UNITED STATES OF AMERICA
DEPARTMENT OF THE TREASURY
FINANCIAL CRIMES ENFORCEMENT NETWORK

IN THE MATTER OF:	)	
	)	
	)	
	)	**Number 2015-12**
B.A.K. Precious Metals, Inc., and	)	
Bogos Karaoglanyan, and	)	
Arman Karaoglanyan,	)	
Los Angeles, California	)	

ASSESSMENT OF CIVIL MONEY PENALTY

I. INTRODUCTION

The Financial Crimes Enforcement Network ("FinCEN") has determined that grounds exist to assess a civil money penalty against B.A.K. Precious Metals, Inc. ("B.A.K."), its sole owner, Bogos Karaoglanyan, and its designated compliance officer, Arman Karaoglanyan, pursuant to the Bank Secrecy Act ("BSA") and regulations issued pursuant to that Act.[1]

B.A.K., Bogos Karaoglanyan, and Arman Karaoglanyan admit to the facts set forth below and that their conduct violated the BSA. B.A.K., Bogos Karaoglanyan, and Arman Karaoglanyan consent to this assessment of a civil money penalty and enter the CONSENT TO THE ASSESSMENT OF CIVIL MONEY PENALTY ("CONSENT") with FinCEN.

The CONSENT is incorporated into this ASSESSMENT OF CIVIL MONEY PENALTY ("ASSESSMENT') by reference.

[1] The BSA is codified at 12 U.S.C. §§ 1829b, 1951-1959 and 31 U.S.C. §§ 5311-5314, 5316-5332. Its implementing regulations appear at 31 C.F.R. Chapter X.

FinCEN has the authority to investigate dealers in precious metals, precious stones, or jewels for compliance with and violation of the BSA pursuant to 31 C.F.R. § 1010.810, which grants FinCEN "[o]verall authority for enforcement and compliance, including coordination and direction of procedures and activities of all other agencies exercising delegated authority under this chapter."

Dealers in precious metals, precious stones, or jewels are persons in the United States who are in the business of purchasing and selling covered goods and who, during the prior calendar or tax year: (i) purchased more than $50,000 in covered goods; and (ii) received more than $50,000 in gross proceeds from the sale of covered goods.[2] Covered goods include precious metals, precious stones, jewels, and finished goods that derive 50 percent or more of their value from jewels, precious metals, or precious stones contained in or attached to such finished goods.[3]

At all times relevant to this action, B.A.K. was a "financial institution"[4] and a "dealer in precious metals, precious stones, or jewels,"[5] within the meaning of the Bank Secrecy Act and its implementing regulations, and Bogos Karaoglanyan and Arman Karaoglanyan were officers of B.A.K. B.A.K. is a wholesale precious metals dealer located in the Los Angeles, California jewelry district. Bogos Karaoglanyan founded B.A.K. in 2006 and is its sole owner. Bogos Karaoglanyan's son, Arman Karaoglanyan, is B.A.K.'s designated compliance officer. In 2012, B.A.K. conducted about $120 million in purchase and sales volume.

---

[2] 31 CFR § 1027.100(b).

[3] 31 CFR § 1027.100(a).

[4] 31 CFR § 1010.100(t).

[5] 31 CFR § 1027.100(b).

FinCEN has delegated to the Internal Revenue Service, through the Small Business/Self-Employed Division ("IRS SB/SE"), authority to examine dealers in precious metals, precious stones, or jewels for compliance with the BSA and its implementing regulations. B.A.K. was the subject of a BSA compliance examination in 2011 and again in 2013.

B.A.K. did not have any anti-money laundering ("AML") program in place until 2011, five years after it was established and only after the IRS SB/SE examiners instructed it to implement a program. Although B.A.K. subsequently obtained an AML program, the program was not reasonably designed to ensure compliance with the Bank Secrecy Act. As described in more detail below, B.A.K. failed to appropriately assess its money laundering and terrorist financing risks, conducted almost no due diligence on many of its highest risk customers, and failed to implement effective procedures to identify red flags or to conduct inquiries when such red flags were present, among other things. B.A.K.'s failures exposed the U.S. financial system to serious risks of money laundering and terrorist financing, given its transactional activity.

II. DETERMINATIONS

B.A.K. willfully violated the BSA's program requirements from January 2010 to the present. Bogos Karaoglanyan, B.A.K.'s sole owner, and Arman Karaoglanyan, B.A.K.'s designated compliance officer, willfully participated in these violations.[6] B.A.K., Bogos

[6] In civil enforcement of the Bank Secrecy Act under 31 U.S.C. § 5321(a)(1), to establish that a financial institution or individual acted willfully, the government need only show that the financial institution or individual acted with either reckless disregard or willful blindness. The government need not show that the entity or individual had knowledge that the conduct violated the Bank Secrecy Act, or that the entity or individual otherwise acted with an improper motive or bad purpose. B.A.K., Bogos Karaoglanyan, and Arman Karaoglanyan admit to "willfulness" only as the term is used in civil enforcement of the Bank Secrecy Act under 31 U.S.C. § 5321(a)(1).

Karaoglanyan, and Arman Karaoglanyan failed to implement and maintain an effective anti-money laundering program, in violation of 31 U.S.C. §§ 5318(a)(2) and 5318(h); 31 C.F.R. § 1027.210. Because Bogos and Arman Karaoglanyan were the President and designated BSA compliance officer, respectively, they were responsible for understanding how to comply with the BSA, ensuring that B.A.K.'s AML program was adequate for the risks associated with B.A.K.'s business, and implementing the program in all relevant aspects of the business. Their failure to fulfill these responsibilities resulted in the violations described herein.

A. Violations of Requirement to Develop and Implement a Written Anti-Money Laundering Program

The BSA and its implementing regulations require dealers in precious metals, precious stones, or jewels to develop, implement, and maintain an effective written AML program that is reasonably designed to prevent the dealer from being used to facilitate money laundering and the financing of terrorist activities.[7] B.A.K. was required to implement an AML program that, at a minimum: (a) incorporates policies, procedures and internal controls based on the dealer's assessment of the money laundering and terrorist financing risks associated with its line(s) of business; (b) designates an individual responsible for assuring day to day compliance with the program and BSA requirements; (c) provides training for appropriate personnel including training in the detection of suspicious transactions; and (d) provides for independent review to monitor and maintain an adequate program.[8]

[7] 31 U.S.C. § 5318(h); 31 C.F.R. § 1027.210 (promulgated under 31 U.S.C. § 5318(a)(2)).

[8] 31 C.F.R. § 1027.210(b) (outlining AML program requirements).

B.A.K. violated the BSA's anti-money laundering program requirements by conducting business without establishing and implementing adequate policies, procedures, and internal controls reasonably designed to assure compliance with the BSA. B.A.K. failed to develop, maintain, and implement an effective AML program that adequately addressed any of the four minimum requirements. Bogos Karaoglanyan and Arman Karaoglanyan willfully participated in B.A.K.'s violations.

1. Internal Controls

B.A.K failed to implement adequate policies, procedures and internal controls based on an appropriate assessment of its money laundering and terrorist financing risks.

a. Risk Assessment

B.A.K., Bogos Karaoglanyan, and Arman Karaoglanyan severely underestimated the risks of their business and, as a result, they lacked effective procedures to identify whether B.A.K. was being exploited for money laundering or terrorist financing. B.A.K. was required to develop and implement a risk assessment incorporating all relevant factors to assess the risk of money laundering and terrorist financing associated with its lines of business.[9] The relevant factors include, at a minimum: "(a) [t]he type(s) of products the dealer buys and sells, as well as the nature of its customers, suppliers, distribution channels, and geographic locations; (b) [t]he extent to which the dealer engages in transactions other than with established customers or sources of supply, or other dealers subject to this rule; and (c) [w]hether the dealer engages in

[9] 31 CFR § 1027.210(b)(1) (describing risk assessment).

transactions for which payment or account reconciliation is routed to or from accounts located in certain high-risk jurisdictions[.]"[10]

B.A.K.'s risk assessment failed to accurately assess any of these relevant factors, leading B.A.K. to assess itself erroneously as low-risk in its written Bank Secrecy Act Policies and Procedures Manual ("BSA Manual"). B.A.K claimed it was low risk because it purportedly did not deal in cash, but only checks and wires. The fact that a business transacts only in checks and wires does not excuse it from assessing the risks associated with those transactions, which B.A.K did not do. In an effort to buttress its "low risk" assessment, B.A.K.'s BSA Manual claimed its transactions were typically $5,000 or less. In contrast, however, B.A.K. regularly conducted transactions substantially in excess of that amount, with single transactions in amounts of up to $700,000. B.A.K. had no controls in place, in writing or in practice, to address the money laundering risks inherent in such large high dollar transactions, yet inappropriately maintained its self-assessment as a low-risk business.

In one of the few areas in which B.A.K. identified itself as high risk, it failed to appropriately address or mitigate that risk. In its risk assessment, for example, B.A.K. acknowledged its location in a high risk geographic area and claimed that B.A.K.'s internal controls mitigated this risk. However, none of B.A.K.'s internal controls directly addressed geographic risk.

B.A.K. states in its BSA Manual that it is low risk, "based primarily on its services offered (Purchase precious metals only, and not from public)." Neither of these reasons is a proper basis for B.A.K. to identify itself as low risk. First, the wholesale purchase and sale of

---

[10] 31 CFR § 1027.210(b)(1)(i).

precious metals presents elevated money laundering risks because such metals are easily transportable, highly concentrated forms of wealth that can be highly attractive to money launderers and other criminals.[11] Not only did B.A.K., Bogos Karaoglanyan, and Arman Karaoglanyan fail to appreciate this risk, they ignored their obligation to mitigate it. Additionally, B.A.K.'s records indicate that B.A.K did, in fact, purchase gold from the general public contrary to the statement in B.A.K.'s BSA Manual.

In addition, B.A.K. failed to adequately assess its risks because it did not conduct due diligence on its highest risk customers. In 2011, B.A.K. began dealing in large sums of gold with new customers, with transactions ranging between $14 and $23 million. This helped B.A.K. nearly double its total yearly volume, which reached $120 million by the end of 2012. Despite this significant change in volume and customer base, B.A.K. chose not to require many of these new customers to provide any documentation or identification prior to conducting business, even though B.A.K.'s AML program required B.A.K. to do so. Moreover, the purchase orders documenting these transactions, many of which were over $100,000, contained only the business name and included no identifying information on the underlying individuals. Without such basic information, B.A.K. and the Karaoglanyans could not meaningfully assess or mitigate the risks presented by these counterparties, as explicitly required by the BSA.

b. Reasonable Inquiries

B.A.K. was required to incorporate policies, procedures, and internal controls to assist B.A.K. in identifying transactions that may involve use of the business to facilitate money

[11] Financial Crimes Enforcement Network; Anti-Money Laundering Programs for Dealers in Precious Metals, Precious Stones, or Jewels, 70 Fed. Reg. 33,702, 33,709 (June 9, 2005).

laundering or terrorist financing, including provisions for making reasonable inquiries to determine whether a transaction involves money laundering or terrorist financing, and for refusing to consummate, withdrawing from, or terminating such transactions.[12] In many high-risk transactions, B.A.K. failed to make reasonable inquiries in response to specific red flags when determining whether to complete a transaction. For example, in one instance, B.A.K. purchased $200,000 of pure gold from a new walk-in customer without inquiring as to the origin of the gold or otherwise attempting to understand the customer's background and business purpose. Instead, Arman Karaoglanyan simply relied on the fact that the customer was referred to B.A.K. by another customer who was a longtime family friend.

B.A.K., Bogos Karaoglanyan, and Arman Karaoglanyan also ignored the procedures specifically prescribed in B.A.K.'s anti-money laundering program. While not required under FinCEN regulations, B.A.K.'s AML program stated that it would report suspicious activity in the same manner as money services businesses. However, B.A.K. filed no suspicious activity reports despite numerous customers and transactional relationships indicating red flags for money laundering or other illegal activity.

2. <u>Violations Related to Designated Compliance Officer</u>

Arman Karaoglanyan, B.A.K.'s designated BSA compliance officer, failed to: (1) implement effectively B.A.K.'s anti-money laundering program; (2) update the program to reflect changes in the risk assessment; and (3) ensure that the appropriate personnel (including himself) were trained as detailed under the regulation.[13] Even though the IRS SB/SE had

---

[12] 31 CFR § 1027.210(b)(1)(ii) (describing risk assessment).

[13] 31 C.F.R. § 1027.210(b)(2) (outlining compliance officer responsibilities).

informed him of B.A.K.'s BSA requirements, including those regarding his role as the BSA compliance officer, Arman Karaoglanyan ignored these responsibilities and allowed B.A.K. to become highly susceptible to money laundering and terrorist financing. He also failed to update B.A.K.'s AML program to account for B.A.K.'s high risk activity, even after the IRS SB/SE had provided him with specific guidance regarding his failures to properly assess the high risk nature of B.A.K.'s business during the initial examination in 2011.

3. Violations Related to Training

B.A.K. did not provide for education and training of personnel regarding their responsibilities under the BSA and its implementing regulations.[14] The IRS informed B.A.K. of this requirement during the 2011 examination, and the anti-money laundering program B.A.K. adopted after the examination expressly required such training. Notwithstanding having ample notice of this requirement, B.A.K., Bogos Karaoglanyan, and Arman Karaoglanyan failed to conduct any training.

4. Violations Related to Independent Testing

B.A.K. did not provide for independent testing to monitor and maintain an adequate anti-money laundering program.[15] IRS informed B.A.K. of this requirement during the 2011 examination, and the anti-money laundering program B.A.K. adopted after the examination expressly required independent testing. Again, notwithstanding ample notice of this requirement, B.A.K., Bogos Karaoglanyan, and Arman Karaoglanyan failed to conduct independent testing.

---

[14] 31 C.F.R. § 1027.210(b)(3) (mandating education and training).

[15] 31 C.F.R. § 1027.210(b)(4) (requiring independent testing).

III. CIVIL MONEY PENALTY

FinCEN has determined that B.A.K. willfully violated the program and reporting requirements of the BSA and its implementing regulations, as described in the CONSENT, that Arman Karaoglanyan and Bogos Karaoglanyan willfully participated in these violations, and that grounds exist to assess civil money penalties.[16]

FinCEN has determined that the penalty in this matter will be $200,000 imposed on B.A.K., Arman Karaoglanyan, and Bogos Karaoglanyan.

IV. UNDERTAKINGS

B.A.K., Arman Karaoglanyan, and Bogos Karaoglanyan have agreed to undertake several improvements to B.A.K.'s BSA/AML Program, including those with respect to fostering a culture of compliance, complying with all applicable BSA program and reporting requirements, including implementing risk-based "Know Your Customer" (KYC) measures and preventing and detecting money laundering and the financing of terrorist activities. By its execution of the CONSENT, B.A.K., Arman Karaoglanyan, and Bogos Karaoglanyan, to resolve this matter, and only for that purpose, agree to the following UNDERTAKINGS:

A. External Independent Reviewer. B.A.K. will engage and retain an independent, external, qualified, and experienced external auditor (the "Third-Party Reviewer"), not subject to any conflict of interest, and subject to FinCEN's determination of non-objection after FinCEN's review of the engagement contract, to examine B.A.K.'s BSA compliance program, and to conduct risk-based independent testing of B.A.K.'s BSA/AML Program. Independent testing will include program governance,

[16] 31 U.S.C. § 5321; 31 C.F.R. § 1010.820 (providing for civil penalties).

compliance structure and staffing; risk assessments; compliance with all BSA recordkeeping and reporting requirements, including KYC policies, procedures and controls; transaction monitoring; and training and communications. The independent testing will test remedial steps taken to address all criticisms in the 2011 and 2013 IRS SB/SE Examinations. Three reviews will occur: the first will commence within 180 days of this agreement; the second will occur in 2018; and the third will occur in 2020. Each review will cover the prior year, with no less than three months' worth of transactional analysis. The Third-Party Reviewer will prepare a written report for B.A.K.'s compliance officer and owners setting forth its findings, and will transmit the report and all draft reports to FinCEN and IRS SB/SE simultaneously with any transmission to B.A.K., Arman Karaoglanyan, Bogos Karaoglanyan, or their attorneys or agents. To the extent that the report identifies any material deficiencies in B.A.K.'s programs and procedures, B.A.K., Arman Karaoglanyan, and Bogos Karaoglanyan will address and rectify the deficiencies as soon as is reasonably practicable and will advise FinCEN and IRS SB/SE of the remedial steps taken.

B. AML Program Report. On or before January 30, 2017, and annually thereafter for the next three years (i.e., on or before January 30, 2018; January 30, 2019; and January 30, 2020), B.A.K. will provide a comprehensive report to FinCEN of the implementation of its BSA/AML Program which will include all initiatives to improve BSA/AML compliance and any material breakdowns or deficiencies in internal controls, and management's responses and action plan to address any issues raised in the Third Party-Reviewer's report. The report will also include the most recent AML risk assessment methodology and risk assessment; the status of BSA

staffing and organization and governance initiatives; any revised policies and procedures, including with respect to KYC compliance; and the quality assurance (compliance testing) program.

C. Training Plan. By January 15, 2016 and annually thereafter through and including 2020, B.A.K. will provide to FinCEN and IRS SB/SE a copy of its training program provided to employees; attendance records of all employees and officers who attended the program; and the results of any testing to ensure knowledge of BSA/AML program, recordkeeping, and reporting requirements.

Failure to comply with any of the above UNDERTAKINGS will constitute a violation of the CONSENT. If FinCEN determines that a failure to comply with any UNDERTAKING has occurred, FinCEN may take any enforcement action against B.A.K., Arman Karaoglanyan, or Bogos Karaoglanyan it deems appropriate, notwithstanding the Release in Part VII below. Additional actions taken by FinCEN may include, but are not limited to, the imposition of additional civil money penalties, seeking injunctive orders, or ordering other remedial actions within the authorities of FinCEN.

V. CONSENT TO ASSESSMENT

To resolve this matter, and only for that purpose, B.A.K., Bogos Karaoglanyan, and Arman Karaoglanyan ("the Parties") consent to this assessment of a civil money penalty in the sum of $200,000; the Parties consent to the UNDERTAKING; and the Parties admit that their conduct violated the Bank Secrecy Act.

The Parties recognize and state that they enter into the CONSENT freely and voluntarily and that no offers, promises, or inducements of any nature whatsoever have been made by

FinCEN or any employee, agent, or representative of FinCEN to induce the Parties to enter into the CONSENT, except for those specified in the CONSENT.

The Parties understand and agree that the CONSENT embodies the entire agreement between the Parties and FinCEN relating to this enforcement matter only, as described in Section II above. The Parties further understand and agree that there are no express or implied promises, representations, or agreements between the Parties and FinCEN other than those expressly set forth or referred to in this document and that nothing in the CONSENT or in this ASSESSMENT is binding on any other agency of government, whether Federal, State, or local.

VI. PUBLIC STATEMENTS

The Parties expressly agree that they shall not, nor shall their attorneys, agents, partners, directors, officers, employees, affiliates, or any other person authorized to speak on their behalf, make any public statement contradicting either their acceptance of responsibility set forth in the CONSENT or any fact in the DETERMINATIONS section of the CONSENT. FinCEN has sole discretion to determine whether a statement is contradictory and violates the terms of the CONSENT. If the Parties, or anyone claiming to speak on behalf of the Parties, make such a contradictory statement, the Parties may avoid a breach of the agreement by repudiating such statement within 48 hours of notification by FinCEN. If FinCEN determines that the Parties do not satisfactorily repudiate such statement(s) within 48 hours of notification, FinCEN may void, in its sole discretion, the releases contained in the CONSENT and reinstitute enforcement proceedings against the Parties. The Parties expressly agree to waive any statute of limitations defense to the reinstituted enforcement proceedings and further agree not to contest any admission or other findings made in the CONSENT. This paragraph does not apply to any statement made by any present or former officer, director, employee, or agent of the Parties in

the course of any criminal, regulatory, or civil case initiated against such individual, unless the Parties later ratify such claims, directly or indirectly. The Parties further agree that, upon notification by FinCEN, the Parties will repudiate such statement to the extent it contradicts either their acceptance of responsibility or any fact in the DETERMINATIONS section of the CONSENT.

VII. RELEASE

Execution of the CONSENT, and compliance with the terms of this ASSESSMENT and the CONSENT, settles all claims that FinCEN may have against the Parties for the conduct described in Section II of the CONSENT. Execution of the CONSENT, and compliance with the terms of this ASSESSMENT and the CONSENT, does not release any claim that FinCEN may have for conduct by the Parties other than the conduct described in Section II of the CONSENT or any claim that FinCEN may have against parties other than B.A.K., Boris Karaoglanyan, and Arman Karaoglanyan, such parties to include, without limitation, any current or former partner, director, officer, or employee of B.A.K. other than Boris Karaoglanyan and Arman Karaoglanyan. Upon request, the Parties shall truthfully disclose to FinCEN all factual information not protected by a valid claim of attorney-client privilege or work product doctrine with respect to the conduct of any party other than B.A.K., Bogos Karaoglanyan, or Arman Karaoglanyan.

//

//

//

//

//

If FinCEN determines, in its sole judgment, that any Party has breached any portion of its agreement, FinCEN may void, in its sole discretion, the releases contained in the CONSENT and reinstitute enforcement proceedings against that Party. The Parties expressly agree to waive any statute of limitations defense to the reinstituted enforcement proceedings and further agree not to contest any admission or other findings made in the CONSENT.

/s/ December 30, 2015

Jennifer Shasky Calvery Date
Director
Financial Crimes Enforcement Network
U.S. Department of the Treasury