# PROLIFERATION FINANCING (PF) RISK ASSESSMENT

***"Identify, assess and take effective action to mitigate the proliferation financing risk"***

**1.0 Introduction**

At its last virtual plenary meeting in October 2020, the Financial Action Task Force (FATF) adopted amendments to Recommendation 1 which now require countries and the private sector (financial institutions and DNFBPs) to identify, and assess the risks of potential breaches, non-implementation or evasion of the targeted financial sanctions related to proliferation financing and to take action to mitigate these risks.

Assessing the proliferation financing risk is extremely important since the proliferation financing of Weapons of Mass Destruction (WMD) poses serious threat to international peace and security. These amendments to Recommendation 1 are in response to the June 2019 call by the G20 in Fukuoka, which looked forward to further action by the FATF to strengthen the global response to proliferation financing which is quoted below:

*"We welcome the United Nations Security Council Resolution 2462, which stresses the essential role of the FATF in setting global standards for preventing and combatting money laundering, terrorist financing and proliferation financing. We reiterate our strong commitment to step up efforts to fight these threats.*

*We call for the full, effective and swift implementation of the FATF Standards. We welcome the achievement of the FATF Ministerial Meeting in April this year that has given the FATF an open-ended mandate and led to strengthening the FATF's governance, including the biennial ministerial meeting and the FATF Presidency's term extensions.*

*We look forward to the FATF's Strategic Review. We welcome FATF's commitment to monitor the risks and opportunities of financial innovation, and to ensure the FATF standards remain relevant and responsive. We ask the FATF to report back on progress in 2021. We look forward to further action by the FATF to strengthen the global response to proliferation financing."*

*Source:https://www.mof.go.jp/english/international_policy/convention/g20/communique.html*

As such, these amendments furthermore require financial institutions and DNFBPs to identify and assess the risks of potential breach, non-implementation or evasion of targeted financial sanctions when dealing with their customers, and take appropriate mitigating measures commensurate with the level of risks identified. This will ensure that these entities are aware of the risks involved in their businesses and professions, and do not unwittingly support or become part of the proliferation financing networks or schemes, in contravention of the relevant obligations. This will also ensure appropriate allocation of resources by countries and the private sector entities to their counter proliferation financing efforts, commensurate with the level of risks faced.

As part of a phased approach, the FATF will begin assessing jurisdictions for implementation of these requirements at the start of the next (fifth) round of mutual evaluations, to allow time to put the necessary domestic measures in place.

It is important to note that in 2018, the FATF has provided guidance on countering proliferation financing which talks on the implementation of financial provisions of united nations security council resolutions to counter the proliferation of weapons of mass destruction. The guidance is available on: http://www.fatf-gafi.org/media/fatf/documents/reports/Guidance-Countering-Proliferation-Financing.pdf

**2.0 What does the FATF Recommendation says?**

Recommendation 1 of the FATF Recommendation as updated in October 2020 cater the following on proliferation financing:

*"Countries should also identify, assess, and understand the proliferation financing risks for the country. In the context of Recommendation 1, "proliferation financing risk" refers strictly and only to the potential breach, non-implementation or evasion of the targeted financial sanctions obligations referred to in Recommendation 7. Countries should take commensurate action aimed at ensuring that these risks are mitigated effectively, including designating an authority or mechanism to coordinate actions to assess risks, and allocate resources efficiently for this purpose. Where countries identify higher risks, they should ensure that they adequately address such risks. Where countries identify lower risks, they should ensure that the measures applied are commensurate with the level of proliferation financing risk, while still ensuring full implementation of the targeted financial sanctions as required in Recommendation 7.*

*Countries should require financial institutions and designated non-financial businesses and professions (DNFBPs) to identify, assess and take effective action to mitigate their money laundering, terrorist financing and proliferation financing risks."*

**3.0 What is the practical implication of such an amendment for countries, financial institutions and DNFBPs?**

**For Countries**

Accordingly, countries should consider the proliferation financing risks when conducting their National Risk Assessments which in the past considered only the Money Laundering (ML) and Terrorism Financing (TF) risk.

Countries should take appropriate steps to identify and assess the proliferation financing risks for the country, on an ongoing basis and in order to:

(i) inform potential changes to the country's CPF regime, including changes to laws, regulations and other measures;

(ii) assist in the allocation and prioritisation of CPF resources by competent authorities; and

(iii) make information available for PF risk assessments conducted by financial institutions and DNFBPs. Countries should keep the assessments up-to-date, and should have mechanisms to provide appropriate information on the results to all relevant competent authorities and SRBs, financial institutions and DNFBPs.

As such, reference can be made to United States and Gibraltar which conducted their National Proliferation Financing Risk Assessment.

The documents are available on:

- https://www.hsdl.org/?abstract&did=820761
- https://www.gibraltar.gov.gi/uploads/Gambling/Documents/2020%20NRA%20Draft%20V1.06.pdf

Further, the Royal United Services Institute (RUSI) provides guidelines to conduct national proliferation financing risk assessment. The document is available on:

- https://rusi.org/sites/default/files/20190513_guide_to_conducting_a_national_proliferation_financing_risk_assessment_web.pdf

Countries should take actions to ensure that the proliferation financing risks are mitigated effectively. Since 2019, Mauritius has taken several important measures in mitigating the Proliferation Financing (PF) risk with the proclamation of the:

- United Nations (Financial Prohibitions, Arms Embargo and Travel Ban) Sanctions Act 2019;

Accordingly, in August 2020 Mauritius has published its:

- Guidelines on the implementation of targeted financial sanctions under the United Nations (Financial Prohibitions, Arms Embargo and Travel Ban) Sanctions Act 2019;

which provides guidance to financial and DNFBPs on the implementation on targeted financial sanctions measures to combat proliferation financing.

Based on the FATF Guidance on National Money Laundering and Terrorist Financing Risk Assessment, February 2013, the next risk assessment should be conducted within the next three (3) to five (5) years after the first one. Accordingly, since Mauritius conducted its last National Risk Assessment back in 2019 the island will have to soon conduct another NRA exercise whereby the island will have to also consider the aspect of the Proliferation Financing (PF) risk.

It is important to note that Countries may decide to exempt a particular type of financial institution or DNFBP from the requirements to identify, assess, monitor, manage and mitigate proliferation financing risks, provided there is a proven low risk of proliferation financing relating to such financial institutions or DNFBPs. However, full implementation of the targeted financial sanctions as required by Recommendation 7 is mandatory in all cases.

**For Financial Institutions and DNFBPs**

Financial institutions and DNFBPs should have in place processes to identify, assess, monitor, manage and mitigate proliferation financing risks. This may be done within the framework of their existing targeted financial sanctions and/or compliance programmes.

As such, as part of their Business Risk Assessment the Proliferation Financing (PF) risk must now be taken into considerations. It is important to note that Financial institutions and DNFBPs should take steps to identify circumstances, which may present higher risks and ensure that their CPF regime addresses these risks.

Where there are higher risks, financial institutions and DNFBPs should take commensurate measures to manage and mitigate the risks. Where the risks are lower, they should ensure that the measures applied are commensurate with the level of risk, while still ensuring full implementation of the targeted financial sanctions as required by Recommendation 7.

Recommendation 7 ***"Targeted Financial Sanctions related to proliferation"*** cater that:

*Countries should implement targeted financial sanctions to comply with United Nations Security Council resolutions relating to the prevention, suppression and disruption of proliferation of weapons of mass destruction and its financing. These resolutions require countries to freeze without delay the funds or other assets of, and to ensure that no funds and other assets are made available, directly or indirectly, to or for the benefit of, any person or entity designated by, or under the authority of, the United Nations Security Council under Chapter VII of the Charter of the United Nations.*

Same as the ML/TF risk assessment, there is no prescribed format to conduct a Proliferation Financing risk assessment. To that instance, Financial institutions and DNFBPs may rate the PF risk assessment rating as:

1- Low;
2- Medium; or
3- High;

A threat assessment may be conducted to assess the threat of PF in that specific sector whereby some of the below threat factors may be considered:

- Clients use trade finance products and services and clean payment services in procurement of proliferation-sensitive goods.
- Clients use of personal accounts to purchase industrial items.
- Clients use of cryptocurrencies to avoid the formal financial system.

Furthermore, a vulnerability assessment may also be conducted during a PF risk assessment of the entity which will be use to assess the weakness of this entity from being abuse to conduct proliferation financing.

Based on the threat and vulnerability assessment, consequences rating may be reach by entities whereby they may find that such threat may have:

- Severe;
- Moderate; or
- Limited

consequences on the entity. As such, from them the entity may decide to rate its PF risk as high, low or medium.

## 4.0 REFERENCES


- http://www.fatfgafi.org/media/fatf/documents/recommendations/pdfs/FATF%20Recommendations%202012.pdf

- http://www.fatf-gafi.org/media/fatf/documents/reports/Guidance-Countering-Proliferation-Financing.pdf

- http://www.fatf-gafi.org/publications/financingofproliferation/documents/statement-proliferation-financing-2020.html

- https://www.gibraltar.gov.gi/uploads/Gambling/Documents/2020%20NRA%20Draft%20V1.06.pdf

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