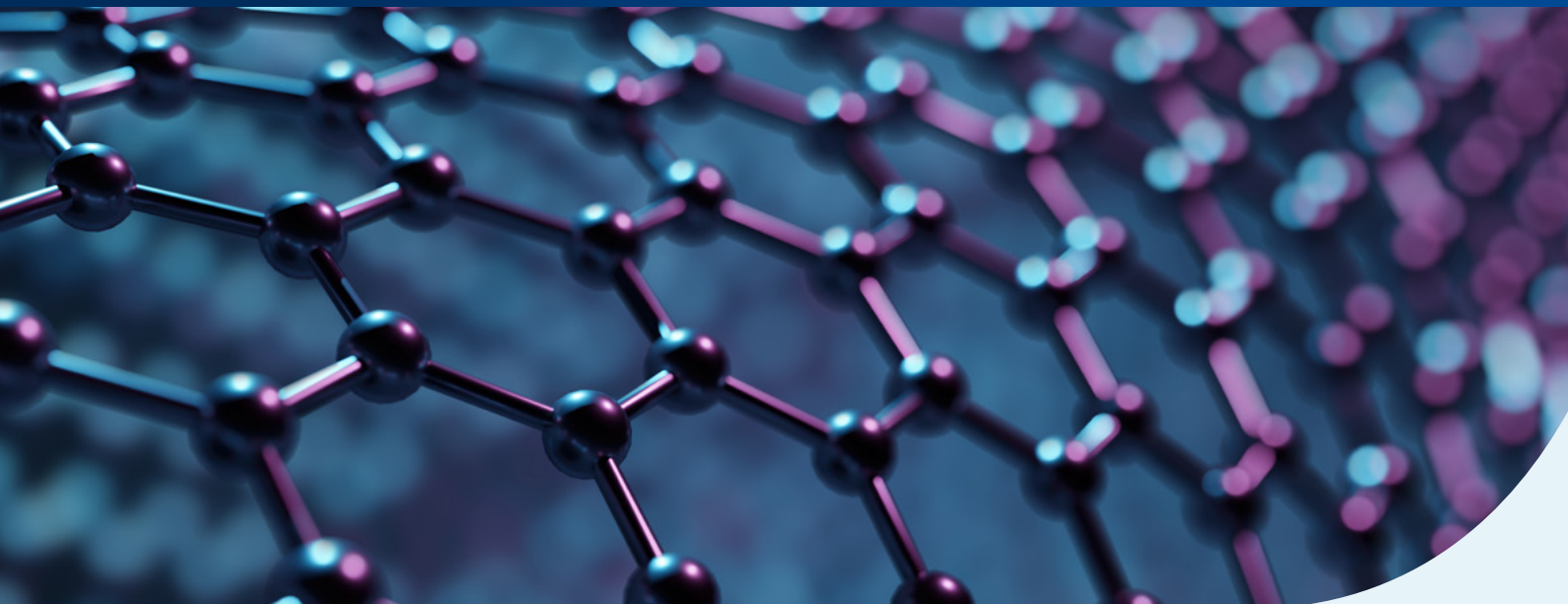




Proliferation Financing - Dual-Use Goods - Banking

Background:

Client P is a Canadian national, resident in the US. Their occupation is a Logistics Consultant, and they are the sole Ultimate Beneficial Owner (UBO) of Company G, a Hong Kong-registered company.

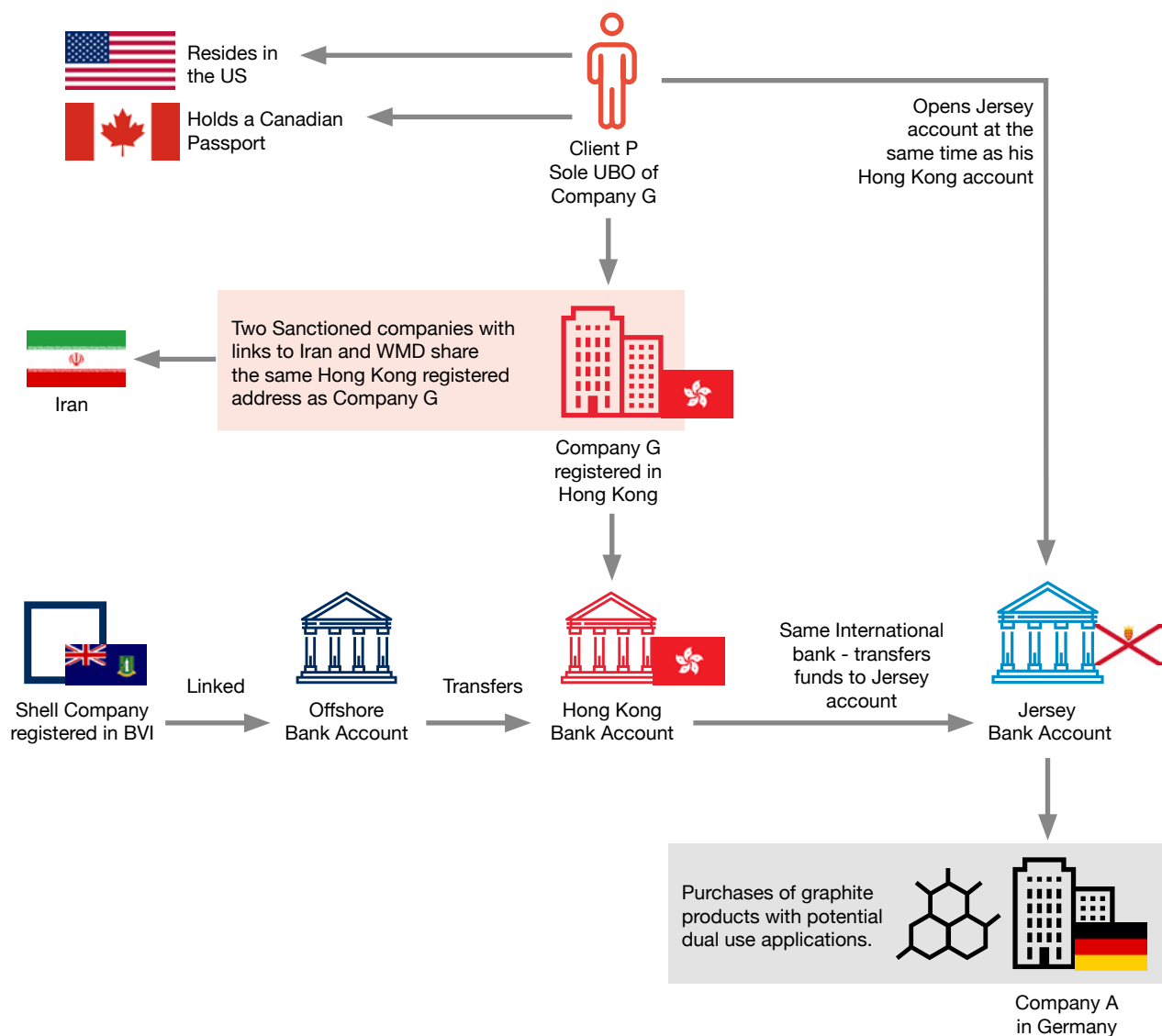
Client P also holds a business account for Company G at an International Bank in Hong Kong. In addition, he holds personal accounts with the same Jersey and US bank.

The international bank in Hong Kong notified their Jersey office that they were exiting the relationship with client P as they had formed financial crime concerns regarding the transactional activity recorded on Company G's corporate account in Hong Kong. This activity was assessed to be consistent with red flags related to engagement with unspecified activity and higher-risk jurisdictions with identified Anti-Money Laundering (AML) weaknesses. This consisted of the receipt of funds from two logistics companies registered in the British Virgin Islands (BVI). These companies had no online presence and the activity involved the rapid movement of funds in and out of the account, with no economic rationale provided when requested.

The Jersey office conducted a review of the transactional activity recorded on Client P's personal account. This revealed that all the accounts linked to Client P were opened within a few months of each other and that the Jersey account was primarily funded by Client P's Hong Kong business account; however, in amongst the expected personal transactions, Client P had made a number of significant business linked payments to Company A, a leading global supplier of graphite products based in Germany.

Indicators:

- The Hong Kong International Bank was exiting the relationship due to its own financial crime concerns.
- Reliance was placed by the Jersey bank on the Know Your Client (KYC) and Client Due Diligence (CDD) held by their counterparts in Hong Kong, who initially opened the corporate account for Client P and who first introduced the relationship to Jersey.
- It was identified that a detailed Source of Wealth (SoW) was not provided to Jersey at the on-boarding of the relationship, and insufficient KYC was available now and at the on-boarding of the relationship.
- The account opening documents reflected minimal information concerning the rationale for opening the Jersey account, nor was any indication given for the anticipated transactional activity. The prime focus was the ability for client on-boarding based on the expected global consistency of on-boarding in different jurisdictions.
- There was no discernible online presence for the Hong Kong company.



Suspicious Activity:

- Although Client P provided their occupation as a “Logistics Consultant”, open-source checks conducted could not corroborate his employment.
- There was also no ability to identify the SoW.
- Supporting documents were requested from the bank to better understand the underlying transactions - specifically the transfers made to the German-based graphite manufacturer. These were not provided.
- The German company produced a range of Nickel-graphite coated alloy rods that have dual use purposes.
- A number of the transactions recorded across Client P’s personal account were business-related transactions that were not in keeping with the client profile initially recorded at the on-boarding of the relationship.

FIU Actions:

- The FIU reviews all submissions and grades and prioritises them as appropriate.
- All FIU staff have attended specific training in understanding Proliferation and Proliferation Financing (PF).

- The FIU will assess the risks associated with PF, identifying potential breaches, non-implementation, or evasion of targeted financial sanctions.
- The FIU conducted further detailed research, assessment and analysis, which confirmed that graphite material can be used in both civilian and military applications, generally requires import and export permits, and should have been reviewed against a control list.
- Checks on Company G’s Hong Kong-registered address revealed that it was linked to over 100 companies. Further adverse media suggested the location was used to facilitate shell or front companies. Two of these were the subject of Office of Foreign Assets Control (OFAC) sanctions linked to Iranian Weapons of Mass Destruction (WMD) activities and programmes.
- Proceeds of Crime (PoC) notices were sent to the Jersey bank to obtain information for further analysis.
- The FIU engaged with its international partners.
- Consent to exit the relationship was not provided.
- The FIU shared information with the Office of Financial Sanctions Implementation (OFSI) and OFAC based on suspected breaches of sanction measures.
- Internally, the case was escalated to the strategic analysis team to consider sanctions circumvention techniques and further raise these to relevant authorities.

❖ Outcomes:

- The FIU contacted their international partners and shared intelligence and assessments.
- The FIU continues to assess the risks associated with PF, identifying potential breaches, non-implementation, or evasion of targeted financial sanctions.
- Graphite rods are a controlled item, and technical specifications were required, including details of the end use and end-user; a valid permit was required because the item was controlled. The FIU further raised this with the Jersey Customs and Immigration Service (JCIS) and various international customs agencies.
- The FIU requested that the Jersey bank make enquiries with Client P to obtain bills of lading, invoices, sales and purchase agreements so that this information could be further analysed.

❖ FIU Comment:

- Reliance was placed on one bank within the same banking group that did not conduct sufficient KYC, CDD or Enhanced Due Diligence (EDD).
- Understanding country, product, and channel risks and undertaking robust due diligence are necessary. This would have triggered the need to examine transactional activity to understand illicit activity. In this case, even minor inconsistencies, when scrutinised, could have revealed potential PF concerns.
- The FIU assessed that the reporting entity should have identified the purchase of graphite material as having a dual-use purpose. This, in turn, should have prompted further analysis. Graphite material can be used in civilian and military applications and generally requires import and export permits, so this should have been reviewed against the UK's Strategic Export Control's List.



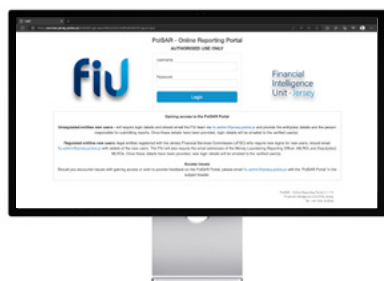
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PoISAR Online Reporting Portal

Have a suspicion about a financial transaction? Submit a Suspicious Activity Report (SAR) via the PoISAR Portal. Access the portal via a web browser and the following url:



go.fiu.je/SAR