



Financial
Intelligence Centre

**ASSESSMENT OF THE
INHERENT MONEY LAUNDERING
AND TERRORIST FINANCING RISKS
DEALERS IN PRECIOUS METALS AND
STONES**
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1. INTRODUCTION

Money laundering can be described as the process whereby criminals attempt to conceal the proceeds of their criminal activities from their actual crimes, thereby giving the funds derived from criminal activities an appearance of legitimacy. This may be done by investing in different immovable and movable assets.

Dealers in precious metals and stones, in so far as they trade in single items to the value of R100 000 or more, are included in the definition of high-value goods dealers, as item 20 of Schedule 1 to the Financial Intelligence Centre Act, 2001 (Act 38 of 2001) (FIC Act). The sector has been identified as potentially vulnerable to being abused for money laundering purposes.

The Financial Action Task Force (FATF), the global standard-setting body for anti-money laundering and combating the financing of terrorism (AML and CFT), includes “dealers in precious metals” and “dealers in precious stones” in its definition for designated non-financial businesses and professions (DNFBPs). This therefore implies that FATF Recommendations such as those referring to the implementation of a risk-based approach, customer due diligence and reporting of suspicious and unusual transactions, which are also embedded in the FIC Act, are also applicable to dealers in precious metals and stones.

Terrorist financing is the process by which individual terrorists and terrorist organisations obtain funds to commit acts of terrorism.

Although this is the first risk assessment specific to this sector, the Financial Intelligence Centre (FIC) in 2019, assessed the inherent money laundering and terrorism financing (ML and TF) risks facing Kruger rand dealers (KRDs) in South Africa. That risk assessment included results of a survey among KRDs to ascertain their views on the sector’s vulnerability to ML and TF. KRDs were rated as high risk for money laundering due to factors such as the low market entry requirements, the ability to purchase coins online and the ease with which they could be transported and changed into another form of value. The TF risk was rated as low.

The FATF requires in Recommendation 1 that countries should identify, assess and understand the ML and TF risks to which it is exposed and that institutions should also be required to identify, assess and take effective action to mitigate such risks. The requirement relating to ML and TF risks was included in the FIC Act under section 42(2) that requires accountable institutions to understand and treat their ML and TF risks in line with the FATF requirements. Sector risk assessment reports are issued for all the different sectors under the FIC Act - not under a specific section in the FIC Act, but to assist the FIC as well as accountable institutions to better understand, identify and mitigate its ML and TF risks and thereby improve compliance with section 42(2) of the FIC Act.

2. SCOPE, LIMITATIONS AND METHODOLOGY OF THE ASSESSMENT

- 2.1 This assessment of the risks facing dealers in precious metals and precious stones principally addresses the inherent ML and TF risk factors pertaining to their products, clients, transactions, distribution channels and geographical areas. Although it is recognised that these risks could be mitigated by introducing compliance controls in accordance with the requirements of the FIC Act, such mitigation factors have not been included in this report. This report focuses primarily on the inherent ML and TF risks of the dealers in precious metals and stones.
- 2.2 This first report does not distinguish between the ML and TF risks at the different stages of the value chain, such distinction will be considered in future refinements to the sector risk assessment. It is however, acknowledged that the ML and TF risks could be substantially different within the various stages of the value chain with the retail trade potentially carrying a higher risk for ML and TF. The precious metals and precious stones dealers' sector include a wide range of activities covering the whole value chain from mining, manufacturing, beneficiation, wholesale, retail as well as importing and exporting,
- 2.3 The report also addresses the terrorist financing risks facing dealers in precious metals and stones.

3. OVERVIEW OF THE PRECIOUS METALS AND STONES SECTOR IN SOUTH AFRICA

3.1 Nature and regulation of the sector

- 3.1.1 The South African Diamond and Precious Metals Regulator (SADPMR) is a licensing authority for the precious metals and precious stones dealers' sector and is an organ of the state deriving its constitutional mandate from section 239 of the Constitution of the Republic of South Africa, 1996.
- 3.1.2 The Regulator was established in terms of section 3 of the Diamonds Act, 1986 (Act 56 of 1986) (Diamonds Act). The SADPMR is classified as a Schedule 3A Public Entity in accordance with the Public Finance Management Act, 1999, (Act 1 of 1999) (PFMA).
- 3.1.3 The SADPMR's mandate is to implement and enforce the provisions of the Diamonds Act and Precious Metals Act, 2005, (Act 37 of 2005), the Diamond Export Levy (Administration) Act, 2007 (Act 14 of 2007) and the Diamond Export Levy Act, 2007 (Act 15 of 2007).
- 3.1.4 Schedule 1 to the FIC Act was amended with effect from 19 December 2022 to include the new category of high-value goods dealers (HVG dealers) under item 20 of the FIC Act.
- 3.1.5 The wording of Item 20 of Schedule 1 to the FIC Act is as follows:

A person who carries on the business of dealing in high-value goods in respect of any transaction where such a business receives payment in any form to the value of R100 000,00 or more, whether the payment is made in a single operation or in more than one operation that appears to be linked, where "high-value goods" means any item that is valued in that business at R100 000,00 or more.

Draft public compliance communication 119 provides more clarity on this definition and explains that it refers to a particular Item that must be valued at R100 000 or more and the sale of such item(s) on a day-to-day basis or as an exception. Although it is recognized that the money- laundering and terrorist financing risks related to retail sales of high-value goods is likely to be higher than goods sold in the wholesale trade, it must be noted that the definition does not limit accountable institutions to high-value goods dealers in the retail environment. This report also includes and refers to retail as well as wholesale traders.

3.1.6 Motor vehicle dealers and Kruger rand dealers, who were previously included as reporting institutions with limited obligations under the FIC Act, were also included as high value goods dealers. Included in the category of high-value goods dealers are dealers in precious metals and dealers in precious stones.3.1.73.1.7 Although part of the high value goods dealers' sector, precious metals and precious stones dealers are on the FIC registration and reporting portal (goAML) in the subcategories of precious metal dealers, precious stones dealers and Kruger rand dealers. The number of HVG dealers that are registered with the FIC under these sub-categories as of 8 November 2023 are as follows:

- Kruger rand dealers: 240
- Precious stone dealers: 118
- Precious metal dealers: 68

3.1.7 In its guidance on the *Risk-Based Approach for Dealers in Precious Metals and Stones*, FATF specifically addresses dealers in precious metals and dealers in precious stones who conduct activities which fall within the ambit of the FATF Recommendations. FATF states that, the term "dealer" encompasses a wide spectrum of persons engaged in these businesses, ranging from those who produce precious metals or precious stones at mining operations, to intermediate buyers and brokers, to precious stone cutters and polishers and precious metal refiners, to jewelry manufacturers who use precious metals and precious stones, to retail sellers to the public, to buyers and sellers in the secondary and scrap markets.3.1.9 In practice, such dealers include institutions performing the following functions as a regular feature of their business:

- Producers of precious metals or precious stones at mining operations
- Intermediate buyers and agents
- Precious stone cutters and polishers
- Precious metal refiners
- Jewelry manufacturers who use precious metals and precious stones
- Retail sellers to the public as well as buyers and sellers in the secondary and scrap markets
- Exporters and importers of all kinds of precious metals and stones.

- 3.1.8 In South African the Precious Metals Act, 2005 (Act 37 of 2005) defines precious metals as:
- (a) the metal gold, any metal of the platinum group and the ores of such metals; and
 - (b) any other metal that the Minister has declared by notice in the Gazette to be a precious metal for the purposes of this Act, and the ores of any such.
- 3.1.9 Precious stones include diamonds, sapphires, emeralds, tanzanite or rubies. Jewels include objects made of precious metals, precious stones or pearls intended for personal adornment, such as earrings, bracelets, rings, necklaces, brooches and watches.
- 3.1.10 Diamonds, jewels and precious metals have unique physical and commercial properties which often carry high value, in small and easily transportable quantities. Trade worldwide varies from modern, international transactions conducted through the financial system, to local informal markets. Dealers range from very poor individuals in some of the most remote and troubled and often mineral-rich places on the planet, to the wealthiest individuals, to large multinational companies working in major financial centres. Transaction methods also range from anonymous exchanges of handfuls of stones or nuggets for cash, to exchange-based government-regulated deals.
- 3.1.11 Throughout history, gold has had universal appeal as a safe haven for investments. Investors typically still consider gold as a safe haven for their wealth. Gold is a hedge against inflation, deflation, and geopolitical macro-economic factors. Gold products (precious metals) like Kruger rands make it possible for ordinary people to invest in gold. A Kruger rand, for example, can be easily liquidated into currency in most countries, because of its gold content. In South Africa, the Kruger rand is a legal tender, which contributes to its appeal among investors and collectors.
- 3.1.12 Kruger rands can also be traded on the Johannesburg Stock Exchange (JSE) through a well-regulated secondary market, and it is traded in the same way as any listed equity market instrument, with prices being quoted on the various types (weights) of coin. Kruger rands also appeal to professional and private investors who wish to make a direct investment in gold bullion to hedge their portfolios against a foreign currency or to further diversify their portfolio.

- 3.1.13 A large potential problem relating to the sector is illegal mining. The illegal mining and trafficking of commodities, such as gold, platinum-group metals (PGM), rough diamonds and unwrought precious metals are a serious threat to the formal economy. Illegal mining constitutes a multi-billion rand illicit industry and poses a threat to other aspects of national security, such as the Republic's territorial integrity, the authority of the state and social stability.
- 3.1.14 The continuation of illegal mining is attributed to cross-cutting enablers, including transnational organised crime, pervasive corruption by the state and private sector, illegal migration, human rights abuses, environmental degradation, absence of health and safety practices, illegitimate channels for the processing and/or selling of minerals, criminal activities, human trafficking, border security challenges, proliferation of illegal weapons, explosives and hazardous chemicals (such as mercury), as well as a cross-sector of serious criminal activities.

4. THE MONEY LAUNDERING RISKS ASSOCIATED WITH PRECIOUS STONES AND METALS DEALERS

- 4.1 Precious metals and precious stones can potentially be an attractive vehicle for money laundering as they may include gold, diamonds, PGMs, emeralds, tanzanite and/or rubies. Criminals often target lucrative products in the precious metals industry to launder their illicit funds. Another factor that makes precious metals and precious stones highly attractive to potential money launderers is that of anonymity and, in some instances, a form of legal tender (in the case of Kruger rands). This makes it difficult to track the origin and to verify ownership of the commodities.
- 4.2 Precious metals and precious stones are small, high-value goods that are easy to move between different areas, across borders and to change their shape and form. Together, these factors make precious metals and precious stones highly attractive and lucrative to criminals that intend to conceal, transfer or invest their illicit proceeds.
- 4.3 Internationally, gold and precious metals are recognised as an attractive vehicle for money laundering. Gold is internationally considered a high risk for money laundering since it offers a sound investment, is cash intensive, is traded globally, often anonymously and is a form of global currency. It is also regarded as a safe investment to have in times of unrest and uncertainty, which adds to its allure. These factors are

also applicable to Kruger rands and other precious metals as a form in which gold is stored.

5. REPORTING BY PRECIOUS METALS AND PRECIOUS STONES DEALERS UNDER THE FIC ACT

5.1 The volume of reports received from precious metals and precious stones dealers

5.1.1 Regulatory reports to the FIC for the financial year 2022/23 indicated that 11 suspicious activity reports (SARs) were received from the precious metals and precious stones sector. However, it must be noted that these institutions were only added as accountable institutions on 19 December 2022.

5.1.2 A search in regulatory reports received, done by the FIC resulted in 73 regulatory reports from other sectors, comprising suspicious transactions reports (STRs) and suspicious transaction reports - batch (STRB) where the sectors for dealers in precious metals and stones, were mentioned. The results of the regulatory reports search were retrieved by scraping data using keywords such as gold smuggling and diamond smuggling. Of the 73 reports, 49 were received from banks, 20 from financial advisors, two from money remitters and one each from a crypto service provider and a foreign exchange dealer. These reports can be regarded as confirmation that the sector is subject to abuse by criminals.

5.1.3 As dealers in Kruger rands have always been included under the FIC Act, albeit as reporting institutions, the FIC has information on the reporting history of this sector. The number of regulatory reports filed by Kruger rand dealers with the FIC for each reporting period from 1 April 2018 to 31 March 2023 is shown below, in Table 1.

Table 1: Regulatory reports filed by Kruger rand dealers

Reports filed by Kruger rand dealers	2018/19	2019/20	2020/21	2021/22	2022/23	Average number of reports
CTRs	1135	860	1458	1135	860	1052
STRs	98	262	26	98	262	90

5.2 Types of regulatory reports filed

5.2.1 During this period indicated above. KRDs filed regulatory reports in terms of sections 28 (cash threshold reports) and 29 (suspicious and unusual transaction reports) of the FIC Act. No section 28A reports, on terrorist property were filed. Most of these regulatory reports submitted to the FIC were cash threshold reports, filed in terms of section 28 of the FIC Act. This points to the fact that cash is still being used extensively in the KRD sector, making it vulnerable for possible abuse by money launderers.

6. RISKS BASED ON THE SECTOR SURVEY AND RESEARCH

The risk factors in this sector risk assessment report align with those contained in Guidance Note 7 issued by the FIC for accountable institutions (refer to paragraph 37 of the Guidance Note), with the addition of risks associated with transactions including a short reference to terrorist financing risks.

6.1 Products and services risks

6.1.1 It is internationally recognised that precious metals and stones can potentially be used for money laundering and terrorist financing, but the actual risk is further dependent on the nature, type and value of the products. In South Africa, this has been acknowledged by the fact that a threshold of R100 000 per item has been determined to qualify as a dealer in high-value goods. Item 20 of Schedule 1 of the FIC Act describes high value goods as “any item that is valued in that business at R100 000,00 or more” and therefore makes dealers in such items, then accountable institutions.

6.1.2 Gold, including Kruger rands is recognised worldwide as a safe option for investors, particularly in uncertain times. In South Africa, Kruger rands are still a popular form in which gold is stored and is also a form of legal tender. The nature of Kruger rands makes it a popular high-value investment instrument that is easy to trade and transport. The fact that it is sold by a wide variety of dealers, for example, jewelers and commemorative coin dealers, increases the ML and TF risks associated with Kruger rands. Rand Refinery has the authority to conduct primary sales of Kruger rands, including to other dealers. However, there is no limitation on selling of Kruger rands on the secondary market, which reduces the control over sales and increases the ML and TF risks.

6.1.3 Kruger rands can also be sold as “Kruger bits” meaning that the client or investor only buys a portion of a Kruger rand, making it more accessible. In addition, Kruger rands can be sold as part of jewelry as a pendant of a necklace or a chain.

- 6.1.4 The FIC has issued public compliance communication 17 on the definition of a Kruger rand dealer. The FIC views a Kruger rand dealer as “any person who, as a regular feature of his/her business, deals in jewelers, ornaments, watches or other objects that contain Kruger rands”. Kruger rand dealers and traders in such products must take cognisance of the potential risks of ML and TF associated with this. This risk is exacerbated by the fact that precious metals and stones, although high in value, are often small and easy to transport and difficult to detect. This increases the potential risk for undetected cross-border movement of value.
- 6.1.5 Any dealer in a Kruger rand or a product that includes a Kruger rand or a part of a Kruger rand is regarded as a high-value goods dealer. Traders in such products are subject to all the requirements applicable to HVG dealers, including that all such products must be taken into consideration when conducting the money laundering and terrorist financing risk assessment.
- 6.1.6 Precious metals and stones often fall within the description of products that are high in value, yet small, of low weight and easy to transport. Such products would be a higher risk for money laundering and terrorist financing. The risk further increases if the product is durable, difficult to detect and easy to convert into something else of value. Dealers in precious metals and stones must familiarise themselves with the value of their products, and also take into consideration that this value may vary over time and also from one jurisdiction to another.
- 6.1.7 Precious metals and stones and products manufactured from such precious metals and stones are also traded as second-hand products. Traders involved in such second-hand trades must be aware of the potential risks that such products may be stolen – thereby resulting in payment for such goods being the proceeds of crime. In South Africa, the Second-Hand Goods Act, 2009 (Act 6 of 2009) has been introduced to curb potential criminal activities associated with second-hand goods. Institutions must still take extra care and diligence when dealing with such goods.
- 6.1.8 Dealers in precious metals and stones should be familiar with and should understand the market size and accessibility to markets of the different products that they trade in. Products that are in high demand may be more popular among criminals as they are easier to convert into cash or other forms of value.

- 6.1.9 In South Africa, illegal mining is a prevalent criminal activity, it is dangerous and the cause of much violence and social problems. When buying raw materials or stock, dealers in precious metals and stones must be able to verify the origin thereof and conduct due diligence on their suppliers to ensure that they are not contributing to the value chain of illegal mining activities.
- 6.1.10 The purchase of rough diamonds must be subject to the supplier being able to provide a Kimberley Process certificate to verify that the proceeds of the rough diamonds are not financing conflicts or terrorist activities resulting in violence and/or the death of innocent people. When presented with a Kimberly Process certificate, dealers must take the necessary steps to determine the legitimacy of the certificate and that it has not been falsified and the validity period has not been amended.

6.2 Client risk

- 6.2.1 The clients of an accountable institution, including precious metals and precious stones dealers are important in the process of determining the ML and TF risks of the entity. The ML and TF risks associated with clients that are legal persons as opposed to individuals would be considerably different. In addition, clients that are regarded as domestic prominent influential persons (DPIPs) or foreign politically exposed persons (FPEPs) are potentially a higher risk for ML and TF. Where such products are sold to individuals or legal entities for use in a manufacturing or beneficiation process, the consideration of client risk must also be extended to the office bearers and shareholders of such clients.
- 6.2.2 Where precious metals and stones are sold to foreign nationals as retail sales, such sales are likely to be through tourism or through online platforms, which may potentially make it more difficult to establish and verify the identity of a client, resulting in such a client possibly be categorised as higher risk for ML and TF purposes.
- 6.2.3 Precious stones or products containing precious metals and stones are sometimes obtained for investment purposes or by other dealers in the retail business to on-sell to an end user. Knowledge of the purpose of a purchase and whether it is for a retail transaction or for investment purpose will improve the understanding of the risks involved in such a transaction.
- 6.2.4 Precious metals and precious stones dealers are obliged to perform customer due diligence on their clients, as envisaged in the FIC Act and to mitigate the potential ML

and TF risks associated with clients. Precious metals and precious stones dealers are advised to obtain as much information as possible on their clients, the purpose for which they are acquiring the precious metals and precious stones, and the source of funds they are using to make their purchase(s).

- 6.2.5 Clients' behaviour could arouse suspicion. Clients who appear to be secretive or unwilling to provide personal information or information on the purpose of the purchase, or who appear to be concerned about the anti-money laundering and counter financing of terrorism obligations of the dealers may require a higher level of scrutiny. This applies similarly in the environment of precious metals and stones suppliers, especially where new suppliers are being introduced.
- 6.2.6 Where the transaction patterns of the client appear to not be in sync with the client's financial means or background, or the history of previous engagements with the client, or where the client requests delivery to be made to a third party or an apparently unrelated address, the dealer should consider a higher risk rating accompanied with enhanced due diligence.
- 6.2.7 Where commercial clients are purchasing wholesale or in large quantities with the purpose of on-selling to retail users, the dealer must be aware of the nature of the clients' business and determine whether the transaction and the payment arrangements make commercial sense. In addition, they must ascertain whether the client operates from an area where the product is in demand, whether there are requests for delivery to third parties or for payments from third parties and whether a complex structure is used which could possibly conceal the true origin of the beneficial owner of the client. Where clients are legal entities, special attention must also be given to obtaining and verifying the identity and good standing of the natural person who is the ultimate beneficial owner of the client.
- 6.2.8 Negative media reports or references to institutions where clients may have been involved, may be an indication of illicit behaviour and should result in enhanced due diligence.
- 6.2.9 The international nature of clients, as well as the fact that dealers in precious metals and stones have an obligation to conduct customer due diligence, risk rate their clients and do transaction monitoring, means the ML and TF risks associated with clients are potentially high.

6.2.10 Clients and suppliers operating in precious metals or precious stones without proper licensing or authorisation from relevant authorities may engage in illegal activities, such as smuggling, money laundering or selling stolen goods.

6.3 Transaction risk

6.3.1 As cash is still generally accepted by precious metals and precious stones dealers at their premises, this implies that the retail trade in such products is still cash intensive. This is confirmed by the volume of CTRs compared to other regulatory reports submitted to the FIC by Kruger rand dealers. The use of cash further increases the ML risks of precious metals and precious stones.

6.3.2 Where transactions involve products being sent to foreign jurisdictions, the dealer must establish whether all the documentary requirements are in place and are correct. This includes, where necessary, export documentation, permits, invoices and certificates, and any other documents. Dealers should also look out for special requests from clients and for transactions that appears to be aimed at concealing the ultimate destination or altering the true value of the products. Trade-based money laundering, through the manipulation of invoice values and payments is a risk that must be considered by dealers, including those involved in the wholesale trade of precious metals and stones.

6.3.3 Precious metals and stones dealers should consider the banking and payment arrangements of the clients. Questions such as whether the client makes use of more than one bank account for no specific reason, or regularly change bank accounts or where bank accounts are held in jurisdictions that differ from the client's stated address, should raise alarms.

6.3.4 Where a transaction – buying or selling of precious metals and stones – involve second-hand goods, the dealer should verify that it is not the proceeds of theft or other crimes and that all the obligations of the Second-hand Goods Act are adhered to.

6.3.5 A precious metals and stones dealer should determine whether a transaction makes commercial sense, given the client's business, geographic area and financial position and should take the necessary steps to do enhanced due diligence, if necessary.

6.4 Risks associated with distribution channels

- 6.4.1 Precious metals and precious stones dealers in retail trade may also sell online, which may expose them to anonymous or fictitious clients.
- 6.4.2 Alternative distribution channels such as door-to-door deliveries, retail network and online sales facilities are also used in the retail sales of precious metals and precious stones which makes it difficult to properly identify and verify clients.
- 6.4.3 The use of alternative distribution channels makes it difficult to complete the customer due diligence process.
- 6.4.4 As mentioned above, the use of third parties or agents to receive products or to make payment should receive additional attention and may have to be subjected to enhanced due diligence, in particular if there appears to be no relationship between the client and the third party or if the third party is in a high-risk area or geographically close to a high-risk area.
- 6.4.5 Where clients transact through their attorneys, accountants or financial advisors, it may be to hide the actual beneficiary or purchase and such instances must be subject to more scrutiny.

6.5 Geographical areas

- 6.5.1 Some foreign jurisdictions pose a higher risk for money laundering. It is important that precious metals and stones dealers be aware of the risks posed by clients from these jurisdictions and that they have the necessary risk mitigation processes in place. This risk is exacerbated by the fact that transactions can take place electronically across regions, and across domestic and international jurisdictions and that such transactions often require the services of accountants.
- 6.5.2 The geographic location of clients is also an important factor for determining the ultimate money laundering risks. International and domestic experience has indicated that criminals may purchase high-value assets from jurisdictions in which they do not reside or where they do not have an office, to escape scrutiny from authorities.
- 6.5.3 Precious metals and stones dealers must be aware of the potential higher risks posed by clients (including their directors or trustees, shareholders and branches or subsidiaries), transactions (including payments received or products sent) or counterparties involving the following types of countries:

- That are subject to a travel ban
- Which the FATF regards as a high ML risk
- That are regarded as high secrecy jurisdictions
- Which are regarded as tax havens
- Where they are known to have high levels of organised crime, corruption or from which terrorist organisations are known to operate
- That are subject to United Nations Security Council sanctions
- Countries regarded as having weak governance systems, law enforcement and regulatory regimes, including countries regarded by FATF as having weak AML and CFT regimes
- For rough diamonds, if the country from which it is sourced subscribes to the Kimberley Process and whether they have the necessary measures in place to monitor such compliance
- Where cash is used extensively or where there is a well-functioning informal “banking” system (e.g. hawala dealers)
- Where there is known to be a high level of criminal activity, possibly with weak law enforcement processes in place
- Where there is a low level of regulation of the sector for precious metals and stones;
- Where there is a high level of predicate crimes that relate to the sector such as illegal mining or smuggling of rough diamonds.

6.6 Terrorist financing risks

6.6.1 The risk of terrorism financing is referred to throughout this document, but it is important to expand on this unique risk area. The terrorism financing risk areas in respect of clients, distribution channels, geographic areas are largely similar to that of money laundering.

6.6.2 According to the FIC’s registration and reporting platform, goAML, precious metals and precious stones dealers have not submitted any terrorist property reports. However, it is anticipated that the number of terrorist property reports will increase over time since precious metals and precious stones dealers (other than Kruger rand dealers) have only been included as accountable institutions from 19 December 2022.

6.6.3 Dealers in precious metals and precious stones must consider clients and suppliers from countries that are generally known to provide funding or support to terrorist

organisations or that host such organisations, including their neighbouring countries, as high risk for terrorist financing.

6.6.4 Where dealers in precious metals and stones purchase raw materials and stock from other countries, it must also be considered that the mining sector in these countries may be "captured" by terrorist groups, and conducting business with such countries may contribute to the financing of terrorist activities. Precious metals and stones dealers must therefore become aware of the countries that are regarded as high risk for terrorist financing, including neighbouring countries. The sanctions screening process to determine whether a client or supplier is possibly listed by the United Nations, must be diligently followed.

6.6.5 Where business is conducted with non-profit organisations or their office bearers, dealers must confirm that the potential income generated is not used in the financing of terrorist activities.

6.6.6 Clients who appear to have extremist political, religious or world views, may potentially carry a higher risk for terrorist financing and may have to be subjected to enhanced customer due diligence.

7. INDICATORS OF MONEY LAUNDERING AND TERRORIST FINANCING ACTIVITY FOR THE SECTOR

7.1 The FIC has compiled a list of risk indicators based on information from FATF, regional anti-money laundering and combating of terrorist financing bodies, as well as analysis of regulatory reports file by the precious metals and precious stones dealers' sector.

7.2 Based on the FIC's experience and knowledge obtained from intelligence reports, in addition to the risk areas already referred to above, the following are reasons for the potential high inherent money laundering and terrorist financing risks in the dealer in precious metals sector and the dealer in precious stones sector:

- Highly cash intensive sector
- Precious metals and precious stones can be a form of global currency and can act as a medium for exchange in criminal transactions
- Investments in precious metals and precious stones generally yields high returns
- The gold market is highly liquid

- Asset diversifier – gold is a long-term store of value, highly liquid, and an internationally recognised asset of last resort. It can diversify and stabilise an investment portfolio and protect it against market fluctuations. It is easy to buy and sell, anytime, anywhere in the world
- Precious metals and precious stones are small and easy to transport across borders, can easily be traded and smuggled
- Low barriers to entry in the sector
- Stolen precious metals and precious stones could easily be melted down, recast into another gold form and sold for cash.

7.3 The following scenarios can be regarded as potentially high risk for money laundering, and precious metals and precious stones dealers need to apply increased diligence when facing such scenarios:

- Significant cash withdrawals from bank accounts by participants within the gold trading sector
- The transaction involves the use of front or shell companies where the client is an entity
- Original source of funds to buy precious metals and precious stones cannot be established
- Transactions between domestic buyers and sellers with proceeds sent to unknown third parties in foreign jurisdictions
- Unusual pattern of precious metals and precious stones transactions and the nature of the transactions are inconsistent with the customer profile
- Established customer (including bullion dealers) dramatically increasing the purchase of precious metals and precious stones for no apparent reason
- Foreign nationals purchasing gold bullion through multiple transactions over a short period of time
- Purchases for no apparent commercial or investment purpose, including a change in purchase behaviour of an existing client
- Precious metals and precious stones are moved from or to a jurisdiction designated as high risk for money laundering activities or sensitive or non-co-operative jurisdictions
- Illegal price-fixing schemes or attempts to artificially inflate or deflate prices

- Precious metals or stones sourced from regions known for armed conflicts or human rights abuses
- A lack of transparency in the supply chain, such as lack of clarity on origins of precious metals or stones can raise concerns about illegal mining, smuggling, or unethical practices
- Fraudulent grading reports or counterfeit certificates for diamonds and other gemstones may be due to illegal activities
- Frequent turnover of employees in certain roles or positions may indicate potential internal theft or fraudulent activities within the company

Use shell companies to disguise the origins or destinations of precious metals and stones, making it difficult to trace illegal activities.

8. CONCLUSION

Entry barriers in the sale of precious metals and precious stones are low and these products are often traded by using cash and online platforms, which increases the risk profile. The online sales platforms, the sale of precious metals and precious stones to tourists and the international trade in raw materials that are used in the manufacturing of precious metals and stones, result in the sector having an international nature, which makes the laundering of funds through these instruments attractive. The potential for dealers in and manufacturers of precious metals and stones to source raw materials from conflict areas and areas where there are threats of terrorism, also makes the sector vulnerable for terrorist financing. The inherent ML and TF risks associated with precious metals and precious stones dealers are high.

9. CASE STUDY

The Zama Zamas

- 9.1 The FIC assisted law enforcement agency to identify several syndicate members in Virginia and Welkom, who were acquiring gold-bearing material from illegal miners known as “Zama Zamas” and using their own techniques to process the gold. This illegally acquired gold would then be sold to various refineries in Gauteng.

- 9.2 The FIC conducted analysis and confirmed that the subjects made small regular payments to various people in the Free State to pay the low-level operators or “runners” in the syndicate, who acted as intermediaries between the illegal miners and the refineries.
- 9.3 The law enforcement investigation team located the runners and the premises they used to process the gold-bearing material. A search and seizure warrant led to the law enforcement authorities confiscating equipment and two gold nuggets. Four subjects were arrested. The subjects were sentenced to five years imprisonment.