Davis Polk

Treasury Acts Against Chinese Entities to Increase Pressure on North Korea

June 30, 2017 | Client Update | 3-minute read

Following **signals** that the Administration would take action if China did not put more pressure on North Korea, on June 29, 2017, the U.S. Department of the Treasury took several actions in response to North Korea's continued evasion of international sanctions, development of weapons of mass destruction ("WMD") and the means of their delivery, and violations of United Nations Security Council resolutions. First, Treasury's Financial Crimes Enforcement Network ("FinCEN") found that Bank of Dandong, a relatively small Chinese bank, is a foreign bank of primary money laundering concern, which FinCEN therefore proposes to sever from the U.S. financial system. Additionally, the Treasury Department's Office of Foreign Asset Control ("OFAC") designated two Chinese individuals and one Chinese company for their continued support of North Korea's activities.

FinCEN Action

As described in a **Notice of Proposed Rulemaking**, FinCEN invokes section 311 of the USA PATRIOT Act to prohibit U.S. financial institutions from opening or maintaining correspondent accounts for, or on behalf of, Bank of Dandong. Covered financial institutions would also be required to apply to their foreign correspondent accounts special due diligence reasonably designed to guard against the accounts' use to process transactions involving Bank of Dandong.

OFAC Designations

Also on June 29, 2017, OFAC designated one individual – Wei Sun – pursuant to Executive Order ("E.O.") 13382, which targets WMD proliferators and their supporters. OFAC also designated one individual – Li Hong Ri, and one shipping company – Dalian Global Unity Shipping Company Limited – pursuant to E.O. 13722, which targets, in part, North Korea's transportation and financial services industries. Identifying information and aliases for the designated individuals and entities are available on **OFAC's website** along with **related press release**.

As a result of these actions, any property or interests in property of the designated persons in the possession or control of U.S. persons or within the United States must be blocked, and U.S. persons are generally prohibited from doing business with them.

Treasury Secretary Steven Mnuchin issued a **statement** regarding these actions, noting in part that: "[w]hile today's actions are directed at Chinese individuals and entities, we look forward to continuing to work closely with the Government of China to stop illicit financing involving North Korea. We are in no way targeting China with these actions. We will be meeting with China and other countries at the G-20 next week to further our efforts to cut off North Korea's illicit activities. North Korea's provocative, destabilizing, and inhumane behavior will not be tolerated. We are committed to targeting North Korea's external enablers and maximizing economic pressure on the regime until it ceases its nuclear and ballistic missile programs."

Chinese foreign ministry spokesman Geng Shuang **reportedly** called the sanctions imposed on Chinese entities a "violation" of the "shared consensus" between President Trump and Chinese President Xi Jinping and called on the United States to "correct the wrongs."

If you have any questions regarding the matters covered in this publication, please reach out to any of the lawyers listed below or your usual Davis Polk contact.

John B. Reynolds III
+1 202 962 7143
john.reynolds@davispolk.com

Will Schisa
+1 202 962 7129
will.schisa@davispolk.com