

Targeted Financial Sanctions Proliferation & Terrorism Financing

Sanction Evasion Overview, Red Flags and Typologies



Executive Office's Role in Implementing Targeted Financial Sanctions (TFS)

Act as a focal authority to ensure implementation of TFS in the UAE.

Coordinate and exchange information between government agencies.

Circulate updates to the Local Terrorist List and UN Consolidated List.

Work closely with the SCNS with regard to the local listing.

Receive and process applications to use frozen funds as per sanctions lists.

Receive and process grievances related to Local Terrorist List and UN Lists.

What is Targeted Financial Sanctions (TFS)?

Terrorist Financing

**TFS
Includes**

Proliferation Financing

Terrorist Financing is the financing of **terrorist acts**, and of **terrorists** and **terrorist organizations**.

Terrorist financing includes financing the **travel** of individuals for the purpose of the **perpetration, planning, or preparation** of, or **participation** in, terrorist acts or the providing or receiving of terrorist training.

Proliferation Financing is the act of **providing funds or financial services** which are used, in whole or in part, for the manufacture, acquisition, possession, development, export, transshipment, brokering, transport, transfer, stockpiling or **use of nuclear, chemical or biological weapons** and their **means of delivery** and related materials (including both technologies and dual use goods used for non-legitimate purposes), in contravention of national laws or, where applicable, international obligations.

Three Stages of Terrorist Finance & Proliferation Finance

Collection of Funds

- Trade-based activities
- Legitimate sources
- Criminal activity

Movement of Funds

- Formal channels
- Informal channels
- Cross-border

Use of Funds

- Financing terrorist acts
- Financing of FTF
- Purchase of Dual-use
- Shipment of Dual-use

Terrorist Financing vs Proliferation Financing

	Terrorist Financing	Proliferation Financing
Purpose	Support terrorist activities	Acquire Weapons of Mass Destruction
Source	Self funding cells, donations, proceeds of criminal activities	Usually from state formal programs
Channels	Favors informal financial systems such as hawaladars	Favors formal financial systems
Typology	Use of NPOs, money transfers to high-risk jurisdictions or conflict zones, and using of 3 rd parties to conduct business	Trade transactions involving Dual-Use goods, use of front companies, and use of shipping companies
Volume	Transaction amounts usually small and below reporting thresholds	Transaction amounts usually large and moderate

Financial Obligations and Measures

Freeze Without Delay



Freezing of Bank Accounts



Freezing of Real Estate Assets



Freezing of Stocks and Investment Portfolios



Freezing of Gold



Freezing of Virtual Currencies

Prohibition



Services to create, operate of manage businesses



Services to transfer ownership of assets



Services to buy or sell real estate

TFS Non-Compliance

Administrative penalties and criminal prosecutions Federal Law 26 of 2021

- Financial sanctions.
- A suspension, restriction, or prohibition of activity, business, or profession causes either revocation or withdrawal of the business license.
- Supervisory authority may determine a ban of certain individuals from employment within the relevant sectors for a period of time.
- Increased scrutiny of future actions from the UAE Government.



TFS Implementation Steps

- Requirement to subscribe to the EO IEC Notification System to receive automated email notifications on any updates to the Sanctions Lists

1

Subscribe

2

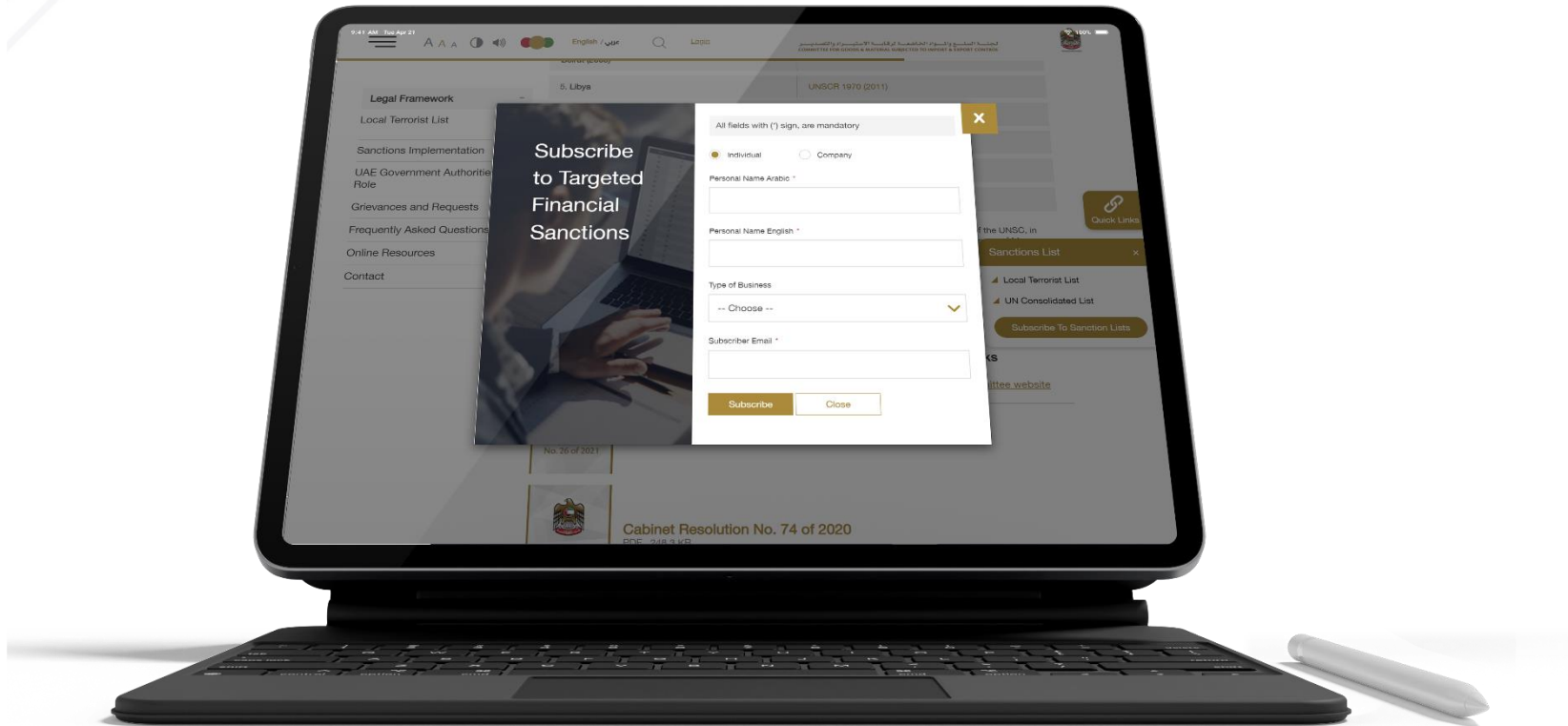
Screen

3

Apply TFS

4

Report

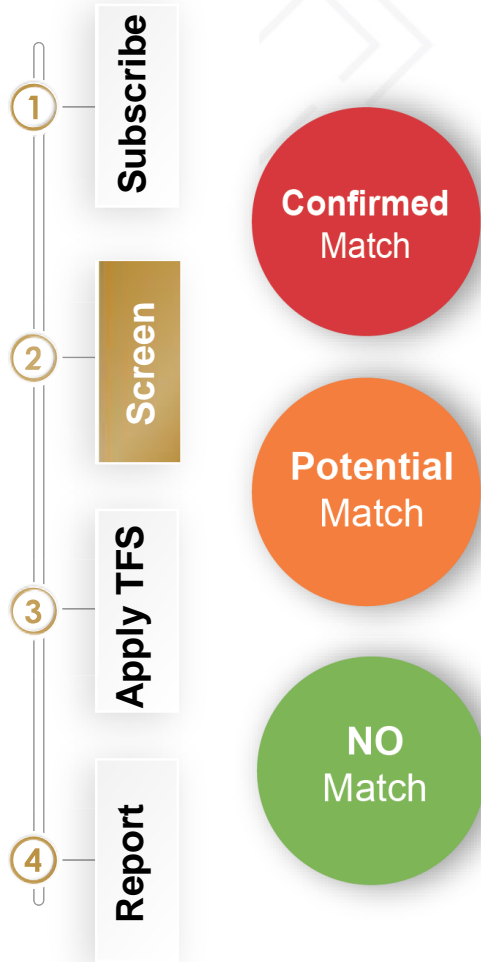


TFS Implementation Steps



- Undertake regular and ongoing screening on the latest Local Terrorist List and UN Consolidated List.
- Screening should be conducted in the following circumstances:
 - Upon any updates to the Local Terrorist List or UN Consolidated List.
 - Prior to onboarding new customers.
 - Upon KYC reviews or changes to a customer's information.
 - Before processing any transaction.
- Screening should include existing customer databases, ultimate beneficial owners, parties to transactions, and Dual-Use items.

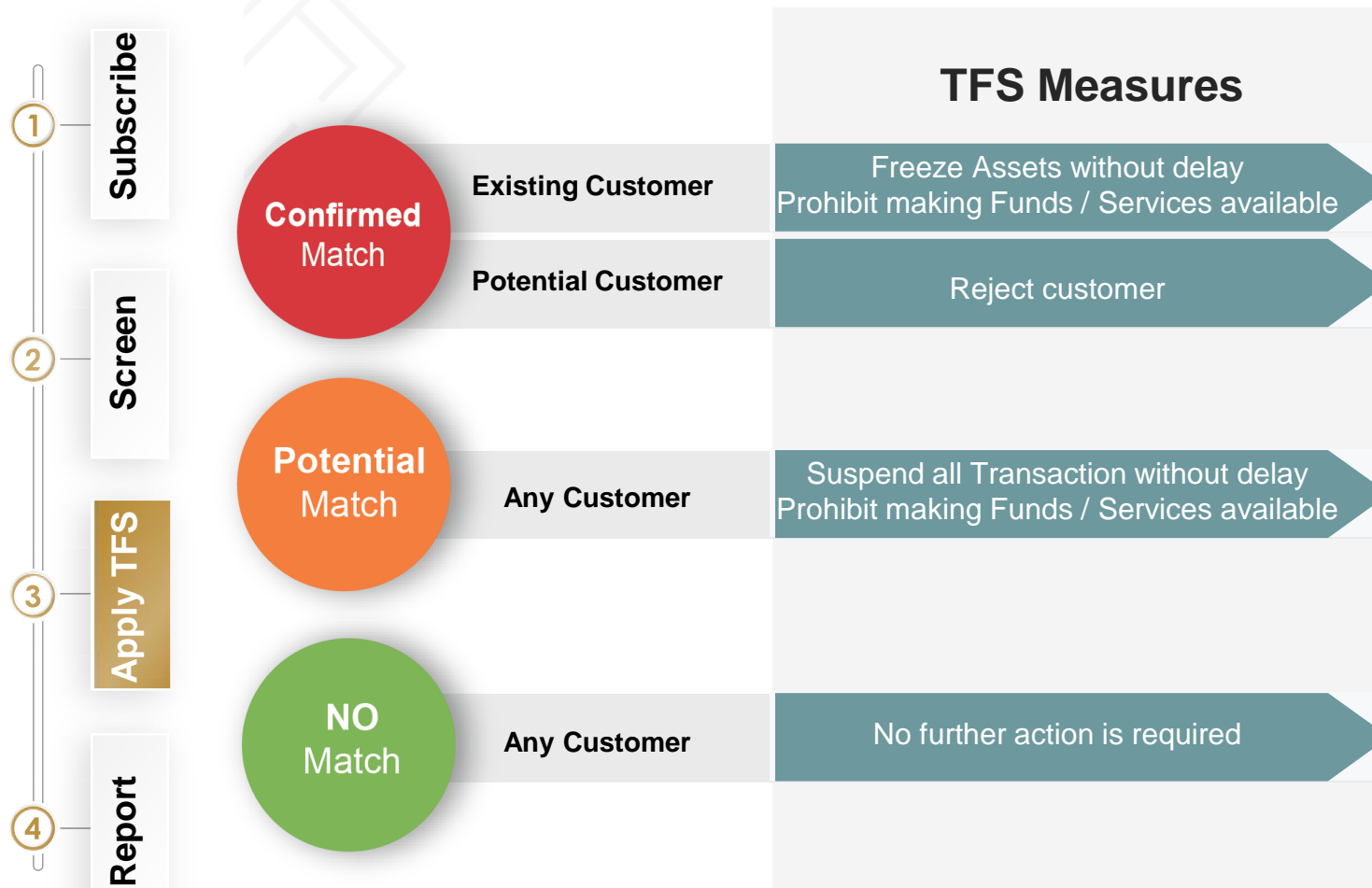
TFS Implementation Steps



- Three Possible Screening results as follow:

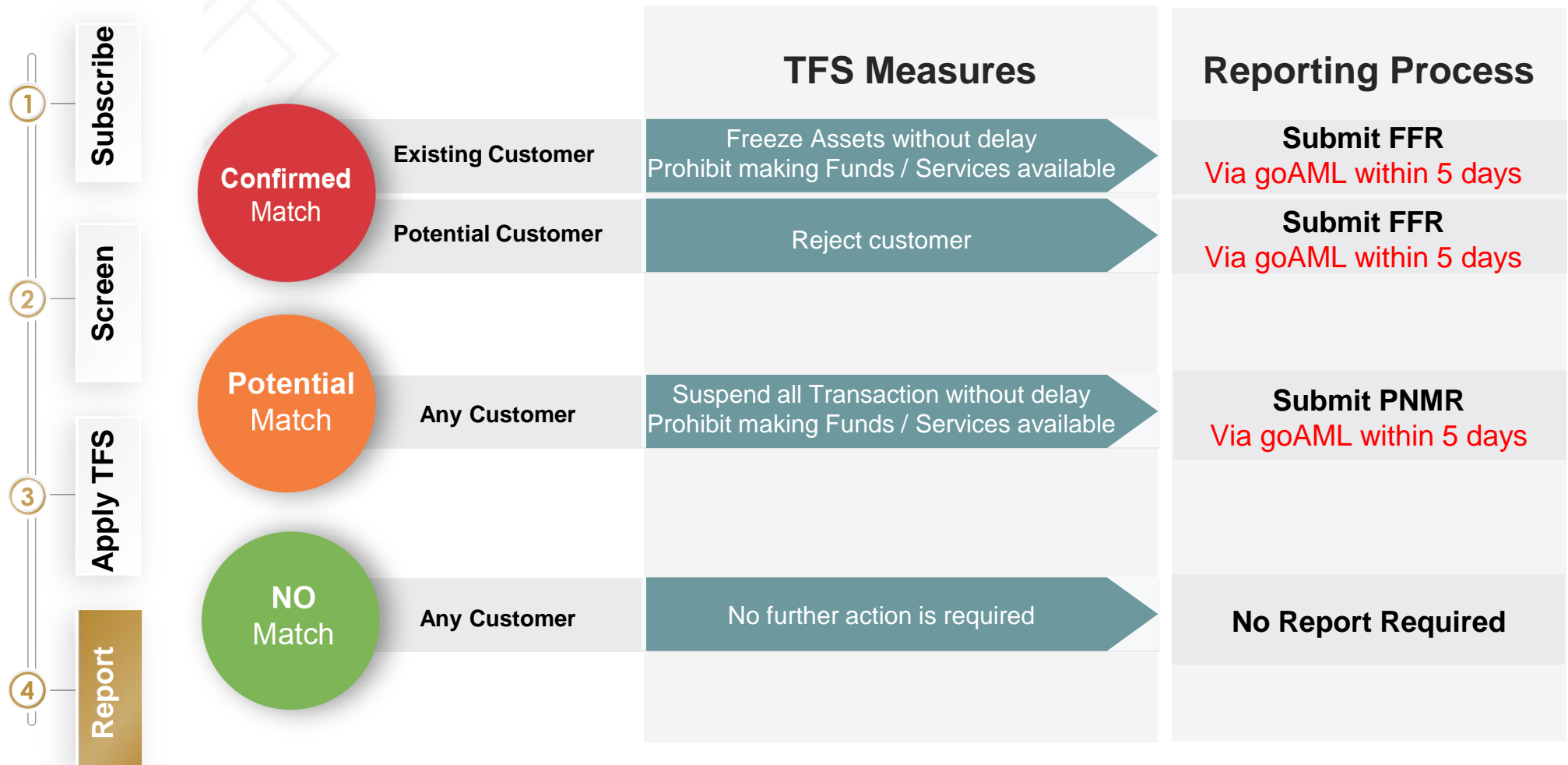
TFS Implementation Steps

Depending on the type of match, the following TFS measures should apply:



TFS measures remain in effect until delisting or instructions received from EO IEC

TFS Implementation Steps





What is Sanction Evasion?

Any attempt to remove or conceal the involvement of sanctioned individuals, entities, or activities in a transaction or series of transactions to avoid financial sanctions imposed by UN or Local Terrorist List.

How to uncover it?


- Raising awareness of sanction evasion techniques
- Filing STRs to the FIU via goAML
- Understanding the risks associated with the sector
- Private-public partnerships and information sharing
- Understanding typologies and red flags related to TF and PF



TF Risk Assessment Outcomes


Terrorist Financing Risk Assessment Outcome

In 2020, the UAE undertook a TF risk assessment to broaden the scope of the TF risk assessment conducted in 2018 and to significantly deepen the UAE's risk understanding in this area.

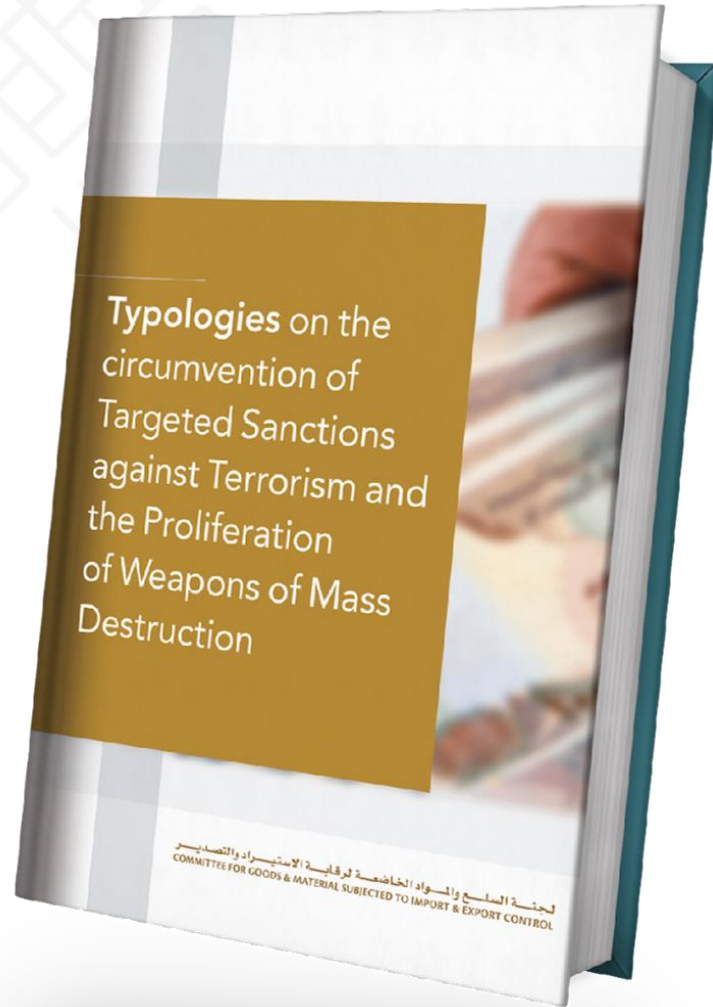
Risk Scenario	Residual Rating
1. Trade Activities in the UAE – Purchase of goods or services by terrorists or terrorist networks	 High
2. Trade Activities in the UAE – Selling of goods by terrorists or terrorist networks	 High
3. Trade activities by terrorist or terrorist networks using UAE legal entities	 High
4. Funds transfers to/from High-Risk jurisdictions	 High
5. Smuggling or transportation of cash, including through FTFs	 High
6. Investment of or financial management of terrorism related funds in the UAE	 High

Terrorist Financing Risk Assessment Outcome

... additional Risk Scenarios based on 2020 UAE TF Risk Assessment.

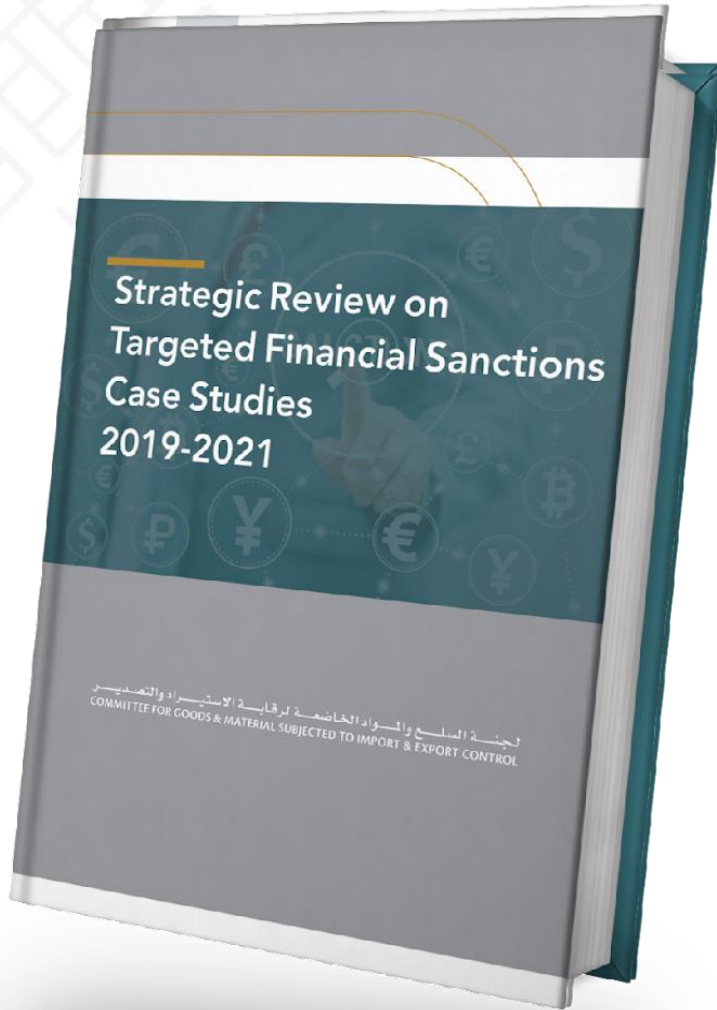
Risk Scenario	Residual Rating
7. Fundraising through virtual currencies	 M-H
8. Fundraising through social media	 M-L
9. Terrorist attacks in the UAE	 M-L
10. Ownership or control over UAE Financial Institutions or MVTs	 M-L
11. Donations/Non-Profit Organizations	 M-L
12. Crowdfunding	 Low

Sanctions Evasion Publications



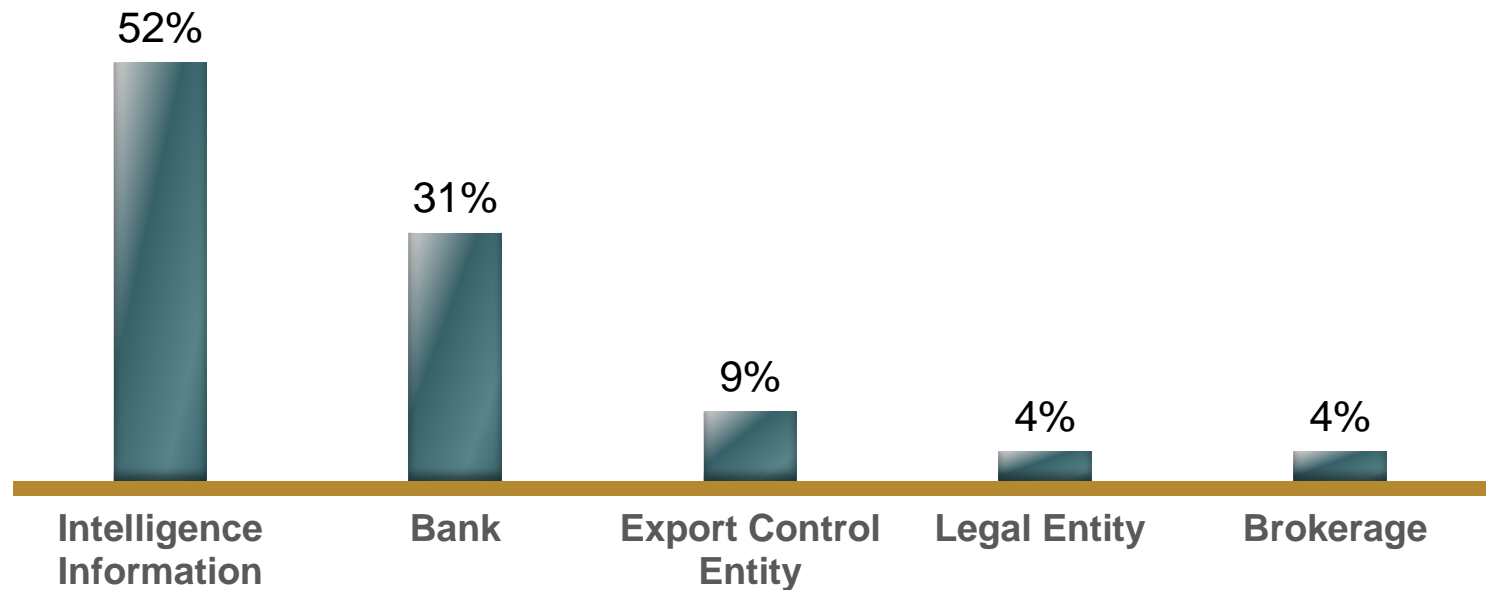
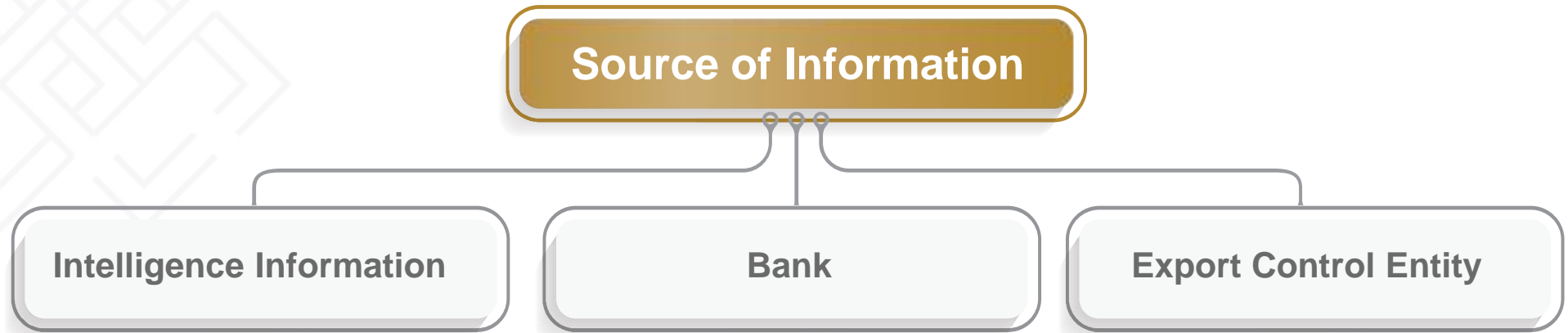
- The Typologies document presents cases and examples from the UAE and other countries on how sanctioned activities, persons, groups, or entities have received financing and support.
- It also includes a list of red-flags and indicators that help the Financial Institutions (FIs), Designated Non-Financial Businesses and Professions (DNFBPs), and Virtual Assets Service Providers (VASPs) to detect any suspicious transactions related to Terrorist Financing (TF) and Proliferation Financing (PF).

Sanctions Evasion Publications

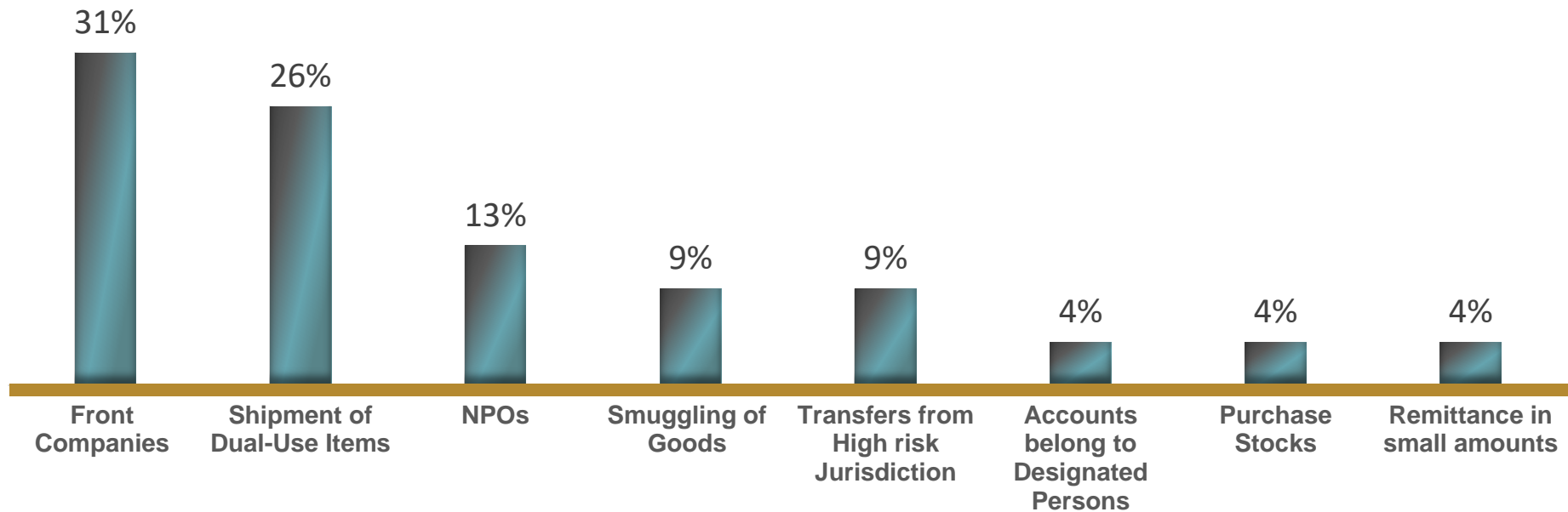


- The Strategic Review report is based on cases and examples from the UAE.
- It demonstrates how terrorist groups, persons or entities have misused economic sectors or activities to fund their activities or support Terrorist Financing (TF) or Proliferation Financing (PF) acts.
- The report covers the period 2019 - 2021.

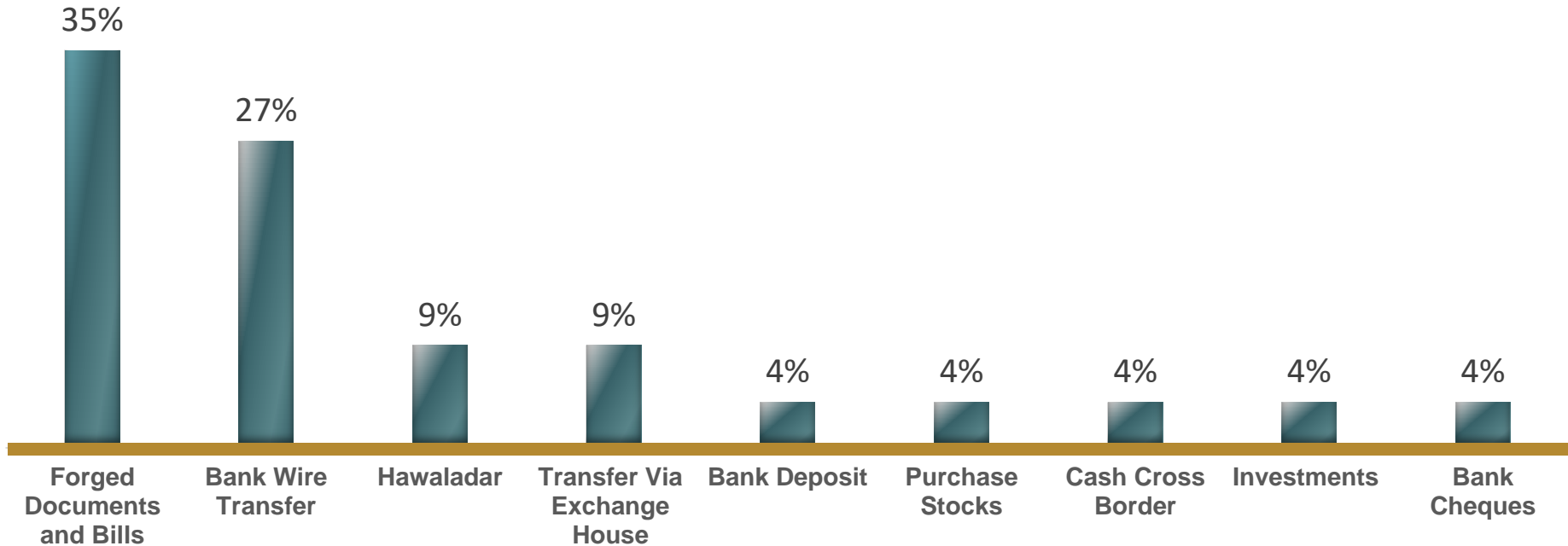
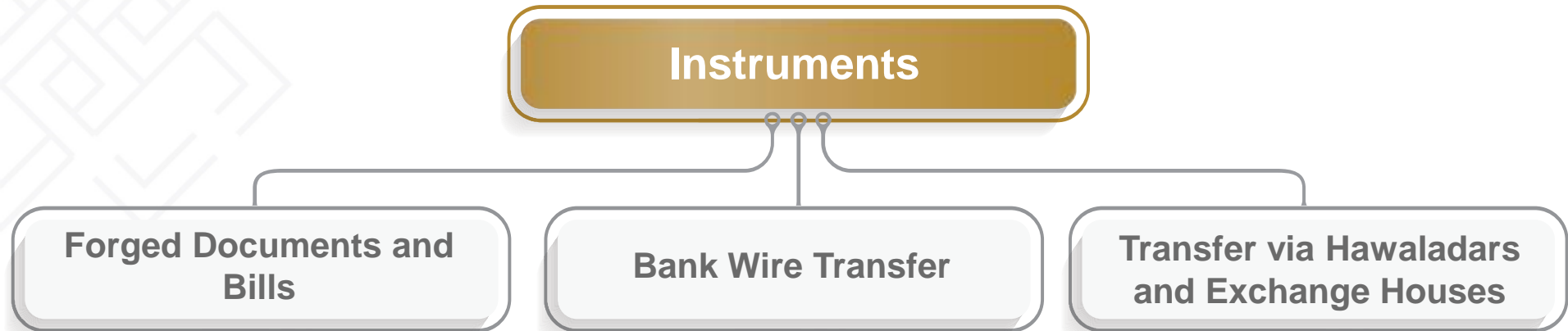
TFS Reports Based on Source of Information



TFS Reports Based on Types of Suspicion



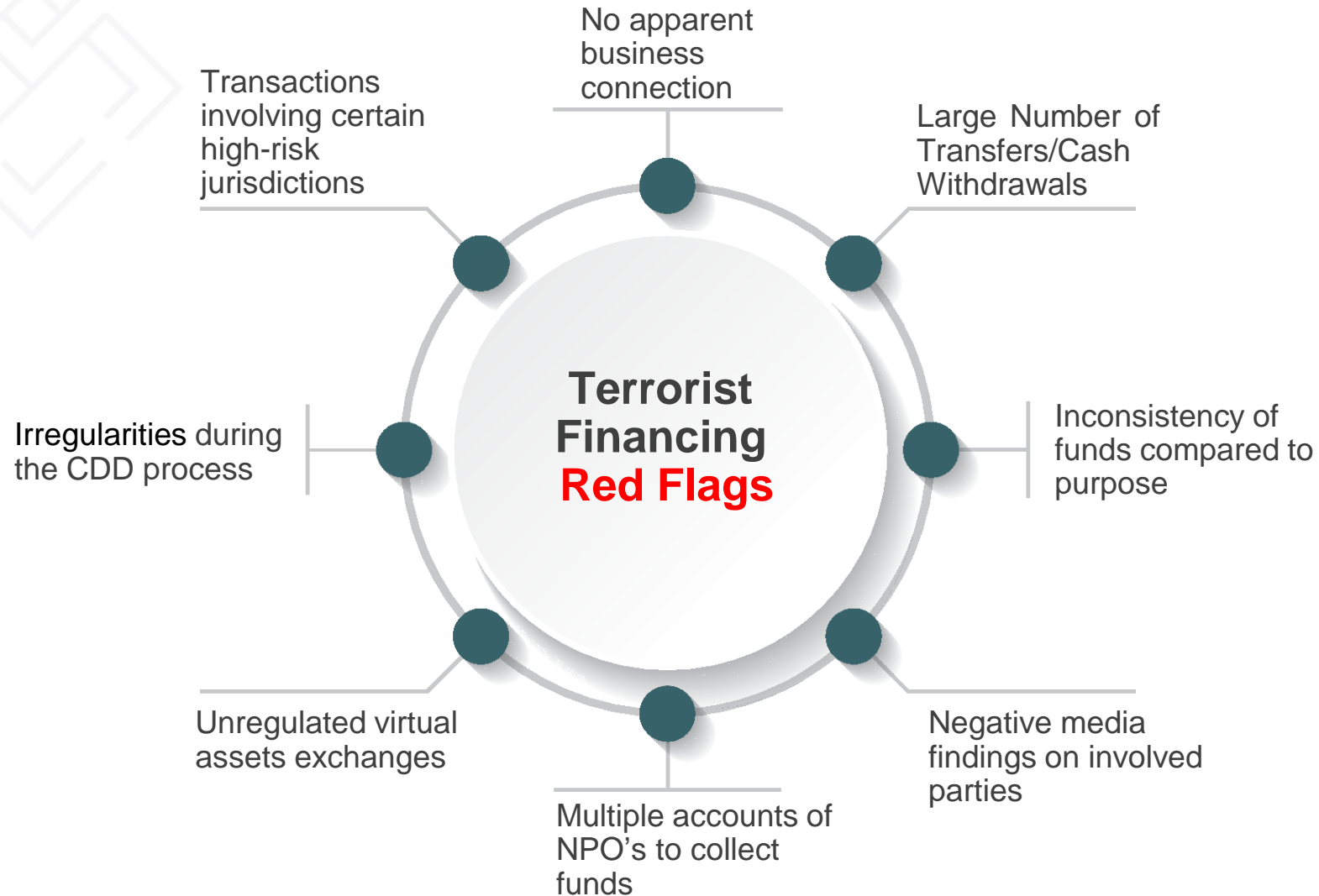
TFS Reports Based on Instruments



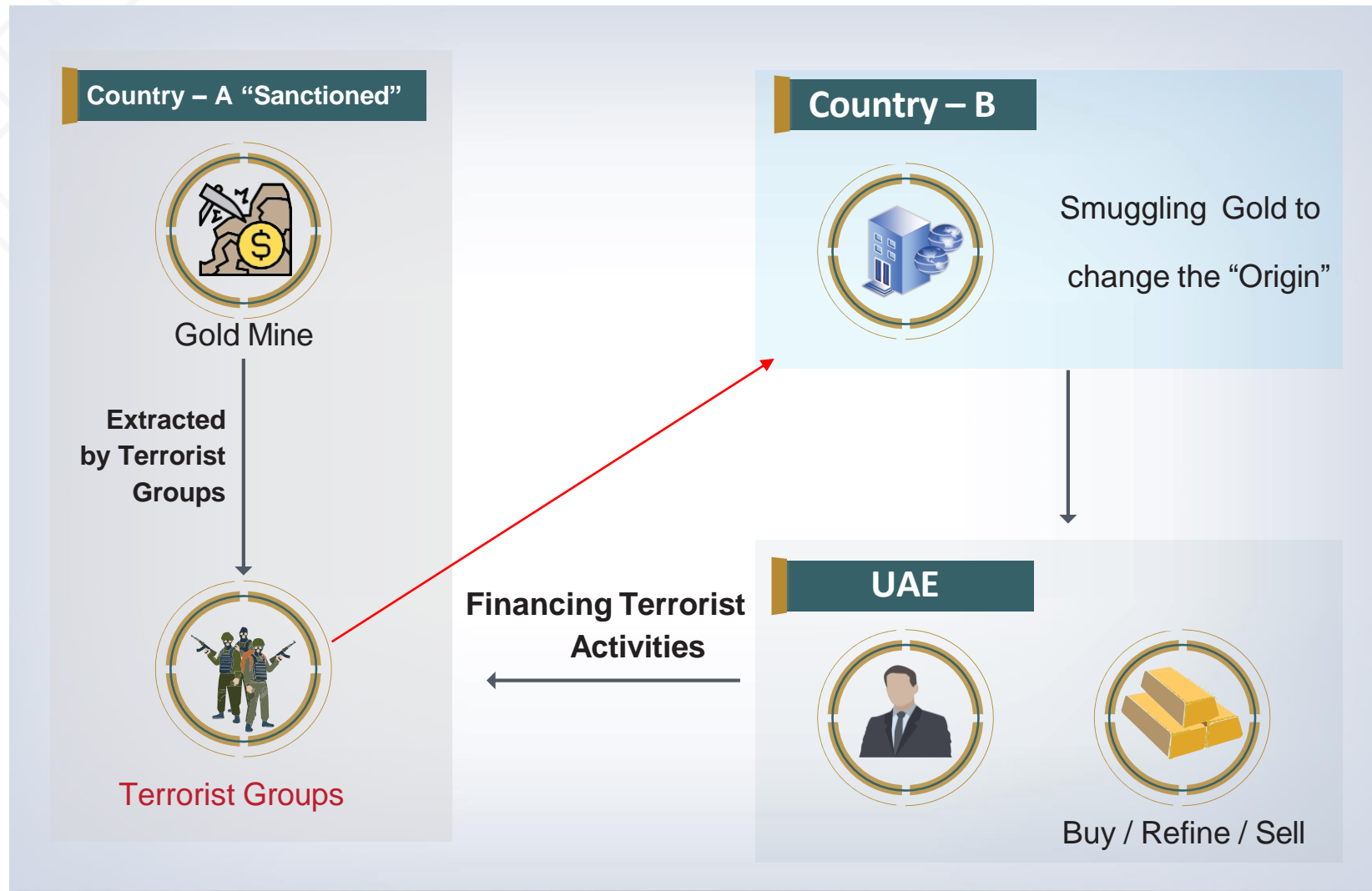


TFS – TF Typologies and Sanction Evasion

Terrorist Financing (TF) Red Flags



TF Typology: Smuggling of Gold



TF Typology: Using Third Party or Family Member

Country - A



Designated Person



Family Member or
3rd Party

To purchase or sell real estate
on behalf of designated person

UAE



Real Estate

TF Typology: Misuse of NPOs

Country - A



Terrorist Organization

Financial Support

UAE



Non-Profit Organization



Bank Account



Purchase of Real Estate

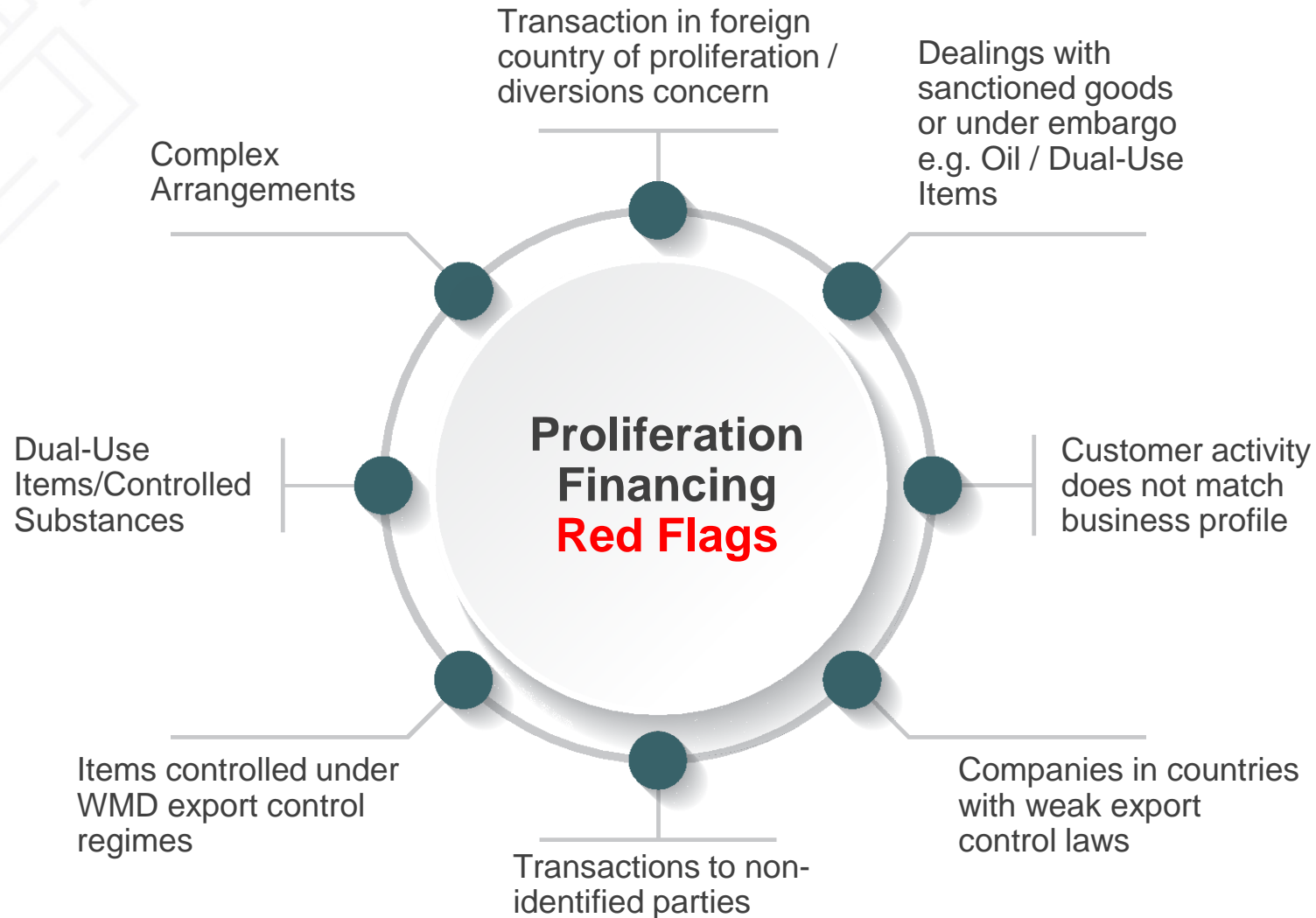


Collect Donation

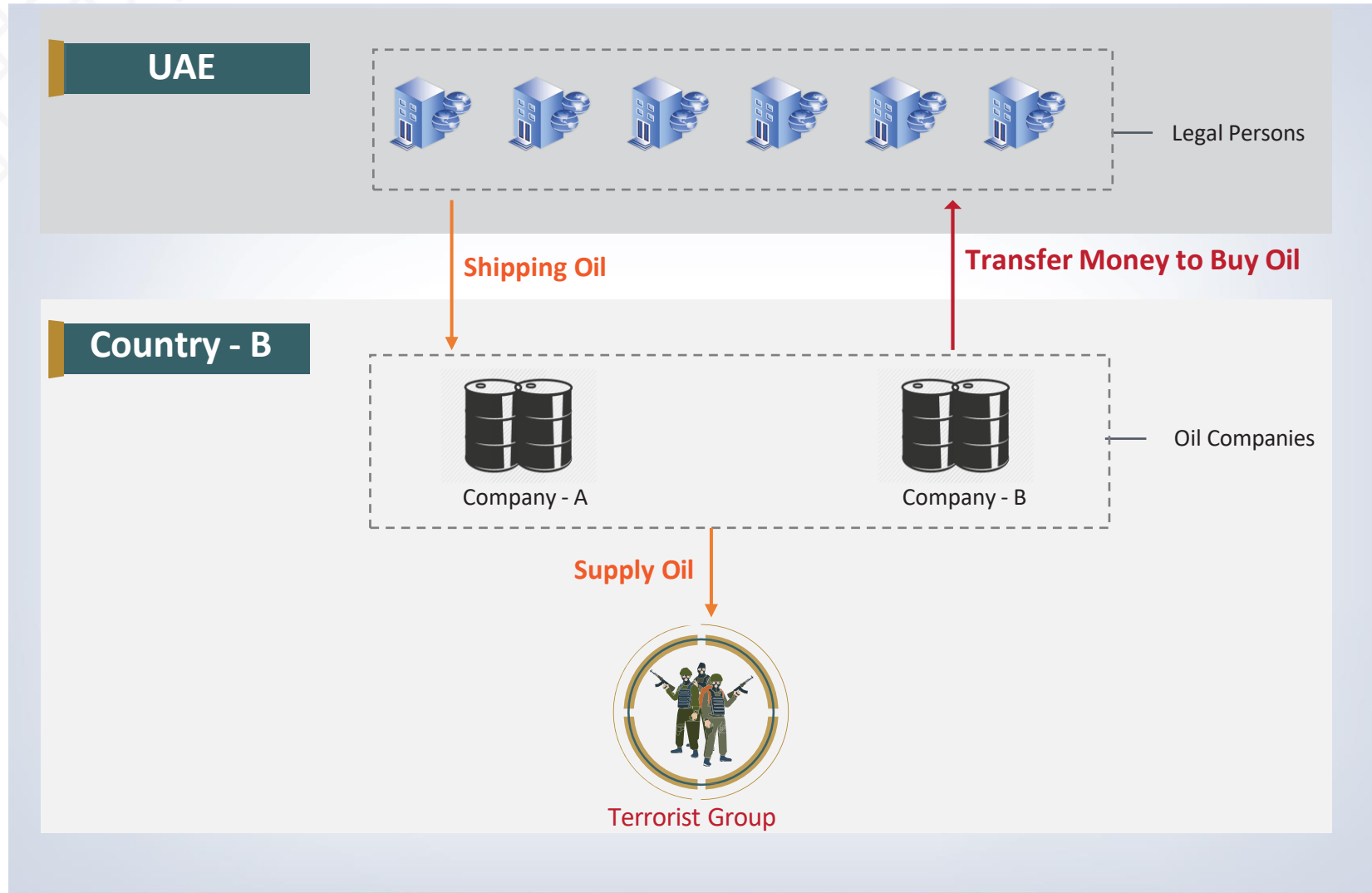


TFS – PF Typologies and Sanction Evasion

Proliferation Financing (PF) Red Flags



PF Typology: Forged Documents and Bills of Lading

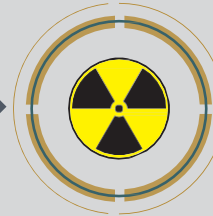


PF Typology: Use of the Financial System

High-Risk Jurisdiction



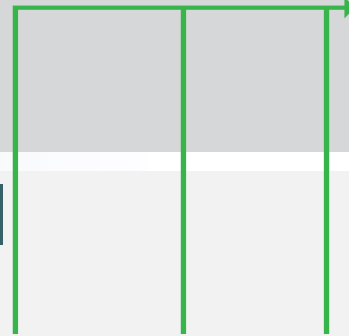
Designated Entity



WMD Program

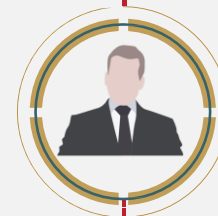
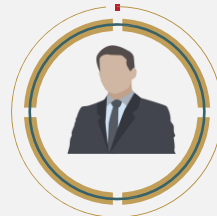
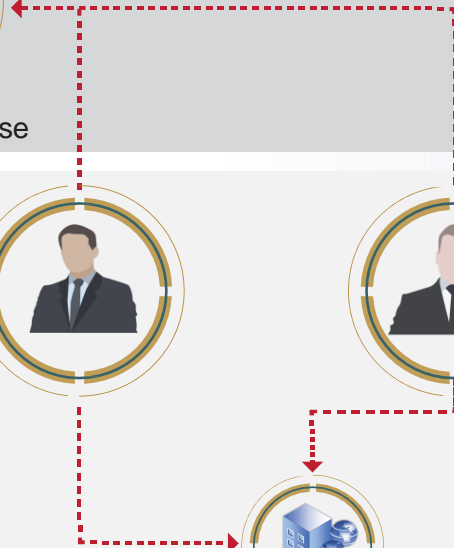


Direct Connection



Exchange House

Indirect Connection



Legal Entities

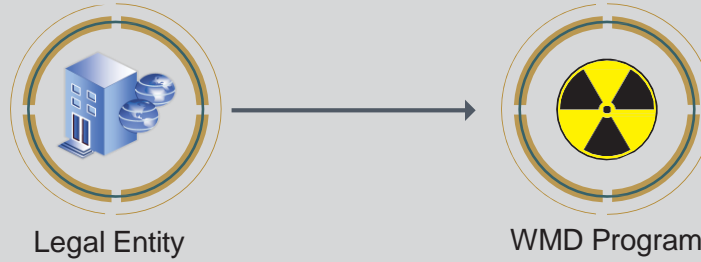
Legal Entities

UAE

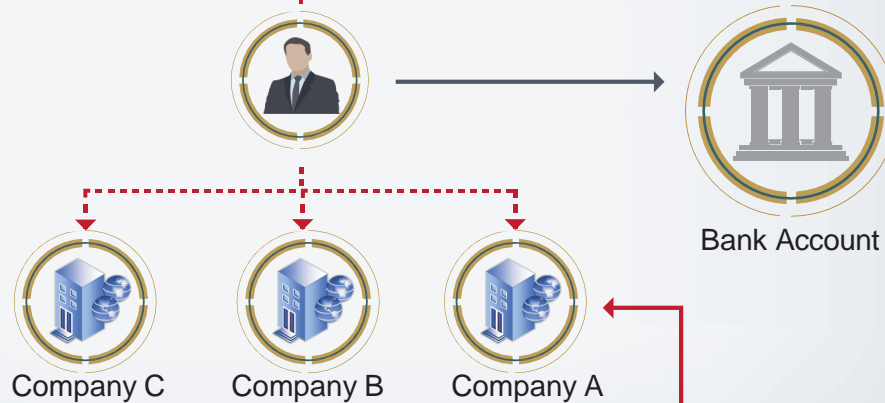


PF Typology: Shipment of Dual-Use Items

High Risk Jurisdiction



UAE



Country - X



FFR / PNMR Report VS STR / SAR Report

Fund Freeze / Partial Name Match Reports Received by Executive Office	Suspicious Transaction / Activity Reports Received by UAE FIU
Confirmed match to a designated person	Identified red flags or reasons to report
Potential match to a designated person	Does not include confirmed or potential match to a designated person
Relationship to designated person or party with documented evidence (e.g. POA)	Suspected relationship to a designated person or party to circumvent sanctions

Both FFR / PNMR and STR / SAR reporting must be submitted via goAML



Recommendations

Recommendations for Banks

Implement effective employee training programs to the different lines of defense with a focus on the sanction evasion typologies for both TF and PF targeted financial sanctions.

Integrate the red flags in your screening systems to help detect suspicious transactions related to TF and PF sanctions evasion.

Conduct enhanced due diligence on transactions involving high-risk jurisdictions and perform ongoing due diligence on correspondent banking relationships.

Be alert for PF risk indicators in trade finance transactions, including document discrepancies, under- or over-priced goods, involvement of sanctioned parties or vessels, and involvement of Dual-Use goods.

Conduct screening on transactions (trade finance) that involve trade of Dual-Use goods to ensure that items being traded are not export controlled and that customers hold a valid permit to trade in such goods. Take reasonable measures to verify legitimacy of end users.

Recommendations for Money Service Businesses

Implement effective employee training programs to the different lines of defense with a focus on the sanction evasion typologies for both TF and PF targeted financial sanctions.

Integrate the red flags in your screening systems to help detect suspicious transactions related to TF and PF sanctions evasion.

Conduct enhanced due diligence on transactions involving high-risk jurisdictions, particularly when dealing with other money service businesses that operate in those jurisdictions.

Screen both parties of a transaction (i.e. remitter and beneficiary) to ensure that they are not designated on sanctions lists and be alert for transactions that do not make economic sense based on CDD.

Be alert for payments, transfers, or hawalas that are conducted to facilitate trade of Dual-Use goods that are export controlled. In such cases, ensure that parties have a valid permit to trade in such goods before facilitating any payments or transfers.

Recommendations for Insurance

Implement effective employee training programs to the different lines of defense with a focus on the sanction evasion typologies for both TF and PF targeted financial sanctions.

Integrate the red flags in your screening systems to help detect suspicious transactions related to TF and PF sanctions evasion.

Conduct enhanced due diligence on transactions involving high-risk jurisdictions, particularly when providing insurance cover for parties that have a presence in those jurisdictions.

When providing vessel insurance, screen the vessel name, in addition to other relevant parties, such as the vessel owner and operator, to ensure they are not linked to designated persons.

When providing inventory insurance, screen the goods insured against the UAE Control List and ensure that your client holds a valid permit to trade in such goods before entering an insurance agreement.

Recommendations for DNFBPs

Implement effective employee training programs to the different lines of defense with a focus on the sanction evasion typologies for both TF and PF targeted financial sanctions.

Integrate the red flags in your screening systems to help detect suspicious transactions related to TF and PF sanctions evasion.

Conduct enhanced due diligence on transactions involving high-risk jurisdictions, particularly when providing company formation services to persons or entities with a presence in those jurisdictions.

When providing company formation services, make sure to understand the true nature of the customers' business and ownership structures and ensure there is a clear economic purpose.

When providing legal services to entities, make sure to screen the beneficial owners of your client to ensure that they are not designated on sanctions lists.

Executive Office Publications & Materials



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