

Client Alert

November 2017

FinCEN Warns Banks on North Korean Schemes to Evade Sanctions

As President Trump begins his trip to Asia where he is expected to hold meetings with President Xi in China, FinCEN has issued an advisory alerting US financial institutions to be on the lookout for red flags of illicit North Korean schemes, including the use of financial representatives worldwide to evade US and UN sanctions, launder funds, and finance the regime's weapons of mass destruction and ballistic missile programs. FinCEN warns that North Korea is using China-based front or shell companies, trading companies and financial institutions to further its illicit activity.

One of those institutions is China-based Bank of Dandong. In tandem with its advisory, FinCEN has issued a final rule under Section 311 of the USA PATRIOT Act prohibiting US financial institutions from opening or maintaining a correspondent account for, or on behalf of, the Bank of Dandong. In taking this action, FinCEN found the Bank of Dandong to be of "primary money laundering concern" for serving as a gateway for North Korea to access the US and international financial systems despite US and UN sanctions.

Do's and Don'ts for US Financial Institutions

- Do not open or maintain a correspondent account for, or on behalf of, a North Korean banking institution or the Bank of Dandong.
- Do not process a transaction for a correspondent account of a foreign bank if such a transaction involves a North Korean financial institution or the Bank of Dandong.
- Do apply special due diligence and other risk-based measures to all of your foreign correspondent accounts that are reasonably designed to guard against their use to process transactions involving North Korean financial institutions and the Bank of Dandong.
- Do investigate promptly if you know or have reason to believe that a foreign bank's correspondent account has been or is being used to process transactions involving a North Korean financial institution or the Bank of Dandong; **close the account, if necessary, to prevent access.**
- Do file a suspicious activity report (SAR) if you determine a transaction is suspicious and you know or suspect it is related to North Korean illicit finance; describe the suspected North Korean connection in your SAR narrative.
- Do review your institution's policies, procedures and internal controls on foreign correspondent banking to evaluate whether your institution is in compliance with the advisory and the final rule, including a review of CIP, CDD and transaction monitoring and reporting of suspicious transactions relating to foreign correspondent bank accounts; **make enhancements as necessary.**

Contacts

Juan Azel
jazel@hunton.com

Shaswat (Shas) K. Das
sdas@hunton.com

Peter G. Weinstock
pweinstock@hunton.com