

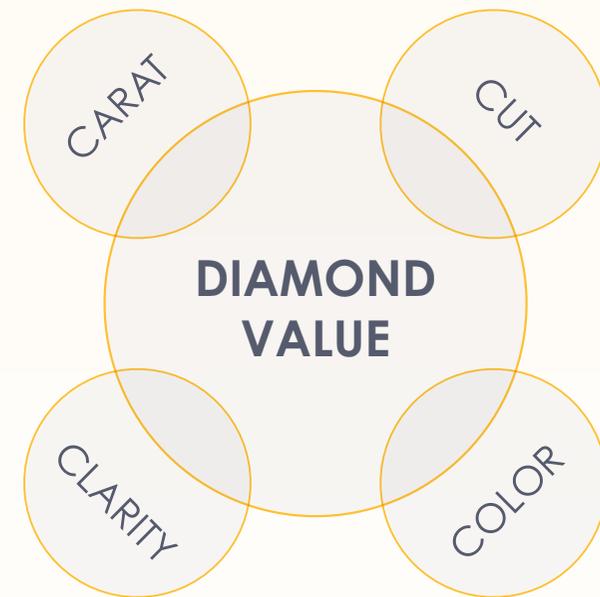
CHAPTER 5

COMPLIANCE



Compliance: value added of the 5th C

To emphasize the importance of compliance in the diamond sector AWDC has included compliance in its 'Master plan 2020' as the '5th C' of diamonds, alongside Cut, Colour, Clarity and Carat.



Thanks to AWDC's focus on compliance, we achieved the following important breakthroughs, which will be elaborated on in this chapter:

1. Standard Client Acceptance policy for the diamond sector
2. Risk analysis of the diamond sector
3. Foundation of AWDC AML & Compliance Helpdesk
4. 'Doing Business in Antwerp' manual

What is compliance actually?

Compliance is a term which is used to indicate that a person or organization works in accordance with the valid legislation and regulations.

STANDARD CLIENT ACCEPTANCE POLICY FOR THE DIAMOND SECTOR

The Belgian Anti-Money Laundering Act of January 11, 1993 has been applicable to registered diamond traders since 2004. Specifically for the diamond industry, a regulation (Royal Decree (KB) October 22, 2006) was published, which further elaborated the sector-specific commitments.

In addition, the use of cash is limited by the anti-money laundering legislation to 10% of the total amount of the transaction, and a maximum of €3,000. The use of cash is therefore uncommon, as the bulk of the transaction price is made through a bank transaction.

In 2013, the obligations of a registered diamond trader in terms of identifications were further strengthened.

Specifically, this means that every diamond trader must identify his customer on the basis of the necessary identification documents. He also must perform a verification or risk analysis of this customer.

For the implementation of the legal anti-money laundering stipulations, AWDC, in collaboration with the supervisory government and the Financial Information Processing Unit (CFI) developed a Client Acceptance Policy (CAP). This client acceptance policy guides the diamond trader step by step through the identification requirements and describes three levels of risks for the verification process, in accordance with the rules set by the

Financial Action Task Force (FATF): unacceptable, increased and normal risks.

On the basis of this risk analysis a Belgian diamond trader must decide whether or not to accept a client and to allow the transaction to proceed and/or to report to the CFI:

- The transaction may not go ahead if there are unacceptable risks.
- In case of increased risk, the diamond trader must be extra vigilant and possibly refuse to go ahead with the transaction. Increased vigilance means that the transactions with this client must be reviewed in greater detail, and an evaluation will have to take place on a more regular basis.
- During repeated controls, FPS Economy will determine whether diamond traders apply this CAP or not, and to which degree.

The CAP document is distributed in the sector via AWDC's digital newsletter and is made available to the sector via the AML & Compliance Helpdesk and during seminars.

The CFI – Cel voor Financiële informatieverwerking (Financial Information Processing Unit)

The CFI, established by the law published on 11 January 1993, is an independent Belgian administrative government body with a legal base. CFI is responsible for the processing and reporting of information in order to combat money laundering and terrorist financing. These include the financing of proliferation-sensitive nuclear activities and the development of nuclear weapon delivery systems. This governmental body, composed of legal and financial experts and a senior officer seconded from the federal police, is supervised by the Ministers of Justice and Finance and is under the guidance of a magistrate.

The FATF De Financial Action Task Force on money laundering

The Financial Action Task Force (FATF) is an intergovernmental association established by the G-7 in 1989. FATF focuses on the international fight against money laundering and terrorism financing. Members of FATF are bound by 40 recommendations. FATF monitors the improvement of national legal systems, the role of the financial institutions and strengthening of international cooperation. It also monitors the correct operation and effectiveness of legal rules. Members are regularly evaluated and assessed based on FATF recommendations.

RISK ANALYSIS OF THE DIAMOND SECTOR

At the request of the CFI and with the support of FPS Economy, AWDC compiled a risk analysis of the Antwerp diamond sector. This analysis determines the risks with respect to money laundering and terrorism financing. It contains a summary of factors, reducing the risk of money laundering and financing of terrorism in the Belgian diamond sector but also factors increasing it.

RISK REDUCING FACTORS

- The sector is relatively small and very concentrated, resulting in a low reporting rate to CTIF/CFI.
- Numerous procedures and controls increase the difficulty to access the diamond trade.
- The diamond sector is a very strictly regulated sector. The 3-tier control by Diamond Office, FPS Economy and FPS Finance is a good example of this.
- AWDC's AML & Compliance Helpdesk updates and informs the sector.
- The core elements of the diamond bourses are trust and integrity.
- The internal regulation of the Belgian diamond bourses foresees strict admission and suspension procedures.

RISK INCREASING FACTORS

- There is no level playing field and thus there are unequal standards.
- The legal framework is very complex and requires thorough knowledge.
- There is a need for open and transparent communication between the diamond sector and government.
- A large number of diamond companies are small enterprises that do not possess enough knowledge.
- Diamonds are the only product in the goods sector subject to AML.
- The rapidity of transactions and the B2B characteristic.





AWDC'S AML & COMPLIANCE HELPDESK

The AWDC set up an AML (anti-money laundering) & Compliance Helpdesk in 2007, which offers all necessary and useful training concerning AML to diamond traders, such as:

- Answering questions with regards to the application of the Belgian anti-money laundering legislation
- Supporting traders in filling out the annual activities report
- Informing the Antwerp diamond sector via digital newsletters about the anti-money laundering legislation
- Organizing seminars
- Providing information concerning other compliance issues

Number of questions for the Helpdesk, according to topics (2013)	
Identification	59
Verification	9
Prevention	39
Use of cash	16
Others	5

The AML & Compliance Helpdesk also organized three seminars for the Antwerp diamond sector. In 2013, 135 staff members from Antwerp diamond companies participated in one of these seminars.

“For us, the government representatives, it is clear that AWDC plays an important role in clarifying and explaining legislation to the diamond sector, by using understandable and accessible concepts and appropriate measures.” says Frieda Coosemans, FPS Economy Advisor.

HANDBOOK ‘DOING BUSINESS IN ANTWERP’

In June 2013 AWDC published a handbook for the diamond sector, entitled ‘Doing Business in Antwerp’. The goal of this handbook is to inform the diamond trader based in Antwerp as well as foreign traders. The brochure is divided into chapters:

1. The formalities and registrations that must be completed in order to operate as a registered diamond trader in Antwerp
2. General legal obligations
3. Sector-specific legal obligations

The compliance handbook is available online on AWDC’s website, where it is one of our most popular pages.

Profound monitoring of the diamond sector

STRINGENT REGISTRATION PROCEDURES

In 2013, 1706 registered diamond traders were operating in Antwerp. This number of traders has been constant for the last four years. All registered diamond traders can be found at www.registereddiamondcompanies.be.

Registration as a diamond trader is mandatory, for the independent traders as well as for trade firms. The diamond trader must prove to the FPS Economy that he has completed all formalities before he is allowed to operate as a trader in Belgium.

Acquiring the status of diamond trader is far from simple and the managers and executives are always known by name at the FPS Economy, Diamond Office and the Diamond Bourses. This ensures that certain people who wish to exploit a legal entity will find access to the Belgian diamond sector more difficult.

In addition, since 2012, the FPS Economy conducts targeted controls of diamond traders. The FPS does this by using predefined risk criteria, and has the authority to issue an official complaint. In the first year, 52 inspections were carried out. The results of these inspections are not released.

FPS ECONOMY: ANTI-MONEY LAUNDERING AND KIMBERLEY PROCESS

Every Belgian diamond trader must submit an activity report to the FPS Economy every year. On the basis of this report, the permit-issuing service determines if suspicious transactions are spotted, for example on the application of the stipulations and obligations of the anti-money laundering legislation. Predefined risk criteria also point the FPS Economy in the direction of diamond traders where a check can be carried out on location. 'Control dossiers' are done for all traders who have not sent in their report.

	2009	2010	2011	2012	2013
Submitted AML reports	1,660	1,645	1,629	1,622	1,360
Control dossier <i>(AML reports not submitted)</i>	277	278	198	164	Ongoing
PV's following control <i>(AML reports not submitted)</i>	10	15	7	Ongoing	Ongoing
On-site AML controls	/	/	/	52	Ongoing

FPS Economy is also the authorised authority in Belgium for the implementation of European and international legislation and for Kimberley Process Certification Scheme (KPCS), for the international trade in rough diamonds. In this capacity a representative of FPS Economy participates in all European and international meetings concerning this matter.

DIAMOND OFFICE'S TRIPLE CONTROLS

The practical processing of the import and export of diamonds in Antwerp occurs at Diamond Office (DO), an AWDC Department.

Number of shipments of imported polished diamonds

2010	2011	2012	2013
37,033	40,736	39,152	40,897

Number of shipments of imported rough diamonds

2010		2011		2012		2013	
Total	Without KP certificate	Total	Without KP certificate	Total	Without KP certificate	Total	Without KP certificate
9,789	2	11,650	1	11,345	0	11,896	2



Number of shipments of exported polished diamonds			
2010	2011	2012	2013
49,711	49,371	46,032	48,778

Number of shipments of exported rough diamonds			
2010	2011	2012	2013
29,286	28,719	28,579	31,557

DO acts as supervising body for the Belgian government, for all import and export of all types of unset polished and rough diamonds, industrial diamonds, boart, synthetic diamonds and diamond powder, natural as well as synthetic. DO does this in collaboration with FPS Economy and FPS Finance (Customs). DO is the only customs office in Belgium where diamonds can and must be declared for import and export outside of the EU.

Three staff members of FPS Economy and two of FPS Finance are at all times present at the DO. The Permit-issuing Department of FPS Economy is responsible for the physical checks of all imports and exports of diamonds. These checks are conducted by sworn experts who work under the supervision of the FPS Economy.

Each of the 17 sworn experts opens shipments and conducts an examination according to a number of parameters. The weight, value and classification of diamonds are compared with the information on the trade documents and the invoice. This form of 100% physical controls does not exist anywhere else in the world. Most countries work with targeted checks on the basis of a risk analysis.

Customs conducts a control of all import- and export declarations prepared by AWDC personnel within DO. Since 2011, AWDC has the status of a fully Authorized Economic Operator (AEO). This confirms that FPS Finance (Customs) recognizes AWDC as a reliable partner, in the field of customs procedures as well as security. Within DO, AWDC is not only a declarant of all imports and exports

from the Belgian diamond sector; the organization also offers assistance in all import and export formalities.

This triple control (DO, FPS Economy and FPS Finance) ensures that the Belgian diamond sector is the most controlled sector in Belgium, but also the most transparent in a global perspective.