



BGS REFINERY (FZC)

RED FLAGS INDICATORS

1. RED FLAGS - MEANING

Red Flags means a warning or an alert that there is an undesirable characteristic or threat in a transaction, customer or entity.

Red Flags include sanctioned sources of money, owners belonging to high risk countries, unusual bank transactions, inconsistencies in the identity verification process, the sudden withdrawal of high amounts, etc. Sometimes there could be more than one such indicator in a transaction.

Red Flags are used to timely identify any suspicious activities involving money laundering or terrorism financing and report the same to FIU.

1.1 VULNERABILITIES OF DPMS SECTOR TO ML/TF – RED FLAGS INDICATORS

Recent studies have concluded that the nature of precious metals and precious stones (PMS) and the characteristics of the markets in their trade, make them inherently highly vulnerable to misuse or exploitation by criminals for the purpose of money laundering and the financing of terrorism.

DPMS are likewise vulnerable to ML/TF risks. Among the reasons noted for this vulnerability are the facts that:

- PMS represent high intrinsic value in a relatively compact form, tend to maintain (or even increase) value over time, and can be easily transported physically in many forms;
- PMS can be used both as means to generate criminal proceeds (i.e., through various predicate offences), as well as vehicles to launder them;
- PMS can be used for illicit purposes, including ML/TF, in a variety of ways, either directly (through physical exchange, as a form of currency) or indirectly (through exchange of value via various formal and informal financial systems, as well as via international trade and the financial products and services related to it);
- There are large, well-established, decentralized, and often cash-based markets for certain types of precious metals and stones (particularly for gold and diamonds, but for other PMS as well), often allowing them to be traded or exchanged with relative anonymity;
- The difficulty in tracing specific items, and the global nature of the markets for PMS, make it easier for criminals to exploit cross-border, multi-jurisdictional situations in order to obscure the paper and money trails, while at the same time rendering it more difficult for national law enforcement authorities to detect and investigate cases;
- The scale and diversity of small and mid-sized participants in the markets for precious metals and precious stones, and the generally low level of awareness and education among them in regard to the ML/TF risks, due-diligence requirements, and the red-flag indicators associated with their trade, increase the vulnerability of DPMS to exploitation by criminals and terrorists.

Further complicating the picture is the fact that in certain geographic regions, the buying and selling of PMS (and particularly of gold, silver, and diamonds) is a common cultural practice, often making it difficult to distinguish between legitimate transactions and their illicit counterparts.

Few key indicators of suspicious Customers and Transactions are: -

The Business Relationship, Counterparty, or Customer:

- Suddenly cancels the transaction when asked for identification or information.
- Is reluctant or refuses to provide personal information, or the DPMS has reasonable doubt that the provided information is correct or sufficient.
- Is reluctant, unable, or refuses to explain:
 - their business activities and corporate history of the identity of the beneficial owner or their source of wealth/funds or why they are conducting their activities in a certain manner. Or who are they transacting with?
 - the nature of their business dealings with third parties (particularly third parties located in foreign jurisdictions).
- Is under investigation, has known connections with criminals, has a history of criminal indictments or convictions, or is the subject of adverse information (such as allegations of corruption or criminal activity) in reliable publicly available information sources.
- Is a designated person or organization (i.e. is on a Sanctions List).
- Is related to, or a known associate of, a person listed as being involved or suspected of involvement with terrorists or terrorist financing operations.
- Insists on the use of an intermediary (either professional or informal) in all interactions, without sufficient justification.
- Actively avoids personal contact without sufficient justification.
- Is a politically exposed person or has familial or professional associations with a person who is politically exposed.
- Is a foreign national with no significant dealings in the country, and no clear economic or other rationale for doing business with the DPMS.
- Is located a significant geographic distance away from the DPMS, with no logical rationale.
- Refuses to co-operate or provide information, data, and documents usually required to facilitate a transaction, or is unfamiliar with the details of the requested transaction.
- Makes unusual requests (including those related to secrecy) of the DPMS or its employees.
- Is prepared to pay substantially higher fees than usual, without legitimate reason.
- Appears very concerned about or asks an unusual number of detailed questions about compliance-related matters, such as customer due-diligence or transaction reporting requirements.
- Is conducting a transaction which appears incompatible with their socio-economic, educational, or professional profile, or about which they appear not to have a good understanding.
- Uses legal persons, legal arrangements, or foreign private foundations that operate in jurisdictions with secrecy laws.
- Requests services (for example, smelting and reshaping of gold into ordinary-looking items, or re-cutting and polishing precious stones) that could improperly disguise the nature of the PMS or conceal beneficial ownership from competent authorities, without any clear legitimate purpose.

- Claims to be a legitimate DPMS but cannot demonstrate a history or provide evidence of real activity.
- Is a business that cannot be found on the internet or social business network platforms (such as LinkedIn or others).
- Is registered under a name that does not indicate that activity of the company is related to PMS, or that indicates activities different from those it claims to perform.
- Is a business that uses an email address with a public or non-professional domain (such as Hotmail, Gmail, Yahoo, etc.).
- Is registered at an address that does not match the profile of the company, or that cannot be located on internet mapping services (such as Google Maps).
- Is registered at an address that is also listed against numerous other companies or legal arrangements, indicating the use of a mailbox service.
- Has directors or controlling shareholder(s) who cannot be located or contacted, or who do not appear to have an active role in the company, or where there is no evidence that they have Authorized the transaction.
- Is incorporated or established in a jurisdiction that is considered to pose a high money laundering, terrorism financing, or corruption risk.
- Has a complex corporate structure that does not appear to be necessary or that does not make commercial sense.
- Appears to be acting according to instructions of unknown or inappropriate person(s).
- Conducts an unusual number or frequency of transactions in a relatively short time period.
- Asks for short-cuts, excessively quick transactions, or complicated structures even when it poses an unnecessary business risk or expense.
- Request's payment arrangements that appear to be unusually or unnecessarily complex or confusing (for example, unusual deposit or installment arrangements, or payment in several different forms), or which involve third parties.
- Provides identification, records or documentation which appear to be falsified or forged.
- Requires that transactions be effected exclusively or mainly through the use of cash, cash equivalents (such as cashier's cheques, gold certificates, bearer bonds, negotiable third-party promissory notes, or other such payment methods), or through virtual currencies, for the purpose of preserving their anonymity, without adequate and reasonable explanation.

1.2 TRANSACTIONS:

- Involves the use of a large sum of cash, without an adequate explanation as to its source or purpose.
- Involves the frequent trading of PMS (especially diamonds and gold) or jewelry for cash in small incremental amounts.
- Involves the barter or exchange of PMS (especially diamonds and gold) or jewelry for other high end jewelry.
- Appears structured so as to avoid the cash reporting threshold.

- Involves delivery instructions that appear to be unnecessarily complex or confusing, or which involve foreign jurisdictions with no apparent legitimate connection to the counterparty or customer.
- Includes contractual agreements with terms that are unusual or that do not make business sense for the parties involved.
- Involves payments to/from third parties that do not appear to have a logical connection to the transaction.
- Involves merchandise purchased with cash, which the customer then requests the merchant to sell for him/her on consignment.
- Involves PMS with characteristics that are unusual or do not conform to market standards.
- Involves the unexplained use of powers-of-attorney or similar arrangements to transact business on behalf of a third party.
- Appears to be directed by someone (other than a formal legal representative) who is not a formal party to the transaction.
- Involves a person acting in the capacity of a director, signatory, or other Authorized representative, who does not appear to have the required competency or suitability.
- Involves persons residing in tax havens or High-Risk Countries when the characteristics of the transactions match any of those included in the list of indicators.
- Is carried out on behalf of minors, incapacitated persons or other categories of persons who appear to lack the mental or economic capacity to make such decisions.
- Involves several successive transactions which appear to be linked, or which involve the same parties or those persons who may have links to one another (for example, family ties, business ties, persons of the same nationality, persons sharing an address or having the same representatives or attorneys, etc.).
- Involves recently created legal persons or arrangements, when the amount is large compared to the assets of those legal entities.
- Involves foundations, cultural or leisure associations, or non-profit-making entities in general, especially when the nature of the merchandise or the characteristics of the transaction do not match the goals of the entity.
- Involves legal persons which, although incorporated in the country, are mainly owned by foreign nationals, who may or may not be resident for tax purposes.
- Involves unexplained last-minute changes involving the identity of the parties (e.g., it is begun in one individual's name and completed in another's without a logical explanation for the name change) and/or the details of the transaction.
- Involves a price that appears excessively high or low in relation to the value (book or market) of the goods, without a logical explanation.
- Involves circumstances in which the parties: – Do not show particular interest in the details of the transaction; – Do not seem particularly interested in obtaining a better price for the transaction or in improving the payment terms; – Insist on an unusually quick completion, without a reasonable explanation.
- Takes place through intermediaries who are foreign nationals or individuals who are nonresident for tax purposes.
- Involves unusually high levels of assets or unusually large transactions compared to what might reasonably be expected of clients with a similar profile.

- Involves indications that the counterparty does not have or does not wish to obtain necessary governmental approvals, filings, licenses, or other official requirements.
- Involves any attempt by a physical person or the controlling persons of a legal entity or legal arrangement to engage in a fraudulent transaction (including but not limited to over- or under-invoicing of goods or services, multiple invoicing of the same goods or services, fraudulent invoicing for non-existent goods or services; over- or under-shipments (e.g., false entries on bills of lading); or multiple trading of the same goods and services).

1.3 THE PAYMENTS:

- Involves cash, cash equivalents (such as cashier's cheques, gold certificates, bearer bonds, negotiable third-party promissory notes, or similar instruments), negotiable bearer instruments, or virtual currencies, which do not state the true payer, especially where the amount of such instruments is significant in relation to the total value of the transaction, or where the payment instrument is used in a non-standard manner.
- Involves unusual deposits (e.g., use of cash or negotiable instruments, such as traveler's cheques, cashier's cheques, and money orders) in round denominations (to keep below the reporting threshold limit) to pay for PMS. The negotiable instruments may be sequentially numbered or purchased at multiple locations and may frequently lack payee information.
- Is divided into smaller parts or installments with a short interval between them.
- Involves doubts as to the validity of the documents submitted in connection with the transaction.
- Involves third-party payments with no apparent connection or legitimate explanation.
- Cannot be reasonably identified with a legitimate source of funds

2. ACTIONS TO BE TAKEN WHEN MULTIPLE RED FLAGS ARE OBSERVED

1. Suspicious Transaction Report shall be filed with the Financial Intelligence Unit (FIU).
2. Scheduling and coordinating necessary compliance training for the concerned employees.
3. Assess the reports thoroughly that helps determine the probability of any potential terrorist funding and money laundering.
4. Receive internal reports from the employees of any kind of unusual or suspicious activities or transactions.
5. Developing and coordinating proper reporting channels for issues pertaining to effective compliance.
6. Building effective communication channels for the Company's compliance with AML/CFT regulations.

Note : The above list of indicators is inclusive.