



Counter Proliferation Financing (CPF) Measures

Engagement Session with Labuan Sectors

9 Dec 2021 (SED)



Agenda

- 01 | CPF in Malaysia**
- 02 | Proliferation Financing Risk Assessment**
- 03 | Control Measures**
- 04 | Typology & Case Study**

CPF in Malaysia / LIBFC

Why CPF matters?



- United Nations Security Council Resolution 1540
- United Nations Security Council Resolution 1718 (DPRK)
- United Nations Security Council Resolution 2231 (Iran)



- FATF Recommendation 1,2,7 & 15 and their Interpretive Notes
- FATF Guidance on PF Risk Assessment and Mitigation
- FATF Guidance on Counter PF



- Strategic Trade Act 2010 (STA 2010)
- Strategic Trade (UNSCR) Regulations 2010
- Strategic Trade (Restricted End-Users and Prohibited End-Users) Order 2010



- AML/CFT Guidelines
- Directive on Implementation of Targeted Financial Sanctions (TFS) relating to PF



MINISTRY OF FOREIGN AFFAIRS MALAYSIA



SEKURITAS DAN BURSA MALAYSIA



Standalone Committee



Assessment and proposal of strategies and measures on TFS PF

Facilitating prompt communication on TFS PF obligations to the RIS

- Ensuring effective implementation of TFS PF

Proliferation Financing (PF) Definition

Act of providing funds or financial services which are 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. (FATF definition)

"Provide financing of items/activities/financial services in relation to Weapons of Mass Destruction (WMD)"

PROLIFERATION FINANCING RISK ASSESSMENT



PFRA report can be download :

https://amlcft.bnm.gov.my/document/PFRA_Report_Aug_2021.pdf



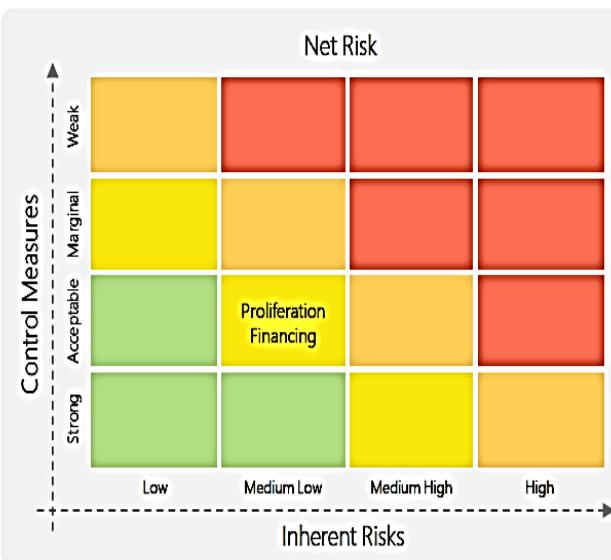
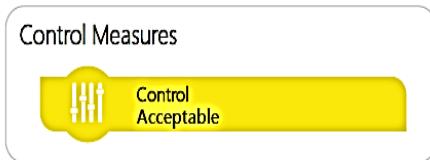
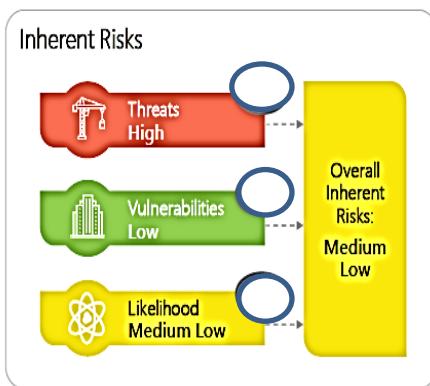
Key Reporting Institutions (RI)
licensed by BNM, SC and LFSA



Based on 3 years data set
from 2016 to 2018

SUMMARY OF FINDINGS

Malaysia's Net Risk for PF [Medium Low]

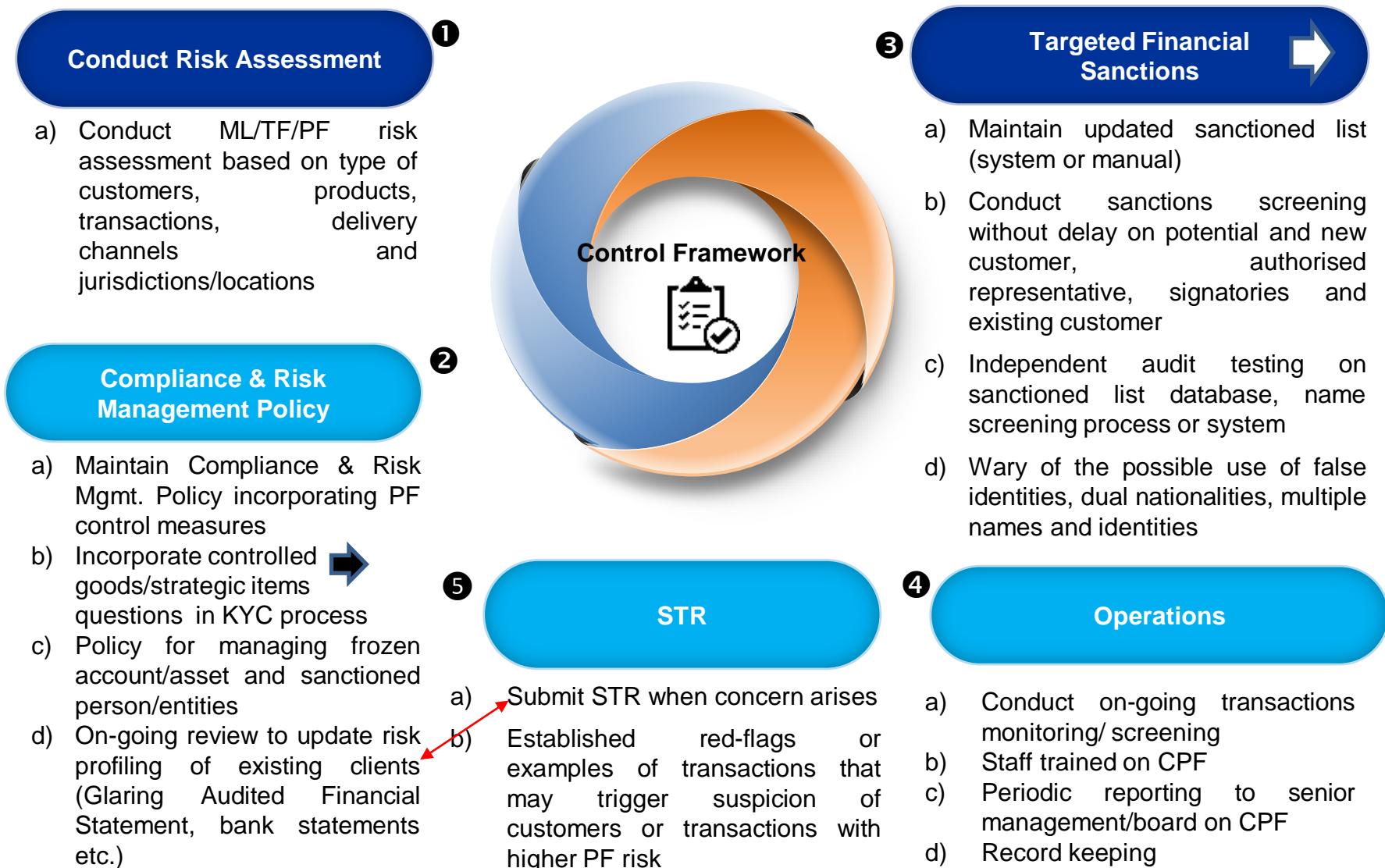


Recommendations for RIs:

Enhance understanding of PF Risk and implementation of sanctions obligations by Fis and DNFBPs, salient recommendations include :

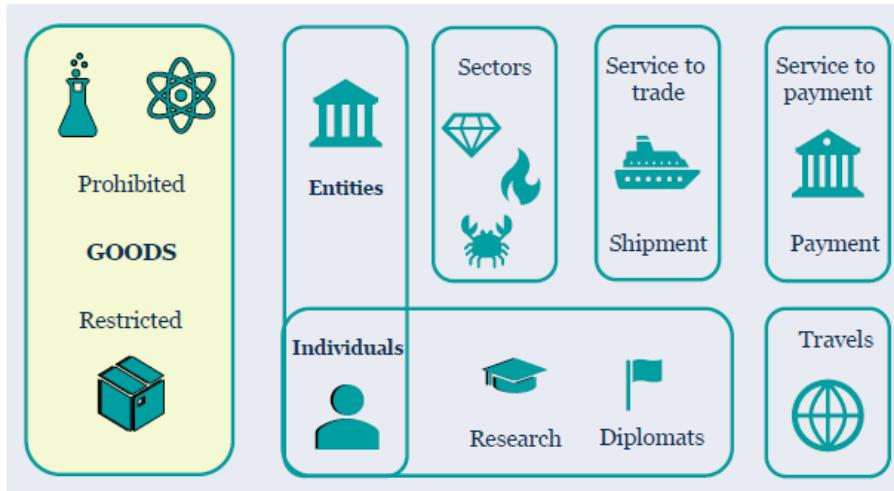
- Requirement to identify, assess and mitigate risk at institutional level and
- Strengthen sanctions screening program to enable detection of designated persons and related parties

CPF Control Measures for RI





Where sanctions can apply?



Valuable risk indicator



US, EU, Japan, South Korea, Australia and others have TFS lists

UNSCR Mailing List :

- 1 Website link : <https://undocs.org>
- 2 Enter your email :
- 3 Select type of document:
 - Security Council Resolutions
- 4 Click Subscribe

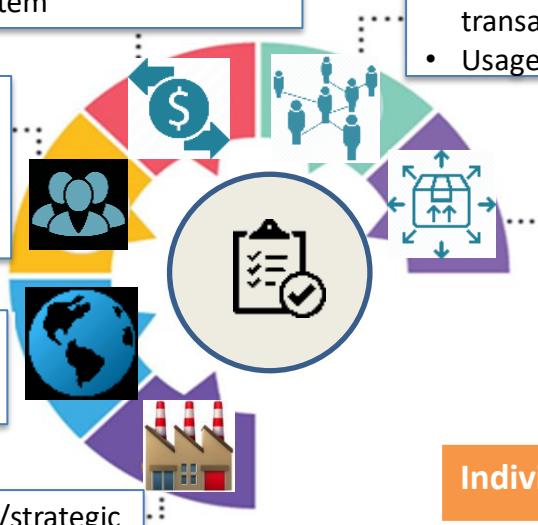
PF Detection Triggers

- Transactions likely on global financial system

- Intermediaries hide the end user/B.O.
- Connected to sanctioned person/entity

- State Involvement
- High risk country

- Industrial/prohibited/strategic items, dual use
- Subject to export control



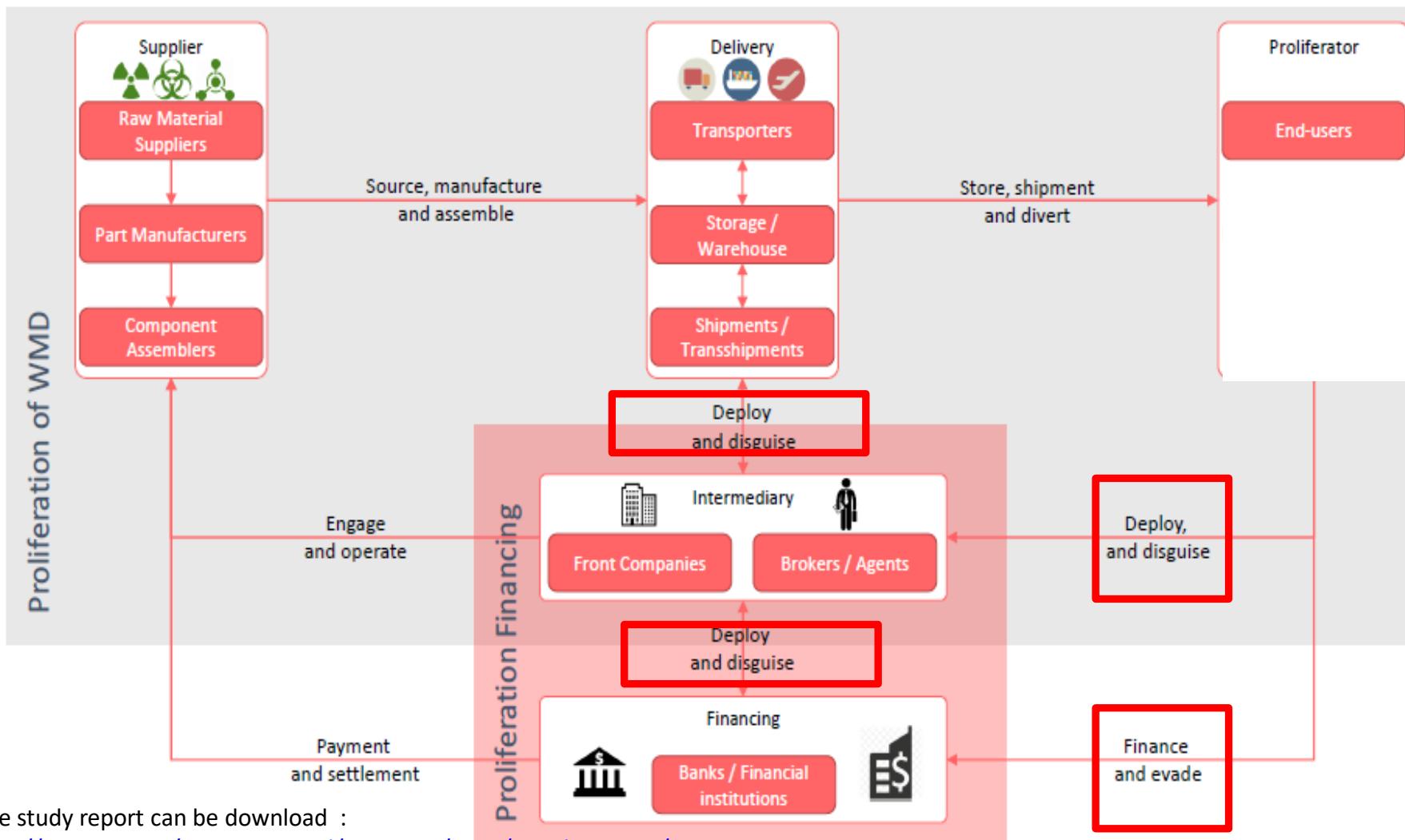
- Complex transactions/structure
- Time differences for connected transactions
- Usage of correspondent banks

- Concerns on probable secondary export (Involved a third country)
- End users not identified
- Route to country with weak controls
- Shipment undervalued

Evasion Tactics

Individual	Corporate
Deployed Individual to arrange procurement	Complex corporate structure
Hide their involvement	Front companies
Dual national opportunities	Span jurisdictions
Obscure nationality	Neighbouring a proliferating country
Lie	Country with weak trade controls
Leverage relationship with diaspora	Foreign national on the paper works

Case Study



Case study report can be download :

https://www.un.org/securitycouncil/sanctions/1718/panel_experts/reports

<https://www.undocs.org/S/2019/171>

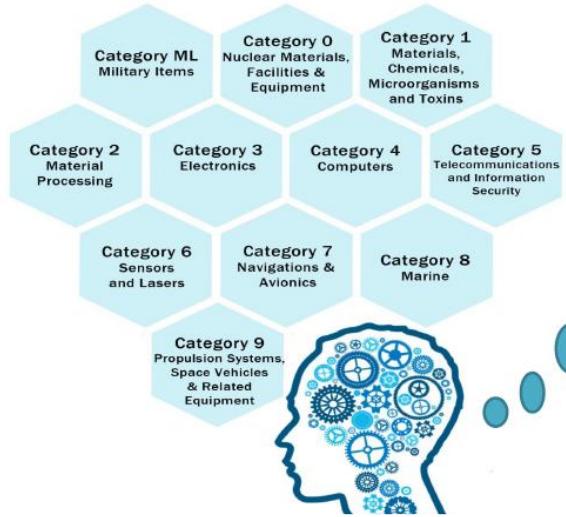
<https://apnews.com/article/058ed4558adf46fc8375314ef637e78d>

https://www.securitycouncilreport.org/atf/cf/%7B65BFCF9B-6D27-4E9C-8CD3-CF6E4FF96FF%7D/s_2014_147.pdf

Strategic Items/Dual Use Items



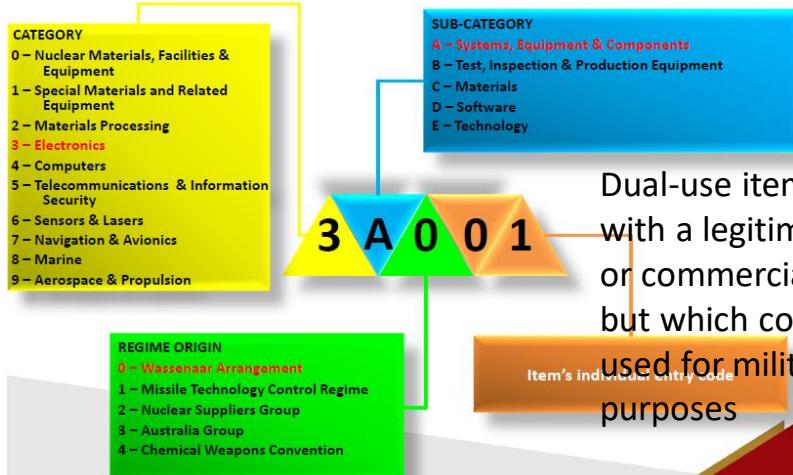
Classification of STA 2010 Items



Unlisted items
If a person is informed by the relevant authority;
If a person knows/has reason to believe that the item will or may be used for a restricted activity



Dual Use Items – Category code



Dual-use items are those with a legitimate civilian or commercial end-use but which could also be used for military or WMD purposes



The control list



Strategic Trade (Strategic Items) (Amendment) Order 2017

- List out the strategic items that are controlled which can be divided into military items and dual use items
- Adopted from the EU list
- Last updated on March 2017
- Different from Custom HS Code (only 5 digits code)

Category	Item Description	Note	Strategic Trade Items (Amendment) Order 2017
1C21E	Barrels, cases, tanks, drums, containers, etc. (including capsules) of an explosive, incendiary strength of 1,000 kg or more, or 24% (C-12)	Note: 1C21E describes items in which all lower dimensions are 70 mm or more.	Strategic Trade Items Licensing Board (STLB), MOSTI
		Technical Note: The phrase "incendiary strength" is defined as follows:	
1C21F	Barrels, cylinders, containers, tanks, drums, etc. containing incendiary, explosive, or other dangerous goods in a quantity of 20 kg or more.	Note: In 1C21F containers containing incendiary, explosive, or other dangerous goods are described.	Atomic Energy Licensing Board (AELB), MOSTI
		Technical Note: The natural or composite abundance of boron-10 is approximately 18.5 weight per cent (20 atoms per 100 atoms).	
1C22B	Explosives, incendiary, and other containing more than 50% boron-10 weight, other than that specified in 1C21F, in a quantity of 20 kg or more.	Note: In 1C22B containers containing boron-10 are generally designed as weights or genera collectors.	Atomic Energy Licensing Board (AELB), MOSTI
		Technical Note: The natural or composite abundance of boron-10 is approximately 18.5 weight per cent (20 atoms per 100 atoms).	
1C22C	Explosives, incendiary, and other containing more than 50% boron-10 weight, other than that specified in 1C21F and 1C22B, in a quantity of 20 kg or more.	Note: In 1C22C containers containing boron-10 are generally designed as weights or genera collectors.	Atomic Energy Licensing Board (AELB), MOSTI
		Technical Note: The natural or composite abundance of boron-10 is approximately 18.5 weight per cent (20 atoms per 100 atoms).	
1C22D	Calium barium salts of the following characteristics:	Note: In 1C22D containers containing calium barium salts are generally designed as weights or genera collectors.	Atomic Energy Licensing Board (AELB), MOSTI
		A. Containing less than 1,000 parts per million for each radioactive isotope per gram of material; and	
		B. A mass greater than 25 kg.	
1C22F	Calium barium salts of the following characteristics:	Note: In 1C22F containers containing calium barium salts are generally designed as weights or genera collectors.	Atomic Energy Licensing Board (AELB), MOSTI
		A. Containing less than 1,000 parts per million for each radioactive isotope per gram of material; and	
		B. A mass greater than 25 kg.	

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https://www.miti.gov.my/index.php/sti/sti_finder

Strategic Trade Items Finder

Please select item category: Nuclear materials, facilities and equipment

Please enter Category Code:

Please enter keyword:

Search:

Show 25 entries

ID	Category Code	Sub Category Code	Description	Authority	Note
			"Nuclear reactors" and specially designed or prepared equipment and components thereto, as follows:		
			a. "Nuclear reactors";		

Type here to search

(https://www.miti.gov.my/index.php/sti/sti_finder)

ML vs TF vs PF Typology



	ML	TF	PF
Source of Funds	Illicit activities (drugs, smuggling etc.)	Internally from self-funding (criminal activity) or Externally from benefactors and fund-raisers	State-sponsored programs or connected dealers or brokers
Purpose	Use of illicit funds in the regulated system	Support terrorist activities	Acquisition of WMD
Behavior	Favours formal financial system	Favours cash couriers or informal financial systems such as hawala and currency exchange firms	Favours formal financial system
Detection Focus	Financial transaction	Relationships between actors	Actors, goods/materials, jurisdictions and anomalous transaction
Transaction Amount	Large amounts often structured to avoid reporting requirements	Small amounts usually below reporting thresholds	Large & small amounts
Money Trail	Circular – money eventually ends up with the person who generated it	Linear – money generated is used to propagate terrorist groups and activities	Linear – money is used to purchase goods and materials from brokers

THANK YOU

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