

# Financial Tools to Identify & Disrupt WMD Proliferation



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# Overview

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- ◆ Importance of Financial Measures in Comprehensive Counter-proliferation Strategy
- ◆ Deceptive Practices Used to Finance Proliferation
- ◆ International Legal Framework to Combat WMD Proliferation
- ◆ Prohibiting Proliferators Access to International Financial System: Targeted Financial Sanctions
- ◆ Domestic Coordination & Information Sharing

# Importance of Financial Measures

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- ◆ Uncover **broader** Proliferation Support Networks
- ◆ Link **entities of concern**
- ◆ Address aspects of trade taking place in other jurisdictions

# Targeting the Support Network

- ◆ Target the *entire network*, including WMD proliferators, their supporters and support structures, and their assets:

## WMD Proliferators



Individual



Organization

## Support Structures



Financiers



Logistical Support



Front Company



Shipping Lines & Suppliers

# Importance of Financial Measures

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- ◆ Proliferation support networks tend to **depend heavily on the formal financial system** to carry out transactions and business dealings worldwide.
- ◆ Proliferation support networks often **operate for financial gain** and are highly vulnerable to **public exposure and disruption of funding**.

***These factors make financial measures particularly effective in deterring and disrupting proliferation financial and support networks.***

# International Legal Framework

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Financial Provisions contained in:

- ◆ **UNSC Resolution 1540 (1810; 1977)**
  - Establish controls on provision of funds and financial services that could contribute to proliferation
- ◆ **State-specific UNSCRs**
  - **Targeted Financial Sanctions**
  - **Preventive Measures**
    - Activity-based financial prohibitions
    - Enhanced scrutiny & monitoring
- ◆ **Financial Action Task Force Standards**

# Financial Action Task Force



- ◆ Premier international policy-making and standard-setting body in the international effort against terrorist financing & money laundering
- ◆ 36 members (**including GCC**)
- ◆ FATF Standards are internationally recognized as the sole standard for combating money laundering & the financing of terrorism & WMD proliferation
- ◆ Assesses compliance with standards
- ◆ Public reports on country's controls

# Financial Action Task Force



- ◆ In February 2012, FATF issued revised Recommendations on  
“International Standards on Combating Money Laundering and the Financing of Terrorism and Proliferation”
- ◆ Targeted financial sanctions related to WMD proliferation & terrorism
- ◆ Domestic coordination and info sharing on proliferation financing
- ◆ Suspicious transaction reporting
- ◆ Regulating cash couriers and wire transfers

# Prohibit Proliferators & Support Networks from Abusing Your Financial Sector

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- ◆ **Freeze** designated entities funds and other assets without delay and **prohibit provision of financial services**
- ◆ Ensure that freeze includes all funds or assets owned or controlled, directly or indirectly
- ◆ Identify additional targets and assets for designation

# Prohibit Proliferators & Support Networks from Abusing Your Financial Sector

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- ◆ Establish Domestic Mechanisms to:
  - **Communicate** designations promptly to obligated entities (financial institutions & other relevant bodies)
  - Require **reporting** on freezes back to authorities
  - Monitor **compliance** by obligated entities
  - **Impose penalties** on entities for lack of compliance

# U.S. Implementation of Targeted Financial Sanctions

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- ◆ **U.S. - Executive Order 13382**
  - **Targets entities and individuals engaged in or supporting WMD proliferation or means of delivery**
  - **Isolates designated individuals and entities from the U.S. financial and commercial systems**
- ◆ **Many non-U.S. businesses and banks voluntarily sever ties with U.S. – designated sanction targets**

***Sanctions are only as strong as weakest link. Thus, all countries play a critical role in the success of a global sanctions regime.***

# Guidance on Combating Proliferation Finance



- ◆ FATF issued 3 sets of Guidance on UNSCR Implementation:
  - **Targeted financial sanctions** in proliferation-related UNSCRs in June 2007
  - **Activity-based financial prohibitions** in UNSCR 1737 through enhanced due diligence and scrutiny of high-risk customers and transactions, October 2007
  - Financial provisions related to **enhanced vigilance**
- ◆ **Typologies Report on Proliferation Financing**
- ◆ **Status Report on Policy Options**
- ◆ **Best Practices on National Coordination & Information Sharing**

# National Coordination for Combating Proliferation Financing

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- ◆ Identification and coordination of relevant competent authorities for combating the financing of proliferation
- ◆ Effective mechanisms to coordinate on the development and implementation of policies and activities to address proliferation financing

# National Coordination for Combating Proliferation Financing: Key Agencies

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- ◆ Key Agencies
  - Export control & Customs/Border Control
  - Intelligence Services
  - Financial Intelligence Units & Financial Institutions
  - Law Enforcement & Prosecution Agencies
  - Financial Supervisors
  - Trade Promotion
  - Government Policy Departments/Designations
- ◆ Need to Coordinate on Investigations, Policy Development, Responses to Key Threats

# National Coordination for Combating Proliferation Financing: Case Studies

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- ◆ Case Studies in Best Practices Paper
  - Coordination between Justice, Finance, and Foreign Ministries for development of designations
  - Coordination between Law Enforcement, Commerce, and Finance authorities to take joint action on the same day against a proliferation network

# Information Sharing with Relevant Bodies to Assess Risk

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## Provide Financial Institutions with Info for Screening:

- ◆ **Jurisdictions of Concern** for Proliferation
- ◆ **Sanctions List and 'Grey' Lists of Entities of Concern**
  - Denied Export License
  - U.S. Commerce Dept's Entity List
  - Early Warning Lists
- ◆ **Deceptive Practices**
- ◆ **Red flag Indicators**

# Deceptive Practices Used to Finance WMD Proliferation

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- ◆ Diversion of trade and financing to elude authorities
  - Using front companies
  - Arranging trade finance vehicles to be administered through branches or subsidiaries located in another jurisdiction
  - Layering Letters of Credit
  - Using Back-to-back Letters of Credit
- ◆ False Documentation Provided to Financial Institutions
  - Changing **container numbers** to hide involvement
  - **Renaming vessels** -- Provide IMO Numbers

# Potential Indicators of Proliferation Financing

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- ◆ Transaction involves
  - Entity in country of proliferation or diversion concern.
  - Companies in countries with weak export laws or weak enforcement of export control laws.
  - Shipment route through country with weak export laws.
  - Shipment of goods inconsistent with normal geographic trade patterns.
  - Shipment of goods incompatible with the technical level of the country to which it is being shipped.
  - Financial institutions with known deficiencies in AML/CFT controls.
  - Possible shell companies.

# Potential Indicators of Proliferation Financing

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- ◆ Obviously under-valuing of the shipping cost.
- ◆ Circuitous route of shipment and/or financial transaction.
- ◆ Pattern of wire transfer activity that shows unusual patterns or has no apparent purpose.
- ◆ Wire instructions or payment from or due to parties not identified on the original letter of credit or other documentation.
- ◆ Inconsistencies in information contained in trade documents and financial flows, such as names, addresses, final destination etc.
- ◆ Order for goods is placed by firms or individuals from foreign countries other than the country of the stated end-user.
- ◆ A freight forwarding firm is listed as the product's final destination.
- ◆ New customer requests letter of credit transaction awaiting approval of new account.

# Enhanced Monitoring for High Risk Transactions

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- ◆ Require that all information fields of payment instructions are completed (originator, beneficiary).
- ◆ Obtain additional information to avoid violations:
  - Parties to the transaction
  - Details on end-user
  - Export control info (license, end-user certificate)
  - Source of funds
  - Beneficial ownership of the counterparty
  - Purpose of the transaction or payment

Questions?

# Additional Preventive Measures to Disrupt Financing of Proliferation

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- Proper Coordination between Key Government Agencies on Counter-proliferation
- Provide private sector, including financial institutions, with information to assess risk:
  - Additional Entities of Concern
  - Deceptive Practices
  - Indicators of Proliferation Financing
- Perform Enhanced Monitoring

# UNSCR 1540:

## Establishing Financial Controls

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- ◆ Section 2 requires states to adopt and enforce laws to prohibit nonstate actors from engaging in WMD-related activity, including financing.
- ◆ Section 3(d) requires all States to establish controls on proliferation-related funds and services, including financing that would contribute to proliferation.

*UNSCR 1810 & 1977 stress implementation of financial provisions and recognize FATF guidance on proliferation financing*

# UNSCRs: Targeted Financial Sanctions

1718 (2006)	<b>Par. 8(d)</b> – requires an <b>asset freeze</b> and <b>prohibition</b> on the <b>provision of economic resources</b> for entities listed by the 1718 Committee, or <b>those acting on their behalf or at their direction</b>
1737 (2006)	<b>Par. 12</b> – requires an asset freeze and <b>prohibition</b> on the <b>provision of economic resources</b> for entities designated by the 1737 Committee, or <b>those acting on their behalf or at their direction</b>
1747 (2007)	<b>Par. 4</b> – extends 1737 asset freezing provisions
1803 (2008)	<b>Par. 7</b> – extends 1737 asset freezing provisions
1874 (2009)	<b>Par. 18</b> – calls for freezing assets that <b>could contribute</b> to DPRK's WMD-related activities
1929 (2010)	<b>Par. 11-12; 19</b> – extends 1737 asset freeze to additional entities, including certain IRGC and IRISL entities

# UNSCRs: Preventive Measures

1737 (2006)	<b>Par. 6</b> –prevention of financial services related to the transfer, manufacture, or use prohibited items
1803 (2008)	<b>Par. 10</b> –exercise vigilance over the activities of financial institutions in their territories with banks domiciled in Iran, in particular Banks Melli & Saderat,
1874 (2009)	<b>Par. 18</b> –prevention of financial services, transactions, or the movement of funds that could contribute to DPRK's WMD-related activities
1929 (2010)	<b>Par. 21 &amp; 23</b> –prevention of financial services, including insurance & reinsurance; and to exercise vigilance when doing business with Iranian entities, including IRISL & IRGC; and prohibition on opening of new branches of Iranian banks, if there are reasonable grounds to believe they could contribute to WMD proliferation

# FATF/MENAFATF

## Mutual Evaluations of GCC Countries

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- ◆ Bahrain Adopted 2006
- ◆ Kuwait Adopted May/June 2011
- ◆ Oman Adopted May/June 2011
- ◆ Qatar Adopted April/June 2008
- ◆ Saudi Arabia Adopted May/June 2010
- ◆ UAE Adopted April/June 2008