



THE COMPLIANCE
COMMISSION OF
THE BAHAMAS



THE INSURANCE COMMISSION
OF THE BAHAMAS



GUIDANCE NOTE ON PROLIFERATION AND PROLIFERATION FINANCING

The Central Bank of The Bahamas
The Compliance Commission of The Bahamas
The Insurance Commission of The Bahamas
Securities Commission of The Bahamas

Publication Date: 21st August 2018

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ACRONYMS

ACAMS	Association of Certified Anti-Money Laundering Specialists
AG	Attorney General
BTCRA	Banks and Trust Companies Regulation Act, 2000
CBRN	Chemical, Biological, Radiological or Nuclear Capabilities
CFP	Countering the Financing of Proliferation
CBOB	Central Bank of The Bahamas
DNFBPs	Designated Non-Financial Businesses and Professions
FATF	Financial Action Task Force
FIU	Financial Intelligence Unit
ICB	Insurance Commission of The Bahamas
Licensees	<ol style="list-style-type: none">i. Bank and Trust Companies, Credit Unions, Money Transfer Businesses of the CBOB;ii. Securities Exchanges Dealers, arrangers, managers and advisors in securities, Investment Fund Administrators, Investment Funds, Financial and Corporate Service Providers of the SCB;iii. Insurance companies, intermediaries and insurance managers of the ICB; andiv. Non-financial Entities/Individuals of the CCB
OFAC	Office of Foreign Assets Control
POCA	Proceeds of Crime Act
PF	Proliferation Financing
RBA	Risk-Based Approach
SCB	Securities Commission of The Bahamas
SDN/L	Specially Designated Nations or List
SFI(s)	Supervised Financial Institution(s)
SRB	Self-Regulating Body
STR	Suspicious Transaction Report
TF	Terrorist Financing
WMDs	Weapons of Mass Destruction
UN	United Nations
UNSCR	United Nations Security Council Resolution

TERMINOLOGY/DEFINITIONS

In discussing proliferation financing risk and its assessment, it is important to have the following common understanding of certain terms and concepts that will be used throughout the Guidance Note:

Competent Authorities	Competent Authorities refer to all public authorities with designated responsibilities for combating money laundering and/or terrorist financing and /or proliferation financing. In The Bahamas, this includes the CBOB, the SCB, the CCB, the ICB, the FIU and others (such as the AG’s Office). These authorities are responsible for assessing, monitoring and managing money laundering and terrorist financing risks in the licensees they supervise, or in the case of the FIU, investigating such risks, and in the case of the AG’s Office, prosecuting money laundering, terrorist financing (including proliferation financing) and predicate or associated offences, as well as seizing/freezing and confiscating criminal assets.
Dual-Use Goods	Dual-Use Goods are items that have both commercial and military or proliferation applications. These goods could be components of a weapon or items used in the manufacture of a weapon (i.e. specific machine tools for repairing automobiles which could also be used to manufacture a missile).
Proliferation	In the context of terrorist financing, proliferation is defined as “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”.
Proliferator	A Proliferator is an individual or group of individuals that abuse both the formal and informal sectors of the international financial system or resort to cash in order to trade in proliferated goods. (FATF Report: “Combating Proliferation Financing” 2010).
PF/Proliferation Financing	Proliferation Financing refers to the underlying financial services which make proliferation possible. It is the financing of proliferation activities.
PF Convention	Proliferation Financing Convention refers to the United Nations’ Security Council’s International Convention for the Suppression of the Financing of Proliferation.

PF Offences

Any criminal offence which constitutes proliferation or proliferation financing under the laws of The Bahamas, and any criminal offence which constitutes proliferation or proliferation financing under a law of a foreign jurisdiction, in relation to acts or omissions which, had they occurred in The Bahamas, would have constituted an offence in The Bahamas. A Proliferation financing offence relates specifically to the development, production, acquisition, retention and transfer of nuclear, biological and chemical weapons.

Non-State Actor

An individual or entity not acting under the lawful authority of any State in conducting activities, which come within the scope of the USCR 1540 Resolution.

SFIs

SFIs are Bahamian supervised financial institutions, consisting of any natural or legal person who is supervised by one or more of the above noted Competent Authorities, and conducts as a business one or more activities or operations within the parameters of their license, for or on behalf of a customer.

1. INTRODUCTION

- 1.1 The Bahamas has not encountered any direct acts of terrorism or proliferation within its jurisdiction to date, so this threat is uncommon. Nonetheless, instances of proliferation financing are still possible due to The Bahamas's location as an international financial center, with over two hundred (200) international banks and trust companies, one hundred and forty-six (146) securities firms, and eight hundred and forty-nine (849) investment funds which cater to a wide variety of international and local clients¹.
- 1.2 Given the potential for human and social catastrophe associated with proliferation, a low probability risk of proliferation and proliferation financing must also be taken seriously.

2. PURPOSE

- 2.1 This Guidance Note has been issued to raise awareness of the risks and vulnerabilities in regards to proliferation and proliferation financing, as well as the potential damage to The Bahamas if a regulated entity knowingly or unknowingly plays an appreciable role in proliferation financing.
- 2.2 This Guidance Note provides common definitions surrounding proliferation financing and describes the regulatory framework in The Bahamas, coupled with international standards and obligations that are relevant to combatting proliferation financing risks. The identification, assessment, understanding and transparency of proliferation financing risks by SFIs are essential to a stronger Bahamian AML/CFT & CPF regime. This Guidance Note also focuses on indicators of possible proliferation financing risks, and the relevant risk management practices and tools SFIs should implement and incorporate in their AML/CFT programs in order to counter the risks and vulnerabilities associated with proliferation financing.
- 2.3 The Financial Regulators in The Bahamas (collectively referred to as “the Regulatory Authorities”) are providing this Guidance Note on the identification, assessment, management and mitigation of financial crime risk. The following Regulatory Authorities have agreed to participate:
 - 2.3.1 The Central Bank of The Bahamas (“CBOB”) – responsible for the regulation and supervision of banks, trust companies, co-operative credit unions and money transmission businesses (collectively known as “supervised financial institutions” or “SFIs”);
 - 2.3.2 The Compliance Commission of The Bahamas (“CCB”) – an independent Statutory Authority responsible for regulating DNFPBs to ensure compliance with the Anti-Money Laundering (AML) and Countering the Financing of Terrorism (CFT) rules and regulations found in the Financial Transactions Reporting Act,

¹ As of March 2018

2018 (FTRA); the Financial Transactions Reporting Regulations, 2018; and the Financial Intelligence (Transactions Reporting) Regulations 2001, and other substantive laws in The Bahamas, Codes of Practice and guidelines;

2.3.3 The Insurance Commission of The Bahamas (“ICB”) – a Statutory Body responsible for the regulation and supervision of all insurance activity within or through The Bahamas. It is concerned with the ongoing monitoring and supervisory oversight of domestic and external insurers as well as intermediaries, including agents, brokers, salespersons, insurance managers; and

2.3.4 The Securities Commission of The Bahamas (“SCB”) – a Statutory Body mandated to administer the various Securities and Investment Funds Acts and Regulations, with regulatory responsibilities for stock exchanges, brokers, broker-dealers, securities investment advisors and Financial and Corporate Service Providers operating in or from The Bahamas.

3. SCOPE

3.1 This Guidance Note should be read in conjunction with local and international standards and guidelines produced by the Competent Authorities, the BCBS and FATF, as well as by the relevant regulators operating in other jurisdictions that are engaged in the supervision of multi-national SFIs and DNFBBPs (ref *BCP 12 in Core Principles for Effective Banking Supervision 2012*). Licensees in The Bahamas frequently have clients with multiple relationships and/or accounts within the same Group, but located in offices spanning different countries.

4. APPLICABILITY

4.1 These Guidance Notes are applicable to all persons and entities regulated and supervised by Bahamian Competent Authorities.

5. WHAT IS PROLIFERATION?

5.1 The FATF’s 2008 Typologies and Proliferation Financing Report’s definition of “**Proliferation**” is:

“Proliferation has many guises but ultimately involves the transfer and export of technology, goods, software, services or expertise that could be used in nuclear, chemical or biological weapon-related programs, including delivery systems; it poses a significant threat to global security.”

5.2 The Report, which identifies a link between proliferation of WMD and terrorism, states that:

“If appropriate safeguards are not established, maintained and enforced for sensitive materials, technology, services and expertise, they can become accessible to individuals and entities seeking to profit from the acquisition and resale, or for intended use in WMD programs”.

6. WHAT IS PROLIFERATION FINANCING?

6.1 The 2010 FATF Status Report on Combating Proliferation Financing defines **Proliferation Financing as:**

“the act of providing funds or financial services which are used, in whole or in part, 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”.

The Report adds that:

“PF facilitates the movement and development of proliferation-sensitive items and can contribute to global instability and potentially catastrophic loss of life if weapons of mass destruction (WMD) are developed and deployed”.

6.2 There is current evidence that terrorists/terrorist organizations have sought to use WMD (i.e. chemical, biological, radiological or nuclear capabilities) in acts of terrorism (See Appendix on Typologies). As such, terrorism financing which supports terrorist organizations may also contribute to proliferation.

7. INTERNATIONAL STANDARDS AND OBLIGATIONS TO COUNTER PROLIFERATION FINANCING RISKS

The United Nation Security Council’s Resolution (UNSCR 1540)

7.1 On April 28, 2004 the UN Security Council adopted UNSCR 1540, which was established to prevent non-state actors from acquiring nuclear, biological, and chemical weapons, their means of delivery, and related materials. The resolution filled a gap in international law by addressing the risk that terrorists might obtain, proliferate, or use WMDs.

7.2 The UNSCR 1540 imposed the following three (3) primary obligations upon its UN membership (including The Bahamas) in an effort to restrict proliferation financing. The financial provisions of the Resolution require that all States:

- a. abstain from supporting non-State actors seeking WMDs and their means of delivery;

- b. adopt and implement effective laws (i.e. criminal or civil penalties for violations of export control laws) to prohibit non-State actors from developing, acquiring, manufacturing, possessing, transporting, transferring or using nuclear, chemical or biological weapons and their means of delivery; and
- c. establish and enforce effective measures and domestic controls (i.e. export and transshipment controls) to prevent the proliferation of nuclear, chemical, or biological weapons, their means of delivery and related materials.

7.3 Additionally, the UNSC has adopted another approach to counter proliferation financing through resolutions made under Chapter VII of the UN Charter and thereby imposing mandatory obligations for UN Member States. Articles 39 through 51 speak to such obligations.

The Financial Action Task Force Recommendations (FATF 7)

7.4 FATF Recommendation 7, which was issued to combat proliferation and proliferation financing, states that countries should implement targeted financial sanctions to prevent, suppress and disrupt the proliferation of WMDs and their financing, to comply with the United Nations Resolution UNSCR 1540. The FATF also noted that implementation of the UN resolution would require countries to impose financial services restrictions such as freezing client accounts of named entities or individuals without delay, who have been placed on a UN or National Restricted Listing. The Interpretive Note to Recommendation 7 has further emphasized the need for financial institutions to implement ‘preventive measures’ to counter the flow of funds or assets to proliferators or those who are responsible for weapons proliferation. Immediate Outcome 11 states that persons and entities involved in the proliferation of weapons of mass destruction are to be prevented from raising, moving and using funds, consistent with the relevant UNSCRs.

The Bahamas Adoption of International Standards

7.5 To address the potential risk of proliferation financing and comply with the above requirements of UNSCR 1540 and the FATF Recommendation 7, The Bahamas has established legislation and regulations. These include the International Obligations (Economic Ancillary Measures) Act, and the adoption and issuance of several International Obligations (Economic and Ancillary Measures) Orders that have targeted such countries as the Democratic People’s Republic of Korea, Iran, Liberia, Libya, Cote D’Ivoire, Somalia and Sudan. The FATF’s Recommendation 2 states that relevant competent authorities at the policy-making and operational levels, should have effective mechanisms in place which enable them to cooperate, and where appropriate, coordinate domestically with each other concerning the development and implementation of policies and activities to combat ML, TF and the financing of proliferation of weapons of mass destruction.

8. THE BAHAMIAN REGULATORY FRAMEWORK FOR COMBATTING PROLIFERATION FINANCING

The Proceeds of Crime Act, 2018 (“POCA”)

- 8.1 This Act empowers the Police, Customs and the Courts in relation to money laundering, search, seizure and confiscation of the proceeds of crime and for connected purposes.

The Anti-Terrorism Act, 2018 (“ATA”)

- 8.2 This Act defines the offence of terrorism and criminalizes the financing of terrorism and of proliferation of weapons of mass destruction. It applies to actions, persons and property both inside and outside The Bahamas.

The Financial Transaction Reporting Act, 2018 (“FTRA”)

- 8.3 This Act imposes certain obligations on financial institutions in relation to the conduct of financial transactions; and for connected purposes.

The Financial Transaction Reporting Regulations, 2018 (“FTRR”)

- 8.4 These Regulations impose certain obligations on financial institutions to verify the identity of an individual or person or corporation doing business in The Bahamas.

The Financial Intelligence Unit Act, 2000 (“FIUA”)

- 8.5 This agency is responsible for receiving, analyzing, obtaining and disseminating information which relates to or may relate to the proceeds of the offences in the Proceeds of Crime Act and under the Anti-Terrorism Act.

Customs

- 8.6 The Bahamas Customs Department enforces Import Control Regulations, which align with the International obligations and United Nations sanctions.²

Data Protection (Privacy of Personal Information) Act, 2003

- 8.7 An Act to protect the privacy of individuals in relation to personal data and to regulate the collection, processing, keeping, use and disclosure of certain information relating to individuals and to provide for matters incidental thereto or connected therewith.

² www.un.org/sc/suborg/en/sanctions/un-sc-consolidated-list

AML/CFT Guidelines

8.8 These guidelines incorporate both the mandatory minimum requirements of the AML/CFT laws of The Bahamas, and industry best practices. It is important that the management of every SFI views money laundering prevention and countering the financing of terrorism as part of their risk management strategies. These guidelines cover the following areas: Internal Controls, Policies and Procedures, Risk Rating Customers, Verification of Customer Identity, Money Transmission Businesses, Electronic Funds Transfers, Record Keeping, the Role of the Money Laundering Reporting Officer, and Education and Training.

9. UNDERSTANDING HOW PROLIFERATORS OPERATE

9.1 The FATF's 2008 Proliferation Financing Typologies Report³ has outlined several characteristics attributed to Proliferators and their Networks, which are highlighted below:

9.1.1 Proliferators:

9.1.1.1 operate globally;

9.1.1.2 mask their acquisitions as legitimate trade; and

9.1.1.3 exploit global commerce (i.e. operate in countries with weak export controls or free trade zones – where their procurements and shipments might escape scrutiny).

9.1.2 Proliferation Networks are comprised of Proliferators who:

9.1.2.1 abuse both the formal/informal sectors of the international financial system by using the ordinary financial transactions to pay intermediaries and suppliers outside the network;

9.1.2.2 use cash to trade in proliferation type goods to circumvent the system;

9.1.2.3 purchase proliferation-sensitive goods/services in the open market and make them appear legitimate to avoid suspicions of proliferation (i.e. purchase of dual-use goods);

9.1.2.4 conduct financial transactions in the banking system through false intermediaries, front companies and illegal trade brokers; and

³ www.FATF.org: 2008 Proliferation Financing Typologies Report

9.1.2.5 create complex procurement networks to avoid detection of the true end-users of proliferation-sensitive goods.

10. RISKS ASSOCIATED WITH PROLIFERATION FINANCING

10.1 Amongst other risk factors, during their risk assessment of clients, SFIs should consider the following associated indicators of increased potential proliferation risks:

Country/Geographic Risks

10.1.1 Assess whether the client/client business is located in a country that is subject to a relevant UN sanction (i.e. Democratic Republic of Korea or Iran) or is listed on a National Listing for high risk entities (i.e. UK/EU Specially Targeted List or OFAC Listing).

Customer Risk

10.1.2 During the account opening and ongoing due diligence processes, determine the type of business the client is engaged in to assess whether it poses potential proliferation risks (i.e. If the client is involved in the export business, then assess if client is involved in transactions with end-users who are listed on a National Listing); and

10.1.3 Assess whether the client's end user is associated with a listed Military or Research Company connected with a high risk jurisdiction of proliferation concern.

Product/Service Risk

10.1.4 Determine if specific products/services offered by the Licensee could involve potential proliferation factors (i.e. delivery of financial services such as correspondent banking to a country targeted on the EU or UN Sanctions Listing).

10.1.5 Consider other variables specific to the customer or transaction such as:

- 10.1.5.1 Duration of relationship;
- 10.1.5.2 Purpose of relationship;
- 10.1.5.3 Corporate structure; and
- 10.1.5.4 Volume of anticipated transaction.

11. MANAGEMENT OF PROLIFERATION FINANCING RISKS

- 11.1 The FATF in its 2010 Policy Report on Combatting PF recommends that SFIs should manage their potential PF risks by implementing a *Risk-Based Approach* that incorporates controls to mitigate the risk of PF within their current AML/CFT structure.
- 11.2 This could be achieved through:
- 11.2.1 applying objective criteria to assess the potential PF risk by using SFIs' expertise and obtaining information from government agencies;
 - 11.2.2 building on the SFI's existing AML/CFT framework by incorporating proliferation risk factors for consideration along with the wider determination of risk factors;
 - 11.2.3 using the SFI's established AML/CFT mechanism to conduct risk assessments and identify suspicious activity that is applicable to proliferation considerations;
 - 11.2.4 implementing risk-based anti-proliferation and proliferation financing policies and procedures, comparable to international standards. Including training to identify suspicious activity and a system for reporting suspicious transactions; and
 - 11.2.5 developing and maintaining in-house policies and procedures relative to countering proliferation and proliferation financing and compliance with these proliferation financing guidelines.
- 11.3 Introducing proliferation financing into an institution's current risk assessment practice should be proportionate to the overall proliferation risk of the activities currently undertaken by the institution. It is open to Bahamian SFIs to adopt policies preventing client relationships that expose the SFI to countries, customers, and products that are higher risk for proliferation financing.
- 11.4 Additionally, the following risks should be considered when formulating a proliferation focused risk assessment:
- 11.4.1 **Country or Geographic Risk** – a strong indicator will be links to a country that is subject to sanctions against proliferation, an embargoed destination, or countries that have strong links with terrorist groups and activities.
 - 11.4.2 **Customer Risk** – in particular, where a customer is involved in the supply, purchase or sale of dual-use, proliferation-sensitive or military goods. Also, customers who are on national lists concerning high risk entities and those connected to a higher-risk jurisdiction of proliferation concern.

- 11.4.3 **Product and Service Risks** – project financing of sensitive industries in higher risk jurisdictions; higher risks may result where delivery of services is subject to sanctions; trade finance services, transactions and insurance products involving higher risk jurisdictions; and the delivery of high volumes of dual-use, proliferation-sensitive or military goods, particularly to a higher risk country.
- 11.4.4 **Higher Risk Transactions and Entities** – lists compiled by national authorities may assist an institution, by providing information on entities and individuals who may pose a proliferation concern.
- 11.4.5 **Import and Export Goods** – SFIs can mitigate against proliferation financing by asking the customer to provide a valid export license or a reference to the export control requirements in the relevant jurisdiction, thereby proving that the goods which are being exported do not require a license.
- 11.4.6 **Trade Finance and Insurance Products** – can impose challenges and risks. Enhanced due diligence should focus on direct loans or general credit facilities to facilitate export transactions; provision of guarantees on behalf of exporters; provision of insurance against certain risks in the trading process; and purchase of promissory notes issued by foreign buyers to exporters for the purchase of goods and services, freeing up cash for the exporter.

The FATF Working Group on Terrorist Financing and Money Laundering (WGTM)

- 11.5 The FATF's WGTM Project Team on Proliferation Financing suggests several measures which can be implemented by SFIs to mitigate the risk posed by high risk customers. All SFIs should possess adequate policies and processes including strict customer due diligence (CDD) rules to promote high ethical and professional standards in the financial sector and prevent the SFI from being used, intentionally or unintentionally, for criminal activities.
 - 11.5.1 SFIs must have a strong ML/FT Risk Management program in place that incorporates the following:
 - 11.5.2 customer and transaction screening, which includes, enhanced due diligence, increased monitoring, enhanced frequency relationship reviews and senior management approval;
 - 11.5.3 account monitoring, with the use of automatic systems such as post-event monitoring of account activity; and
 - 11.5.4 reporting of Suspicious Transactions & Asset Freezing – a licensee can include entities of interest to counter-proliferation investigators including the FIU. Particularly where a licensee is an asset or deposit-taking institution, the relevant

Regulatory Authorities must also be advised. Jurisdictions should consider whether proceeds and instrumentalities of proliferation financing acts may be subject to asset freezing and confiscation, on the basis set out in FATF Recommendation 3.

12. RED FLAG INDICATORS AND TYPOLOGIES OF POTENTIAL PROLIFERATION FINANCING RISKS

12.1 *Customer:*

- 12.1.1 The customer is involved in the supply, sale, delivery or purchase of dual-use, proliferation-sensitive or military goods, particularly to higher risk jurisdictions.
- 12.1.2 The customer or counter-party, or its address, is the same or similar to that of an individual or entity found on publicly available sanctions lists.
- 12.1.3 The customer is a military or research body connected with a higher risk jurisdiction of proliferation concern.
- 12.1.4 The customer's activities do not match the business profile.
- 12.1.5 The customer is vague about the end user(s) and provides incomplete information or is resistant when requested to provide additional information.
- 12.1.6 A new customer requests a letter of credit from a SFI, whilst still awaiting approval of its account.
- 12.1.7 The customer uses complicated structures to conceal involvement, for example, uses layered letters of credit, front companies, intermediaries and brokers.

12.2 *Transactions/Orders:*

- 12.2.1 The transaction(s) concern(s) dual-use, proliferation-sensitive or military goods, whether licensed or not.
- 12.2.2 The transaction(s) involve(s) an individual or entity in any country of proliferation concern.
- 12.2.3 The transaction reflect(s) a link between representatives of companies (e.g. same owners or management) exchanging goods, in order to evade scrutiny of the goods exchanged.
- 12.2.4 The transaction(s) involve(s) the shipment of goods inconsistent with normal geographic trade patterns i.e. where the country involved does not normally export or import the types of goods concerned.

12.2.5 The order for goods is placed by firms or individuals from countries, other than the country of the stated end-user.

12.3 ***Jurisdiction:***

12.3.1 Countries with weak financial safeguards and which are actively engaged with a sanctioned country.

12.3.2 The presence of an industry that produces dual-use goods, proliferation-sensitive items or military goods.

12.3.3 Deliberate insertion of extra links into the supply chain.

12.3.4 Countries that are known to have weak import/export control laws or poor enforcement.

12.3.5 Countries that do not have the required level of technical competence in regard to certain goods involved.

12.4 ***Other:***

12.4.1 The final destination or end-user is unclear.

12.4.2 Project financing and complex loans, where there is a presence of other objective factors such as an unidentified end-user.

12.4.3 Declared value of shipment under-valued in relation to shipping cost.

12.4.4 Inconsistencies in information contained in trade documents and financial flow e.g. names, addresses, final destination.

12.4.5 The use of fraudulent documents and identities e.g. false end-use certificates and forged export certificates.

12.4.6 The use of facilitators to ensure the transfer of goods avoids inspection.

12.4.7 A freight forwarding firm being listed as the product's final destination.

12.4.8 Wire instructions or payment from or due to entities not identified on the original letter of credit or other documentation.

12.4.9 Pattern of wire transfer activity that shows unusual patterns or has no apparent purpose.

13. WHAT DOES THIS MEAN FOR BAHAMIAN INSTITUTIONS?

- 13.1 Entities in The Bahamas can presume that conventional domestic business with Bahamian persons is a near-zero risk of proliferation financing. However, this near-zero risk should be covered by effective application of the institution's general suite of AML and CFT measures. Employees of SFIs should also be aware of the red flags for proliferation financing and be in a position to report any suspicions, if necessary.
- 13.2 The general expectation is that Bahamian SFIs will exercise extreme caution when dealing with countries on the UN or EU sanctions lists, or residents of those countries, or transactions associated with those countries (see EU Sanctions Risk List Countries). Most Bahamian SFIs would do better in risk-management terms to ensure that they are not engaging people or entities that are appreciably exposed to proliferation risks, rather than attempting to manage those risks.
- 13.3 Any SFIs operating internationally, or possessing international clients, who choose to do business with countries with a high risk profile, will need to know in real time which countries are on the EU or UN sanctions lists, as per the UK/EU Specially Targeted List or as per the OFAC listing, and carefully monitor any connections to those countries, including reporting suspicious transactions to the FIU in a timely manner.
- 13.4 SFIs should be sensitive to the risks associated with financing the potential tools of proliferation, including nuclear and dual-use material, and military items.

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REFERENCE: EU AND OFAC SPECIALLY TARGETED COUNTRY SANCTIONS LISTING

EU measures in force⁴

Article 215 of the Treaty on the Functioning of the European Union (TFEU) provides a legal basis for the interruption or reduction, in part or completely, of the Union's economic and financial relations with one or more third countries, where such restrictive measures are necessary to achieve the objectives of the Common Foreign and Security Policy (CFSP).

EU Sanctions Map⁵

A digital tool visualizing UN & EU sanctions

US measures in force (OFAC)

The Office of Foreign Assets Control ("OFAC") of the US Department of the Treasury administers and enforces economic and trade sanctions based on US foreign policy and national security goals against targeted foreign countries and regimes, terrorists, international narcotics traffickers, those engaged in activities related to the proliferation of weapons of mass destruction, and other threats.

⁴ www.bscn.nl/sanctions-consulting/sanctions-list-countries

⁵ ec.europa.eu/dgs/fpi/what-we-do/sanctions_en.htm

ANNEX A: TYPOLOGIES

Example Typologies of the Financing of Proliferation

- The Khan-case (which consists of several different proliferation cases over a long period) concerned nuclear weapon programs in several jurisdictions of proliferation concern. The process of proliferation for each item to be constructed consisted of many steps in order to disguise the activities of the network and the true nature and end-use of the goods. Many individuals, companies and countries were- knowingly or in good faith involved. Although some operations appear to have been settled in cash, others were settled through international transfers within the framework of duly established contracts. Contracts appeared to have been financed conventionally, through letters of credit or bills of exchange. Additionally, there were cash transactions within the network of customers. Amounts were deposited in bank accounts of emerging or offshore countries before transactions were made between banks for final beneficiaries.
- A proliferator set up front companies and used other intermediaries to purchase magnets that could be used for manufacturing centrifuge bearings. Front Company #1 signed documents with the foreign jurisdiction's manufacturing company concerning the manufacturing and trade of magnets, however, it was not declared in these documents, nor was it detected by authorities, that these components could be used to develop WMD. The magnets were then transshipped to a neighboring third jurisdiction to Front Company #2. This jurisdiction is used as a "turntable" for goods, which means that goods are imported and re-exported. The proliferator used an intermediary to arrange the import and export to the third jurisdiction. The intermediary had accounts in the third jurisdiction and used his accounts to finance the acquisition of the goods and to launder the illegal funds used for these transactions. A combination of cash and letters of credit were used to pay for the trade of the magnets which totaled over 4 million USD.
- Trading Company B in country Z deals in laboratory test-equipment for university and research centers and also for the energy sector. It is known to have procured dual-use items for country Z's WMD programs. Company B has bank accounts in a number of countries and has a UK account with a UK bank in country U, a known diversionary destination.
- R. David Hughes was the president of an Olympia, Washington-based company, AMLINK. AMLINK was a medical supply company, but was involved in export of commodities that did not match its business profile. In June 1996, the U.S. Customs Service began an investigation of the exportation of nuclear power plant equipment by Hughes and AMLINK from the Port of Seattle to Cyprus. The nuclear power plant equipment was to be shipped from Cyprus to Iran via Bulgaria, in violation of the U.S. embargo on Iran. Payment was made via wire transfer from Abi-Saad into Hughes U.S. bank account; Hughes then paid for the equipment with a cashier's check. The declared value of the shipment was under-valued. Hughes was indicted and convicted of export of nuclear equipment without a license.