

Typologies of Financing of Proliferation of WMD

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Agenda

- Definition and characteristics
- Comparing characteristics: FoP v. TF v. ML
- Detection methods and suspicious indicators
- King's College London Study and results
- Mitigating risks and good practices
- Role of FATF

Definition of Proliferation Financing (FATF)

- *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 means of delivery...*
- *and related materials (technologies and dual use goods used for non-legitimate purposes)*
- *In contravention of national laws or international obligations*

Some characteristics of proliferation networks

- Industrial items: may be dual-use, may or may not be listed for export control (NSG, MTCR, AG)
- Transactions normally through formal financial channels
- Complex networks of procurement agents and front companies in multiple jurisdictions
- Procurement agents engage in deceptive practices; often operate for profit
- Source of funds are hidden (sanctioned entities, countries)

Financial crime: Comparing activity

Money laundering	Terrorist financing	Proliferation financing
Complex web of transactions often involving shell or front companies, bearer shares, offshore secrecy havens	Varied methods including formal banking system, informal value-transfer systems, smuggling of cash and valuables	Transactions look like normal commercial activity, structured to hide source of funds

(modified from a presentation by James R Richards, Wells Fargo, 2005, quoted in the CAMS Examination Study Guide 5th Edition)

Financial crime: Comparing detection focus

Money laundering	Terrorist financing	Proliferation financing
Suspicious transactions such as deposits uncharacteristic of customer's wealth or the expected activity	Suspicious relationships, such as wire transfers between seemingly unrelated parties	Individuals, entities, States, goods and materials, activities

(modified from a presentation by James R Richards, Wells Fargo, 2005, quoted in the CAMS Examination Study Guide 5th Edition)

Financing of proliferation – Detection

- Screening/monitoring individuals/entities (including end-users)
- Screening goods and materials (dual-use and others)
- Intelligence or other information (“activities”)
- Monitoring for suspicious indicators associated with financing of proliferation
 - Role of ML suspicious indicators

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Financing of Proliferation Study

- Objective: Understanding current PF typologies globally
- Methodology: Collation and analysis of data held by authorities and financial institutions
- Reports: Aimed at government and financial sector practitioners
 - Case studies (no requirement for classified or sensitive data)
 - Suspicious indicators

Good practices to mitigate risks (governments)

- Carry out a proliferation financing risk assessment, and task departments and agencies accordingly
- Ensure
 - appropriate legislation is in place
 - effective communications within government
 - effective communication between governments
 - effective communication between government departments and financial institutions
 - financial institutions are required to monitor for and report on FoP (STRs/SARs)

Good practices to mitigate risks (financial institutions)

- Carry out a proliferation financing risk assessment
- Ensure suspicious indicators for FoP are incorporated into screening and transaction monitoring systems
- File Reports (STRs/SARs)
- Ensure effective communication with regulators and other government authorities
- Require proliferation financing to be a job specification for compliance officers

Key points

- Identifying and disrupting the financing of WMD are important tools for combating proliferation of WMD goods and material
- Financial institutions can play a key role by identifying proliferation-related financial transactions and reporting to national authorities (STRs/SARs)
- Potentially vital contribution to maintaining international peace and security

Thank you

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Further Reading

Brewer, J. 2017. "Study of Typologies of Financing of WMD Proliferation" Project Alpha. Kings College London.

<https://projectalpha.eu/study-of-wmd-proliferation-financing-typologies/>