

Dealers in Precious Metals and Stones

Strategic Analysis Report

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LIST OF ACRONYMS

DPMSR	Dealers in Precious Metals and Stones Report
DNFBPs	Designated Non-financial Businesses and Professions
DPMS	Dealers in Precious Metals and Stones
FCA	Federal Custom Authority
FIs	Financial Institutions
FPP	Federal Public Prosecution
GoAML	The Financial Intelligence Unit online reporting application
LE	Legal Entity
LEA	Law Enforcement Authority
ML	Money Laundering
MOE	Ministry of Economy
MOI	Ministry of Interior
PMS	Precious Metals and Stones
PP	Public Prosecution
RE	Reporting Entity
RFI	Request for Information
RFR	Reason for Reporting
SAR	Suspicious Activity Report
SD	Spontaneous Dissemination
STR	Suspicious Transaction Report
TF	Terrorist Financing
UAEFIU	The UAE's Financial Intelligence Unit

EXECUTIVE SUMMARY

Precious metals and stones (PMS) are attractive to criminals and terrorists because they offer a high level of liquidity and anonymity, in addition to their compact size so that they can easily be stored or smuggled. As such, dealers in precious metals and stones (DPMS) are vulnerable to exploitation in money laundering (ML) and terrorist financing (TF) schemes. Within this context, DPMS are considered among the Designated Non-Financial Business and Professions (DNFBPs) under ***Cabinet Decision No. (10) of 2019 concerning the Implementing Regulation of Decree Federal Law No. 20 of 2018 on Anti-Money Laundering and Combating the Financing of Terrorism and Illegal Organizations***. Consequently, DPMS are subject to the DNFBPs requirements, including reporting suspicious transactions and any transaction equal to or more than **AED 55,000** to the UAE Financial Intelligence Unit (UAEFIU), as well as identifying and mitigating any ML/TF risks encountered.

While the UAE is a major contributor to the global trade of PMS, the risk of DPMS being abused for ML/TF purposes is recognized as high in both mainland and commercial free zone, according to UAE national and sectoral risk assessments. With this framework, this report addresses the typologies and risk indicators associated with DPMS in the UAE during the period of January 2021–June 2022, based on the UAEFIU strategic analysis of data derived from stakeholders and reporting entities. In such a manner, this report develops raw data and information into knowledge and intelligence to be used in policy and decision-making processes, as well as operational activities. Furthermore, it aims to assist UAEFIU stakeholders, as well as DPMS and financial institutions, in identifying and reporting suspicious transactions and activities associated with ML and TF in the DPMS sector.

The following typologies and their associated risk indicators constitute the key findings of our strategic analysis, wherein the risk mitigation areas required in the DPMS sector are underlined:

1. Trade-based money laundering (TBML) by DPMS entities.
2. Money laundering through ‘foreign currency exchange’ by DPMS entities.
3. Possible gold/cash smuggling via DPMS entities (conflict gold supply chain).

INTRODUCTION

The transfer of value through gold had a long history since the ancient empire of Egypt and the use of gold coins as currency by the Greek and Roman empires. Precious metals and stones (PMS) have no global standard definition; however, their forms are commonly recognized in “*diamonds [natural or treated], [gemstones] emeralds, sapphires and rubies, and precious metals are comprised of gold, silver, platinum, and platinoid metals [platinum and palladium]*.”¹ In the UAE, pearls are also classified

¹ International Monetary Fund (2014) Implementing AML/CFT Measures in the Precious Minerals Sector: Preventing Crime While Increasing Revenue, p.1.

as a type of precious stone. This is in addition to any object whose monetary value constitutes at least 50% of PMS.²

According to the most recent available data, precious metals³ were the eighth most traded product globally in 2020, with an estimated value of \$699bn and a growth rate of 7.28%. As a result, trade in precious metals contributed 4.17% of the total global trade.⁴ The UAE was among the top global exporters and importers of precious metals in the same year, with an estimated value of \$42.6bn (including gold with \$28.8bn) and \$53.5bn (including gold with \$38.4bn), respectively.⁵ According to the Dubai Multi Commodities Centre (DMCC), the volume of gold traded in Dubai has been increasing and estimated to be at around 25% of global gold trade.⁶

The aforementioned global trade volume could be linked to PMS uniqueness and characteristics in terms of their financial and cultural value, as well as their ability to easily be converted into cash (high liquidity) and smoothly be stored or transferred. Nevertheless, these attributes are also why these products are attractive to criminals. Therefore, dealers in precious metals and stones (DPMS) are at high risk of being abused in money laundering and terrorist financing schemes. This is because PMS could be (1) the proceeds of crime and laundered themselves when they are illegally obtained; (2) used as a legitimate commodity in money laundering stages; or (3) a trading currency among criminals and terrorists. It is important to distinguish between whether PMS are proceeds of crime itself (e.g., stolen PMS) or used to launder proceeds of crime (through placing and layering) to identify and develop ML/TF typologies. Nevertheless, such a distinction is often blurry among AML/CFT practitioners and law enforcement agencies.⁷

Given the UAE's inherent risk as a global financial center and trade hub, as well as its cash-intensive economy and its significant contribution to PMS global trade, the risk of abusing this sector is high. This is consistent with the conclusion of the National Assessment of Inherent Money Laundering and Terrorist Financing Risks in the UAE (NRA) and Designated Non-Financial Business and Professions Sectoral ML/TF Risk Assessment adopted by the Supervisory Authority Sub-Committee in July 2022.⁸

² UAE Ministry of Economy (2019) Guidelines for Designated Non-Financial Businesses and Professions: Supplemental Guidance for Dealers in Precious Metals and Stones, pp.5-6; and Decision of the Council of Ministers No. (45) of 2018 on the Executive Regulation of Federal Law No. (11) of 2015, on the Control and Stamping of the Trade in Precious Stones and Precious Metals, Annex 2.

³ Precious metals within this context are "Gold, Diamonds, Jewellery, Platinum, Silver, Precious Metal Scraps, Precious Stones, Imitation Jewellery, Other Precious Metal Products, and Metal-Clad Products, among others".

⁴ The observatory of Economic Complexity (2020) Precious Metals. Available at: <https://oec.world/en/profile/hs/precious-metals?redirect=true>.

⁵ Ibid.

⁶ Dubai Multi Commodities Centre (no date) Gold. Available at <https://www.dmcc.ae/gateway-to-trade/commodities/gold>.

⁷ Financial Action Task Force (2013) Money Laundering and Terrorist Financing Through Trade in Diamonds.

⁸ The "Supervisory Authorities" in this regard are the CBUAE, MOJ, MOE, DFSA, DIFC, FSRA, and ADGM.

OBJECTIVE

This report is part of the Strategic Analysis Plan (SAP) adopted by the UAE Financial Intelligence Unit (UAEFIU). This is in addition to the *UAE National Action Plan to Implement the Combating Anti-Money Laundering and Terrorism Financing National Strategy*, which requires the UAEFIU to provide a strategic analysis on money laundering (ML) and terrorist financing (TF) typologies and red-flag areas. This report addresses and identifies typologies and patterns related to the abuse of Dealers in Precious Metals and Stones (DPMS) in ML/TF, based on the FIU's broad range of data sources derived from stakeholders and reporting entities. Ultimately, this report will outline the implications of DPMS policy development, as well as noted risk indicators and mitigation areas.

The purpose of this report is to:

- Enhance the understanding of vulnerabilities associated with the DPMS sector.
- Develop indicators, trends and typologies regarding misuse of the DPMS sector for ML/TF purposes.

With this report, the UAEFIU intends to promote a level of awareness and knowledge of the vulnerabilities of the DPMS sector so that the abuse of this sector will be less attractive to criminal groups.

METHODOLOGY

The strategic analysis has been carried out based on the strategic analysis methodology adopted by the UAEFIU. This report explores how DPMS are abused in the UAE for ML/TF activities through conducting a strategic analysis with the purpose of identifying the main typologies and their associated patterns and trends during the period of **January 2021–June 2022**. The data used in this report are derived from the data available within or obtained by the UAEFIU from domestic and international stakeholders, including reporting entities.⁹ We draw different scenarios of typologies from the UAE national and sectoral risk assessments of DPMS, FATF-related categories of a risk-based approach, as well as published case studies by other jurisdictions. Thereafter, we proceeded to test them, as will be illustrated in the subsequent parts of this report.

⁹ The data and information analyzed include but are not limited to STRs and SARs databases; information received from other UAE Stakeholders; information received from counterpart FIUs and Reporting Entities.

BACKGROUND

Precious metals are ranked thirty-third in terms of product complexity, which refers to the level of diversity and sophisticated expertise involved in PMS production.¹⁰ Money launderers and terrorists abuse the complexity and diversity involved in this sector’s supply chain. Consequently, the involvement of DPMS is common in money laundering schemes, including the three stages of money laundering (i.e., placement, layering, and integration). Within this scope, DPMS supply chain include a range of actors such as refiners, intermediate buyers and brokers, warehouses, and retailers (as in Figure 1).¹¹

DPMS are covered under the Financial Action Task Force (FATF) international standards on

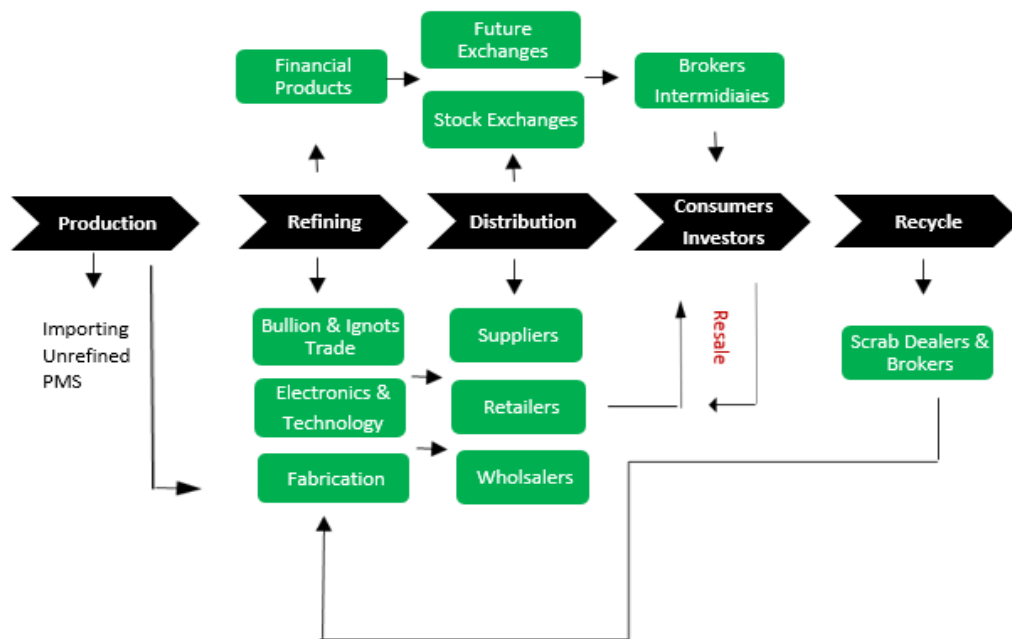


Figure 1: Gold market supply chain (Data derived from World Gold Council).

recommendation 23 concerning designated non-financial businesses and professions (DNFBPs).¹² In the UAE, DPMS constitute the largest DNFBP sector.¹³ DPMS are defined as “any natural or legal person (or legal arrangement), or their employee or representative, who engages, as a regular component of their business activities, in the production and/or trade of precious metals or precious stones, whether in raw, cut, polished, or elaborated (mounted or fashioned) form.”¹⁴

¹⁰ ATLAS of Economic Complexity (2020) Product Complexity Rankings. Available at: <https://atlas.cid.harvard.edu/rankings/product/2020?filter=precious+metals> .

¹¹ World Gold Council (no date) Gold Market Structure and Flows. Available at: <https://www.gold.org/about-gold/market-structure-and-flows>

¹² Financial Action Task Force (2015) Money Laundering /Terrorist Financing Risks and Vulnerabilities Associated with Gold.

¹³ DNFBPs Sectoral ML/TF Risk Assessment, July 2022

¹⁴ UAE Ministry of Economy (2019), pp.6-7

Still, DPMS have specific characteristics that differentiate them from other DNFBPs and make them more vulnerable to abuse in the form of criminal and terrorist schemes, such as the following:¹⁵

- The size of the market and its reliance on cash constitute one of the most preferred payment methods for money launderers and terrorists due to the difficulty of gathering detailed information on the use of cash and determining its origin and beneficiary. Still, other modern payment methods, such as wire payment and online platforms, are used, including in cash-based economies.
- PMS constitute a promising sector in terms of their global demand and relative price, especially during times of high inflation (such as the current increase in inflation rates worldwide) and global economic uncertainty. From this perspective, PMS are considered to be currency themselves among organized criminal groups.
- This sector offers a high level of anonymity, which increases the difficulty of tracing the origin of PMS. Consequently, it means that it is tempting to disguise and move or invest illegal proceeds within this sector. Furthermore, it is recognized that some agreements in this sector could be simply made via word of mouth or transaction arrangements (particularly in the diamond industry) and involve confidential (or circular) transactions among different parties in different locations that do not proceed through the monitored financial system.
- The majority of PMS are compact, light and can be reshaped. Therefore, they are easy to smuggle, especially from producer to consumer countries, between conflict arms groups, or from jurisdictions with high taxation rates.
- DPMS can be abused in trade-based money laundering (TBML) schemes, be it price manipulation, false shipments, fictitious invoices, and other fraudulent schemes or by establishing legal entities and front companies to integrate illegal proceeds with the legal trade of PMS.

Therefore, the ML/TF risk of abusing DPMS should be well understood and monitored through DPMS conducting adequate due diligence and risk assessment, recordkeeping, and reporting suspicious transactions. Starting in 2012, the DMCC paved the way for establishing a culture of compliance among DPMS (particularly refineries) for responsible supply chains of minerals from conflict and high-risk areas, in line with OECD standards.¹⁶ Thereafter, the supervisory role and guidance of the Ministry of Economy (MOE) and the Central Bank of the UAE (CBUAE) have further developed the AML/CFT culture of compliance among DPMS in terms of reporting requirements and implementing a risk-based approach. Such requirements are detailed in the MOE 'Guidelines for Designated Non-Financial Businesses and Professions: Supplemental Guidance for Dealers in Precious Metals and Stones' issued in May 2019, as well as the CBUAE 'Guidance for Licensed Financial Institutions Providing Services to the Real Estate and the Precious Metals and Stones Sectors' issued in June 2021. These are in addition

¹⁵ Financial Action Task Force (2008) RBA Guidance for Dealers in Precious Metal and Stones, (2013), and (2015)

¹⁶ DMCC (2012) Practical Guidance for Market Participants in the Gold and Precious Metals Industry, and DMCC (2020) Rules for Risk Based Due Diligence in the Gold and Precious Metals Supply Chain.

to the recent guidelines introduced by the Ministry of Economy, i.e., 'Due Diligence Regulations for Responsible Sourcing of Gold,' in August 2022.

According to Article 3 of Cabinet Decision No. (10) of 2019 concerning the Implementing Regulation of Decree Federal Law No. 20 of 2018 on Anti-Money Laundering and Combating the Financing of Terrorism and Illegal Organizations, DPMS are subject to the DNFBP requirements regarding AML/CFT if they carry out "any single cash transaction or several transactions that appear to be interrelated or equal to more than AED 55,000." Moreover, they are "required to identify, assess, and understand their crime risks in concert with their business nature and size [...and] commit to take steps to mitigate the identified risks" (Article 4). Within this framework, and further to the guidance (**Supplemental Guidance for Dealers in Precious Metals and Stones**) issued by MOE on **23rd May 2019**, and subsequent **Circular No. 5/2021** issued by MOE on **3rd March 2021**, a new type of report (dealers in precious metals and stones report 'DPMSR') introduced in GoAML in June 2021 allowing registered DPMS to report to UAEFIU transactions equivalent to AED 55,000 or higher.

OVERVIEW OF THE RELEVANT DATA AND INFORMATION

1. Review of "Dealers in Precious Metals and Stone Reports" (DPMSRs)

From the period **1 June 2021** until **30 June 2022**, the UAEFIU received more than **300,000 DPMSRs**. The analysis conducted on the data collected from GoAML highlighted that the main currencies used in 'buying' or 'selling' any of the categorized items under DPMS are Emirati Dirham (**AED**), Euro (**EUR**) and US Dollar (**USD**). While the values of transactions pertaining to the same were **AED 466,781,555,072.74**, EUR 605,513,372.70 (**equivalent to AED 2,233,133,318.50**) and USD 136,843,541,654.68 (**equivalent to AED 502,215,797,872.67**)¹⁷.

The items categorized under DPMS (in GoAML) are Diamonds, Gemstones, Gold, Jewelry, Platinum, and Silver. Based on the review, the most reported items in the received DPMSRs were as follows¹⁸:

- **Gold**, with total transacted value of **AED 426,190,301,737.56**
- **Diamonds**, with total transacted value of **AED 23,147,597,924.08**
- **Jewelry**, with total transacted value of **AED 14,766,663,061.68**

The above figures indicate a high trading volume of gold, implying that gold followed by diamond bears a higher risk than other PMS. According to World Gold Council, the global demand structure for gold is 53% as jewelry, 28% as gold bars or coins, while the remaining 19% is related to gold used in

¹⁷ The values presented here are merely based on the details uploaded by the reporting entities in GoAML, EUR and USD amounts converted to AED based on the global exchange rates as of 31/08/2022.

¹⁸ The values here represent the transactions amounts uploaded by the reporting entity in AED only, other transactions might have been conducted in other currencies are not considered herein.

technologies and Central Bank's stockpile.¹⁹ This fact is also consistent with our analysis as the trading volume of jewelry is found to be high, which suggests that jewelry represents the most significant demand for gold.

The analysis also aimed to identify the nationalities of persons involved in the reported DPMSRs as well as the incorporation countries of the Legal entities (LEs) included in the said reports. However, it is worth mentioning that gold/jewelry has a cultural value and, in different circumstances, is tied to traditions. It was further observed that the reporting entities of received DPMSRs were mainly from entities registered in **Mainland (almost 70%)**, while nearly **30%** were from entities registered in **Free Zones**.

2. Review of other Suspicious Reports received by the UAE FIU

During the period from **1 January 2021** until **30 June 2022**, the UAEFIU received **537** reports comprising **Suspicious Transaction Reports (STRs)** and **Suspicious Activity Reports (SARs)** wherein the 'reason for reporting' selected by the reporting entity possibly indicates or is relevant to the abuse of DPMS sector.

On the other hand, the UAEFIU also received **358 STRs/SARs**, in which the reporting entity is DPMS in GoAML. From the total received reports, **436 STRs/SARs** were subject to in-depth analysis to identify the main trends and patterns of crimes possibly related to the abuse of DPMS in Money Laundering or Terrorist Financing.

During the analysis, it was observed that similar '**reasons for reporting**' (RFR) were selected by the reporting entities, which possibly indicate or raise a 'red flag' concerning the abuse of DPMS. The below table highlight the main RFRs used (**TABLE 1**).

DPMS related RFR	SAR Count	STR Count	Total no. of Reports
Non-reported/no declaration of cross-border transportation of currency and bearer negotiable instruments or gold and precious metals and stones	12	192	204
Precious metals and stones (jewelry and watches included) transactions with entities/companies in transactions equal to or exceeding AED 55,000 or its equivalent in other currencies, in cash or through wire transfer	3	101	104

¹⁹ World Gold Council (no date) Gold Market Structure and Flows. Available at: <https://www.gold.org/about-gold/market-structure-and-flows>

Sale of gold bars, coins and loose diamonds from a jewelry store (retail).	52	27	79
Precious metals and stones (jewelry and watches included) transactions with non-resident individuals for cash transaction	28	32	60
Precious metals and stones (jewelry and watches included) transactions with resident individuals for cash transactions equal to or exceeding AED 55,000 or its equivalent in other currencies	17	36	53
Financial activity is inconsistent with practices in the diamond/precious metals/gemstones trade.	1	10	11

In relation to the STRs and SARs reported by DPMS, it was observed that approximately **66%** of reports were raised by DPMS registered in 'Mainland', while **34%** were raised from DPMS registered in 'Free Zone'. It is worth highlighting that this percentage of reported entities concerning STRs and SARs is relatively consistent with the DPMSRs percentage in the mainland and free zone mentioned earlier.

3. Review of information exchanged between UAEFIU and counterpart 'Financial Intelligence Units'

From **January 2021** until **June 2022**, the UAEFIU has received **22 Inward Requests for Information (IRFIs)** and **3 Inward Spontaneous Disseminations (ISDs)** comprising concerns related to the abuse of DPMS (e.g., illegal mining, possible smuggling of gold, illegally obtained gold /theft of gold, etc.). During the same period, the UAEFIU has sent to other counterpart FIUs **41 Outward Requests for Information (ORFIs)** and **3 Outward Spontaneous Disseminations (OSDs)** with similar concerns. The requests/information exchanged represent around **3.65%** of overall received/sent requests and information.

4. Information related to the UAEFIU's Domestic Cooperation

The exchange of information with domestic Authorities in the UAE, particularly the **Public Prosecutions (PP)**, **Ministry of Interior (MOI)**, and **Police Departments**, is another element considered during the analysis.

Over the examined period, the UAEFIU received around **64 requests** from the aforementioned domestic stakeholders concerning 'Juridical Persons' / Entities under the DPMS sector. From the said requests, almost **92%** were related to suspicions or investigations of Money Laundering offences, **7%** were related to suspicions or investigations of Terrorist Financing offences, while the remaining **1%** related to other offences or of different request types. This indicates that DPMS entities are vulnerable and possibly abused for ML or TF purposes.

5. Information related to Ministry of Economy (MOE)

According to the information received from MOE, the total number of registered DPMS in the UAE is **5,604** (as of 30 June 2022), from which **61%** registered in the **Mainland**, while almost **39%** were registered in **Free Zones**. On the other hand, as part of the MOE efforts in supervising, issuing of regulations and guidelines, and implementation of measures to ensure DPMS adherence to AML/CFT obligations, the MOE imposed **7 administration sanctions**, and issued **61 warnings**, including **2 financial fines** on DPMS entities, that were found in violation/breaches to AML/CFT obligations.

6. Information related to Federal Customs Authority (FCA)

Analysis of data obtained from the FCA concerning 'Cash Declarations' from January 2021 until June 2022, wherein the 'specific purpose' indicated any links to the PMS sector, showed **8904 declarations** (for arrival), while **935 declarations** (for departure).

During the examined period, the main currencies involved in the cash arrivals (based on the value in AED) were USD, Saudi Riyal (SAR), EURO. However, the value of cash arrival of UAE Dirhams was also noticed to be high, for the same period.

Another observation found during the analysis is that the same cash couriers were entering the UAE with multiple repeated flight numbers. Moreover, other couriers were found to arrive in the UAE with the same flight numbers as other couriers, which might indicate a structure/organized cross-border cash movement. Data also showed that multiple cash couriers were acting on behalf of repeated DPMS entities in importing the cash to the UAE.

IDENTIFIED TRENDS AND TYPOLOGIES

Data and information gathered and presented in this report have been the subject of in-depth analysis by the UAEFIU to identify related trends and typologies. As a result of the analysis, some observed patterns and suspicious activities were found to possibly be related to the abuse of the DPMS sector in money laundering or terrorist financing or to evade sanctions. The said patterns are as described below:

1. Trade-based money laundering (TBML) by DPMS entities

The analysis indicates a pattern involving DPMS entities using TBML techniques. It was perceived that DPMS entities are established as a 'front' for laundering illegal proceeds generated by crime, using TBML methods such as false invoices, phantom shipments, and fictitious sales agreements/contracts. This pattern also indicates that DPMS are possibly exploited to transfer/move foreign illegal proceeds through the financial system in the country disguised as trade-based activities. Another risk factor noted during the analysis is the use of multiple DPMS entities (i.e., network) by means of 'corporate

vehicles' to facilitate the 'layering' of funds basically by sending/receiving large wire transfers or remittances to/from multiple local or international counterparties, and then circulating the funds amongst domestic entities with no apparent justification for such proceeds or movement.

2. Money laundering through 'foreign currency exchange' by DPMS entities

Within this emerging trend, DPMS entities have been found to instruct individuals (who might be employees, representatives, or external parties) to undertake 'foreign currency exchange' (FOREX) services on behalf of the entity without involving the name of the DPMS entity in such transactions. In attempting to conceal the actual source of cash, it was further observed that when the amount exchanged exceeds the threshold,²⁰ another individual will continue with the transaction to avoid the detection and documentation requirements. Some individuals involved in this trend state that the source of funds is either that of 'salaries' or 'savings,' while the purpose is that of 'family maintenance' or 'travel.' The main currency involved was USD, followed by EUR and SAR respectively.

In another scenario, the DPMS entity (under its name) conducts large FOREX transactions without justification or sufficient documentation to substantiate the volume of activity, as well as the source of cash. Aside from this, such entities have been found to be connected with a high value of cash imports and exports on a frequent basis. Moreover, the purpose of these transactions, as stated by the entity, is either: (1) to pay suppliers who only accept cash as a payment method, or (2) to pay suppliers via cash in another jurisdiction (cross-border cash movement).

3. Possible gold/cash smuggling via DPMS entities (conflict gold supply chain)

DPMS entities are possibly involved in gold smuggling from conflict/affected and high-risk areas or in the illegal transport of gold through other high-risk jurisdictions. From there, gold enters the country and is further sold to other local DPMS entities, or is processed and re-exported to European countries.

This pattern is also linked to 'cash smuggling,' with 'cash' being noted as the main mode of transactions conducted by the same DPMS entities. Another factor observed is the involvement of multiple individuals in importing and exporting (mainly) cash on behalf of DPMS entities. TBML methods were observed to be correlated with this pattern, including the ownership structure of the DPMS entities involved, which was found to be 'complex' in some of the reviewed reports indicating the possibility of such entities hiding their true 'ownership'/UBOs. Moreover, there are indications that local associated refineries are sourcing gold from miners without conducting adequate 'customer due diligence' (CDD).

²⁰ According to the guidance published by the CBUAE, if an individual has conducted transactions equivalent to or exceeding AED 55,000 cumulatively within 90 days, this warrants the reporting entity to perform enhanced due diligence.

RISK INDICATORS

As part of the analysis within this report, we have developed a list of possible risk indicators that might be directly or indirectly relevant to the abuse of DPMS. It is pertinent to mention that the presence of such indicators in a situation can raise suspicion and trigger investigations leading to further identification of other indicators. Nevertheless, a criminal activity cannot explicitly be concluded based on a single indicator. Herein are some developed indicators that could possibly alert the risk of misusing the PMS sector or setting up DPMS entities for ML/TF:

1. DPMS entity has a peculiar structure that is unreasonable and complex, e.g., there is potential involvement of shell companies, a parent or subsidiary of an offshore company, in which the UBO is difficult to identify or cannot be identified (whose main purpose is to hide the UBO and/or disguise fund transfers as a capital transfer or normal business transaction).
2. DPMS set up as a front company (presence of real business activity; use to commingle legitimate and illegitimate funds, mainly used effectively in cash-intensive businesses).
3. Large and complex transactional behaviors for newly established entities as DPMS.
4. Unnecessarily maintaining multiple bank accounts for the same entity (DPMS), or opening accounts under the names of employees.
5. DPMS entity or its representatives are transacting outside of the normal monetary system, or are making excessive use of cash transactions.
6. DPMS or its representatives are using gold as a medium of exchange.
7. The circulation of funds between multiple DPMS accounts, or between 'unrelated' parties which are in different lines of business that might also be suspected of being 'shell companies' (no real business activity; incorporated for ML purposes exclusively).
8. The transaction structure appears to be unnecessarily layered and designed to obscure the true origin of funds.
9. DPMS entity's owners, shareholders, or authorized signatories, or any of its counterparties, have been the subject of adverse news from a trusted media source.

10. DPMS or any of its controlling persons, or its affiliates, have been found to be associated with a high-risk jurisdiction.
11. DPMS entity that is heavily engaged in cross-border cash movement.
12. DPMS entity repeatedly depositing large cash amounts in an account, or exchanging foreign currencies, which is supported by 'cash declaration forms,' also known as DRIC forms (Declaration Regarding Importation of Cash).
13. DPMS or its representatives fail to provide a 'customs declaration' in relation to a local/foreign currency cash deposit related to buying/selling precious stones.
14. DPMS entity engages in transactions and shipping routes or methods that are inconsistent with standard business practices.
15. Contracts, invoices, or other trade documents provided by a DPMS have vague or missing descriptions, appear to be counterfeit (including false or misleading information), include a resubmission of previously rejected documents, or are frequently modified or amended.
16. DPMS entity or any of its counterparties appear to import precious metals and stones that originate from a country in which there is limited production or no mines at all.
17. Deposits or transfers are received in a DPMS account followed by the immediate transfer of similar amounts to another jurisdiction.
18. DPMS entity and its associates, or multiple individuals (external parties), excessively conduct foreign exchange transactions (FOREX) without any business rationale.
19. Payment for imported PMS made by an entity other than the consignee for no clear business reason, e.g., by a shell or front company not involved in a trade transaction.
20. Cash deposits or other transactions of a DPMS entity (or its representatives) are consistently just below the relevant reporting thresholds (transactions conducted by multiple individuals to avoid reporting requirements).
21. Transactions in a DPMS account(s) are seemingly of a pass-through nature, with funds directly debited via wire transfers leaving a low balance in an account.

22. DPMS entity(s) excessively obtain loans or credit facilities, which are settled before the due date through cash or cheque repayments.

23. DPMS entity(s) transfer payments amongst each other, which are related to 'borrowings' or 'loans' that is referred to as 'back-to-back' or 'loan-back'.

CASE EXAMPLES

A. Cases derived from the UAEFIU database:

Case Example (1): Trading in conflict gold and laundering it through the abuse of FIs and DNFBPs (as in Figure 2)

'Subject X' is a foreign national and the owner of different businesses in different industries, including 'entity A' licensed for gold trade in the UAE. Entity A name was later changed to 'entity B' under the same business activities. The subject held different bank accounts reported by financial institutions for suspicious activities or linked with other counterparties who are subjects of STRs. The subject, with a family member, created a gold-smuggling system across borders.

While the subject had no criminal record in the UAE, the UAEFIU found through World-Check that the subject and a family member were convicted in the past in a European country 'country A' of creating an unlawful system for customers to sell gold anonymously to a refinery for cash. A suspended sentence of 18 months was imposed in said country. Based on adverse media, the involved refinery paid more than 1 billion euros in cash for gold during one year and produced millions of euros in illegal gains.

The UAEFIU received a request for information from another European FIU counterpart 'country B'. The request might have resulted from the court case and adverse media mentioned earlier. Country B indicated suspicious transactions noted through its correspondent banking system involving subject X, 'entity C' a refinery owned by a subject's family member in country A, and different counterparties in the UAE. This was in addition to a family-based refinery 'entity D' in an African country. Country B considered the possibility of unlicensed financial agent activities, fraudulent account usage and/or money laundering.

According to the concerned customs department in the UAE, the subject was importing different types of products, including gold, silver, platinum bars, gold bullion and coins, jewelry, banknotes in circulation, and relevant industrial spare parts. Products exported involved precious metal bars, gold bars, pieces, bullion, coins, grain, the waste and scrap of gold, banknotes in circulation, and a chemical gold-refining system automatic with a double-filtration system.

To launder the money, the subject had different bank accounts (obtained in the four currencies of AED, EUR, GBP, and USD) in several financial institutions (banks and exchange houses) in the UAE. These accounts had a high turnover volume, including multiple incoming transfers followed by immediate outgoing transfers for no reason. Moreover, based on the UAEFIU database, it was suspected that the subject used a UAE third party, 'entity Z,' to conduct payments to high-risk countries in Africa, with two STRs having previously been received from reporting entities in the UAE and referred by the UAEFIU to the concerned law enforcement agency. Ultimately, the UAEFIU concluded that the subject might have been laundering money gained from illicit gold through bringing and selling some of this gold to different companies in the UAE. Money laundering activities included utilizing financial institutions in the UAE to move money within and across borders, taking many loans from banks while paying the loans off within a short timeframe, and as well as purchasing multiple luxury properties that are collectively worth millions of AED. Consequently, the UAEFIU disseminated the case to the relevant police department for further investigation into the subject.

Risk indicators:

- Trade in high-risk products such as gold bars, coins, bullion and loose diamonds from high-risk jurisdictions known for conflict gold.
- High velocity in the movement of funds.
- Unjustified multiple incoming transfers followed by immediate outgoing transfers.
- Unusual large value of clearing cheques.
- Unusual and inconsistent business activities and a change of business name.
- Using loans to integrate illicit funds into the financial system of the UAE.
- Purchasing high-value real estate to launder money gained from conflict gold.
- Links to other STRs with the same suspicion and/or alleged crimes and criminals.
- Similar concerns have been received from a counterpart FIU.

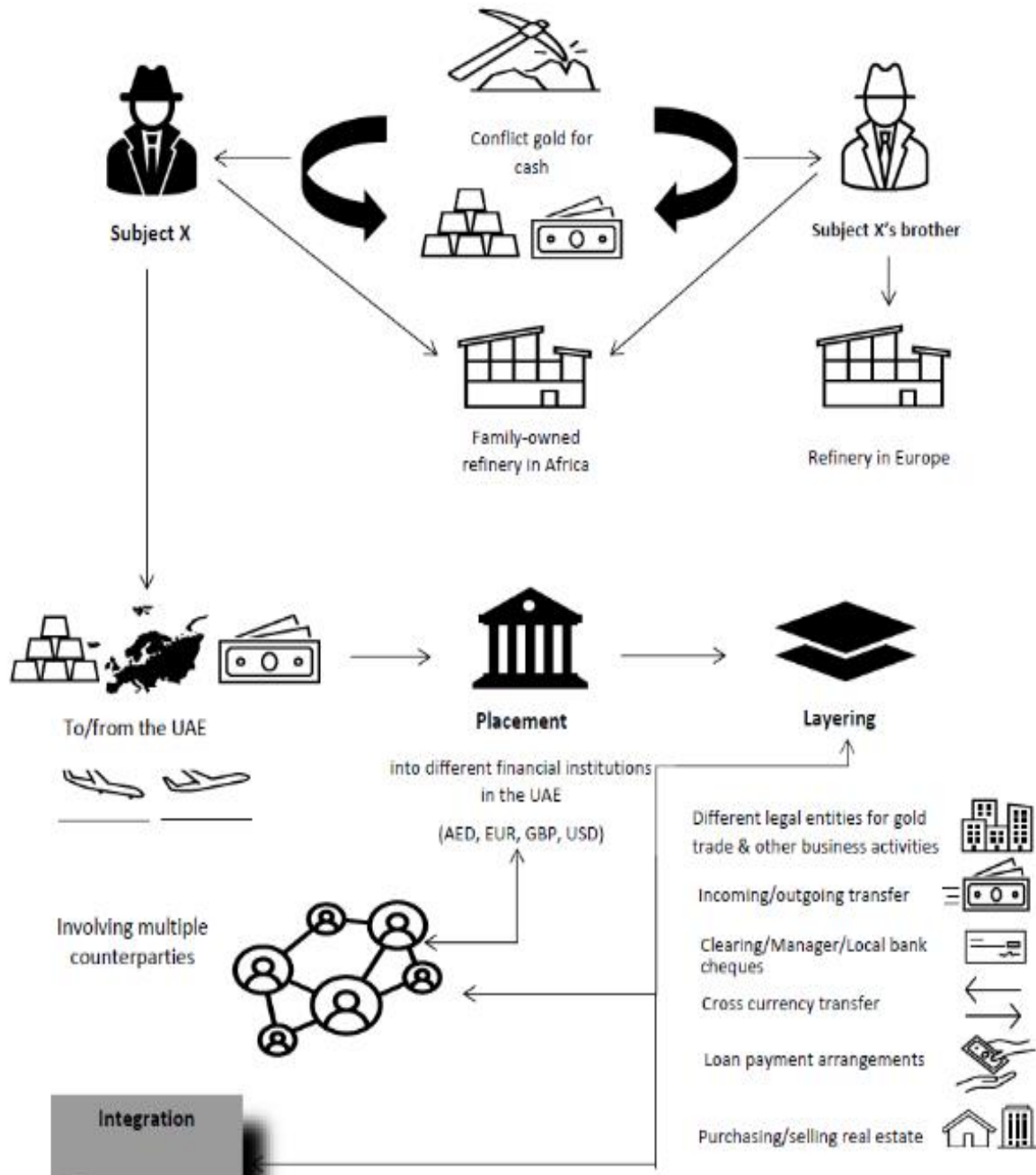


Figure 2: An illustration of case example 1 on trading in conflict gold and laundering it through the abuse of FIs and DNFBPs

*This figure is only an interpretation of the data. It should be noted that the three stages of ML indicated in this figure may have overlapped or occurred simultaneously or separately.

Case Example (2): Suspicion of money laundering through legal entities/DPMS and funnel funds

'Company A' is Licensed in the UAE for jewelry trading and non-manufactured precious metal trading, including the sale of gold bars. The ownership of company A comprises the same owners as those of 'Company B,' licensed in the UAE for general trading, including the export of electronics to Africa. Both company A and company B owners have the same nationality, as was the previous partner of Company A.

Intelligence from a counterpart FIU referred to company A as being under investigation for suspicion of money laundering. While the involved persons of company A had no criminal record or previous suspicious transactions or activities in the UAEFIU database, company A was a counterparty in a STR reported by a financial institution in the UAE against company B, which the UAEFIU disseminated to the concerned police department. Suspicion included higher turnover than that declared when the account was opened, large cash deposits followed by immediate wire transfers, unknown sources of funds, and unclear relationships with different counterparties. Two of these counterparties of company B were also linked to other STRs, which the UAEFIU reported to the concerned police department.

Based on the UAEFIU analysis of reported and obtained information related to the received intelligence concerning company A, it was found that company A had imported gold from high-risk jurisdictions, including the owner's country, through passengers carrying gold through airports in suitcases with declaration forms for local customs. This was in addition to different entities found in UAE Federal Custom Authority databases which had carried a significant amount of cash from/to the UAE for company A and company B. Gold was being sold in the UAE to traders in cash. This cash was being handled by unregistered individual representatives of the suppliers. Ultimately, it was suspected that company A and company B had been used to funnel funds from abroad and move them by dealing with companies with a different line of business. The bank account of company A was closed by the bank due to insufficient documentation related to high-value cash transactions, and both company A and company B were added to the bank watch list. The UAEFIU reported both cases to law enforcement agencies while seeking an update from the counterpart FIU who initiated the intelligence.

Risk indicators:

- Receiving intelligence from a counterpart FIU.
- A significant trade volume of high-risk commodities such as gold bars.
- Importing gold from high-risk countries in Africa.
- Huge amount of cash being carried into the UAE for over two years.

- Large transactions in cash with no clear sources or reasons.
- Transactions are inconsistent with declared account activity.
- Dealing with entities with a different line of business.
- Gold is sold to traders in cash, which is then handled by unregistered individual representatives of the suppliers.

Case Example (3): Smuggling cash and gold

'Subject A' is a foreign individual with neither bank accounts opened in the UAE nor established businesses as per the UAEFIU's database. However, subject A had declared a significant amount of cash to the concerned customs in seven months. All of the cash declarations had an unclear source and destination of funds. However, the subject claimed that the amounts carried to the UAE were for investment, the purchase of goods, and the benefit of three gold trading companies 'company A,' 'company B,' and 'company C.'. Still, the total amount carried into the UAE was significantly higher than the amount moved outside of the UAE, which raised some concerns, considering that the subject had no bank account or business in the country. Through communication between the UAE Federal Customs Authority and country Y, i.e., the subject country, it was found that the subject had been recorded in country Y's customs as having no declaration incidents, and investigations were undertaken due to the suspicion of smuggling cash and gold.

While company A, company B, and company C were difficult to locate, the UAEFIU found, through previous dissemination to the concerned police department, that company A was moving funds with no legal authorization for an exchange agency. Accordingly, the case was reported to the CBUAE for further action. At the same time, based on a UAEFIU database search on the other two companies, no details were found concerning company B's business activities or bank accounts, nor were any other details found through open sources. For company C, although it had three bank accounts, no cash deposits were found during the period in which the subject had moved cash into the UAE. Furthermore, it was noted that each of these bank accounts had a different trade license number for the company. Ultimately, the UAEFIU disseminated the case to the concerned law enforcement agency for interrogation in order to know how the suspect had utilized the funds.

Risk indicators:

- Huge amounts of cash are being carried to the UAE from different countries.
- Unknown source of funds and un-evidenced.
- Unascertained destination of funds.
- Contradicted documents concerning legal entities.
- Link with another STR.
- The subject is being investigated in a counterpart FIU for smuggling cash and gold.

CONCLUSION

This report has contributed to UAE competent authorities' efforts in developing stakeholders' understanding of patterns and ML/TF risk factors associated with the DPMS sector. While this report has emphasized three key patterns regarding the abuse of DPMS in ML, some potential scenarios have been considered in the methodology of this report, but no sufficient data have been found to draw a precise conclusion. These scenarios include the use of PMS as a currency by organized crime groups (e.g., drug traffickers), the use of e-gold or gold futures contract in ML activities, the potential links between DPMS and terrorist financing, and the potential abuse of DPMS in the evasion of sanctions. Nevertheless, it is plausible to assume that DPMS are abused in such activities due to the vulnerabilities associated with the typologies highlighted in this report.

Some of the risk factors mentioned in this report may depend on a specific stage of the PMS supply chain, as well as the role of DPMS with regard to the business relationships associated with each stage. Currently, there are no clear data on the size of each sector within the PMS supply chain. This report has presumed that the PMS supply chain at all stages, from refining to retailing and wholesaling, is abused in ML/TF activities. Nevertheless, the availability of such data would have further developed the understanding of typologies related to DPMS.

The analysis of available data (particularly GoAML data) provides some insights into the current trade value of gold and other PMS, from which it is observed that gold, followed by diamond, is the highest traded PMS (in terms of value). This implies that gold and diamond are more likely to be abused for ML/TF.

Lastly, the UAEFIU emphasizes the importance of the risk indicators mentioned in this report being considered by reporting entities and the relevant UAE authorities while developing or updating their AML/CFT risk mitigation measures.