



اللجنة الوطنية لمكافحة
غسل الأموال وتمويل الإرهاب
NATIONAL COMMITTEE
FOR AML & CFT

Proliferation Financing Red Flag Indicators

State of Kuwait

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Red Flag Indicators for Proliferation Financing

1. There are several challenges in identifying proliferation financing. One issue is the purchase and sale of basic components rather than complete systems, as these individual components often have legitimate uses and may even be classified as “dual-use” goods, complicating their identification for illicit purposes. Additionally, dual-use goods are hard to identify because they require specialized knowledge and are often described using general, innocuous terms. The networks through which proliferation-sensitive goods are acquired are typically complex, and the use of falsified documentation further obscures the transaction, making it difficult to trace the goods, involved entities, financial transactions, and the ultimate end-user. Front companies, agents, and fake end-users are commonly employed to conceal the true movement of goods and funds. Moreover, when a state is involved in obtaining the goods, the financial source may appear legitimate, but the actual end-user and intended use of the goods are hidden, adding another layer of difficulty in identifying such activities.

2. For these reasons, entities operating in Kuwait in a range of sectors should be aware of a common set of red flags which may indicate proliferation financing sanction evasion. These red flags are grouped together into four broad areas of activities where one might expect to see those red flag indicators, namely: **customer and corporation activities; account and transaction activities; maritime sector activities; trade finance activities.**

3. This does not mean the following indicators will occur alone or in only in particular fields of economic activity; each of them can take place alone, together, or in combination with others.

Customers and Corporation Activities

4. Certain behaviours by customers or corporations may may be indicative of proliferation financing or sanctions evasion. These are set out in the following list:

- a. Customers provide vague or incomplete information about their proposed trading activities. They are reluctant to provide additional information about their activities when queried and insist on maintaining an unusual level of secrecy around a transaction, such as not disclosing the nature of the goods or the destination of shipments, especially when involving dual-use goods.

- b. In later stages of due diligence, a customer, particularly a trade entity, its owners or senior managers, appear in sanctioned lists or negative news (for instance, due to past ML schemes, fraud, other criminal activities, or ongoing or past investigations or convictions), including appearing on a list of denied persons for the purposes of export control regimes.
- c. Customers are connected with a country of proliferation or diversion concern, e.g., through business or trade relations. Customers have direct or indirect ties to persons or entities on UN sanctions lists, particularly those identified as involved in proliferation or proliferation financing.
- d. Customers deal with dual-use goods or goods subject to export control goods or complex equipment for which they lack technical background, or which is incongruent with their stated line of activities.
- e. A customer transfers funds to or from higher-risk jurisdictions.
- f. Customers are involved in complex trade deals involving numerous third-party intermediaries in lines of business that do not accord with their stated business profile established at onboarding.
- g. Customers use financial services and/or conducts transactions that are physically distanced from the actual trade of goods.
- h. A customer or counterparty, declared to be a commercial business, conducts transactions that suggest that they are acting as a money-remittance business or a pay-through account. These accounts involve a rapid movement of high-volume transactions and a small end-of-day balance without clear business reasons. In some cases, the activity associated with originators appear to be entities who may connected a state-sponsored proliferation program (such as shell companies operating near countries of proliferation or diversion concern), and the beneficiaries appear to be associated with manufacturers or shippers subject to export controls.
- i. Corporations share directors and management, addresses, emails, phone numbers and financial infrastructure with other entities in their networks.
- j. Corporations obfuscate their identities and activities through the use of aliases and transliteration of company names; the use of subsidiaries or branches; the use of third-country nationals in corporate ownership structures; registering in jurisdictions with opaque corporate registers where information on Ultimate Beneficial Ownership (UBO) is not easily accessible.

Account and Transaction Activities

5. The way in which accounts are used, or transactions take place can also point to proliferation financing or sanctions evasion. By way of example:

- a. The originator or beneficiary of a transaction is a person or an entity ordinarily resident of or domiciled in a country of proliferation or diversion concern.
- b. Account holders conduct transactions that involve items controlled under dual-use or export control regimes, or the account holders have previously violated requirements under dual-use or export control regimes.
- c. Accounts or transactions involve possible companies with opaque ownership structures, front companies, or shell companies – e.g., companies do not have a high level of capitalization or display other shell company indicators. This could also include long periods of account dormancy followed by a surge of activity.
- d. Transactions involve the shipment of goods inconsistent with normal geographic trade patterns, for instance, where the country involved does not normally export or import the types of goods concerned.
- e. Links between representatives of companies exchanging goods. This could mean they have the same owners or management, same physical address, IP address or telephone number, or their activities may be coordinated.
- f. Circuitous financial transactions.
- g. Account activity or transactions where the originator or beneficiary of associated financial institutions is domiciled in a country with weak implementation of relevant UNSCR obligations and FATF Standards or a weak export control regime (also relevant to correspondent banking services);
- h. The customers of a manufacturing or trading firm want to use cash in transactions for industrial items or for trade transactions more generally. For financial institutions, the transactions are visible through sudden influxes of cash deposits to the entity's accounts, followed by cash withdrawals.

- i. Transactions are made based on “ledger” arrangements that obviate the need for frequent international financial transactions. Ledger arrangements are conducted by linked companies who maintain a record of transactions made on each other’s behalf. Occasionally, these companies will make transfers to balance these accounts.

Maritime Sector Activities

6. A wide range of proliferation financing activities are reliant on the maritime sector. Certain behaviours may indicate proliferation financing or sanctions evasion where there is a maritime nexus. For instance:

- a. A trade entity is registered at an address that is likely to be a mass registration address, e.g., high-density residential buildings, post-box addresses, commercial buildings or industrial complexes, especially when there is no reference to a specific unit.
- b. Person or entity preparing a shipment lists a freight forwarding firm as the product’s destination.
- c. Shipment destination is different from the importer’s location.
- d. Inconsistencies across contracts, invoices, or other trade documents – e.g., contradictions between the name of the exporting entity and the name of the recipient of the payment; differing prices on invoices and underlying contracts; discrepancies between the quantity, quality, volume, or value of the actual commodities and their descriptions.
- e. Shipped goods have a low declared value vis-à-vis the shipping cost.
- f. Shipped goods are incompatible with the technical level of the country to which it is being shipped, e.g., semiconductor manufacturing equipment being shipped to a country that has no electronics industry.
- g. The shipment is made in a circuitous fashion (if information is available), including multiple destinations with no apparent business or commercial purpose, indications of frequent flags hopping, or using a small or old fleet.
- h. The shipment is inconsistent with normal geographic trade patterns, e.g., the destination country does not normally export or import the goods listed in trade transaction documents.
- i. Goods are outed through a country with weak implementation of relevant UNSCR obligations and FATF Standards, export control laws or weak enforcement of export control laws.

- j. Payment for imported commodities is made by an entity other than the consignee of the commodities with no clear economic reasons, e.g., by a shell or front company not involved in the trade transaction.

Trade Finance Activities

7. Trade finance – which includes trade financing agreements and any ancillary agreements – may lend itself to assisting with proliferation financing. The following activities in this respect may indicate proliferation financing or sanctions evasion:

- a. Prior to account approval, customer requests letter of credit for trade transaction for shipment of dual-use goods or goods subject to export control.
- b. Lack of or no full information or inconsistencies are identified in trade documents and financial flows, such as names, companies, addresses, and destination.
- c. Transactions include wire instructions or payment details from or due to parties not identified on the original letter of credit or other documentation.