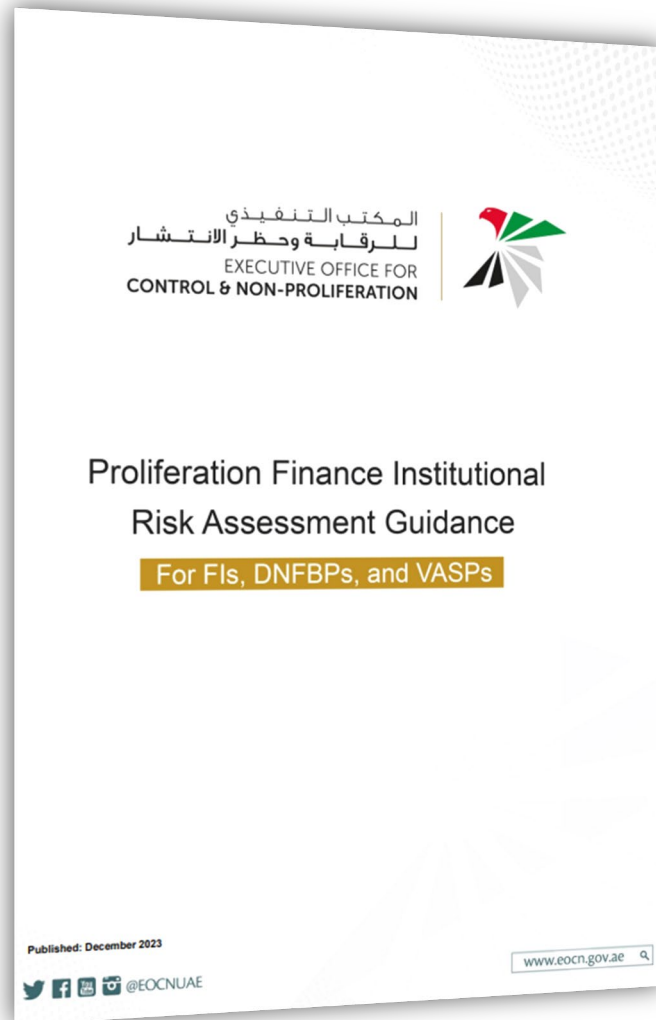




Guidance on Proliferation Financing Institutional Risk Assessment

Guideline Content



Introduction and Purpose

PF Risk Assessment Methodology

PF Risks and Controls

Onboarding Questionnaire, Elevated PF Risk Factors and Customer Risk Scoring (CRS)

Case Studies and the CRS Questionnaire

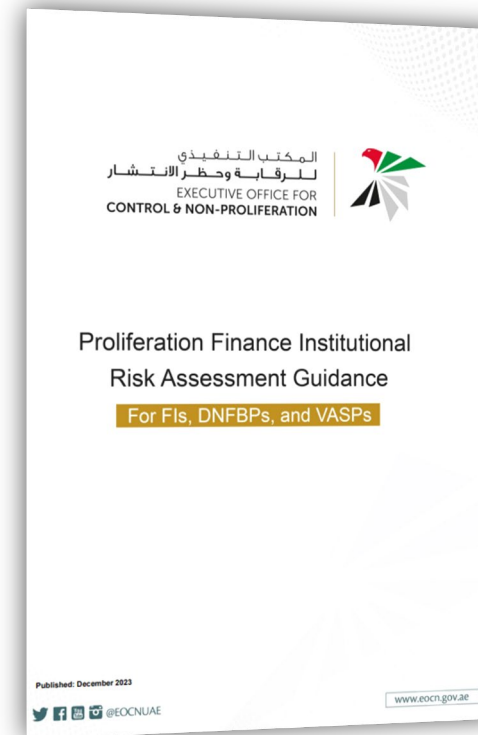
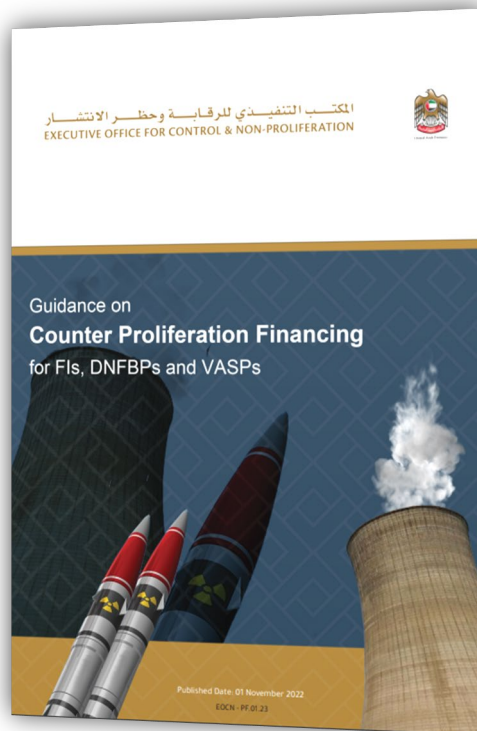
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Section 1: Introduction and Purpose

Introduction and Purpose



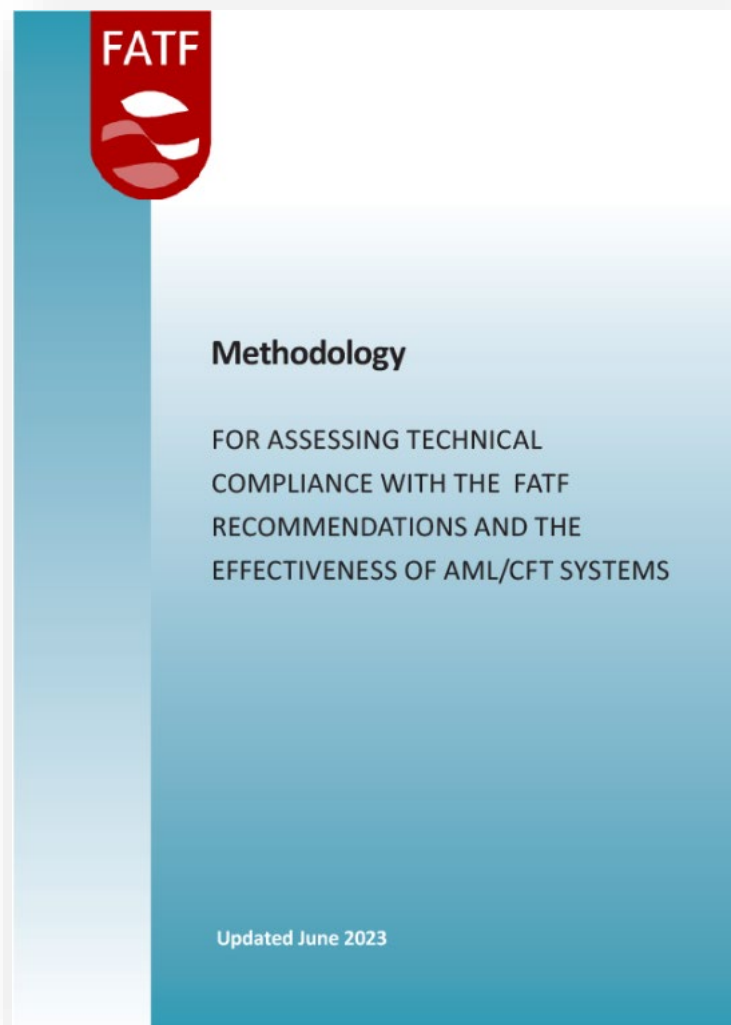
This Guidance is an addendum to the Guidance on Counter Proliferation Financing for Financial Institutions (FIs), Designated Non-Financial Businesses and Professions (DNFBPs) and Virtual Assets Service Providers (VASPs) and **aims to provide additional support to the private sector as to how to identify, assess and mitigate PF risk.**



PF risk assessment and mitigation

1.13 Financial institutions and DNFBPs should be required to: ²⁸

- (a) identify and assess, their PF risks²⁹. This includes being required to:
 - (i) document their PF risk assessments;
 - (ii) keep these assessments up to date; and
 - (iii) have appropriate mechanisms to provide PF risk assessment information to competent authorities and SRBs;
- (b) have policies, controls and procedures, which are approved by senior management and consistent with national requirements and guidance from competent authorities and SRBs, to enable them to manage and mitigate the PF risks that have been identified (either by the country or by the financial institution or DNFBP);
- (c) monitor the implementation of those controls and to enhance them if necessary;
- (d) take commensurate measures to manage and mitigate the risks where higher PF risks are identified, (i.e. introducing enhanced controls aimed at detecting possible breaches, non-implementation or evasion of targeted financial sanctions under Recommendation 7); and
- (e) where the PF risks are lower, ensure that measures to manage and mitigate the risks are commensurate with the level of risk, while still ensuring full implementation of the targeted financial sanctions as required by Recommendation 7.³⁰



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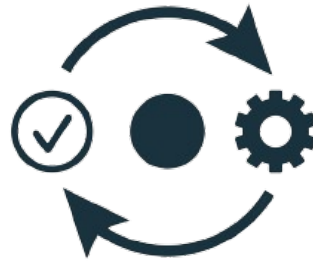
Section 2: PF Risk Assessment

Methodology

PF Risk Assessment Methodology



Evaluate
inherent risk



Assess
effectiveness of
existing controls

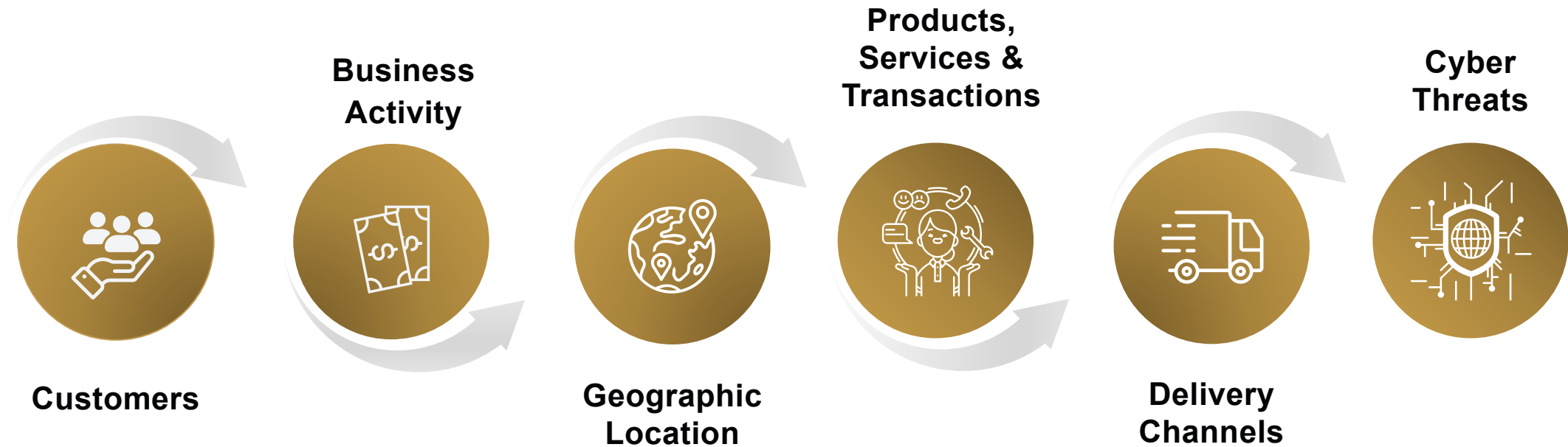


Determine the
residual risk



Evaluating Inherent Risk

The 6 main risk categories that need to be assessed based on PF risk factors:



Evaluating Inherent Risk



Inherent risk is determined by:

PF Threats and Vulnerabilities of your institution

- For example, what threats do the jurisdictions you operate in face, what vulnerabilities do the jurisdictions you operate in have, and other factors that effect the vulnerability of your business such as customer profile, and the geographical footprint of the business.

New and existing issues identified

- by internal and external audits, quality assurance, investigations and/or reporting of SARs and STRs to the UAE FIU.

Institutions commercial strategy and risk appetite

- Decisions relating to jurisdictions you will operate in, customer types you will be servicing, products and services you will be offering.

Built in constraints

- The inherent risk is determined by existing constraints (such as technical restrictions of delivery channels for instance or nature of products, services or delivery channels.)



Evaluating Inherent Risk

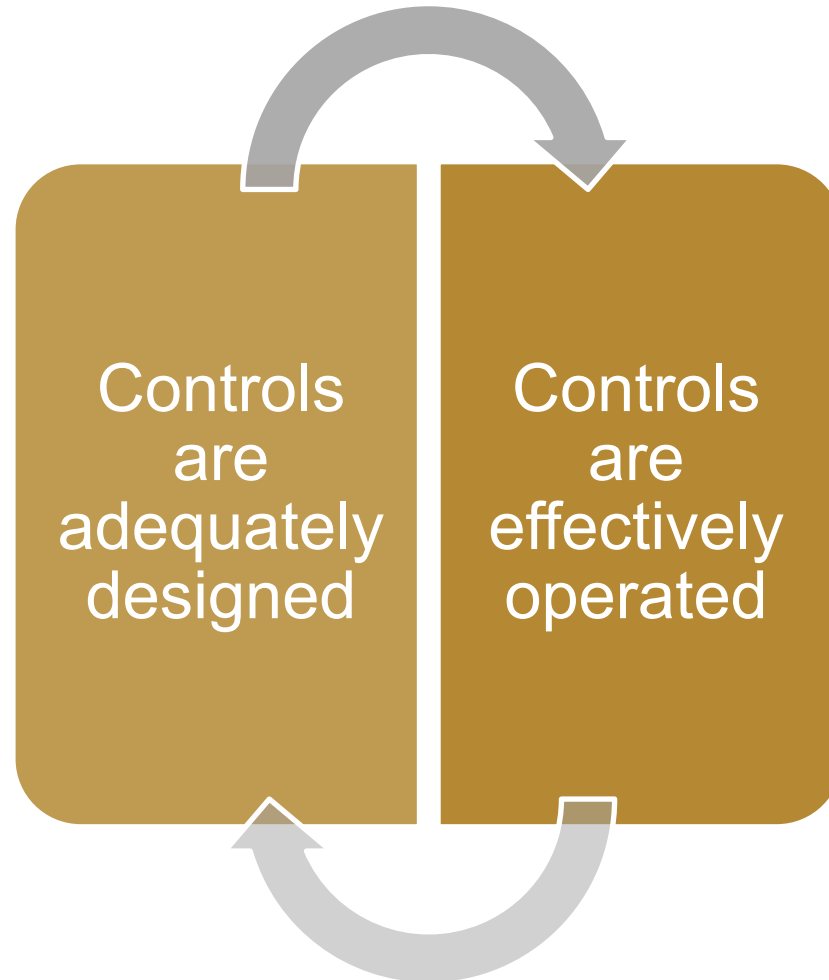
Inherent risk rating methodology

Low	Limited or no indicators of: <ul style="list-style-type: none">- Threats and vulnerabilities- New and existing issues- Risk appetite- Inherent high-risk constraints
Medium	Some indicators of: <ul style="list-style-type: none">- Threats and vulnerabilities- New and existing issues- Risk appetite- Inherent high-risk constraints
High	Numerous indicators of: <ul style="list-style-type: none">- Threats and vulnerabilities- New and existing issues- Risk appetite- Inherent high-risk constraints



Assessing Control Effectiveness

The effectiveness of controls is determined by two considerations:





Assessing Control Effectiveness

		Operating effectiveness		
		Weak	Moderate	Effective
		Control effectiveness		
Design effectiveness	Weak	Ineffective	Ineffective	Ineffective
	Moderate	Ineffective	Partially effective	Partially effective
	Effective	Ineffective	Partially effective	Effective

Determining Residual Risk



The residual risk is the risk remaining after considering controls' effectiveness. Once both the inherent risk and the controls effectiveness have been assessed; the residual risk is determined as follows:

		Inherent risk		
		Low	Medium	High
		Residual risk		
Control effectiveness	Ineffective	Low	Medium	High
	Partially effective	Low	Medium	High
	Effective	Very low	Low	Medium



Review Cycle



- An institutional PF risk assessment is an evolving process and should be **regularly updated**, taking into consideration newly emerging threats and vulnerabilities that may arise following a trigger event.
- **Trigger events** may include changes in the company's businesses strategy, targeted customer base, newly offered products, services, and delivery channels, and establishing business activities in a high-risk jurisdiction.

A stylized eagle head is positioned in the upper right quadrant, facing left. Below and to the right of the eagle's head is a sunburst or starburst graphic, composed of numerous triangular rays emanating from a central point. The entire background is a solid dark green color.

Section 3: Proliferation Finance

Risk and Controls



PF Risk Categories and Factors

Customer Risk

- Residency and nationality
- Complex ownership structure involving several jurisdiction and entity types
- Use of international corporate vehicles
- Companies with nominee shareholders

Business Activity

- Money services businesses
- Suppliers, buyers and trading partners in Dual Use Goods (DUGs)
- Nuclear-related research
- Maritime/shipping industry
- Politically exposed persons (PEPs)
- Corporate service providers and intermediaries

Geographic Risk

- Jurisdictions known for diversion
- Jurisdictions with weak export control laws
- Countries subject to sanctions or embargos; countries identified as lacking appropriate AML/CFT/CPF laws and regulations



PF Risk Categories and Factors

Products, services and transactions risk

- Open account payments
- Trade finance (LCs)
- Correspondent banking relationships
- Trading in precious metals and stones
- Provision of maritime insurance products
- Provision of virtual assets trading services
- Company formation services
- Legal consultation on setting up complex ownership structures

Delivery channel risk

- Face-to-face origination
- Non-face-to-face origination

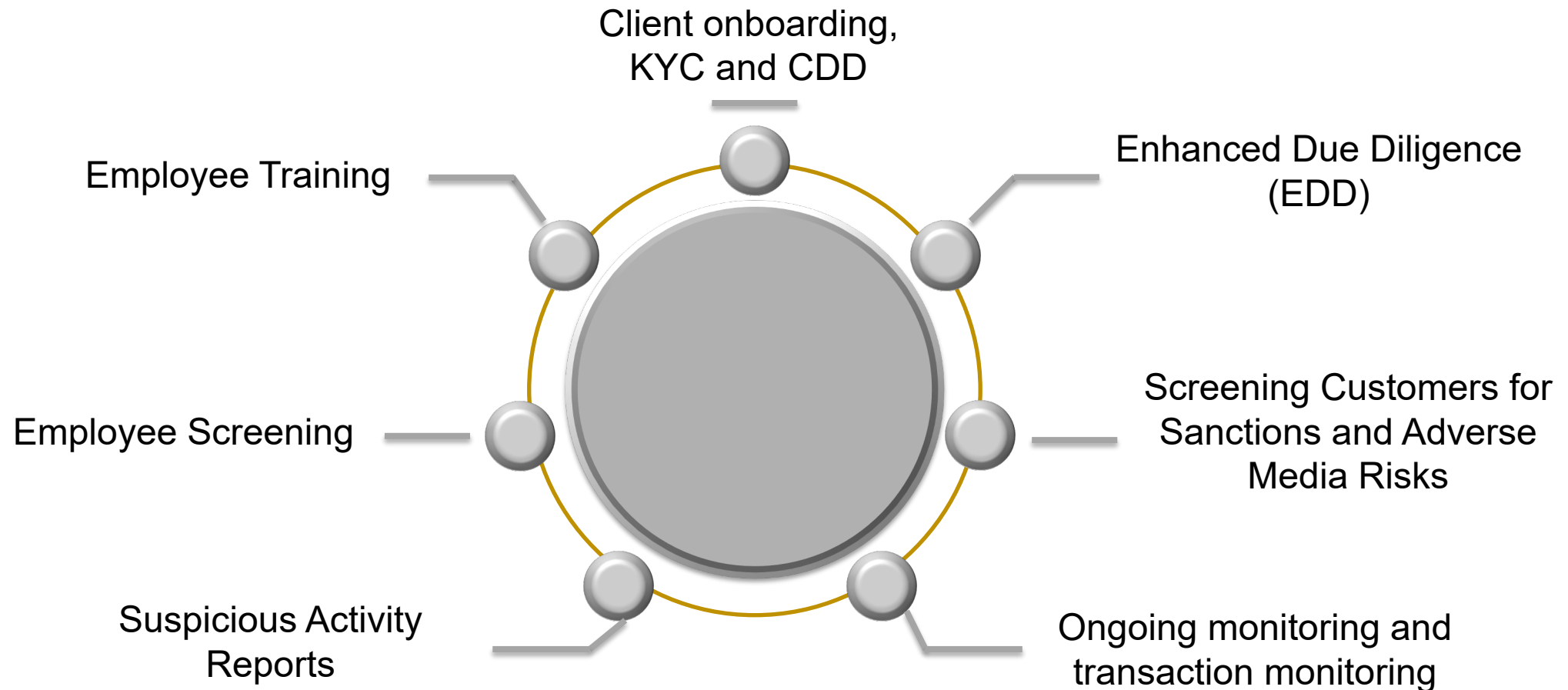
Cyber threats to systems and software

- Hacking
- Ransomware
- IT contractors with access to sensitive material



Risk Controls

There are multiple controls that are traditionally in place to combat ML and TF which will help the private sector in mitigating PF risks. These controls are:



A stylized eagle head in profile, facing left, is positioned in the upper right quadrant. Below and to the right of the eagle's head is a large, multi-pointed sunburst or starburst graphic, composed of numerous triangular rays radiating from a central point. The entire background is a solid dark red color.

Section 4: Onboarding Questionnaire, Elevated PF Risk Factors and Customer Risk Scoring (CRS)

Customer PF Risk Scoring Questionnaire



01

Country Risk

Aims to identify the country (geographic) risk based on the customers nationality, country of residence and country of business activity.

02

Customer Risk

Aims to identify customer risk based on multiple factors including customer profile, source of wealth and PEP status.

03

Products, Services & Transaction Risk

Aims to identify the products, service and transactions risks based on factors such as the nature and complexity of the products / services /transaction and involvement of dual use/ controlled items.

04

Sanctions & Adverse Media Screening

Aims to identify sanctioned customers, or purchaser, or seller, or UBOs or those linked to negative news, crime and/or ML/TF/PF reports.

05

DNFBPs

Customer's source of funds can be identified and documented or if The customer structures payments to ensure that transactions do not exceed DNFBPs' CDD thresholds

06

VASPs

The source of crypto is easily identified, or if the customer is not sharing IP addresses and/or using VPN services from established providers.



Customer PF Risk Scoring Questionnaire

Customer PF Risk Scoring Questionnaire

Customer Due Diligence (CDD) and Know Your Customer (KYC) questionnaire to determine customer PF risk score

Nationality:	Country of residency:	
Profession (including description):	Industry type:	Current/last employer (if relevant):
Estimated net wealth:		
PEP:		

Additional relevant information relating to customer, their occupation and description of relationship with customer:

A. Country risk	NO	YES	Comments
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High risk or medium risk country as per your organization's internal policy for the following:

1. Nationality
2. Country of residence
3. Country of business activity

B. Customer risk	NO	YES	N/A	Comments
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1. Origin of wealth and/or source of funds is easily identified or well described.
2. Customer's profile (age, occupation, employment status, salary, level of education) is consistent with wealth, transactions and account turnover.
3. Customers with valid reasons to open the account/establish the relationship in the requested jurisdiction.
4. Walk-in customers have not been actively prospected by the institution or lacking an obvious connection with the institution.¹⁶
5. Customers who have not been physically met.¹⁷
6. Customer introduced by a trust and company service provider (TCSP) and/or uses an intermediary in all interactions including business relationships with no robust rationale.
7. Politically Exposed Person (PEP) or related to a PEP.

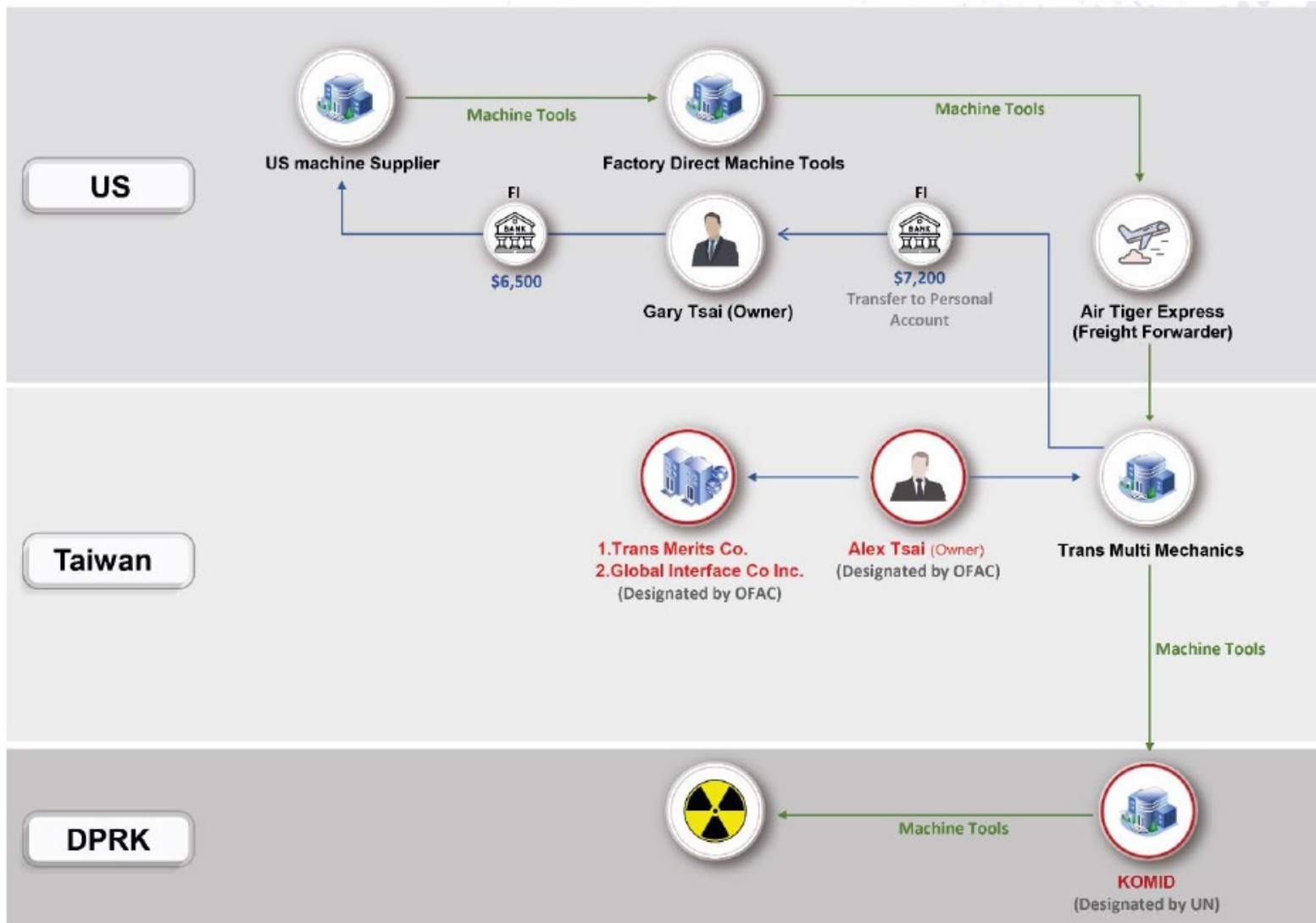
¹⁶ Note that VASPs do not actively prospect customers and may wish to select the N/A option as this will not necessarily be a high-risk indicator.

¹⁷ Note that VASPs that onboard customers remotely will not meet customers face to face. They may therefore wish to select the N/A option as this will not necessarily be a high-risk indicator.

Section 5: Case Studies and the CRS Questionnaire



Case Study: Tsai Case Study





Tsai Case Study – Country Risk

A. Country risk	NO	YES	Comments
High risk or medium risk country as per your organization's internal guidance for the following:	x		Taiwan is not on high-risk country list.
1. Nationality	x		Taiwan national
2. Country of residence	x		U.S.A
3. Country of business activity	x		U.S.A and Taiwan



Tsai Case Study – Customer Risk

B. Customer risk	NO	YES	N/A	Comments
8. Customer working in high-risk industry. This includes arms dealing, manufacturing, nuclear industry including research, construction, art and antiques dealer, auctioning house, shadow banking, currency exchange bureaus, money transmitters, oil, precious metals and stones and high-value goods dealers, wildlife trade, maritime and international shipping, import/export related business, freight transportation or industries linked to goods subject to export control and DUGs, diplomacy, VASPs. <i>Refer to Table 5 for details of industries with elevated PF risk factors.</i>		x		High Risk indicator: Director of Factory Direct Machine Tools, an Import/export business of machine tools that can manufacture weapons of mass destruction.
9. Customer operating in gambling activities.		x		
10. Missing ID documentation, invalid forms of ID, false and/or incomplete residential address, overall reluctance to provide CDD, KYC and ID documentation.		x		
11. The customer may be raising funds on behalf of <u>designated</u> individual/ entity. This includes holding a legal title to any asset, conducting transactions for the benefit of, or on behalf of, or at the direction of a designated individual or entity.		x		High Risk indicator: Review of adverse media indicates that the customer's father has been indicted by authorities in Taiwan for potential involvement with North Korea.



Tsai Case Study – Products, Services & Transactions Risk

C. Products, Services and Transaction risk	NO	YES	N/A	Comments
1. First transfer on the account made by cash deposit. For DNFBPs, this includes purchases done through multiple cash transactions or where seller insists on cash only payments.	x			
2. Commercial transaction at a price that is undervalued, overvalued or unjustified.	x			
3. Business relationship has no legitimate economic or legal grounds.	x			
4. Customer involved in trade finance or correspondent relationships.		x		High Risk indicator: Transfers from and to Taiwan expected. The customer needs a correspondent banking account.
5. Transaction involves the sale or purchase of dual-use, proliferation sensitive or military goods, particularly with higher risk jurisdictions.		x		High Risk indicator: Import/export of machine tools that can manufacture weapons of mass destruction.



Tsai Case Study – Products, Services & Transactions Risk

C. Products, Services and Transaction risk	NO	YES	N/A	Comments
1. Transaction involves person or entity in foreign country of proliferation concern or the country with weak export control laws.		x		High Risk indicator: Exports to Taiwan where the customer's father was indicted.
2. Transaction involves jurisdictions known to have inadequate AML/CTF/CPF measures.	x			
3. The customer makes out of character payments (including in cash) and/or transactions (payment in precious metals and stones and/or VAs) to other companies, subsidiaries or entities that belong to the same group. Consideration should be given to payments made to other companies that have the same directors, shareholders and/ or beneficial owners.		x		High Risk indicator: The client has received business-related payments on his personal account.



Tsai Case Study – Sanctions and adverse media screening

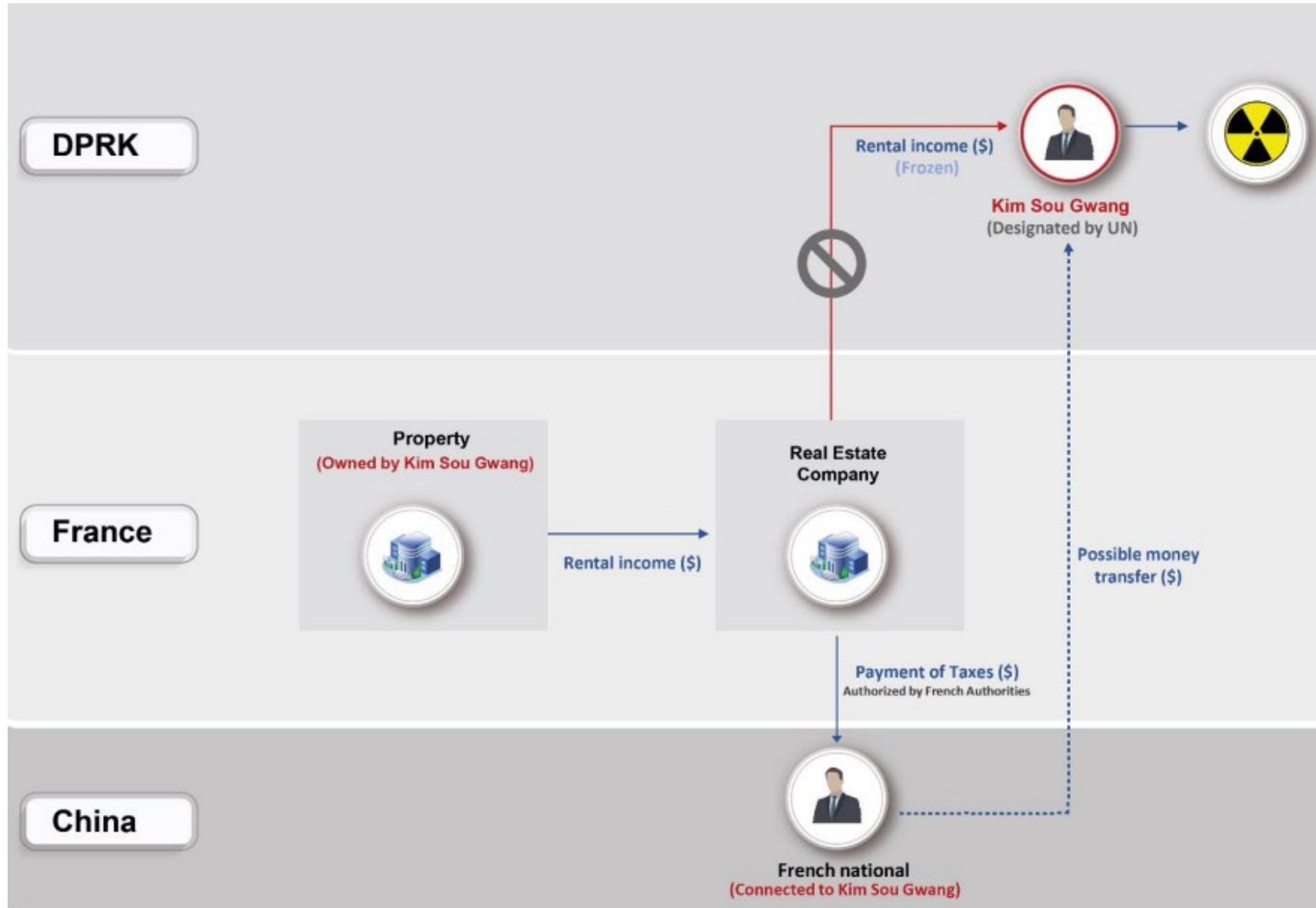
D. Sanctions and adverse media screening	NO	YES	Comments
1. Customer, or purchaser, or seller, or UBO is a confirmed name match while screening through sanction list (UNSC, UAE Local Terrorist List and other lists).		x	High Risk indicator: Gary's surname is a match for an OFAC sanctioned individual (Tsai).
2. Customer, or purchaser, or seller, or UBO is linked to negative news, crime and/or ML/TF/PF reports from watchlist screening tool.		x	High Risk indicator: Review of adverse media indicates that the customer's father has been indicted by authorities in Taiwan.



Case Analysis and Follow-up Actions

- With a total of 8 risk criteria two of which **relate to United Nations Security Council Resolutions (UNSCR) 1718 (2006) violations**, Gary Tsai is considered a high-risk profile customer. Accordingly, the FI should not onboard the customer and log a SAR/STR with the FIU.
- Under a scenario whereby elements relating to **sanctions violations are not identified** during CDD, the institution may decide to accept or reject the customer based on its risk appetite; however, implementation of EDD should be undertaken in the event the customer is onboarded.

Case Study: Kim Sou Gwang Case Study



Kim Sou Gwang Case Study – Country Risk



A. Country risk	NO	YES	Comments
1. High risk or medium risk country as per your organization's internal guidance for the following:		x	High Risk indicator: The owner of the property is a sanctioned North Korean diplomat.
2. Nationality		x	High Risk indicator: The owner of the property is a North Korean national
3. Country of residence		x	High Risk indicator: The individual receiving payments is based in a country neighboring DPRK and may be used for PF diversion.
4. Country of business activity	x		France

Kim Sou Gwang Case Study – Customer Risk



B. Customer risk	NO	YES	N/A	Comments
1. Origin of wealth and/or source of funds is easily identified or well described.		x		Rental income.
2. Customer's profile (age, occupation, employment status, salary, level of education) is consistent with wealth, transactions, and account turnover.		x		
3. Customers with valid reasons to open the account/establish the relationship in the requested jurisdiction.		x		
4. Walk-in customers have not been actively prospected by the institution or lacking an obvious connection with the institution.	x			
5. Customers who have not been physically met.	x			
6. Customer introduced by a TCSP and/or uses an intermediary in all interactions including business relationships with no robust rationale.	x			
7. Politically Exposed Person (PEP) or related to a PEP.		x		High Risk indicator: Agent for the North Korean Reconnaissance General Bureau
8. Customer working in high-risk industry.				
This includes arms dealing, manufacturing, nuclear industry including research, construction, art and antiques dealer, auctioning house, shadow banking, currency exchange bureaus, money transmitters, oil, precious metals and stones and high-value goods dealers, wildlife trade, maritime and international shipping, import/export related business, freight transportation or industries linked to goods subject to export control and DUGs, diplomacy, VASPs.				
		x		High Risk indicator: UN sanctioned North Korean diplomat working in the Reconnaissance General Bureau.

Kim Sou Gwang Case Study – Customer Risk



<p>17. The customer may be raising funds on behalf of a designated individual/ entity.</p> <p>This includes holding a legal title to any asset, conducting transactions for the benefit of, or on behalf of, or at the direction of a designated individual or entity.</p>	x	<p>High Risk indicator: Owner of the property is a known North Korean diplomat. Rental income may be used to support North Korea.</p>
<p>18. The customer displays signs of acting on somebody else's instruction and/or has a disproportionate level of authority provided by the end client.</p>	x	<p>High Risk indicator: The French national receiving payments on his behalf has not provided CDD. There is uncertainty as to whether he may be acting for or on behalf of Kim Sou Gwang.</p>

Kim Sou Gwang Case Study – Products, Services & Transactions Risk



C. Products, Services and Transaction risk	NO	YES	N/A	Comments
1. Transaction involves person or entity in foreign country of proliferation concern or the country with weak export control laws.		x		High Risk indicator: French national residing in a country neighboring DPRK and may be used for PF diversion.
2. Transaction involves jurisdictions known to have inadequate AML/CTF/CPF measures.		x		High Risk indicator: French national residing in a country neighboring DPRK and may be used for PF diversion.

Kim Sou Gwang Case Study – Sanctions and Adverse Media Screening



D. Sanctions and adverse media screening	NO	YES	Comments
1. Customer, or purchaser, or seller, or UBO is a confirmed name match while screening through sanction list (UNSC, domestic list and other lists).		x	High Risk indicator: UN sanctioned North Korean national.
2. Customer, or purchaser, or seller, or UBO is linked to negative news, crime and/or ML/TF/PF reports from watchlist screening tool.		x	High Risk indicator: We assume for the purpose of this exercise that the name of the French national is a match on adverse media (UN PoE Report).

Kim Sou Gwang Case Study – DNFBPs



E. DNFBPs	NO	YES	Comments
1. Lack of clarity of who the end user is and/or involvement of a third party (e.g., payment from third party or delivery of good to a third party who did not purchase the goods).		x	High Risk indicator: The French national residing in China may be acting on behalf of Kim Sou Gwang and North Korea.
2. The customer is not concerned with making losses where loss is avoidable.	x		
3. The customer offers to pay unusually high fees for a product or a service with no rationale.	x		



Case Analysis and Follow-up Actions

- With a total of 12 risk criteria, the activity associated with the management of Kim Sou Gwang's property is considered high risk. **An SAR should be logged with the local FIU as the French national residing in China is suspected to be acting for or on behalf of Kim Sou Gwang who is sanctioned by the United Nations.**
- The DNFBP may subsequently decide to liaise with relevant authorities to identify next steps (i.e., suspend payments to the French national residing in China and exit the customer relationship).



Recommendations for FIs, DNFBPs & VASPs

- Identify, assess and mitigate PF risk across different categories (Customer, business activity, products / services / transactions risk etc).
- Make use of the published guidelines to assist in conducting an institutional PF risk assessment.
- Document PF risk assessment and update regularly based on emerging risks or trigger events.
- Incorporate PF controls into existing policies and procedures.

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