

Combating The Financing of Proliferation of Weapons of Mass Destruction

On 23 October 2020, the Financial Action Task Force (FATF) made amendments to Recommendations 1 and 2 of the FATF Recommendations, as well as the Interpretative Notes to now require countries and the private sector to identify and assess the risks of potential breaches, non implementation or evasion of the targeted financial sanctions related to proliferation financing as outlined in Recommendation 7. Member jurisdictions were also required to take action to mitigate the risks and to enhance domestic cooperation. By adopting these measures, the FATF has significantly strengthened the global response to the Proliferation of Weapons of Mass Destruction (Proliferation Financing).

The FATF expects all countries and regions to take the necessary steps to ensure implementation of these new obligations and to determine the appropriate sequence and timeframe for national implementation which includes guidance to the private sector and the sharing of relevant Proliferation Financing information.

What is Proliferation Financing?



Proliferation Financing (PF) is defined by the FATF as the provision of funds or financial services used for the manufacture, acquisition, possession, development, export, trans-shipment, brokering, transport, transfer, stockpiling or use of nuclear, chemical or biological weapons and their means of delivery and related materials (including both technologies and dual-use goods used for non-legitimate purposes), in contravention of national laws or, where applicable, international obligations.

PF facilitates the movement and development of proliferation-sensitive items and as such, can contribute to global instability and potentially catastrophic loss if weapons of mass destructions are developed and deployed.

Updates to FATF Recommendations 1 and 2



Recommendation 1: Countries

Countries are required to identify, assess and understand their proliferation financing risks. Additionally, countries should take the appropriate steps to manage and mitigate identified PF risks. Countries should:

- ◆ Develop an understanding of the PF risks present in their country.
- ◆ Implement these steps on an ongoing basis:
 - Inform potential changes to the country's Counter Proliferation Financing (CPF) Regime including changes to laws, regulations and other measures.
 - Assist in the allocation and prioritization of CPF resources by competent authorities.
 - Make information available for PF risk assessments conducted by Financial Institutions and Designated Non Financial Businesses and Professions (DNFBPs).
- ◆ Ensure that FIs and DNFBPs take steps to identify higher risk circumstances and ensure that their CPF regime addresses these risks.

Recommendation 1: FIs and DNFBPs

FIs and DNFBPs should take appropriate steps to manage and mitigate identified PF risks.

- ◆ FIs and DNFBPs should document proliferation risk assessments to:
 - Demonstrate their basis;
 - Keep the assessments up to date; and
 - Have appropriate mechanisms to provide information of the assessments to competent authorities.
- ◆ The nature and extent of any proliferation risk assessment should be appropriate to the size and nature of the business.
- ◆ Competent Authorities may determine that individual documented risk assessments are not required for each FI or DNFBP, if the specific risks inherent to a sector are clearly identified and understood.
- ◆ Senior Management should approve the policies, controls and procedures employed to manage and mitigate PF risks.
- ◆ FIs and DNFBPs should be required to monitor the implementation of these controls and to enhance them, if necessary.

Topics Discussed:

- ⇒ What is Proliferation Financing?
- ⇒ Updates to FATF Recommendations 1 and 2
- ⇒ Proliferation Financing Challenges to FIs and DNFBPs
- ⇒ Counter Proliferation Financing Framework Objectives
- ⇒ Measures to Counter Proliferation Financing

Recommendation 2: National Cooperation and Coordination

Countries should have national Anti Money Laundering/Countering the Financing of Terrorism/ Countering Proliferation Financing (AML/CFT/CPF) policies, informed by the risks identified, which should be regularly reviewed and should designate an authority or have coordination or other mechanism that is responsible for such policies.

Proliferation Financing Challenges to FIs and DNFBBs

FIs and DNFBBs may struggle with identifying and stopping transactions related to the procurement, fundraising, and movement of money used for PF.

- Lack of Information and capacity to identify financial transactions related to PF;
- Unavailability of Beneficial Ownership Information;
- Absence of Proliferation Financing Risk Assessments;
- Vulnerabilities in the Cyber and Crypto Domain;
- Inadequate Controls and Insufficient Know Your Customer (KYC) guidelines in foreign jurisdictions may allow for the exploitation of correspondent banking.
- Concealment and deceptive techniques are used to evade sanctions lists

Counter Proliferation Financing Framework



Preventing proliferation financing is an important part of combatting proliferation. It is essential to disrupt the financial flows available to proliferators and to obstruct and complicate the procurement of the illicit goods, services and technology needed for the development of weapons of mass destruction and their means of delivery.

An effective CPF framework should meet the following objectives:

- To prevent the provision of financial services for the development of weapons of mass destruction and means of delivery;
- To prevent financing for individual shipments related to Weapons of Mass Destruction;
- To prohibit financing activities and to seize funds under specific circumstances if sufficient information is available on time to indicate unusual or suspicious activity;
- To protect the international financial system from abuse by proliferators;
- To provide financial support to existing counter proliferation investigation systems;
- To hinder the financial activities of proliferators to the highest extent possible; and
- To identify and disrupt proliferation networks.

References

FATF Report Combating Proliferation Financing: A Status Report on Policy Development and Consultation February 2010

Measures to Counter Proliferation Financing

There are several measures that countries can implement to meet the specific obligations to counter PF. These include the following:

1. Development of an effective Legal System;
2. Implementation of Targeted Financial Sanctions;
3. Highlighting the Responsibilities of FIs and DNFBBs; and
4. Promoting Information Sharing.

Development of an Effective Legal System

Jurisdictions should ensure proliferation financing is treated as a serious offence and should have an adequate criminal basis within their legal systems to investigate and prosecute the conduct of proliferation financing.

Measures such as asset forfeiture which attack the mechanisms, proceeds and instrumentalities of proliferation are therefore an important element of the legal framework for countering proliferation financing.

Implementation of Targeted Financial Sanctions

Targeted Financial Sanctions can be a positive and effective measure in disrupting Weapons of Mass Destruction proliferation networks. They not only act as a disruptive tool but is a way to provide FIs and DNFBBs with proliferation related information on which they can take action.

Highlighting the Responsibilities of FIs and DNFBBs

Continuous vigilance and monitoring exercised by FIs and DNFBBs on the activities of their clients is a fundamental element in countering proliferation financing. Jurisdictions should ensure FIs and DNFBBs incorporate the risk of proliferation financing as part of their established preventative measures and internal controls.

Promoting Information Sharing

Increased awareness and information sharing are critical in enabling FIs and DNFBBs to address proliferation financing risks. Awareness raising and information sharing for the public sector are also required to enable effective cooperation between government agencies concerned with proliferation and proliferation financing.

TEST YOUR KNOWLEDGE!!

1. In what year did the FATF amend Recommendations 1 and 2 to include guidelines for proliferation Financing?
2. Proliferation Financing includes all of the following except:
 - a. brokering
 - b. manufacture
 - c. mitigation
 - d. transport
3. Which of these is not a measure to counter PF?
 - a. Keeping information confidential from other agencies.
 - b. Inclusion of strong sanctions for offenders.
 - c. Training and awareness across sectors.
 - d. Criminalize proliferation financing.

