

PROLIFERATION FINANCING



WHAT IS PROLIFERATION?

Proliferation is the manufacture, acquisition, possession, development, export, transshipment, brokering, transport, transfer, stockpiling or use of nuclear, chemical or biological weapons and their means of delivery and related materials (including both technologies and dual-use goods used for non-legitimate purposes), in contravention of national laws or, where applicable, international obligations. It includes technology, goods, software, services or expertise.



WHAT IS PROLIFERATION FINANCING?

Proliferation financing takes place when a person:
makes available an asset | provides a financial service | conducts a financial transaction,
and the person knows that, or is reckless as to whether, the asset, financial service or financial transaction is intended, in whole or in part, to facilitate any of the activities:



The manufacture, production, possession, acquisition, stockpiling, storage, development, transportation, sale, supply, transfer, export, transshipment or use of:
nuclear weapons | chemical weapons | biological weapons
or
materials related to nuclear weapons, chemical weapons, biological weapons or radiological weapons that are prescribed by regulations or restricted or prohibited under any enactment relating to export or import controlled measures; and the provision of technical training, advice, service, brokering or assistance

DO YOU KNOW THIS?

Proliferation financing is very broad and refers to more than simply the payment for goods. It includes any financial service provided in support of the process of procurement and financing of nuclear, chemical and biological weapons, even if it is not directly connected to the physical flow of the goods. **Financing can include financial transfers, mortgages, credit lines, insurance services, trust and corporate services and company formation. Proliferation financing can be described as both a financial crime risk and a sanctions risk.**



RED FLAGS THAT INDICATE PROLIFERATION FINANCING

As mentioned in Annex 1 of the 2008 FATF Typologies Report on Proliferation Financing (with updated order):

1. Transaction involves person or entity in foreign country of proliferation or diversion concern.
2. The party or their address is similar to a party found on a public list of "denied persons" or has a history of export control contraventions.
3. Customer activity does not match business profile, or end-user information does not match end-user's business profile.
4. A freight forwarding firm is listed as the product's final destination.
5. Order for goods is placed by firms or persons from foreign countries other than the country of the stated end-user.
6. Transaction involves shipment of goods incompatible with the technical level of the country to which it is being shipped, (e.g. semiconductor manufacturing equipment being shipped to a country that has no electronics industry).
7. Transaction involves possible shell companies (e.g. companies do not have a high level of capitalisation or displays other shell company indicators).
8. Transaction demonstrates links between representatives of companies exchanging goods i.e. same owners or management.
9. Circuitous route of shipment (if available) and/or circuitous route of financial transaction.
10. Trade finance transaction involves shipment route (if available) through country with weak export control laws or weak enforcement of export control laws.
11. Transaction involves persons or companies located in countries with weak export and enforcement control laws.
12. Transaction involves shipment of goods inconsistent with normal geographic trade patterns (e.g. does the country involved normally export/import goods involved?).
13. Transaction involves financial institutions with known deficiencies in AML/CFT controls and/or domiciled in countries with weak export control or enforcement.
14. Transaction documents show the declared value of the shipment was obviously under-valued versus the shipping cost.
15. Inconsistencies in information contained in trade documents and financial flows.
16. Pattern of wire transfer activity shows unusual patterns or has no apparent purpose.
17. Customer is vague resistant to providing additional information when queried.
18. New customer requests letter of credit transaction awaiting approval of new account.
19. Wire instructions or payment from or due to parties not identified on the original letter of credit or other documentation.
20. Involvement of items controlled under export or national control regimes.
21. Customer is connected to a country of proliferation concern with no technical knowledge of complex equipment used.
22. Use of cash or precious metals (e.g. gold) in transactions for industrial items.
23. Small trading, brokering or intermediary company, is used to do business inconsistent with their normal operations.
24. Transactions of a customer declared to be a commercial business, suggest they are acting as a money-remittance business.
25. Transactions between companies on the basis of "ledger" arrangements that prevent the need for international financial transactions.
26. Customers & transactions share a common physical address, IP address, telephone number, or activities may be coordinated.
27. Involvement of a university in a country of proliferation concern.
28. Description of goods on trade or financial documentation is non-specific, innocuous or misleading.
29. Evidence that documents (e.g. relating to shipping, customs, or payment) are fake or fraudulent.
30. Use of personal account to purchase industrial items.

