

Alert

FinCEN Issues Advisory Regarding North Korean Government Agencies' and Front Companies' Involvement in Illicit Financial Activities

June 25, 2009

On June 18, 2009, the Financial Crimes Enforcement Network ("FinCEN") of the U.S. Department of the Treasury ("Treasury") issued an advisory to supplement its December 2005 guidance, regarding the involvement of North Korea's government agencies and front companies in illicit activities, and to complement the U.N. Security Council Resolution ("UNSCR") 1874, adopting new provisions to prevent the financing of North Korea's nuclear, ballistic missile, and other programs or activities related to weapons of mass destruction ("WMD").

The prior FinCEN advisory, issued on December 13, 2005, informed U.S. financial institutions that Banco Delta Asia SARL provided financial services to North Korean government agencies and associated front companies known to have engaged in illicit activities, including currency counterfeiting, narcotics trafficking, production and dissemination of counterfeit cigarettes, and laundering of related proceeds, as well as WMD and missile proliferation.

FinCEN issued the current advisory due to continuing concerns regarding the use of deceptive financial practices by North Korea and North Korean entities, as well as individuals acting on their behalf, stating that such practices may include the following:

- Suppression of the identity and location of originators of transactions;
- Arrangement of funds transfers via third parties;
- Repeated bank transfers that appear to have no legitimate purpose; and
- Routine use of cash couriers to move large amounts of currency without a credible explanation of the origin or purpose for the transactions.

FinCEN warns U.S. financial institutions to remain vigilant regarding attempts by North Korean customers to pass off high-quality counterfeit U.S. currency, as well as large cash deposits made into new or existing accounts, which could be attempts to evade UNSCR provisions.

On June 12, 2009, the U.N. Security Council adopted UNSCR 1874 to condemn North Korea's May 25 nuclear test and to expand the pre-existing obligations imposed by UNSCR 1718, adopted on October 14, 2006, which, among other things, freezes the assets of designated North Korean individuals and entities involved in nuclear, ballistic missile, and other WMD-related programs or activities. The additional measures in UNSCR 1874 include the following:

- A call to member states to prevent financial institutions within their jurisdictions, and the overseas branches of such institutions, from providing financial services that could contribute to North Korea's nuclear, ballistic missile, or other WMD-related programs or activities;
- A ban on financial transactions related to the sales of all arms and related material, except for the export of small arms and light weapons and related material to North Korea; and
- A demand that North Korea immediately comply with UNSCR 1718, which includes a ban on the transfer of luxury goods to North Korea.

FinCEN advises all U.S. financial institutions to take measures to mitigate the risk associated with correspondent accounts held for North Korean financial institutions, as well as their foreign branches and subsidiaries. This may require enhanced scrutiny of any correspondent accounts maintained for North Korean financial institutions, as well as foreign branches and subsidiaries, given that there is an increased likelihood that these types of accounts may be used to hide illicit conduct and related financial proceeds in an attempt to circumvent existing sanctions. FinCEN also recommends applying enhanced scrutiny to monitoring transactions related to such accounts.

Although the advisory pertains to all North Korean bank branches, the banks headquartered in Pyongyang, North Korea, are listed below for ease of reference. This is not meant to be a comprehensive list.

- Amroggang Development Bank
- Bank of East Land
- Central Bank of the Democratic People's Republic of Korea
- Credit Bank of Korea
- Dae-Dong Credit Bank
- First Credit Bank (Not to be confused with First Credit Bank in Los Angeles, CA, USA)
- Foreign Trade Bank of the Democratic People's Republic of Korea
- Hana Banking Corporation Ltd.
- The International Industrial Development Bank
- Korea Joint Bank (KBJ)
- Korea Daesong Bank
- Korea Kwangson Banking Corp
- Korea United Development Bank
- Koryo Commercial Bank Ltd.
- Koryo Credit Development Bank
- North East Asia Bank
- Tanchon Commercial Bank

As a reminder, FinCEN notes that U.S. financial institutions are required to report suspicious activity in accordance with the reporting requirements provided in 31 C.F.R. Part 103, and that Executive Order 13382 requires the blocking of all property and interests in property of certain persons who are WMD proliferators and their supporters, when such property and property interests are within the United States or in the possession or control of U.S. persons.

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