Financial Crime Indicators, Typologies, and Red Flags

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1. Executive Summary

Gold, long seen as a safe-haven investment in times of financial storms and a reliable asset for portfolio diversification, often has complex supply chains, with actors and circumstances that can pose significant financial crime risks for financial institutions and wider industry. “Conflict gold” – or “illegal gold” – is associated with armed conflict, illicit financial flows, and terrorism. Furthermore, its presence in international financial markets should be a cause for concern for all, in particular financial institutions, given their need to ensure they are not used as conduits for these illicit financial flows and to mitigate the associated risks.[1]

The gold supply chain is primarily divided into upstream and downstream. The upstream consists of the miners/mining site, the buyers/traders/exporters, and the smelter/refinery/key points of transformation. Meanwhile, the downstream consists of all actors after the refinery, including international traders/exporters/recyclers/market makers, forwarding agents, jewelry/industrial manufacturers – including component manufacturers, assemblers, and producers – and consumer/end-user companies/buyers.

Each stage of the gold supply chain has specific financial crime risks. Some apply generally to each and every stage, for example, the risk of mining companies or cooperatives producing and trading in conflict gold through financial institutions, or the risk of customers using the gold trade to both fund financial crime and transfer illicit funds derived from financial crime, environmental crime, and associated predicate offenses.

Notable typologies outlined in this paper include the use of politically exposed persons and offshore tax jurisdictions, the use of a web of shell companies established by designated non-financial business and professions (DNFBPs) – primarily accountants – without identifying the true ultimate beneficial owner, the simulation or use of “front” companies to co-mingle illegal and legal proceeds, and the use of pawn shops or human couriers.

A substantive list of red flags is also provided, including gold mining companies that have procured mining titles but neither have proof of payment of royalties and/or taxes nor of compliance with local environmental requirements, as well as heavy cash withdrawals from company bank accounts by shareholders, legal representatives, administrators, or employees.

Finally, practical tips for compliance officers are offered, including the filing of suspicious transaction reports, conducting customer due diligence and enhanced due diligence, using the Wolfsberg questionnaire and supporting guidance, and conducting know-your-customer checks on both DNFBPs and beneficial owners.

1. Conflict-affected and high-risk gold is gold sourced from areas defined by the Organisation for Economic Co-operation and Development as being “identified by the presence of armed conflict, widespread violence, including violence generated by criminal networks, or other risks of serious and widespread harm to people.” See: Organisation for Economic Co-operation and Development, 2012, “OECD Due Diligence Guidance for Responsible Supply Chains of Minerals from Conflict-Affected and High-Risk Areas: Supplement on Gold”, available at: **http://www.oecd.org/corporate/mne/GoldSupplement.pdf**.

2. Introduction

The United Nations Comtrade database has revealed that a significant percentage of the gold circulated globally has ties to conflict zones, illegal mining, and/or slavery. In 2019, over US$4 billion in conflict gold from Central and East Africa flowed to international markets.[2] Similarly, on the other side of the world in Latin America – particularly in Colombia, Brazil, Ecuador, Panama, and Peru – demand has risen for gold illegally mined by criminals, which is now also finding its way into international markets.[3]

Significant discrepancies in trade statistics reveal the presence of smuggling and trade-based money laundering (TBML) in the African gold market. Little gold is officially exported from source countries in Africa – with the exception of Sudan – yet over US$2 billion in gold is exported to the United Arab Emirates annually from countries neighboring these source countries.[4] Additionally, in these neighboring countries, refiners, aggregators, and traders who source gold from smugglers contribute to the concealment by failing to conduct proper due diligence to determine the origin of the gold.

Financial firms are at risk of dealing with this conflict gold as it is often co-mingled with non-conflict gold at choke points within the supply chain.[5] The need to factor the gold supply chain into compliance processes has been heightened by international businesses' growing focus on environmental, social, and governance principles due to the negative impact the gold supply chain has on both the environment and local communities.

2. Sasha Lezhnev, The Sentry, February 2021, "Conflict Gold to Responsible Gold: A Roadmap for Countries and Governments", **https://cdn.thesentry.org/wp-content/uploads/2021/02/ConflictGoldResponsibleGold-TheSentry-Feb2021.pdf**.
3. Interpol, April 2022, "Illegal Mining and Associated Crimes, **https://www.interpol.int/content/download/17495/file/ILM - Illegal mining - Report.pdf**.
4. Sasha Lezhnev, The Sentry, Op. Cit.
5. Co-mingle refers to the mix of different types or separately sourced gold; See: Sasha Lezhnev, The Sentry, Op. Cit.

3. The Gold Supply Chain and its Financial Crime Risks

The gold supply chain involves multiple actors and generally includes the extraction, transport, handling, trading, processing, smelting, refining, alloying, manufacturing, and sale of the end-product. The simplified supply chain outlined below includes the activities, organizations, actors, technology, information, resources, and services involved in moving the mineral from the mining extraction site upstream to its incorporation in the final product for end-consumers downstream.

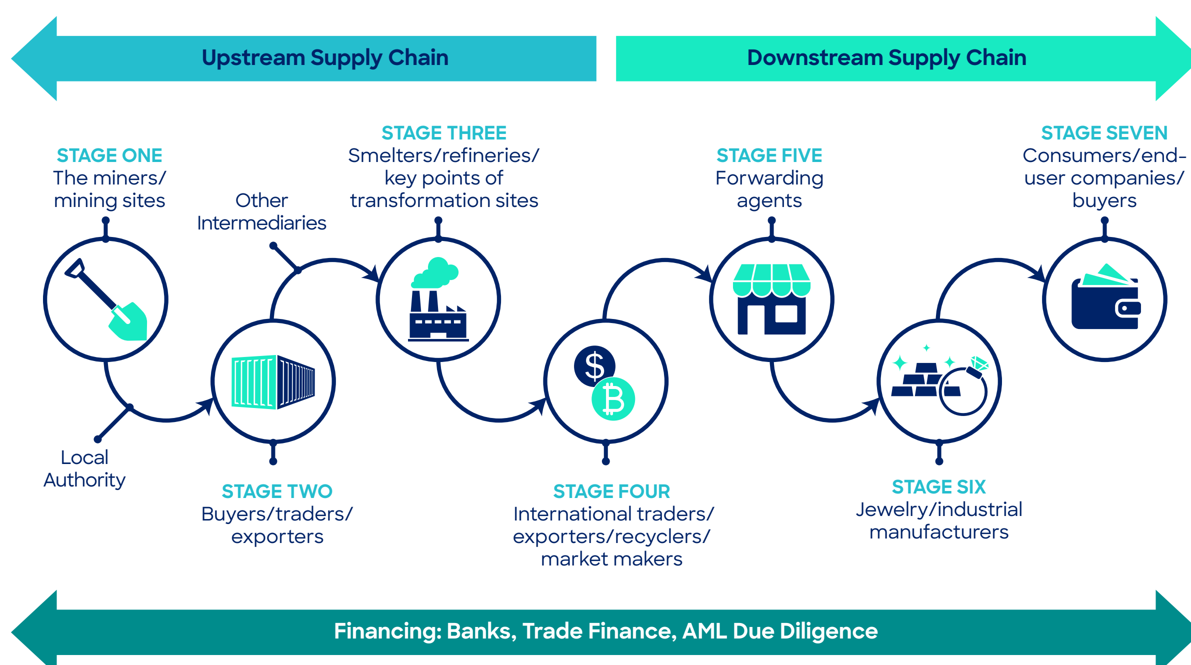

Figure 1: The gold supply chain. Diagram based on information from: **https://www.theimpactfacility.com/women-jewellery/**

3.1. General Financial Crime Risks

There are two financial crime risks to financial institutions that apply at every stage of the gold supply chain. These are:

1. The risk of regulatory fines due to control failures.
2. Corporate reputational risk to financial institutions and personal reputational and career risks to financial institution staff.

3.2. Identified Financial Crime Risks to Financial Institutions at Each Stage of the Upstream Gold Supply Chain

Stage one: the miners/mining sites

Including mines of all sizes, the financial crime risks for this stage include:

1. The risk of mining companies or cooperatives producing and trading in conflict gold through financial institutions.
2. The risk of customers using the gold trade to both fund financial crime and transfer illicit funds derived from financial and environmental crimes, as well as the predicate offenses listed below.
3. The risk of the creation and use of gold companies through complex company structures to conceal beneficial owners for both money laundering and tax evasion purposes.

Stage two: the buyers/traders/exporters

Including trading houses and exporters that primarily serve artisanal miners/small-scale operations, as well as international commodity traders that transport and transform commodities across countries, the financial crime risks for this stage include:

1. The risk of customers using the gold trade to both fund financial crime and transfer illicit funds derived from financial and environmental crimes, as well as the predicate offenses listed below.
2. The risk of the creation and use of gold companies through complex company structures to conceal beneficial owners for both money laundering and tax evasion purposes.

Stage three: smelters/refineries/key points of transformation

A point of transformation is any stage in the supply chain where the mineral is processed to reach commercial market quality. Refineries are a known chokepoint, where illegally extracted natural resources enter the legal supply chain. The financial crime risks at this stage include:

1. The risk of customers using the gold trade to both fund financial crime and transfer illicit funds derived from financial and environmental crimes, as well as the predicate offenses listed below.
2. The risk of the creation and use of gold companies through complex company structures to conceal beneficial owners for both money laundering and tax evasion purposes.
3. New high refiners and gold aggregators that have neither undergone nor passed independent third-party audits on conflict minerals have reportedly opened in East and Central Africa. These pose a risk as independent third-party audits are essential; they provide a check of the chokepoints to identify the origins of the gold being refined and conduct the necessary due diligence.

Prevalent predicate offenses in the upstream gold supply chain include:

- Serious human rights abuses e.g., human trafficking
- Support to armed groups
- Abuses by security contractors
- Money laundering predicate offenses[6]
- Tax and fee evasion
- Inadequate due diligence
- Corruption and fraud e.g., bribery and falsification of concession licenses and origin certifications
- Smuggling e.g., guns and drugs
- Terrorism and armed insurgency[7]
- Environmental degradation e.g., the use of mercury, which leads to pollution

3.3. Identified Financial Crime Risks to Financial Institutions at Each Stage of the Downstream Gold Supply Chain

Stage four: international traders/exporters/recyclers/market makers

Traders and market makers – including bourses, bullion banks, and exchanges – provide pricing and hedging services and ensure supply for downstream consumer markets. The financial crime risks at this stage include:

1. The risk of customers using the gold trade to both fund financial crime and transfer illicit funds derived from financial and environmental crimes, as well as the predicate offenses listed below.[8]
2. The risk of the creation and use of gold companies through complex company structures to conceal beneficial owners for both money laundering and tax evasion purposes.

6. The EU 6AMLD provides a harmonized definition of a money laundering and introduces 22 predicate offenses.
7. Gold also provides significant opportunity for untraceable terrorist financing. Burkina Faso and Nigeria in the past have banned small-scale mining in districts where known al Qaeda-linked Islamists are active; politico-military and jihadist groups run gold mine security across the Sahel; and Columbian dissident and narco-terrorist groups are known to be active in the running of Venezuelan mines, violently extorting site ownership and using their profits to purchase munitions. See: Themis, October 2020, "As Good as Gold: Money Laundering and the Gold Trade", **https://static1.squarespace.com/static/5c12a68fc258b4c36480afb6/t/5f8ef3ca749f0321ebb046b2/1603204074755/Themis+Briefing+Note+-+As+Good+as+Gold.pdf**.
8. Financial Action Task Force, July 2021, "Money Laundering from Environmental Crime", **https://www.fatf-gafi.org/media/fatf/documents/reports/Money-Laundering-from-Environmental-Crime.pdf**.

Stage five: forwarding agents

The financial crime risks present at this stage include:

1. The risk of customers using the gold trade to both fund financial crime and transfer illicit funds derived from financial and environmental crimes, as well as the predicate offenses listed below.
2. Intermediaries – such as freight forwarders, insurers, and customs brokers – play a significant role in the gold supply chain yet have little or no anti-money laundering (AML) obligations. Financial institutions may consider categorizing this as high risk considering these intermediaries' role when examining the risks of TMBL and trade-based fraud.[9]

Stage six: jewelry/industrial manufacturers - component manufacturers, assemblers, and producers

The financial crime risks at this stage include:

1. The risk of customers using the gold trade to both fund financial crime and transfer illicit funds derived from financial and environmental crimes, as well as the predicate offenses listed below.
2. The risk of the creation and use of gold companies through complex company structures to conceal beneficial owners for both money laundering and tax evasion purposes.

Stage seven: consumers/end-user companies/buyers

These are the individual consumers, end-buyers, and enterprises that sell products directly to consumers for individual use. The financial crime risks at this stage include:

1. The risk of customers using the gold trade to both fund financial crime and transfer illicit funds derived from financial and environmental crimes, as well as the predicate offenses listed below.
2. The risk of the creation and use of gold companies through complex company structures to conceal beneficial owners for both money laundering and tax evasion purposes.

Prevalent predicate offenses in the downstream gold supply chain include:

- Money laundering predicate offenses as listed in the 6AMLD
- Corruption and fraud e.g., bribery and falsification of concession licenses and origin certifications
- Tax and fee evasion

9. Financial Action Task Force, July 2021, Op. Cit.

4. Notable Typologies

Learning how financial crimes occur within the gold supply chain is essential for the detection and fight against financial crime. This section outlines notable typologies, showing the various methods, techniques, schemes, and instruments criminals use to conceal, launder, or move illicit funds within the gold supply chain.

The use of politically exposed persons and offshore tax jurisdictions[10]

Criminals or politically exposed persons (PEPs) often establish companies operating in source countries that have varying degrees of association with a subsidiary or shareholding company located in a third-party jurisdiction. Funds are then transferred through the third country – usually an offshore tax jurisdiction – to hide the beneficial owners. The challenges in separating legitimate and illicit financial flows due to co-mingling, as well as the placement of funds in a different jurisdiction to where the underlying crime was committed, create an additional barrier to identification and prosecution, while also facilitating the secondary crime of tax evasion.

The use of a web of shell companies established by designated non-financial business and professions (primarily accountants) without identifying the true ultimate beneficial owner[11]

These DNFBPs would identify a beneficial owner for the register; however, the named individual on the registry would be a nominee with only a loose connection to the ultimate underlying owner.

The simulation or use of "front" companies to co-mingle illegal and legal proceeds[12]

Criminals reportedly use front companies to co-mingle illegal proceeds into the legitimate business accounts of the front companies. These front companies are usually engaged in either the mining business or another related business that has a large number of transactions but low profit margins. These vary from simple "misinvoicing" to sophisticated schemes involving companies with large legitimate operations. This presents challenges to both law enforcement and financial institutions in distinguishing between legitimate and illegal activities.

The use of pawn shops[13]

Pawn shops involved in the illicit gold supply chain are often part of a broad network of similar shops, overinvoicing the amount of gold they received and sold. The margin between what was sold and reported as sold is the gold laundered into the system.

10. Financial Action Task Force, July 2021, Op. Cit.
11. Ibid.
12. Interpol, April 2022, Op. Cit., and Financial Action Task Force, July 2021, Op. Cit.
13. Organization of American States, Department against Transnational Organized Crime (OAS DTOC), January 2022, "Typologies and Red Flags Associated to Money Laundering from Illegal Mining in Latin America and the Caribbean", **https://www.oas.org/en/sms/dtoc/docs/DOC-TYPOLOGIES-AND-RED-FLAGS-ILLEGAL-MINING-ENG.pdf**.

The use of human couriers[14]

The use of human couriers by criminal gold smuggling networks is a prominent method. It is facilitated by high rates of poverty, unemployment, and other socio-economic factors that offer criminal rings a sizable population of potential human couriers to exploit.

Large-scale movements of refugee populations have reportedly been exploited by criminal actors to this end, who induce them to cross both formal and informal land borders with contraband gold and return with payment in the form of cash or high-value goods.

14. Organization of American States, Department against Transnational Organized Crime (OAS DTOC), January 2022, Op. Cit.

5. Red Flag Indicators

Red flag indicators applicable to all stages of the gold supply chain include:[15]

- Gold mining companies with mining titles but no proof of payment of royalties or taxes, or compliance with local environmental requirements.
- Heavy cash withdrawals from company bank accounts by shareholders, legal representatives, administrators, or employees.
- Gold shipments that are rerouted to refineries in new jurisdictions that offer no competitive advantage, are more difficult and expensive to reach, and have less stringent know-your-customer (KYC) regulations.
- Bank accounts of PEPs showing heavy and frequent cash deposits from unexplained sources.
- Company account statements showing bank transfers, justified as advance payment of invoices by companies active in the same sector but previously investigated for tax crimes.
- Falsified shipping documents.
- Companies that frequently send gold to unregulated markets when there is no economically sound reason to do so, with the intention of avoiding the detection of illicit movements of gold.
- Newly established gold buying companies with a rapid accumulation of large amounts of income, most money transfers sent from overseas, and showing little real economic activity at their facilities.
- Gold trading companies with significant transfer activities in an intermediary country to accounts in a source country.
- Gold trading companies that receive transfers from abroad of large sums of money for non-trade-related operations.
- Gold trading companies that carry out substantial exports (mostly to unregulated jurisdictions) that do not match the profile or size of the company as recorded in government export documentation.
- Small mining companies that receive transfers from a country other than the destination of their exports.
- Small mining companies that appear to have accounts in tax havens or jurisdictions with limited AML controls.
- Substantial gold transactions recorded by companies located in regions or municipalities without a significant mining sector or mining activity.
- Shell companies with inadequate organizational structures or economic activities.

15. Interpol, April 2022, Op. Cit., Financial Action Task Force, July 2021, Op. Cit., and OAS DTOC, January 2022, Op. Cit.

- Gold traders located in border regions that carry out more transactions and trade than the region has historically been able to produce.
- Pawn shops that report more income than could be reasonably expected in the community.
- Refineries or companies that have been sanctioned by the national or regional gold exchanges in charge of regulating the metal trade.
- Gold bullion purchasing companies in intermediary countries that do not offer real services other than the certification of the origin and purity of gold.

6. Practical Tips for Compliance Professionals

The role of compliance regarding gold supply chains in financial institutions will differ depending on whether the financial institution is domiciled within a source jurisdiction or not.

6.1. Practical Tips for Financial Institutions Domiciled Within Source Jurisdictions

- For financial institutions domiciled within source jurisdictions – such as those in Africa and Latin America – the onboarding stage of local miners and traders as customers is critical. For this reason, the following are essential:
    - I. Customer due diligence (CDD), for preventive action, and
    - II. Suspicious transaction reports (STRs) where necessary for detecting illegal activities.[16]
- Financial institutions should be aware of the heightened need for enhanced due diligence (EDD) for customers in the gold supply chain, taking into consideration the identified risks relating to their position as outlined above.[17] EDD transaction monitoring should be in line with a risk-based approach, particularly regarding related-party transactions and for payments to or from conflict countries listed as source, transshipment, or destination countries.[18]
- Full checks and confirmation from national authorities on licenses should be made as national precious metals aggregators often portray themselves as refiners in Africa.[19]
- For respondent banks domiciled in source jurisdictions but which maintain correspondent banking relationships with correspondent banks outside the source locations, the use of the Correspondent Banking Due Diligence Questionnaire (CBDDQ) – along with the updated supporting FAQs, Completion Guidance, and Capacity Building Guidance as developed by the Wolfsberg Group – should be incorporated into due diligence programs.[20]
- Further reading of essential texts from the Organisation for Economic Co-operation and Development and the World Gold Council are recommended for financial institutions domiciled in source jurisdictions.[21]

16. Financial Action Task Force, July 2021, Op. Cit.
17. Sasha Lezhnev, The Sentry, February 2021, Op. Cit.
18. Sasha Lezhnev and Megha Swamy, The Sentry, November 2020, “Understanding Money Laundering Risks in the Conflict Gold Trade From East and Central Africa to Dubai and Onward”, **https://cdn.thesentry.org/wp-content/uploads/2020/11/ConflictGoldAdvisory-TheSentry-Nov2020.pdf**.
19. Financial Action Task Force, July 2021, Op. Cit.
20. It should be used as the basis of bilateral CDD discussions between a respondent and correspondent as it acts as a baseline to help satisfy FATF’s Recommendation 13, that for “cross border correspondent banking” additional due diligence requirements must be undertaken, including for so called “high-risk” correspondent banking relationships.
21. Organisation for Economic Co-operation and Development, 2012, “OECD Due Diligence Guidance for Responsible Supply Chains of Minerals from Conflict-Affected and High-Risk Areas: Supplement on Gold”, **http://www.oecd.org/corporate/mne/GoldSupplement.pdf**.

6.2. Practical Tips for Financial Institutions Not Domiciled Within Source Jurisdictions

- For those financial institutions not domiciled in the previously mentioned source jurisdictions, the concern will be that, in the execution of transactions – such as commodity trades, custodial roles for gold, and/or providing financing and loans for projects or large gold companies – on behalf of certain clients, they could unwittingly facilitate the movement of funds connected to environmental crimes. Therefore, both CDD and STR filing are essential, especially when red flags are detected, or similarities to typologies are played out.
- For financial institutions not domiciled in source jurisdictions but which maintain correspondent banking relationships with respondent banks in the source jurisdictions, the use of the CBDDQ – along with the updated supporting FAQs, Completion Guidance, and Capacity Building Guidance as developed by the Wolfsberg Group – should be incorporated into their due diligence programs.[22]
- KYC checks should be conducted on both DNFBPs and beneficial owners. This highlights the importance of both having a regulatory outreach to gatekeepers – such as lawyers, trusts, and company service providers – and identifying the individual beneficial owners behind related companies.

22. It should be used as the basis of bilateral CDD discussions between respondent and correspondent as it acts as a baseline to help satisfy FATF's Recommendation 13, that for "cross border correspondent banking" additional due diligence requirements must be undertaken, including for so called "high risk" correspondent banking relationships.

7. Conclusion and Looking Ahead

Gold supply chains are incredibly complex, posing various risks to actors involved in the trade, and it is important that financial institutions consider these risks and take steps to mitigate them. The scope of the financial crime risks within the gold supply chain does not seem to be reducing, nor does interest in the trade or use of gold. Looking ahead to the next three to five years and upcoming regulations, it is imperative that financial institutions with clients or dealings in the gold sector fully understand the risks within the supply chain in order to apply their risk assessments and risk management strategies effectively to reduce the likelihood of any regulatory censure.

You can find further information and practical tips in the ACAMS webinar **"Understanding and Mitigating the Financial Crime Risks of Gold Supply Chains"**.

About ACAMS

ACAMS is the largest international membership organization dedicated to providing opportunities for anti-financial crime (AFC) education, best practices, and peer-to-peer networking to AFC professionals globally. With over 100,000 members across 180 jurisdictions, ACAMS is committed to the mission of ending financial crime through the provision of anti-money laundering/counter-terrorism financing and sanctions knowledge-sharing, thought leadership, risk-mitigation services, ESG initiatives, and platforms for public-private dialogue. The association's CAMS certification is the gold-standard qualification for AFC professionals, while the CGSS certification is its premier specialist qualification for sanctions professionals. ACAMS' 60+ Chapters globally further amplify the association's mission through training and networking initiatives.

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