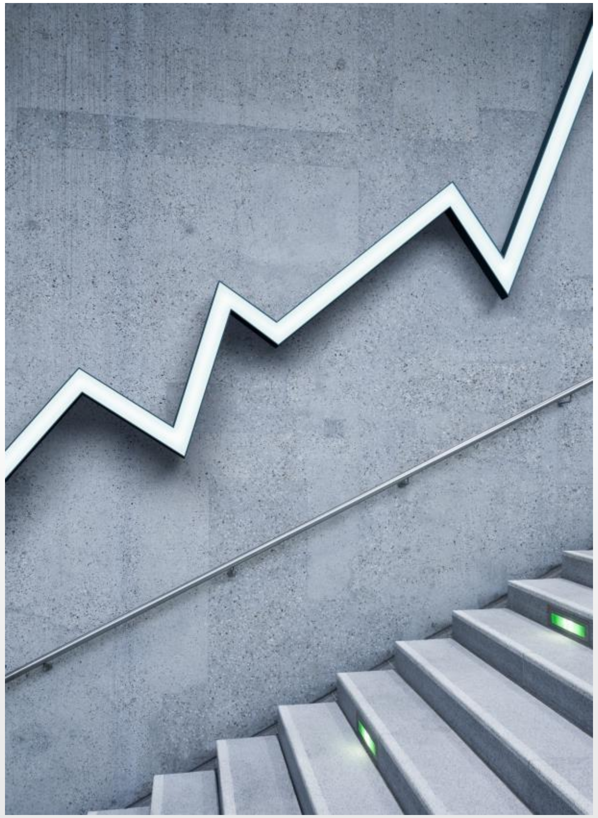

RED FLAG INDICATORS FOR DEALERS IN PRECIOUS METALS & STONES

The Compliance Commission of The Bahamas

DATE: 7TH DECEMBER 2021

Vulnerabilities of Dealers in Precious Metals and Stones


BBC
HOW
MONEY
LAUNDERING
WORKS
Hey Sexy
;) xxx

Almost There

Vulnerabilities of Dealers in Precious Metals and Stones

Liquidity of products in precious metals and stones is the sector's most appealing trait.

Particularly gold and diamonds, these products offer the advantage of having a high intrinsic value in a relatively compact form.

They can be "cashed" easily in most areas of the world. Hence, they are vulnerable to be used in money laundering for their ease to be hidden and transported.

- Precious stones and metals are portable
- Highly valuable
- Can be easily bought and sold. These characteristics make it easier for criminals (including terrorists) to exploit them to launder their illicit funds.
- Criminals are also known to use funds obtained from their illegal activity to buy precious metals and stones, and subsequently convert them back to cash. Such precious commodities could also be used directly to support criminal activities. The risk increases when the transaction is conducted in cash where it is more difficult to trace the origin of the funds.

Precious metals and precious stones are easily transportable,

Highly liquid and a highly concentrated bearer form of wealth.

They serve as international mediums of exchange and can be converted into cash anywhere in the world.

In addition, precious metals, especially gold, silver and platinum, have a readily and actively traded market, and can be melted into various forms, thereby obliterating refinery marks and leaving them virtually untraceable.

Why are criminals "going for the gold" and what it means for dealers

- Criminals are often interested in gold more than gems as it may be melted to change its form while maintaining its value.
- The appeal of precious metals and stones has amplified due to the global geopolitical and market conditions.

PINK STAR DIAMOND- $83.2 MILLION

HEART OF THE OCEAN DIAMOND- $20 MILLION

Very High Value Jems

- Diamonds can store very high value. The higher the value, the more vulnerable a commodity it is to ML/TF.
- Low weight/mass and relatively small size – high value to mass ratio (easy to transport/smuggle) diamonds are easy to move and conceal, which makes them susceptible to smuggling.
- High durability with stable pricing and an ability to retain value over long periods of time – this makes them good for investment purposes (origin of money may be outside the industry). Also, it may attract criminals as they can distance the funds from their origin by transferring proceeds of crime into diamonds with minimum risk of confiscation and low risk of loss of value.

Ability to go undetected (non-metallic and odorless) – diamonds will show on x-ray but because of the low density to x-rays they remain 'difficult' to detect.

Untraceable - once the items change hands and enter the market, they are difficult to trace, in terms of both their original ownership and value.

Easily bought and sold outside the formal banking system – AML/CFT measures are higher in the formal banking systems, but diamond transactions can be conducted outside this system and the value is carried between countries without having to go through the KYC procedures in the banking sector. The sector is currently under AML supervisory in many countries including the Bahamas since 2019. Also, diamonds can be bought and sold in all parts of the world at almost any jewelry or pawn shop.

ML/TF INDICATORS

- In addition to the general ML/TF indicators that have been highlighted in previous presentations, there may be more specific ML/TF indicators related to your business, if you purchase or sell precious metals, precious stones or jewelry. Below are some examples of sector-specific ML/TF indicators that you should consider as part of your CDD process to detect suspicious transactions.

Below are some examples of sector-specific ML/TF indicators that you should consider as part of your CDD process.

- Customer indiscriminately purchases merchandise without regard for value, size, or color.
- Purchases or sales that are unusual for customer or supplier.
- Unusual payment methods, such as large amounts of cash, multiple or sequentially numbered money orders, traveler's cheques, or cashier's cheques, or payment from other parties.
- Attempts by customer or supplier to maintain high degree of secrecy with respect to the transaction, such as request that normal business records not be kept.

Customer is reluctant to provide adequate identification information when making a purchase.

Transactions that appear to be structured to avoid reporting requirements.

A customer orders item, pays for them in cash, cancels the order and then receives a large refund.

A customer asking about the possibility of returning goods and obtaining a cheque (especially if the customer requests that cheque be written to another party).

A customer paying for high-priced jewelry or precious metal with cash only.

Purchase appears to be beyond the means of the customer based on their stated or known occupation or income.

Customer may attempt to use a third-party cheque or a third-party credit card.

Funds come from an offshore financial center rather than a local bank.

A customer asking about the possibility of returning goods and obtaining a cheque (especially if the client requests that cheque be written to a third party).

A client not asking for a reduced price or negotiating over the list price, in circumstances where such practices are traditional or common.

- Numerous transactions by a customer, especially over a short period of time, such that the amount of each transaction is not substantial (e.g., below the regulatory threshold for customer due diligence), but the cumulative total of which is substantial.
- Purchase appears to be beyond the means of the client based on his stated or known occupation or income
- Transaction lacks business sense.

- Given the increasing demand and risk for precious metals, this presents an opportunity for DPMS to become gatekeepers in preventing financial crime. Failing to do so will not only impact the sector’s day-to-day operations for meeting increasing regulatory requirements, but also impact the industry’s reputation by being a perceived facilitator of financial crime.

THE END