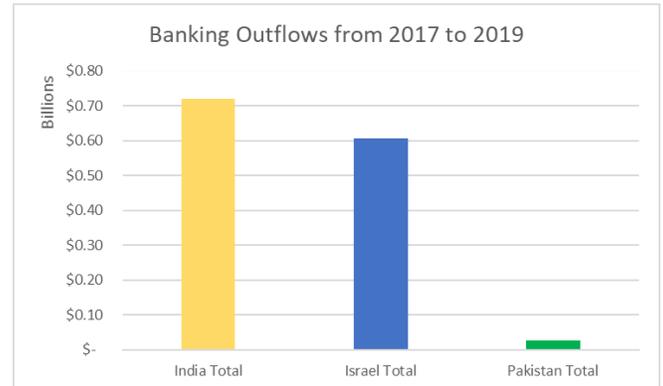
55. Proliferation networks exploit the financial system to carry out transactions through complicated transnational corporate structures, using intermediaries, shipping registries, front companies as well as other legal persons and legal arrangements. The Cayman Islands is exposed to potential PF threats, including through the misuse of, banks and other financial institutions with foreign branches operating in countries of proliferation concern (DPRK, Iran and other countries considered high risk as identified in the table above); e.g. the Cayman Islands being used as a transit country for funds that are intended to be used for proliferation purposes abroad, with funds being sent via the Cayman Islands either through banks moved through the Cayman Islands' territory.
56. As most of the DPRK's trade finance and illicit PF activities were noted to be complex cross border, layering and nesting schemes, a mapping and analysis of the banking sector inflows and outflows was conducted. In this analysis, a review was done of the risks of funds transferred to countries of proliferating concern, the use of trade finance and other items of interest. Banking data on funds inflows and outflows from/to the Cayman Islands for a 3-year period for the years 2017 to 2019, broken down by originating and receiving jurisdictions were analysed; as well as trade financing data inflows/outflows by the Cayman Islands for the 3 years period 2017 to 2019.

Inflow/Outflows

57. Analysis of the inflows and outflows from the Cayman Islands was conducted against countries identified in the table below and shows as follows:
58. Between 2017 and 2019, the Cayman Islands transferred approximately **\$69 billion** dollars or **1 %** of the total outflows abroad through the SWIFT system and received approximately **\$21 billion** or **2%** of the total inflows within the same period from the countries under review. Overall, for the years 2017 to 2019 Japan accounts for **75.44%** of the inflows under review, representing the largest recipient of payments from the Cayman Islands. Japan also represents the highest volume of payments to the Cayman Islands totalling **59.71%** of in terms of volume of inflows.

Outflows

59. Looking at fund outflows to those jurisdictions with actual or potential risks in the context of nuclear proliferation relative to PF (Pakistan, India, DPRK, Israel & Iran)¹⁰ as per the methodology, the data indicates that Cayman Islands' financial ties with jurisdictions when measured by volume and percentage of funds sent are limited. No transfers were recorded to high risk jurisdictions DPRK and Iran from Cayman Islands banks.
60. Further analysis of the data showed that between 2017 and 2019, just over **0.60%** of the total transfers were sent by Cayman Islands banks to Pakistan, Israel and India, totalling approximately **\$736 million**, these with actual or potential risks in the context of nuclear proliferation relative to PF. This is not unusual giving the migrant workforce and banking relationship with these countries.
61. In Addition to the above, approximately **\$290 million** USD was sent from the Cayman Islands to Algeria and Egypt through SWIFT transfers. These jurisdictions pose a low-medium risk for actual or potential risks in the context of nuclear proliferation relative to PF. Finally, when reviewed in totality, the numbers equate to **0.41%** of the total amount of funds leaving the Cayman Islands for the funds under review.
62. Saudi Arabia, a medium risk¹¹ jurisdiction for actual or potential risks in the context of nuclear proliferation relative to PF recorded the 3rd largest transfer showing **9.85%** (**\$6.8 billion**) of the total funds transferred. Turkey, which also reflects a medium level, recorded **0.15%** of the total funds under review.
63. Additionally, on the outflows of funds, the Cayman Islands has closer ties in terms of volumes of funds flows to UK and United States than to the remaining countries. This is not surprising given that the Cayman Islands' licensed sector and demographic make-up is tied with these countries.



Inflows

An Analysis of the total inflows shows that no funds were received from Iran or DPRK.

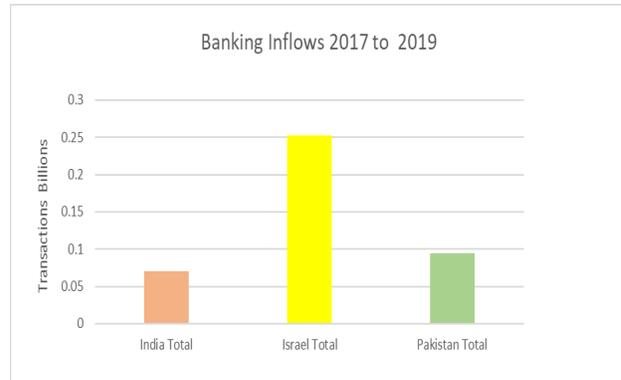
64. Of total inflows (**\$21 billion**) for the countries under review, approximately **\$188 million** USD was received by the Cayman Islands from jurisdictions that pose a risk for actual or potential risks in the context of nuclear proliferation relative to PF between 2017 and 2019, which equates to **1%** of the funds under review. Further analysis of inflows from these jurisdictions, shows that the higher volumes were received from Pakistan, Israel and India.
65. A further total of approximately **\$24 million** USD was received by the Cayman Islands from Turkey, a jurisdiction deemed medium risk for actual or potential risks in the context of nuclear proliferation relative to PF.

¹⁰ The Financing of WMD Proliferation- CNAS 2018

¹¹ Ibid1

66. The analysis of the banking data did not reveal any links to correspondent banks located in China or other exposed jurisdictions. No active links were identified with DPRK.

67. It should be noted that banks use automated screening tools to verify that customer and their partners are not subject to TFS. Banks also go beyond the sanctions list screening by verifying transactions at the time of onboarding for PF threats and continued monitoring should the relationship changes.



Vulnerabilities in relation to banking

68. Criminals can use the banking sector to move and store the proceeds of PF or from dealing with a sanctioned individual. Poor TFS screening and transaction monitoring heightens this threat and results in vulnerability. Additionally, the difficulty in spotting deceptions at the time accounts are opened or to recognise suspicious inflows and outflows as it occurs, when reviewing for PF activity creates additional vulnerabilities.

Trade finance products and services

69. Between 2017 and 2nd Quarter of 2019 there was USD **\$6.2 trillion** of outflows, of which only USD **\$3.9 billion** was related to trade finance. This reflects **0.063%** of the total banking outflows. Of the USD **\$3.9 billion**, USD **\$2.3 billion** dollars relate to trade financing outflows to China, Hong Kong, Singapore and the United Arab Emirates. Total trade finance inflows to the Cayman Islands for the period was **\$831 million**, which represents **0.073%** of the total banking inflows. Only USD **\$5.8 million** relate to China, Hong Kong, Singapore and the United Arab Emirates.

Inflows

70. An analysis of the USD **\$5.8 million** of Cayman Islands trade finance inflows shows that China accounts for **77.97%** of the trade finance transactions. Hong Kong accounts for the second highest volume of funds transferred to the Cayman Islands reflecting **12.56%**. Singapore and United Arab Emirates account for the remaining **5.76%** and **3.72%** respectively.

Outflows

71. An analysis of Cayman Islands USD **\$2.3 billion** outflow trade finance outflows shows that no funds were transferred from Cayman Islands to China for the same period under review. Most of the funds transferred for the same period went to Singapore which accounts for **83.09%**. United Arab Emirates accounts for the second highest with **16.62%**. The remaining **0.29%** went to Hong Kong.

72. The analysis indicates in theory that the banking services in Cayman Islands has the potential of being used for suspicious transfers as a part of complex transaction chains to pay for trade and transportation of proliferation goods, by transferring financial resources through banks or payment institutions registered in Cayman Islands. However, in practice, this number and volume of

transactions are minimal and trade finance products are provided by only a few banks in the Cayman Islands.

Cayman Islands Maritime insurance and re-insurance

73. Cayman Islands' international insurance sector is known for its captive insurance sector, mainly healthcare captives, group captives and the jurisdictions growing reinsurance sector. Insurance products offered by the Cayman's international insurers to residents and businesses outside the Cayman Islands are as follows: (based on their primary line of business as at 31 December 2019): Medical Malpractice Liability; Workers Compensation; Liability lines including General, Product, Auto, Professional; Life – Reinsurance; Property coverage; Life – direct; Accident & Health; Marine & Aviation. All insurance companies are supervised by CIMA.
74. UN resolution 2321 (2016), prohibits the provision of insurance or re-insurance services to vessels owned, controlled operated or flagged by DPRK. A review of Cayman Islands Insurance data suggests that only 1.21% of the insurance services relate to maritime and aviation insurance. As of 2019, there are only 9 providers that offer re-insurance products specific to maritime insurance.
75. There is no information that links the provision of insurance or re-insurance services to vessels owned, controlled operated or flagged from Cayman Islands relates to DPRK or Iran.
76. Geographically, 81% of the international (i.e. CIMA licenced insurance captives) sector's immediate and ultimate UBO's are located in the United States, 11% are located in the Cayman Islands and the remaining 8% were located globally. Less than 3% of Licensees have engaged in business transactions with countries subject to sanctions such as Venezuela and Ukraine.

Threats and Vulnerabilities in relation to maritime insurance and re-insurance

77. Maritime and cargo insurance are generally procured by corporate service providers (CSPs) or shipping agents on behalf of their clients. CSPs and insurance providers in the Cayman Islands are subject to licensing and supervision by CIMA. The risk that Cayman Islands' maritime insurance and re-insurance services maybe exploited by high risk jurisdiction, is limited. There is the threat of Cayman underwriters and insurance companies providing insurance or re-insurance services, to customers that support foreign proliferation by insuring prohibited or sanctioned cargo, vessels and persons (natural and legal).

Financial and corporate infrastructure with the potential to be misused for movement or procurement of PF

Legal persons and arrangements, including beneficial ownership structure of businesses

78. The Cayman Islands is one of the leading international financial centres in the world. There are 111,451 registered active companies. The Cayman Islands is a popular domicile for private equity and hedge funds, with close to 11,000 funds registered and an unknown number of unregistered funds. These include Investment funds and Asset Management, Banking, Insurance (including captive insurance companies), Re-insurance, Capital Markets (including Initial Public Offerings("IPO"), Special Purpose Vehicles (SPVs), structured finance, leasing arrangements, etc.), and Trust (including Private wealth succession planning and asset protection). The main sources of these businesses are from North America, Asia, UK and wider Europe.

79. Cayman companies¹² are typically formed to support such fund structures and the asset management industry more broadly. Outside of asset management, Cayman Islands companies are used as joint venture vehicles, acquisition vehicles, listing companies for IPOs and for the financing and leasing of aircraft. The Cayman Islands corporate sector exists principally to support institutional business.
80. Many private equity and investment funds are organised as limited partnerships or companies. Similarly, holding companies' structures are used in mergers and acquisitions activities. The complexities and sophistication associated with the corporate structures, spanning multiple jurisdictions, with diverse beneficial owners compounded by the existing deficiencies in beneficial information held by the Registrar of Companies, presents vulnerabilities associated with PF. Visibility by the Cayman Islands into the ultimate beneficial ownership of the whole corporate chain is limited by the knowledge of different functions of the corporate investor, such as controllers, administrators, advisors, managers, and service providers located all around the globe, making it difficult in most cases to know the actual controller or beneficial owners of the assets.
81. Whilst there is no data on links between the Cayman Islands and high-risk jurisdictions on the corporate side, the exposure of the financial system when conducting business with jurisdiction neighbouring areas of proliferation concern, poses potential PF threats.

New Technologies, Products, Sectors

Cayman domiciled virtual asset/ Virtual asset service provider exposure to PF

82. The threat of virtual assets being used to avoid the formal financial system is a global risk for proliferation financing. In recent years, the use of cryptocurrencies has emerged as a new form of storing, or moving, value and making payments, and there are currently thousands of different types of cryptocurrencies. As the technology in this field continues to develop and evolve, so too will the techniques of criminals in committing financial crimes, and the demands upon law enforcement to identify and mitigate these risks will increase. Cryptocurrencies enable users to directly transfer value to one another without using a third-party intermediary, bypassing the bank system.
83. The Cayman Media and Internet Park of the Special Economic Zone ("SEZ") is home to 47 companies that provide computer programming and cryptocurrency related services. These services are consultancy and marketing for Initial Coin Offerings ("ICO") of cryptocurrency, crypto-exchange services, computer programming and the development of blockchain technology platforms, cryptocurrency mining and token storage and support in respect of Coin Payments and crypto exchanges. Of the 47 companies, 19 companies seem to be involved in activities that may potentially involve bitcoins or virtual currencies; six (6) provide crypto exchange and investment services, and three (3) provide crypto mining services four (4) provide marketing and ICO services six (6) and provide a mixture of activities involving virtual assets. There is very limited information regarding the activities of Cayman cryptocurrency exchanges and Cayman entities established for the purpose of ICOs.
84. According to UN Panel of Expert report, DPRK has used cyberspace to launch increasingly sophisticated attacks to steal funds from financial institutions and cryptocurrency exchanges to generate income. The increasing use of virtual currencies and cryptocurrencies which could be used

¹² Details of the structure of each Cayman Islands company can be found in the *Cayman Islands Legal Person's Risk Assessment 2019*

by criminals to transfer and store value anonymously poses a risk to the Cayman Islands financial system. There is the potential risk that a Cayman domiciled virtual asset service provider (“VASP”), or company used in an ICO or other virtual asset transaction, may be used for PF activities. Additionally, there is the risk of crypto jacking/cyber-attacks to cryptocurrency data mines.

85. The Cayman Islands recently passed legislation to develop a regulatory and supervisory framework for VASPs. The activities conducted by such VASPs are already subject to the AML/CFT/CFP framework in the Cayman Islands. The Proceeds of Crimes Law includes VASP in its definition of relevant financial business. The Anti-Money Laundering Regulations (“AMLRs”) subject persons conducting relevant financial business to obligations aimed at preventing, identifying, and reporting ML, TF and PF. Providing virtual asset services is now considered relevant financial business and a supervisory framework is in the process of being established.
86. All relevant financial business (RFBs) are required to have procedures for the ongoing monitoring of business relationships or one-off transactions for the identification of assets subject to targeted financial sanctions applicable in the Islands. Additionally, they are required to take appropriate measures to provide employees with training in the recognition and treatment of transactions carried out by, or on behalf of, any person who is, or appears to be, engaged in proliferation financing, or whose assets are subject to targeted financial sanctions. As a consequence, there are already some PF mitigations on ICOs and other activities associated with virtual assets, including where Cayman legal entities are utilised for such activities.

Vulnerabilities for Virtual Assets and Virtual Assets Service Providers

87. In June 2019, the FATF adopted changes to the standards which required all countries to have an AML/CFT regime for Virtual Assets and VASPs. Recommendations 15.3a of the standards require countries to identify and assess the ML and TF risks emerging from virtual asset activities and the activities or operations of VASPs. R.15.10 requires that TFS applied to VSAPs.
88. The rise in use of virtual currencies and in particular of cryptocurrencies presents an emerging vulnerability to the Cayman Islands. The recent surge in the Cayman Islands ICOs raises ML/TF/PF concerns and as ICOs are an unregulated means of raising capital, they may therefore be exposed to abuse. At present there is limited regulation and limited outreach to VASPS and Virtual Assets exchanges, although this is intended to change once the legislation is enacted. There is also a limited level of awareness by relevant persons subject to the regulations systems and controls identify, assess, manage and mitigate risk of PF.
89. In relation to FATF Recommendation 16 (R.16), with respect to TFS, countries should ensure that the communication mechanisms, reporting obligations referred to in criteria of recommendations 6 and 7 iii also apply to VASPs. In order for R.15.10 to be implemented as well as the applicable criteria under Recommendation 6 and Recommendation 7, there would need to be identification of natural or legal persons that carry out VASP activities in the Cayman Islands. A registration and licensing process is being introduced. The FRA website allows for subscription to receive the TFS notifications however, until the registration is completed the identification and communication of TFS notice to VASPS is a challenge. Notwithstanding, all relevant financial business have an obligation under the AMLRs to have up-to-date procedures to ensure compliance with targeted financial sanctions obligations as applicable in the islands.

90. Other requirements of R.16 (including taking freezing action and prohibiting transactions with designated persons and entities) apply on the same basis as set out in R.16; and the same obligations apply to financial institutions when sending or virtual asset transfers on behalf of a customer. Currently, the Cayman Islands is not able to implement TFS without delay to Virtual Assets and VASPs, neither is there anyway of identifying a breach of TFS obligations. However, as noted above all relevant financial business have an obligation to comply with targeted financial sanctions obligations as applicable in the islands.

Data collection of virtual assets

91. FATF R.16 – For virtual asset transfers, countries should ensure that: originating VASPs obtain and hold required and accurate originator information and required beneficiary information on virtual asset transfers, submit the above information to the beneficiary VASP or financial institution (if any) immediately and securely, and make it available on request to appropriate authorities.
92. As Virtual Asset activity and VASPs are not yet registered the collection of Virtual Asset and VASP-related information is currently a challenge, though this issue will be rectified once new legislation that is currently being progressed comes into force.
93. With respect to financial intelligence, because they are not supervised, the most significant investigative challenge is the ability to obtain records that would identify parties to a criminal transaction. Additionally, there is limited analytical and investigative experience for VAs and the collection of information to conduct investigation for foreign-based VASPs would also pose a challenge, especially when those VASP activities fall outside of the AML/CFT regulatory framework of the Cayman Islands.
94. Whilst the FATF does not currently require a virtual assets assessment of PF, the vulnerabilities associated with implementing TFS obligations would warrant a more in-depth analysis of virtual assets at the national level. This is also as result of the crosscutting impact on controls and preventative measures. As mentioned previously, a framework to undertake a virtual asset risk assessment has been initiated.

Crowdfunding

95. Another form of new technology is crowdfunding, which is where persons use social media to raise money, usually for a business venture or charitable cause, and usually in small amounts from multiple donors. Popular sites used for such include Kickstarter, GoFundMe and IndieGoGo.
96. Crowdfunding involves obtaining small amounts of individual funding from a large number of different sources through online platforms. These online platforms match lenders and investors with businesses or individuals seeking funding and arranges payments between them.
97. To demonstrate the scale of crowdfunding, a 2018 US media report indicated that Kickstarter has raised more than \$3.6 billion for its users since it began in 2009 and Kickstarter projects that reached their funding totalled about \$608 million in 2018 compared to \$1.7 million in 2009¹³.

¹³ <https://www.usatoday.com/story/money/small-business/2018/04/30/crowdfunding-evolves-source-capital-test-market-startups/542978002/> Retrieved 07 April 2020

98. The main vulnerability when it comes to crowdfunding and PF is that crowdfunding platforms could be set up under fictitious projects in order to allow the collection of funds that are used or transferred to finance proliferation. In the Cayman Islands, crowdfunding is not currently a regulated activity, but this will now be considered.

Section 3 – PF RELATED VULNERABILITIES TO INSTITUTIONAL AND OPERATIONAL STRUCTURES

Institutional and Coordination Structures

99. PIAG is the sub-group responsible for the domestic coordination and cooperation of national PF matters. Its mandate is to share information on international developments and best practices related to PF, raising stakeholder awareness and implementation of PF policies. PIAG also ensures coordination and cooperation in the area of PF and to help to equip FIs and DNFBPs to better understand and mitigate PF risks through training and outreach.
100. PIAG facilitates information sharing among competent authorities and other government agencies involved in the operational CPF. In addition, PIAG provides a forum for the examination and enhancement of PF policies.
101. Whilst the Cayman Islands have a robust CPF framework, due to the wide range of activities that fall under the definition of PF, there needs to be coordination of other non- traditional CPF stakeholders. As a consequence, the knowledge of TFS sanctions obligations among government agencies varies.

Civil Aviation Authority of the Cayman Islands (CAACI)

102. The (CAACI) is the statutory body responsible for aviation regulatory oversight throughout the Cayman Islands and for aircraft registered in the Cayman Islands. The CAACI works in close partnership with a specialized group of legal firms and Cayman Islands Government authorities to ensure that clients have the most comprehensive counsel on every avenue of law, custom law, tax and insurance. The Air Navigation (Overseas Territories) Order 2013, amended, is the Statutory Instrument of the Cayman Islands and as such is the enabling legislation for the operational control and continuing airworthiness of Cayman registered aircraft.
103. The primary activities of the CAACI can be grouped into three broad categories: safety regulatory oversight, economic regulation of aerodromes and air transport and the registration of aircraft. There is a detailed registration process that each registering owner must comply with in order to be issued with a Cayman Islands Certification of Registration. In order for an aircraft owner to be deemed eligible to apply for registration to the Cayman Islands Aircraft Register, the registering owner must meet eligibility criteria under the Air Navigation Overseas Territories Order 2013 as amended.
104. Eligibility for Aircraft registration is for the following persons; The Crown in right of Her Majesty's Government in the United Kingdom or in right of the Government of the Territory (Cayman Islands); United Kingdom nationals; Commonwealth citizens (which includes citizens of the Cayman Islands); Nationals of any European Economic Area State; Bodies incorporated in any part of the Commonwealth and which have their registered office or principal place of business in any part of the Commonwealth; or Undertakings formed in accordance with the law of an European Economic

Area State and which have their registered office, central administration or principal place of business within the European Economic Area.

105. An aircraft can be registered either on the basis that an eligible person is the legal owner of the aircraft or on the basis that such a person is the lessee (a charterer by demise) of the aircraft. If the existing ownership or leasing arrangements do not satisfy the eligibility requirements, then a common solution is to lease (or sub-lease) the aircraft to a Cayman Islands limited company that is incorporated solely for such purpose.

Compliance and due diligence

106. Each new aircraft registration application must be accompanied by due diligence documents relating to the beneficial owner(s). These documents are detailed in the Due Diligence Checklist (Aircraft Registration Application, Deposit on Initial Certificate of Airworthiness, Company Identification Documents, Transparent overview of the Company's Business Activities), Disclosure of Beneficial Owner(s), Company Directors/Officers and Bill of Sale.

107. Many Cayman Islands registered aircraft are currently based and operated throughout Europe, Singapore, Hong Kong, Indonesia, Australia with the majority being based in the Middle East region¹⁴ operating commercially under an 83 bis agreement with the General Authority of Civil Aviation (GACA) of Saudi Arabia. A majority of registrants are owners of corporations who prefer the ease of travel between international destinations, with relative anonymity, which is afforded to Cayman Islands registered aircraft. Applicants to the registry are encouraged to work with one of the local legal and financial partner firms who are versed in aircraft registration and can provide legal advice pertinent to clients' individual circumstance.

108. During the period January 2017 to December 2019, 117 private air crafts were added to the aircraft registry. However, the public aircraft registry does not currently contain information about the nationality of the beneficial owner; accordingly, PIAG could not conduct an analysis of whether there are aircraft owned or controlled by persons from the DPRK.

Ongoing Due diligence

109. The Finance and Compliance Department conducts due diligence on clientele of the Cayman Islands Aircraft Registry in accordance with the Anti-Money Laundering Regulations (AMLRs). The AMLRs require that there are procedures in place for the ongoing monitoring of business relationships for the purposes of preventing proliferation financing and allowing for the identification of assets subject to targeted financial sanctions, as well as to ensure compliance with targeted financial sanctions obligations applicable in the Islands.

110. Currently the CAACI only do ongoing due diligence on current owners if there is a change in ownership or if there are requests for searches of the Aircraft Mortgage Register. Ongoing monitoring is important to see if any existing customer gets added to any sanctions list. This would ensure that CAACI is kept informed of any status changes to existing customer and thereby protects its reputation and integrity. The ongoing monitoring should be informed by a risk assessment which should consider risks relating to geography, clientele and services.

¹⁴ https://www.worldcommercereview.com/publications/article_pdf/915

Customs and Border Control (CBC)

Potential of Vulnerabilities of DPRK workers or travellers

111. The Cayman Islands Customs and Border Control (CBC) Service is responsible for the protection of our borders, the collection of Import Duties, and is also responsible for the management of travel and trade. Every person arriving in the Cayman Islands is required to produce for inspection by a CBC officer a passport or some other valid document establishing their identity and nationality or place of permanent residence. Proof of citizenship or residence may be established by producing a photo identification together with a certified copy of a birth certificate, or a naturalization certificate.
112. UNSCR 2375, instituted a ban on the hiring of any new North Korean workers, in December 2017, UNSCR 2397 called on member states to repatriate all North Korean labourers by 22 December 2019, accordingly, the presence of North Korean labourers abroad violates international sanctions.
113. According to a North Korea Sanctions and Enforcement Actions Advisory issued by the US government, in 2017–2018, North Korean labourers are mostly present in China and Russia.¹⁵ A review of the work permit data¹⁶ does not indicate any DPRK or the Republic of Korea (South Korea) nationals employed in the Cayman Islands.
114. Based on the CBC travel data reviewed for this assessment, the IMSS records indicated that there were persons visiting from Korea, via cargo vessel from Japan, cruise ships and airplane from the USA. At time of entry the IMSS records did not specify to the Democratic People's Republic of Korea (North Korea) or the Republic of Korea (South Korea). To determine there was no breach of the UNSCRs, the names of these passenger were checked against the sanctions lists, and there were no matches or false positives. CBC has since updated their IMMS database to distinguish between the sovereign states of DPRK and South Korea. UNSCR 1718 imposes freezing of assets and a travel ban on persons involved in the DPRK's nuclear programme (latest decision as of July 2019, 80 persons and 75 entities listed¹⁷).
115. Under the Advance passenger Information Law 2018, information on all passengers including crew members is shared with CBC in advance of their arrival. Since May 2019, CBC input the names of designated persons in their IMSS and updates the systems whenever a new communication is made. This will allow for designated persons to be flagged in the event they travel to the Cayman Islands. CBC also has an advance passenger policy which details the procedure for dealing with designated persons.

Potential vulnerability with proliferation sensitive/dual-use goods

116. UNSCR 1540 OP 3(d) requires countries to have in place effective laws and export controls related to the export and transshipment of controlled dual-use goods as prohibited by UNSCR 1718 (2006) [dual-use goods list](#) and UNSCR 2270 (2016) [dual-use goods list](#).

¹⁵ Risks for Businesses with Supply Chain Links to North Korea', 23 July 2018, < https://www.treasury.gov/resource-center/sanctions/Programs/Documents/dprk_supplychain_advisory_07232018.pdf >, accessed 25 March 2020

¹⁶ <https://www.eso.ky/employment.html#1>

¹⁷ <https://www.securitycouncilreport.org/atf/cf/%7B65BF9B-6D27-4E9C-8CD3-CF6E4FF96FF9%7D/dprk-north-korea-sanctions-fact-sheet.pdf>

117. In the Cayman Islands there are no industries and research centres that produce dual-use and proliferation-sensitive goods and expertise. Additionally, latent expertise on the weaponization of nuclear technology and production of relevant materials. The exposure of the Cayman Islands to the export and trade in military equipment and “dual use” goods is relatively limited when compared to that of regions like Asia, North America and Europe. Additionally, the geography of the Cayman Islands makes it unlikely to be used as a transshipment point for dual-use goods to the DPRK or Iran. However, there is the potential PF vulnerability a company or vessels misused to facilitate sanctions breaches in the transfer or procurement of these goods.
118. The awareness of this potential risk exposure of dual-use goods among governments and the private sector is important for taking the necessary measures to mitigate it. In order to understand the full extent of vulnerability of dual-use /proliferation sensitive goods institutions to the Cayman Islands a separate exercise should be undertaken of the sectors, that may be involved in or linked to dual-use or proliferation-sensitive goods and raise awareness of the sectors of their export control obligations.

Cayman Islands Land Registry

119. The Cayman Islands Land Registry is within the Department of Lands and Survey Department which manages the lands title register. UNSCR 2321, OP 18, prohibits the use of real property owned or leased by DPRK from being used for any purpose other than diplomatic or consular activities. It also prohibits against sale, lease or hire of real property by DPRK nationals.
120. Each transfer and stay of registration is checked against the sanctions list to ensure that the transfer or transferee is not a designated person/entity. The names of company/entity, Director/Secretary and any other person responsible for transfer of Land is checked against the consolidated list. The Department has also checked its historical transactions. While no target match has been identified, there has been at least one partial name match relating to which a request was made for further identification information in order to clear the potential false positive. In the even a target match is eventually made, the Department will complete and submit a Compliance Reporting Form to the FRA.

Cayman Islands Shipping Registry

121. UNSCR 2270, OP 20 and UNSCR 2321, OP 9, prohibits the owning, leasing, operating, or insuring a DPRK flagged vessel. The Cayman Islands offers an open shipping registry which has the potential for such associated threats. As of 1st January 2019, a total of 221 “Cargo Ships” were registered in the Cayman Islands. Of these, 34 are Bulk Carriers, 73 are Chemical Tankers, 18 are Oil Tankers and 96 “other cargo ships” not representing a significant PF risk. These include vessels which can be seen every day in GT Harbour – car carriers, passenger ships and general cargo ships trading worldwide. To qualify as an owner of a Cayman Islands ships, the owner must come from a country listed in section 4 of the Merchant Shipping Law, 2016 Revision.
122. In summary, these countries are the Cayman Islands; the United Kingdom; UK Overseas Territories and Crown Dependencies; Members of the European Union and EEA; and Countries of the AMLSG “List of Equivalent Jurisdictions”. By virtue of section 4, no person or body corporate domiciled in a country subject to a “Sanctions Order: can directly own a Cayman Islands ship. Owners of cargo

ships are known to MACI through long term relationships. They are generally well established and respected international shipping companies. Most new registrations come from these existing ship owners. The “registered” owner is almost exclusively a corporate body created solely for the purpose of “owning the ship”.

123. These corporate bodies have no tangible assets other than the ship itself. This has been the established “vehicle for ship owning” internationally for many years. (See the UK Navigation Act of 1660 and the Merchant Shipping Act, 1854. By virtue of section 6 of the Merchant Shipping Law, a prospective owner of a ship not domiciled in the Cayman Islands must appoint a “representative person”. These “representative persons” are usually drawn from the major law and financial services providers. The history of every ship is checked before initial registration in the Cayman Islands. The check is primarily related to safety matters but including the history contained in “vetting services” such as <https://www.rightship.com/>. The same applies to the history of the registered owner (if there is one) and the ship management company. As part of the ship registration process MACI gathers and retains data on the owner and “representative person”.

Monitoring of ships and sanctioned areas

124. MACI actively monitors the location of all Cayman Islands ships through the international Long-Range Identification and Tracking (“LRIT”) system. LRIT differs considerably for the publicly broadcast AIS^{iv}. LRIT operates by direct satellite communications between the ship and MACI. By default, position reports are sent every six hours. LRIT may not be “switched off” as easily as AIS. Should the ship miss a number of position reports (Currently eight reports, or two days) the LRIT automatically alerts MACI for investigation.

125. Under the LRIT system, an area has been defined around the coastlines of DPRK. Should a Cayman Islands ship enter this area, MACI is immediately alerted. Since setting up this alerting in 2018 area, no Cayman Islands ship has entered this area.

126. Position reports received through the LRIT system are archived in perpetuity. As such, the position history of any Cayman Islands ship can be reconstructed at 6-hour intervals back to its registration in the Cayman Islands.

127. Cayman Islands ships automatically report position, speed and course to the MACI at 6-hour intervals on a constant basis. It is possible to track the position of any Cayman Islands ship in “real time” (albeit delayed by up to 6 hours.) via secure “peer to peer” satellite tracking. Collating this information with the publicly available Automatic Identification System (“AIS”) data, interactions with other (non-Cayman) ships can also be monitored. Should there be any question as to the conduct of a Cayman Islands ships, the track of the ship can be recreated back to registration in the Cayman Islands.

128. There is a mandatory tracking system and commercial system used to track positions of ships/vessels. Under SOLAS¹⁸ V/19-1 (mandatory ship tracking system). These position reports are received via satellite (generally via the Inmarsat C system). Both “live” and archived position reports can be graphically displayed as geographic overlays. Reports are transmitted via a secure “peer to peer” network and are not publicly available.

¹⁸ The International Convention for the Safety of Life at Sea, 1974, as amended.

129. In addition to the above, ships are also required to carry AIS transponders (Commercial ship tracking systems). This information is transmitted via marine VHF radio. As such, this is a “broadcast system” and is publicly available to anyone with a suitable receiver or access to a website that collates this information. AIS is range limited by “line of sight” (approximately 30 miles) and can easily be switched of on board.

Domestic and International Cooperation

130. Occasionally MACI receives requests for information concerning Cayman Islands ships and their owners. Such request can come from within the Cayman Islands Government (e.g. via Grand Court Order or from the Financial Crimes Unit of the RCIPS) or external (e.g. UK National Crime Agency, USA FBI or Treasury Department). Whenever such requests are received, they trigger an internal “closer look” at the ship and its owner. In effect, the “request for information” is in itself valuable information and provides evidential leads and aids in enforcements. Requests generally relate to the registered owner and the history of the ship with MACI. MACI always complies with such requests.

131. MACI is member of the PIAG and shares information with membership which promotes an effective approach to combat PF.

Regulatory controls in place

132. Before registration, every ship is subjected to a “Flag in Matrix”. This matrix scores the ship in terms of quality, condition and performance. Ship histories are examined through industry databases, many of which contain “sanctions check”. Most ultimate owners of cargo ships are known to MACI through long term relationships. They are generally well established and respected international shipping companies. Most new registrations come from these existing ship owners. The “registered” owner is almost exclusively a corporate body created solely for the purpose of “owning the ship”. These bodies corporate have no tangible assets other than the ship itself. This has been the established “vehicle for ship owning” internationally for many years. (See the UK Navigation Act of 1660 and the Merchant Shipping Act, 1854).

133. Protection and Indemnity (“P&I”)v Cargo ships registered in Cayman are required to carry insurance under certain International Conventions and this insurance must be in place before registration. The permitted insurers are all members of the “International Group of P & I Clubs”. All insurers in the “International Group” conduct extensive checks on all ships and ship owners against the full range of UN, EU and US sanctions before offering insurance. It is also a condition of insurance that any breach of a sanctions order immediately terminates the ship’s insurance.

134. P&I Clubs actively monitor for breaches of sanction by ships and ship owners. When such breaches are identified (or “reasonably suspected”) they are required by their own rules to withdraw cover. When P&I cover is withdrawn, a number of International Conventions require the P&I Club to inform MACI that P&I cover has been withdrawn and the reason for withdrawal. MACI verifies annually that every ship remains insured and issues a confirmatory certificate on insurance renewal with an International Group member. Should insurance be terminated “mid-year” because of a breach of sanctions (or for any other reason), the same International Conventions that require the insurance also require the insurer to inform MACI of any withdrawal of insurance.

135. Should a Cayman Islands ship be found to be in breach of sanctions, section 8(1)(a)(I) of the Merchant Shipping Law allows the registration of the ship to be terminated as the ship continuing to be registered would be “detrimental to the interests of the Islands or of international shipping”.
136. Under Article 10K (4) of the “2018 North Korea Order”, it would be an offence to “register or maintain on a register a vessel [MACI] knows or has reasonable grounds to suspect has been involved in activities ... prohibited by this Order...”
137. Section 7 of the Merchant Shipping Law allows termination of registration on the “possibility that the ship is being used for criminal purposes”. In addition, Article 10K of “DPRK 2018 Order” makes it an offence for MACI to register (or continue the registration) of a ship breaching, or reasonably suspected of breaching) the Sanctions Order. When a ship’s registration is terminated due to a breach of this Order, it is also an offence to register that ship to be registered in another State.

Vulnerabilities for Shipping Registry:

138. The lack of data to facilitate:
- the assessment the jurisdictions of foreign flagged vessels owned by Cayman entities to ascertain their robustness in mitigating proliferation and PF risks.
 - no mechanism to identify if the purpose of an entity registered with them is to hold / own a foreign flagged vessel.
 - The limitation in the application of a robust KYC programme creates vulnerabilities for a Cayman Islands registered or owned vessel to be exploited for PF.

Financial intelligence and investigation capabilities in government (ability to identify and investigate PF)

139. There is no record of SARs directly related to PF, no known cases or investigation of PF in the Cayman Islands, or no requests from international counterparts for information relating to PF. Given, that the illicit activities are very complex and based on the PF threats identified, investigations would be impacted by several challenges. As PF transactions look like normal commercial activity, which is structured to hide origin of funding, investigators would be challenged by following the money trail.
140. Although there is a small amount of direct experience of PF related offending within the ODPP, the levels of expertise amongst financial analysts, investigators and prosecutors in detection of illicit PF activity in general is limited by the fact that such offending has not yet been encountered in the course of local investigations. In light of the limited pool of local specialist forensic accountants / investigators with PF training, law enforcement agencies are likely to be required to engage the assistance of experts from outside the jurisdiction in the event that such offences fall to be investigated. The establishment of the Financial Crime Focus Group may increase capacity building and the pooling of knowledge and experience to assist LEAs to better identify illicit PF activities.
141. Additionally, as most of these cases are complex and span several jurisdictions, there could be difficulty in conducting such investigations proactively and getting PF information from overseas authorities. We understand that PF intelligence is treated in an extremely sensitive manner, and that currently the FATF does not require international cooperation for PF.

Cybercrimes

142. The August 2019 Panel of Expert Report estimated that, to date, North Korea had illegally acquired \$2 billion through cyber means¹⁹. There are currently not many typologies on the DPRK's cyber or crypto operations, as cyber-attacks can be hard to trace. The RCIPS has reported that cybercrimes²⁰ have been committed in the Cayman Islands, however, there has been no information to suggest that cyber-attacks were by DPRK.
143. Several measures have been put in place to enhance the cyber security framework. In September, the data protection law came into force, in December 2019, the RCIPS opened a new Digital Forensics Hub to help in the fight against cyber-crime, and in March 2020 the UK extended the Cyber (Sanctions) (Overseas Territories) Order 2020. The RCIPS Stakeholder Forum could be a medium for private sector and Law Enforcement Agencies to exchange information and guidance on PF that would amount to PF intelligence. Feedback such as identification of illicit PF transactions should be done by the Stakeholder Forum, with an established protocol/channel for secured means of sharing intelligence.

Section 4 – ANALYSIS OF NON-IMPLEMENTATION, POTENTIAL BREACH, OR EVASION OF TFS RELATED TO PF

144. Recommendation 7 requires countries to implement targeted financial sanctions to comply with the UN Security Council Resolutions relating to the prevention, suppression and disruption of proliferation of WMD and its financing. FATF Recommendation 7 is currently applicable to two country-specific regimes, namely the DPRK and Iran. The Recommendation covers all existing and any future successor resolutions.

Proliferation financing: general measures

145. The UK Government passes Overseas Territories Orders in Council (OOICs) implementing UN and EU sanctions and extending such sanctions to its British Overseas Territories. When extended to the Cayman Islands, these OOICs have the force of law in the jurisdiction, a breach of which constitutes an offence for which fines and/or criminal convictions may result. In the Cayman Islands, UN, EU and UK financial sanctions apply to all individuals and legal entities who are within or undertake activities within the Cayman Islands, and they must comply with financial sanctions that are in force. The OOICs provide that financial sanctions apply to a) any person in the Cayman Islands, b) any person elsewhere who is— (i). a British citizen, a British Overseas Territories citizen, a British Overseas citizen, a British subject, a British National (Overseas) or a British protected person and is ordinarily resident in the Territory (Cayman Islands), or (ii) a body incorporated or constituted under the law of any part of the Cayman Islands, and c) any person onboard a ship or aircraft that is registered in the Cayman Islands.
146. With regards to PF UNSCR 1540 (2004) and successor resolutions, the following provisions relating to PF are: Operational paragraph (OP) 2 requires all States to have effective laws to prohibit non-state actors to finance nuclear, chemical or biological weapons (WMD) and their means of

¹⁹ UNSC, 'Report of the Panel of Experts Established Pursuant to Resolution 1874 (2009) 30 August 2019, S/2019/691, para. 57.

²⁰ <https://www.caymancompass.com/2018/04/26/cayman-cybercrimes-shoot-up-since-2014/>

delivery; and OP 3(d) requires all States to implement effective controls to prevent financing of exports or trans-shipments of WMD and their means of delivery.

147. The OOICs in relation to UNSCR 1540 are 1) [The Chemical Weapons \(Sanctions\) \(Overseas Territories\) Order 2018](#); 2) [The Chemical Weapons \(Overseas Territories\) Order 2005](#); and 3) [The Biological Weapons Act 1974 \(Overseas Territories\) Order 1975](#).

Targeted Financial Sanctions related to PF– Financial Measures

148. The UN Security Council has also called upon countries to apply Recommendation 7 and related interpretative note for effective implementation of targeted financial sanctions related to proliferation.²¹ These requirements are for countries to enforce freezing of assets, and preventing assets from being made available, to designated persons and entities of the DPRK associated with DPRK's nuclear or ballistic missile programs. FATF Recommendation 2 and requires countries coordinate actions domestically to combat proliferation.
149. The Cayman Islands facilitates the coordination and cooperation for AML, CFT and CFP purposes through the IACC and PIAG as a subgroup of the IACC subject to Section 3 B (b) of the POCL.
150. UNSCR 1695 on DPRK, OP 4 requires that countries encourage Financial Institutions and DNFBPs exercise vigilance to prevent transfer of financial resources to DPRK; monitor the activities of financial institutions of the DPRK and those acting on their behalf or direction. Additionally, UNSCR 2087 on DPRK, OP 6 requires that countries also encourage financial institutions and DNFBPs to apply enhanced monitoring to prevent transactions related to DPRK's nuclear or ballistic missile programs or other activities prohibited by the resolutions. These measures are in the PFPL and the AMLRS. Under Section 8, (1) of the PFPL, the FRA may require enhanced ongoing monitoring of any business relationship with a listed person; this also further underpinned by Section 4 (2) (ea.) POCL – which gives the FRA powers to monitor compliance with Regulations made under the POCL for the purpose of anti-terrorism financing and anti-proliferation financing measures.
151. VAs are relevant financial business under the POCL and VASPs are required to exercise enhanced due diligence and monitoring of transactions, taking into consideration high risk countries.
152. For relevant institutions, businesses or professions, conducting relevant financial business regulation 5 of the AMLRs requires that such persons must consider sanctions at the time of conducting risk assessments, and must therefore ensure that, among other things, they:
- have adequate systems to identify risk in relation to persons, countries and activities which includes checks against all applicable sanctions lists (Regulation 5 A (v))
 - have procedures for the ongoing monitoring of business relationships or one-off transactions for the purposes of preventing, countering and reporting money laundering, terrorist financing and proliferation financing and such procedures allowing for the identification of assets subject to targeted financial sanctions applicable in the Islands. (Regulation 5 A (viii))

²¹ UNSCRs 1810 (2008), 1977 (2011), 2094 (2013), and 2270 (2016).

- have procedures to ensure compliance with targeted financial sanctions obligations applicable in the Islands. (Regulation 5 A (viii))
- take appropriate measures for making employees aware of the enactments relating to money laundering, terrorist financing, proliferation financing and targeted financial sanctions (Regulation 5 (c) (ii)); and
- provide employees with training in the recognition and treatment of transactions carried out by, or on behalf of, any person who is, or appears to be, engaged in money laundering, terrorist financing of proliferation financing, or whose assets are subject to targeted financial sanctions applicable in the Islands. (Regulation 5 (d))

153. The Cayman Islands has the mechanisms in place to meet FATF obligations in practice. UNSCRs 1718 (DPRK) and 2231 (Iran) are in force in the Cayman Islands via “Orders in Council” (Orders) passed in the United Kingdom, namely [The Democratic People's Republic of Korea \(Sanctions\) \(Overseas Territories\) Order 2012, SI 2012 No. 3066](#) and Amendments and [The Iran \(Sanctions\) \(Overseas Territories\) Order 2016, SI 2016 No. 371](#) and Amendments. The Cayman Islands can also impose its own domestic financial sanctions in certain circumstances under the PFPL.

154. The PFPL Section 23A makes it an offence for any person to provide funds and economic resources to fund unauthorised proliferation activities; or to enter into or becomes concerned in an arrangement which that person knows or suspects facilitates, by whatever means, the acquisition, retention, use or control of funds and economic resources to fund unauthorised proliferation activities. The PFPL also states that persons who have funds in their possession that are owned or controlled, directly or indirectly by a designated person or derived from economic resources of a designated person must freeze these funds immediately, and report to the FRA. Section 2E of the law states that a person who fails to comply has committed an offence.

155. A significant obligation under the PFPL is for freezing, without delay and without prior notice, the funds or economic resources owned, held or controlled by a designated person.

156. Breaches of financial sanctions are a serious criminal offence and under the OOICs can include:

- making funds or economic resources available to a designated person (except where an exemption applies or under licence); dealing with funds or economic resources that must be frozen (except where an exemption applies or under licence); failing to comply with reporting obligations activities that circumvent an asset freeze and breaches of licensing conditions.

157. Offences under the OOICs relating to UN/EU financial sanctions carry, after conviction on indictment, a maximum of seven years imprisonment or fine or both, or on summary conviction, imprisonment for a term not exceeding six months or a fine not exceeding £5,000 or its equivalent or both.

158. The sanctions in relation to an offence under the PFPL are:

- For the failure to freeze funds and economic resources:
 - on summary conviction, a fine of \$50,000.00; or
 - on conviction on indictment, a fine of \$70,000.00 or imprisonment for a term of three years, or both.

- b. For non-reporting of the details of frozen funds or economic resources or actions taken in compliance with the prohibition requirements of the relevant Security Council measures, including attempted transactions:
 - on summary conviction, a fine of \$10,000.00.
159. The FRA, in relation to any country, has been given powers to issue directions to any relevant persons; and persons operating in the financial sector, concerning the unauthorised financing of proliferation once they meet the conditions expressed in section 5 of the PFPL. Procedures and information on reporting obligations are found in the [FRA Financial Sanctions Guidance](#). Building upon this guidance, since 2018, a coordinated approach is taken to conduct outreach from all competent departments and agencies, to promote a clear understanding by financial institutions and DNFBPs of their CFT obligations and ML/TF/PF risks.
160. The FATF does not currently require jurisdictions to criminalise PF, except for those in relevant international conventions, treaties or other binding international obligations (such as – The Vienna Convention, the Palermo Convention and the Terrorist Financing Convention). Relevant UNSCRs are: 1540 OP 3(c), 3(d), 8(b) and links with 2235 OP 15 which indicates that appropriate effective laws should be adopted and enforced to prohibit efforts to finance WMDs. The Cayman Islands applies an all crimes approach; under the Proceeds of Crime Law criminal conduct is conduct which constitutes an offence in the Cayman Islands, or would constitute such an offence if it occurred in the Cayman Islands. Under the Proliferation Financing (Prohibition) Law, a person who engages in unauthorised proliferation activities commits a money laundering offence for the purposes of the Proceeds of Crime Law.

Section 5 – MEASURES TO MITIGATE BREACHES, NON-IMPLEMENTATION OR EVASION OF TFS RELATED TO PF

Export control measures

161. Similar to the implementation of the TFS regime, Trade, Travel Ban and Arms Embargo regime are extended the Cayman Islands through OOIC. In addition, there are domestic legislations such as the Customs and Border Control Law, Terrorism Law, and the Advance Passenger Information Law.
162. The OOIC in relation to the export of dual-use goods and end-use control are the Export of Goods, Transfer of Technology and Provision of Technical Assistance (Control) (Overseas Territories) Order 2004; Trade in Controlled Goods (Embargoed Destinations) (Overseas Territories) Order 2004; and Trade in Goods (Control) (Overseas Territories) Order 2004.
163. Customs and Border Control has mechanisms in place in line with requirements geared towards preventing entry of prohibition goods sanctioned countries, terrorist risk countries or at the disposal of terrorist groups. The most frequently applied measures are arms embargoes and bans on associated technical assistance, training and financing; bans on exporting equipment that might be used for internal repression; export controls; travel bans on named individuals; bans on imports of raw materials or goods from the sanctions target.
164. Pursuant to the above, it can be stated that the Cayman Islands has fully implemented the requirements of UNSCR 1540.
165. A summary of the UNSC and FATF PF requirements can be found at Annex II.

Sharing of information related to proliferation financing among domestic competent authorities

166. The FATF recommendations on ML, TF and PF set international standards for a jurisdiction to implement in domestic legislation. The FATF Recommendation 2 mandates that jurisdiction should have in place national cooperation and coordination of ML/TF/PF matters. The Cayman Islands has a high political commitment to combat PF. This is demonstrated through a range of measures and authorities to detect and combat PF. Interagency coordination is essential and involves operational co-ordination and proactive and timely sharing of relevant information among different competent authorities for operational purposes related to AML, CFT and CPF. Financial supervisory authorities play an integral part in monitoring compliance designed to combat various types of illicit finance.

International cooperation and sharing of PF information

167. The Police (Information and Assistance to International Law Enforcement Agencies) Regulations, 2017, (Police Regulations 2017) authorise exchanges of information with counterparts such as INTERPOL.

168. Section 138 of POCL provides a basis for the FRA to provide cooperation. The Royal Cayman Islands Police Service (“RCIPS”) also finds a legal foundation for responding to requests (spontaneously or otherwise) outside the formal MLA process through the Police Regulations 2017. Direct exchange of information with Customs and its counterparts as also exchanged with non-customs counterparts occur through the Police Regulations 2017 facilitated by the Customs engagement in the JIU of the RCIPS.

169. The provisions of MAL provide the framework that allows CIMA to rapidly provide the widest range of international cooperation relating to PF and TFS.

Private sector compliance monitoring and enforcement mechanisms

170. As demonstrated by the case studies, the activities related to PF that could result as a threat to the Cayman Islands financial system are proliferators exploiting the financial system through complex networks to procure WMD. Whilst these may pose an inherent vulnerability, the Cayman Islands has a robust AML/CFT/CFP framework in line with FATF standards and UNSCRs.

171. There are several requirements in place to assist FIs and DNFBPs with detecting and preventing PF activity. Requirements in the AMLRs require FIs and DNFBPs to check all applicable lists as well as jurisdictions that the FATF may call for counter measures.

172. The FRA under the Proceeds of Crime Law (2020 Revision) has responsibility to monitor compliance with counter-TF and anti-PF. Also, by virtue of section 29 of the Proliferation Financing (Prohibition) Law (“PFPL”), the FRA shall take appropriate measures to monitor persons operating in the financial sector for the purpose of securing compliance with the PFPL. Pursuant to section 3 of the PFPL, the FRA also has responsibility for giving directions where actions are to be taken to counter PF. Under section 2D of the PFPL, the FRA is empowered to impose penalties for failure to comply with requirements under the PFPL. The FRA may also require enhanced monitoring of a business relationship with a listed person. The FRA monitoring would be done in conjunction with Supervisors who carry out offsite monitoring and onsite inspections. The FRA will refer cases to the

Financial Crimes Unit for investigation and potential prosecution and refer FIs and DNFBPs to their supervisors in order to improve their compliance with financial sanctions

173. The Supervisory Authorities for relevant institutions, business or professions (CIMA, DCI, CARA and CIIPA) also have responsibility for monitoring compliance with financial sanctions for their respective supervised entities and for assessing suspected breaches. They have the power to impose administrative fines for breaches of financial sanctions and to refer cases to law enforcement agencies for investigation and potential prosecution. The AMLRs provide for administrative fines to be imposed on firms in breach (Regulation 55R (2)) which shall be determined based on whether classed as minor, serious or very serious as prescribed in Schedule 2 of the Regulations.
174. Cayman Islands has further enhanced PF TFS regime through the amendment of the licensing of SIBL EP's, Private Equity Funds and MF's (close ended). Recently, measures have been put in place for FIs and DNFBPs to assess their risk of PF, additionally supervisors will be required to report annually on the risk assessments of the FIs and DNFBPs.
175. Cayman Islands also implements trade control comprising of a licensing system administered by the Customs and Border Control which also enforces the regime. Import and export and transshipment of good, including nuclear materials, dual-use goods, biological weapons and their precursors, capable to be developed into WMD are subject to licensing controls. Import and export of these goods without a license are subjected to fines and imprisonment.
176. FIs and DNFBPs are required to assess their PF risk as part of their Business Risk assessment, review and update frequently to ensure the risk remains relevant. Whilst the nature of money laundering and PF threats are different, the principles underlying a strategy to counter them are similar. Banks have taken proactive steps to improve their defences against PF by building it into their existing AML/CFT procedures and triggers for PF breach. Banks utilise third party automatic software to conduct client screening which entails scrubbing their customers against sanctions lists generated by the UN and OFSI, amongst others, under their RBA regime for AML/CFT. Additionally, as part of their regulatory requirements Banks regularly review their PF policies and procedures, taking account of changes in products, customers, and the geopolitical environment. Furthermore, Banks have included PF and the threat of proliferation in their training programmes to increase the knowledge and awareness of their staff.
177. There is still the need for sustained outreach and training to the FIs and DNFBPs and more frequency of engagements relating to PF.

Private sector outreach/training on PF, including red flag indicators

178. The Cayman Islands has not identified any funds or other assets belonging to a designated person or entity. FIs and DNFBPs screen all relevant parties of a business relationship at the on boarding of new customer and when processing transactions against UN sanctions lists. FIs and DNFBPs all utilise third party databases to facilitate fast and effective screening daily, however, based on Cayman Islands 2019 Mutual Evaluation Report there were noted inconsistencies in the application level amongst FIs and DNFBPs that could make the supervised entities vulnerable.
179. In response to these vulnerabilities, since 2018 there have been increased efforts to enhance private sector regulatory awareness of TFS obligations as it relates to PF. Competent authorities, supervisors, and SRBs have developed and establish guidelines dedicated to PF-related supervision

to assist financial institutions and DNFBBs in implementation of their TFS obligations to PF. CIMA, DCI, CIIPA and CILPA, in conjunction with the FRA has used a coordinated approach to provide several outreach sessions to the financial institutions and DNFBBs regarding red flags for PF and enable them to take a more proactive risk-based approach beyond screening of the TFS list. The CBC has conducted meetings with Customs brokers to promote a clear understanding of PF related export controls measures and dual use goods. They were also part of the PF training by Kings College of London.

180. The IACC with assistance of PIAG members have developed Cayman Islands Money Laundering Typologies & Trends 2019 typology document which was based on actual cases to assist with the identification PF. CIMA, DCI, CIIPA and CILPA, with the FRA have developed guidance specifically related to PF. Guidance documents were issued separately giving clear and consistent expectations of FIs and DNFBBs PF obligations on identifying, assessing and understanding proliferation risk.
181. In addition, outreach sessions, expert training²² was also provided to financial institutions and DNFBBs to enhance their understanding of their exposure to PF risks. FIs/DNFBBs were trained to identify the broader procurement financing risks of acquisition of proliferation sensitive²³ goods, regardless of whether the individuals/entities attempting acquisition was linked to a designated person/entity. In relation to trade finance transactions, attendees were trained to go beyond the normal CDD procedures and conduct a thorough review of all applicable trade documentation (e.g., customs declarations, trade documents, invoices, letters of credits etc.)
182. The AMLRs requires supervisory checks and take remedial actions, as appropriate, against financial institutions and DNFBBs where a breach or non-implementation TFS obligations is detected.

OVERALL SUMMARY AND CONCLUSION

183. In summary, as proliferation networks and financial channels spans across many jurisdictions there is the challenge for competent authorities, financial institutions and DNFBBs to identify PF. A major challenge in conducting this PF threat assessment was the lack of PF related data. The inadvertent involvement in PF activities through non-state actors is an inherent threat. Typologies indicate that the vast majority of DPRK illicit PF activities are routed through China that has no link to neighbouring areas.
184. A PF risk assessment of the financial sector by each supervisory authority and at the national level would help to determine which sector is most vulnerable to PF and dedicate resources where the highest level of risk is identified. This risk assessment would include not only FIs and DNFBBs but also customs brokers and trade specialist. The amendments to the AMLRs to require FIs and DNFBBs to conduct risk assessments of their PF risks will help them to develop a better understanding of the risk of breach of TFS for PF and would be able to apply a risk-based approach.

²² UNODC PF training March 2018;
Kings College of London Project Alpha PF training February 2020

²³ Dual use goods

185. In relation to varying levels of sanctions screening identified in the MER, all FIs and DNFBNs are required to develop policies and procedures that go beyond sanctions screening and to consider PF threats in UN Panel Reports as part of their compliance procedures.

Acronyms

Abbreviation	Meaning
AML/CFT	Anti-Money Laundering/Countering the financing of terrorism
AMLSG	Anti-Money Laundering Steering Group
AMLRs	Anti-Money Laundering Regulations
CAACI	Civil Aviation Authority of the Cayman Islands
CARA	Cayman Attorneys Regulation Authority
CBC	Customs and Border Control
CIG	Cayman Islands Government
CILPA	Cayman Islands Legal Practitioners Association
CIIPA	Cayman Islands Institute of Professional Accountants
CSP	Corporate Service Provider
CPF	Countering proliferation financing
CDD	Customer due diligence
CFATF	Caribbean Financial Action Task Force
CIMA	Cayman Islands Monetary Authority
DCI	Department of Commerce and Investment
DNFBPs	Designated Non-Financial Business of Profession
DPM&S	Dealers in Precious Metals and Stones
DPRK	Democratic People's Republic of Korea
FIs	Financial Institutions
FATF	The Financial Action Task Force
FCU	Financial Crime Investigation Unit
FRA	Financial Reporting Authority
GR	General Registry
IFC	International Financial Centre
JIU	Joint Intelligence Unit
LEAs	Law Enforcement Agencies
LP & A	Legal Persons and Arrangements
MOLA	Members of the Legislative Assembly
MACI	Maritime Authority of the Cayman Islands
ML/TF/PF	Money laundering, terrorism financing and proliferation financing

NRA	National Risk Assessment
NPO	Non-profit organisations
ODPP	Office of the Director of Public Prosecutions
OOIC	Overseas Orders in Council
PFTA	Proliferation Financing Threat Assessment
PFPL	Proliferation Financing Prohibition Law
PIAG	Proliferation Interagency Group
PEP	Politically exposed person
POCL	Proceeds of Crime Law
RCIPS	Royal Cayman Islands Police Service
SAR	Suspicious activity report
SEZ	Special Economic Zone
SRB	Self-Regulatory Body
SWIFT	Society for the Worldwide Interbank Financial Telecommunication
TFS	Targeted Financial Sanctions
TF	Terrorism Law
UNSC/R	United Nations Security Council/Resolution
VASP	Virtual Assets Service Provider
WMD	Weapons of Mass Destruction

Annex

Summary of PF UNSCRs and FATF recommendations

Summary of Provisions Relating to PF Contained in UN Security Council Resolutions and FATF Standards

UN resolution 1540 (2004) and successor resolutions: the following provisions relating to PF:

Operational paragraph (OP) 2 requires all States to have effective laws to prohibit non-state actors to finance nuclear, chemical or biological weapons (WMD) and their means of delivery.

OP 3(d) requires all States to implement effective controls to prevent financing of exports or trans-shipments of WMD and their means of delivery.

Activity-based financial prohibitions - DPRK

UN resolution 1718 (2006) and successor resolutions: the following provisions related to financial sanctions: to impose an asset freeze on individuals or entities designated for their involvement in DPRK's WMD programs. The requirements extend to those operating on their behalf or at their direction.

UN resolution 1874 (2009): to prevent provision of financial services or transfer of financial resources that could contribute to prohibited programs/activities.

UN resolution 2087 (2013): prohibits the use of bulk cash to evade sanctions, in relation to the supply, sale or transfer to or from the DPRK or through States' territories; to exercise vigilance and restraint regarding the entry into or transit through their territories of individuals working on behalf or at the direction of a designated individual or entity.

UN resolution 2094 (2013): Bans provision of financial services, or transfer of financial assets or resources that could contribute to DPRK's WMD or other prohibited activities; these measures apply also to brokering or other intermediary services, including when arranging for the provision, maintenance or use of prohibited items in other States or the supply, sale or transfer to or exports from other States; shall not provide public financial support for trade with the DPRK (including the granting of export credits, guarantees or insurance to their nationals or entities involved in such trade) where such financial support could contribute to the DPRK's nuclear or ballistic missile programmes, or other WMD prohibited activities as well as items, materials, equipment, goods and technology listed in annex III of S/RES/2094 (2013).

UN resolution 2270 (2016): Expands financial measures, including an assets freeze on Government of DPRK and its Workers' Party entities associated with prohibited programs and activities; Prohibits DPRK banks from opening new branches; requires States to close existing DPRK bank branches in their territories; prohibits Member States from opening branches in DPRK; requires States to close existing offices in DPRK if related to prohibited programs or sanctions violations; Imposes sectoral sanctions with bans on sales of coal, minerals and fuels; prohibits provision of registering vessels in the DPRK, obtaining authorization for a vessel to use the DPRK flag, and from owning, leasing, operating, providing any vessel classification, certification, or associated service, or insuring any vessel flagged by the DPRK; deny permission to any DPRK aircraft to take off from, land in or overfly, unless under the condition of landing for inspection except in the case of an emergency landing; prohibit the entry into their ports of any vessel if the Member State has information that provides reasonable grounds to believe the vessel is owned or controlled, directly or indirectly, by a designated individual or entity, or contains cargo the supply, sale, transfer or export of which is prohibited by the relevant resolutions

UN resolution 2321 (2016): apply with respect to all leasing, chartering or provision of crew services to the DPRK without exception; prohibit the DPRK from using real property that it owns or leases in their territory for any purpose other than diplomatic or consular activities; Prohibits the provision of insurance or re-insurance services to vessels owned, controlled operated or flagged by DPRK; Expands sectoral sanctions by including copper, nickel, silver and zinc to items banned for sale by DPRK; Strengthens financial measures by requesting closure of existing representative offices, subsidiaries or banking accounts in DPRK; prohibiting public and private financial support for trade with DPRK; expelling individuals who are believed to be working on behalf of or at the direction of DPRK banks or financial institutions.

UN resolution 2371 (2017): Imposes full ban on sales of coal, iron and ore; adds lead and lead ore to commodities subject to sectoral sanctions; Expands financial sanctions by prohibiting new or expanded joint ventures and cooperative commercial entities with DPRK; Includes companies performing financial services in the definition of financial institutions, for the purpose of implementing financial sanctions.

UN resolution 2375 (2017): Introduces a full ban on the supply, sale or transfer of all condensates and natural gas liquids, and restricts refined petroleum products and crude oil, to DPRK; Introduces a ban on the export by DPRK of textiles; Expands financial sanctions by prohibiting all joint ventures or cooperative entities or expanding existing joint ventures with DPRK entities or individuals; in particular those that are non-commercial, public utility infrastructure projects not generating profit.

UN resolution 2397 (2017): shall repatriate to the DPRK all DPRK nationals earning income in that Member State's jurisdiction and all DPRK government safety oversight attachés monitoring DPRK workers abroad.

Category-based sanctions – DPRK:

UNSCR 1718 (2006): prevent the direct or indirect supply, sale or transfer to the DPRK, through their territories or by their nationals, or using their flag vessels or aircraft, and whether or not originating in their territories, of DPRKs nuclear-related, other WMD- related and ballistic missile related programs materials; freeze immediately the funds, other financial assets and economic resources which are on their territories.

UNSCR 2270 (2016) OP29 and OP30; the DPRK shall not supply, sell or transfer, directly or indirectly, from its territory or by its nationals or using its flag vessels or aircraft, coal, iron, and iron ore, and that all States shall prohibit the procurement of such material from the DPRK by their nationals, or using their flag vessels or aircraft, and whether or not originating in the territory of the DPRK: that the DPRK shall not supply, sell or transfer, directly or indirectly, from its territory or by its nationals or using its flag vessels or aircraft, gold, titanium ore, vanadium ore, and rare earth minerals, and that all States shall prohibit the procurement of such material from the DPRK by their nationals, or using their flag vessels or aircraft, and whether or not originating in the territory of the DPRK.

UNSCR 2371 (2017) OP8, OP9 and OP10; Decides that all Member States shall prohibit the direct or indirect supply, sale or transfer to the DPRK, through their territories or by their nationals, or using their flag vessels or aircraft, and whether or not originating in their territories, of all condensates and natural gas liquids, and decides that the DPRK shall not procure such materials;

S/RES/2375 (2017) sale or transfer to the DPRK, through their territories or by their nationals, or using their flag vessels or aircraft, and whether or not originating in their territories, of refined petroleum products

UNSCR 2397 (2017) OP4, OP5, OP6 and OP7 shall prohibit the direct or indirect supply, sale or transfer to the DPRK, through their territories or by their nationals, or using their flag vessels, aircraft, pipelines, rail lines, or vehicles and whether or not originating in their territories, of all crude oil,

Economic/sectoral sanctions: mandatory UNSCR obligations prohibiting the trading of certain types of materials or goods that could contribute to WMD or delivery systems programmes, such as aircraft, coal, iron, iron ore, gold, titanium, petroleum products, food and agricultural products and a full sectoral ban on seafood.

Vigilance and other types of financial measures: mandatory UNSCR obligations requiring countries to exercise vigilance and prevent procurement of items, materials, goods and technology by the DPRK, and transfer of any financial resources in relation to DPRK's ballistic missile or WMD programmes, or encourage countries to take additional precautions in relation to certain groups of persons, types of financial activities, types of goods, or types of activities conducted.

Vigilance and other financial measures - DPRK:

UNSCR 1695 (2006); to exercise vigilance and prevent the procurement of missiles or missile related-items, materials, goods and technology from the DPRK, and the transfer of any financial resources in relation to DPRK's missile or WMD programmes.

UNSCR 1874 (2009); international financial and credit institutions not to enter into new commitments for grants, financial assistance, or concessional loans to the DPRK,

UNSCR 2087 (2013); to exercise enhanced vigilance in this regard, including monitoring the activities of their nationals, persons in their territories, financial institutions, and other entities organized under their laws (including branches abroad) with or on behalf of financial institutions in the DPRK, or of those that act on behalf or at the direction of DPRK financial institutions, including their branches, representatives, agents and subsidiaries abroad;

UNSCR 2094 (2013); to exercise enhanced vigilance over DPRK diplomatic personnel so as to prevent such individuals from contributing to the DPRK's nuclear or ballistic missile programmes, or other activities prohibited by resolutions 1718

UNSCR 2321 (2016) OP20, OP34 and OP35 and to exercise vigilance to ensure that no more fuel is provided to DPRK-flagged civil passenger aircraft than is necessary for the relevant flight, including a standard margin for safety of flight; to exercise vigilance over DPRK nationals are sent to work in other States for the purpose of earning hard currency that the DPRK uses for its nuclear and ballistic missile programmes; to be alert to this risk that bulk cash may be used to evade measures imposed by the Security Council;

UNSCR 2397 (2017): to exercise enhanced vigilance with regards to DPRK-flagged, controlled, chartered, or operated vessels, conducting prohibited activities.

UN resolution 2231 (2015) relating to Iran includes the following financial provisions:

i) impose restrictions on any person or entity having engaged in directly associated with or provided support for Iran's proliferation nuclear, ballistic missile or conventional weapons activities contrary to Iran's commitments in the Joint Comprehensive Plan of Action (JCPOA) or the development of nuclear weapon delivery systems, including through the involvement in procurement of prohibited goods, equipment, goods, equipment, materials and technology specified in Annex B to resolution 2231 (2015);

(ii) any person or entity assisting designated persons or entities in evading or acting inconsistently with the JCPOA or resolutions 2231 (2015); and

(iii) any person or entity acting on behalf or at a direction of any person or entity in subsection 13(b)(i), subsection 13(b)(ii) and or subsection 13 (b) (iii) or by any entity owned or controlled by them;

(iv) imposes an asset freeze on individuals or entities designated for their involvement in Iran’s ballistic missile or conventional weapons programs, or the Islamic

The following FATF recommendations relevant to PF:

Recommendation 7: Requirement to implement targeted financial sanctions in compliance with UN Security Council sanctions related to WMD and its financing.

R 6.5(d) & R7.2(d) – have mechanisms for communicating designations the financial institutions, DNFBPs, and persons and entities to freeze without delay and providing clear guidance; **R7.2(c)** – ensure that any funds or other assets are prevented from being made available by their nationals or by any persons or entities within their territories to or for the benefit of designated persons or entities within their territories unless licensed, authorised in accordance with /UNSCR , **R7.3** monitor compliance of financial institutions and DNFBPs of TFS obligations and **R7.4(d)** mechanisms for communicating delisting and unfreezing to financial institutions and DNFBPs immediately upon taking actions and providing clear guidance.

Recommendation 2: Requirement for domestic authorities to cooperate and coordinate over policies and activities to combat PF.

The effectiveness with which FATF countries implement these recommendations are measured during mutual evaluation reviews under:

Immediate Outcome 1: WMD risks understood and actions to combat them are coordinated domestically.

Immediate Outcome 11: Individuals and entities involved in WMD are prevented from raising, moving and using funds.

Endnotes

ⁱ P&I Clubs offer extensive resources and advice on all UNSC, EU and USA sanctions. This information is tailored and presented for the international shipping industry.

ⁱⁱ PIAG is the interagency group that facilitates domestic cooperation and coordination to share information amongst competent authorities and relevant agencies for detecting and countering PF networks.

^{iv} AIS is a VHF Radio public broadcast system designed for collision avoidance and the safety of navigation, not specifically for tracking ship locations.

^v A Protection and Indemnity or P&I club is a non-governmental, non-profitable mutual or cooperative association of marine insurance providers to its members which consists of ship owners, operators, charterers and seafarers under the member companies.