المكتب التنفيذي
للرقابة وحظر الانتشار
EXECUTIVE OFFICE FOR
CONTROL & NON-PROLIFERATION

Strategic Review on Targeted Financial Sanctions Case Studies

Review period: 2019 - 2023

Date: April 2024

Contents

Acronyms

DNFBPs	Designated Non-Financial Businesses and Professions
DPMS	Dealers in Precious Metals and Stones
Executive Office or EOCN	The Executive Office for Control and Nonproliferation
FATF	Financial Action Task Force
FIs	Financial Institutions
FIU	Financial Intelligence Unit
LEAs	Law Enforcement Authorities
Local Terrorist List	National terrorist list issued by the UAE Cabinet
PF	Proliferation Financing
NPO	Non-Profit Organizations
RFR	Reasons For Reporting
Sanctions Lists	Local Terrorist List and UN Consolidated List
STR/SAR	Suspicious Transaction Report / Suspicious Activity Report

SAs	Supervisory Authorities which are entrusted by legislation to supervise FIs, DNFBPs, VASPs and non-profit organizations.
TF	Terrorist Financing
TFS	Targeted Financial Sanctions
UAE	United Arab Emirates
UN	United Nations
UN Consolidated List	United Nations Security Council Consolidated List pursuant to the relevant United Nations Security Council Resolutions.
UNSC	United Nations Security Council
UNSC Sanctions Committee	United Nations Security Council Sanction Committee that oversees the compliance of United Nations Security Council Resolutions.
UNSCR	United Nations Security Council Resolution
VASPs	Virtual Asset Service Providers
WMD	Weapons of Mass Destruction

Introduction and Purpose

1. The United Arab Emirates (UAE), as a member of the UN, is mandated to implement the United Nations Security Council Resolutions (UNSCRs), including those related to sanctions regimes. Consequently, through the Cabinet Resolution No. 74 of 2020, the UAE is implementing UNSCRs on the suppression and combating of terrorism, terrorist financing (TF) & countering proliferation financing (PF) of weapons of mass destruction (WMDs), in particular, Targeted Financial Sanctions (TFS) regimes as defined by the UN.

2. The UN sanctions regimes include different measures that countries must apply; however, this document focuses mainly on how Financial Institutions (FIs), Designated Non-Financial Businesses Professions (DNFBPs) and Virtual Assets Service Providers (VASPs) can be abused by designated individuals, groups, or entities to evade sanctions and support illegal activities related to TF and PF.

3. The Executive Office for Control and Non-Proliferation (EOCN) is a focal point to ensure effective implementation of TFS in the UAE. Furthermore, the EOCN works closely with Law Enforcement Authorities (LEAs) to ensure proper local listing and to keep the government and private sector updated with the latest information. Moreover, the EOCN receives and processes grievances against listing in the UN Consolidated List and Local Terrorist Lists decisions, and applications to use frozen funds by Sanctions Lists. Additionally, the EOCN collaborates with the government and private sector to raise awareness about the main typologies and emerging TF/PF risks and sanction evasion.

4. The purpose of this document is to review past TF and PF cases on a high level allowing local competent authorities, FIs, DNFBPs and VASPs in understanding most common methods, instruments, sources of information and suspicions that result in cases related to TFS imposed under UNSCRs or by local designation, in addition to studying changes in sanctions evasion patterns and typologies across the years.

Methodology

5. This document presents a total of 33 TF&PF cases collected from LEAs across the UAE for a period from 2019 – 2023. Respectively the periods were split into two different periods firstly 2019- 2021 consisting of 23 case studies (18 TF and 5 PF) and secondly 2022 – 2023 consisting of 10 case studies (7 TF and 3 PF).

6. Ultimately upon analysis, the EOCN has classified cases based on the below 4 elements:

    - Source of Information
    - Type of Suspicion
    - Tools or Instrument Used.
    - TF & PF Patterns and Typologies

Chapter 1: Classification of TFS Cases for the Period (2019 – 2021)

7. This section of the strategic review lists the main contributors to building the 23 cases analyzed in this chapter based on their source of information, the underlying suspicious activity identified, the tools and instruments used, and patterns and typologies used to conduct the illicit activities.

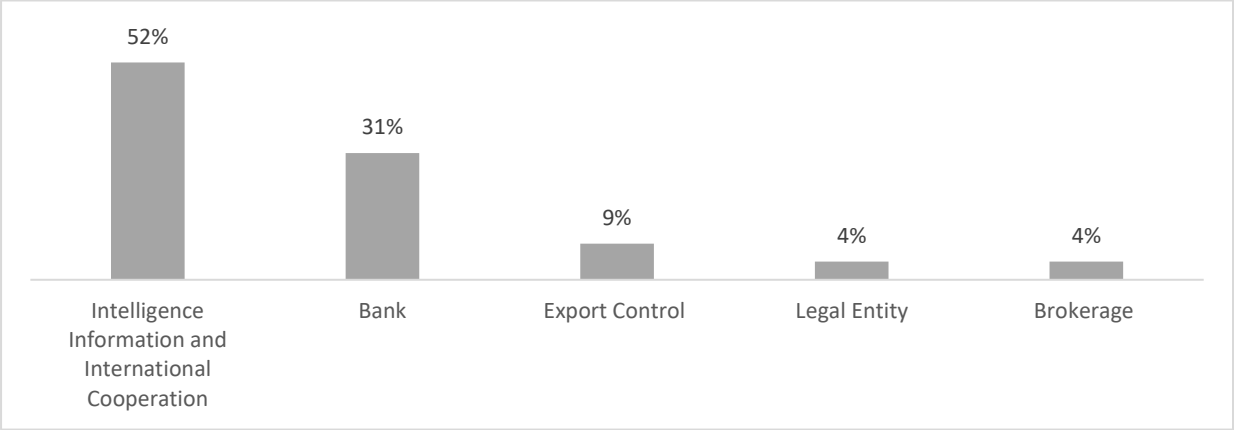
Based on Source of Information

8. In this review, the sources of information vary across different entities such as local competent authorities, FIs and DNFBPs. The table below lists the 5 main sources of information of which cases are built upon. It is evident that the greatest source of information is from Intelligence information and International cooperations that leads to identify TF / PF activities or sanction evasion from UN sanction list or local terrorist list, followed by banks through Suspicious Transactions Reporting (STR) to the UAE Financial Intelligence Unit (FIU) on transactions that occur on the mainland or free zones, which assisted the LEAs to trace and freeze funds related to TF / PF activities.

Table 1 – Number of cases based on source of information (2019 – 2021)

Source of Information	*Number*
Intelligence Information and International Cooperation	12
Bank	7
Export Control Entities	2
Legal Entity	1
Brokerage	1

Figure 1 – Percentage of cases classified by source of information.



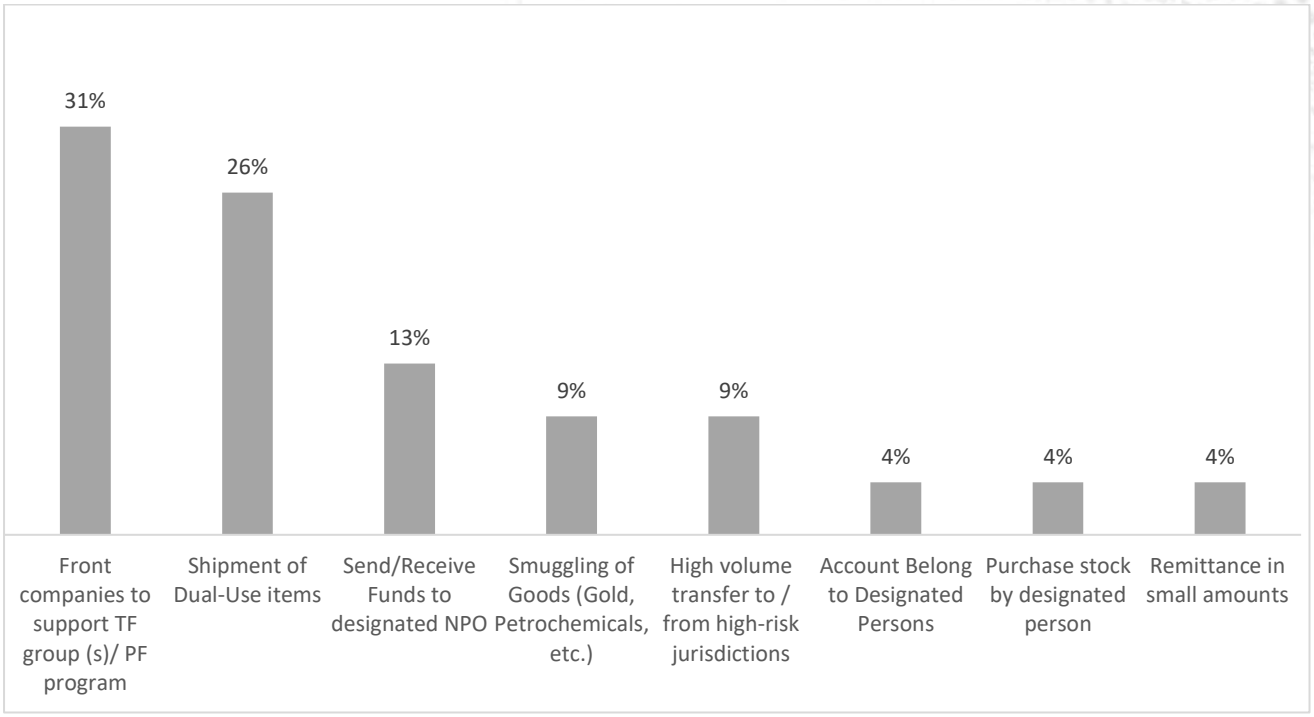
Based on Suspicion Identified

9. In many cases, the reason of suspicion on an activity/transaction involved is what triggers local authorities, FIs and DNFBPs reporting to competent authorities to conduct further investigations. The table below lists the 8 types of suspicions of which the cases were based on and it demonstrates that the highest type of suspicion for reporting methods used by criminals to conceal or disguise their intent to support TF activities or PF programs through using front or shell companies and shipments of dual-use items.

Table 2 – Number of cases based on type of suspicion (2019 – 2021)

Type of Suspicion	*Number*
Front companies to support TF group (s)/ PF program	7
Shipment of Dual-Use items	6
Send/Receive Funds to designated NPO	3
Smuggling of Goods (Gold, Petrochemicals, etc.)	2
High volume transfer to / from high-risk jurisdictions	2
Account Belong to Designated Persons	1
Purchase stock by designated person	1
Remittance in small amounts	1

Figure 2 – Percentage of cases classified by type of suspicion.



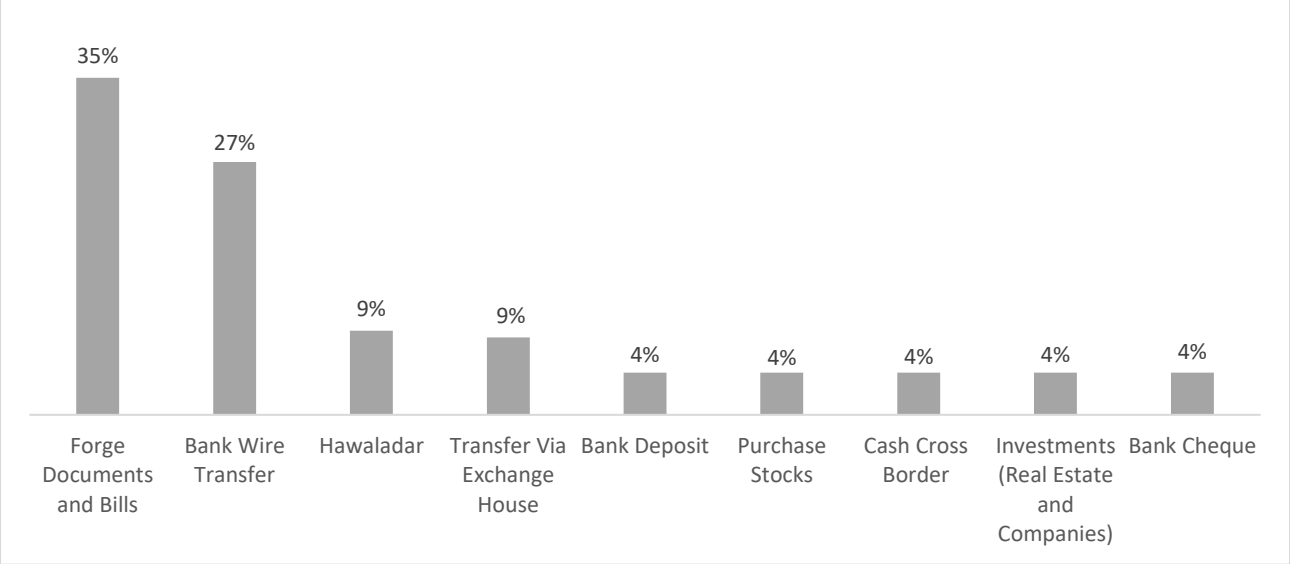
Based on Tools and Instruments Used

10. Criminals involved in TF/PF activities may use different financial and non-financial tools and instruments to facilitate placement and movement of funds to support their illicit activities, the table below lists the 9 tools used by criminals and clarifies that the most common tools or instruments to exploit the financial and non-financial system to assist TF activities or PF programs through using forged documents and bills, and bank wire transfers.

Table 3 – Number of cases based to the tools and instruments used (2019 – 2021)

Type of Tool or Instrument	*Number*
Forge Documents and Bills	8
Bank wire transfer	6
Hawaladar	2
Transfer Via Exchange House	2
Purchase Stocks	1
Bank Deposit	1
Cash Cross Borders	1
Investments (Real Estate, Companies, etc.)	1
Bank Cheque	1

Figure 3 – Percentage of cases classified by tools and instruments used.



TFS Patterns & Typologies

11. A set of patterns and typologies were identified based on the TFS cases that are frequently used by criminals to avoid sanctions. The patterns and typologies also include the main sectors, methods and the instruments used to pass any financial or non-financial transactions to support the designated persons or entities.

- **TF Patterns and Typologies**

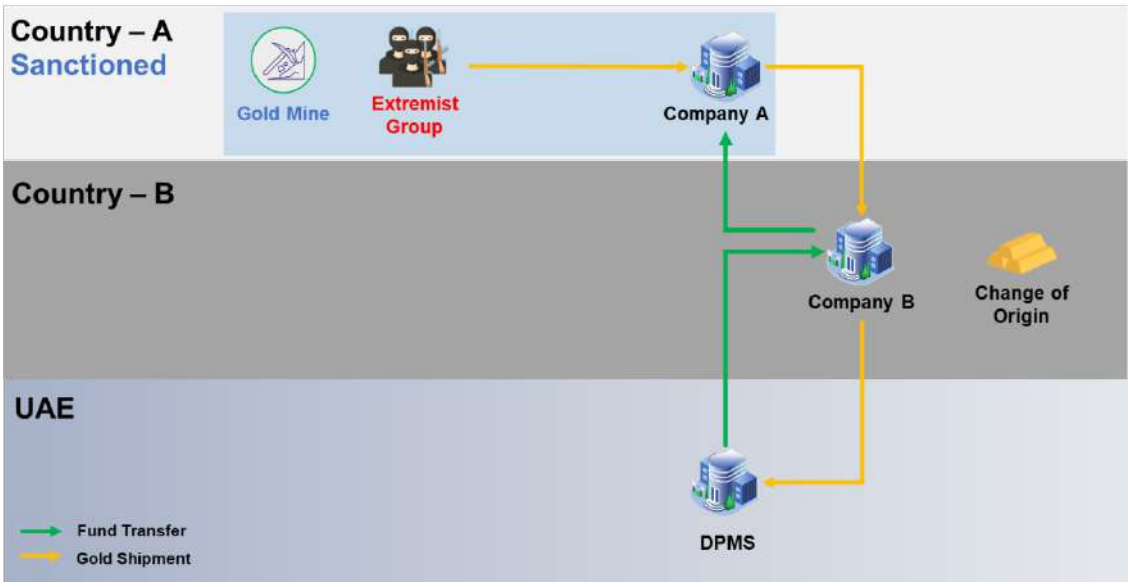
  - **First Pattern / Typology:** Smuggling of Gold

    This case study was triggered based on international cooperation through information received from foreign counterparts to local customs on a shipment headed to the UAE.

    Gold extracted by extremist group located in sanctioned country A is smuggled to company B, located in country B, with the purpose of changing the origin of the gold to avoid any links with sanctioned country A.

    DPMS in the UAE purchased the gold from company B (legitimately) and transferred the funds to company B which then remits the funds back to company A.

Figure TF – (1 - 7) Gold Smuggling



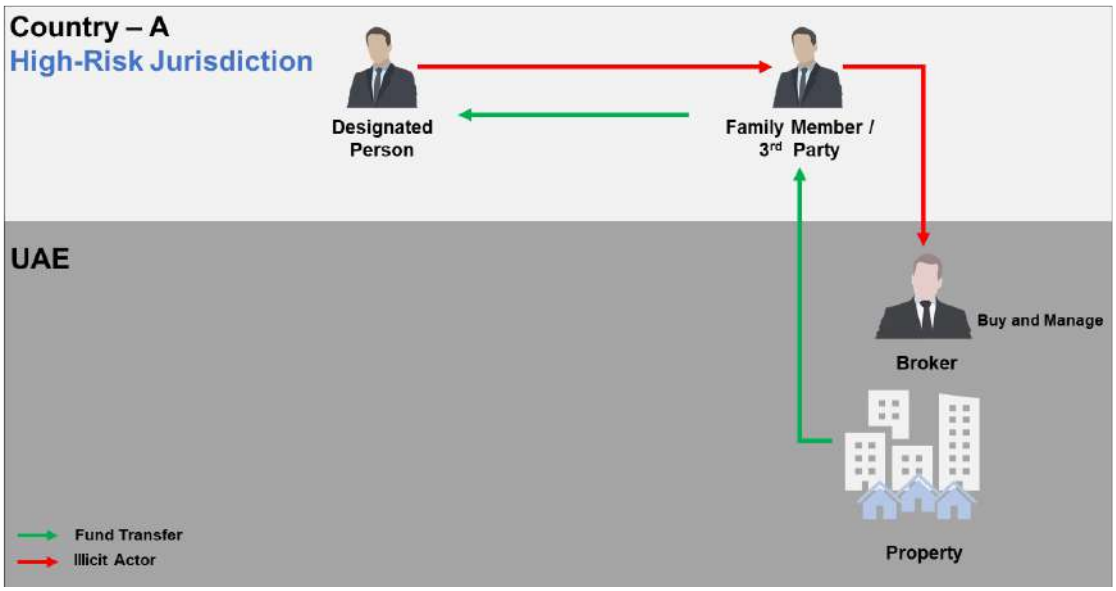
- **Second Pattern /Typology:** Using third party or family member.

  STR was submitted by a local bank that a real estate broker in UAE received remittances from high-risk jurisdictions.

  The Investigation revealed that the remitter was acting on behalf of a Sanctioned family member to purchase properties in the UAE.

  The proceeds of the properties were then returned to the family member residing in Country A who is working on behalf of a sanctioned individual.

Figure TF – (2 – 7) Using 3rd Party / Family Member



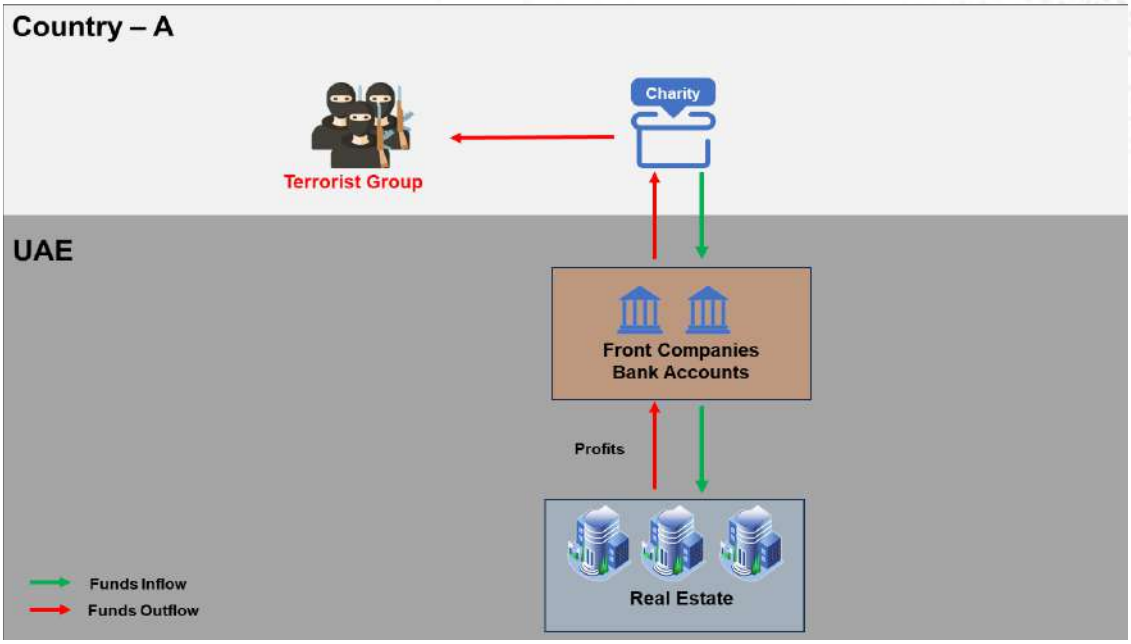
- **Third Pattern/Typology:** The Misuse of NPOs

  STR was submitted by a bank on transfers from/to NPO located in country A.

  The NPO was misused to operate as a front company on behalf of terrorist organizations where the holds bank accounts and purchases real estate on behalf of the terrorist organization.

  A Hawaladar was used to remit profits of the real estate to the NPO in country A that supports sanctioned terrorist group.

Figure TF – (3 – 7) The misuse of NPOs

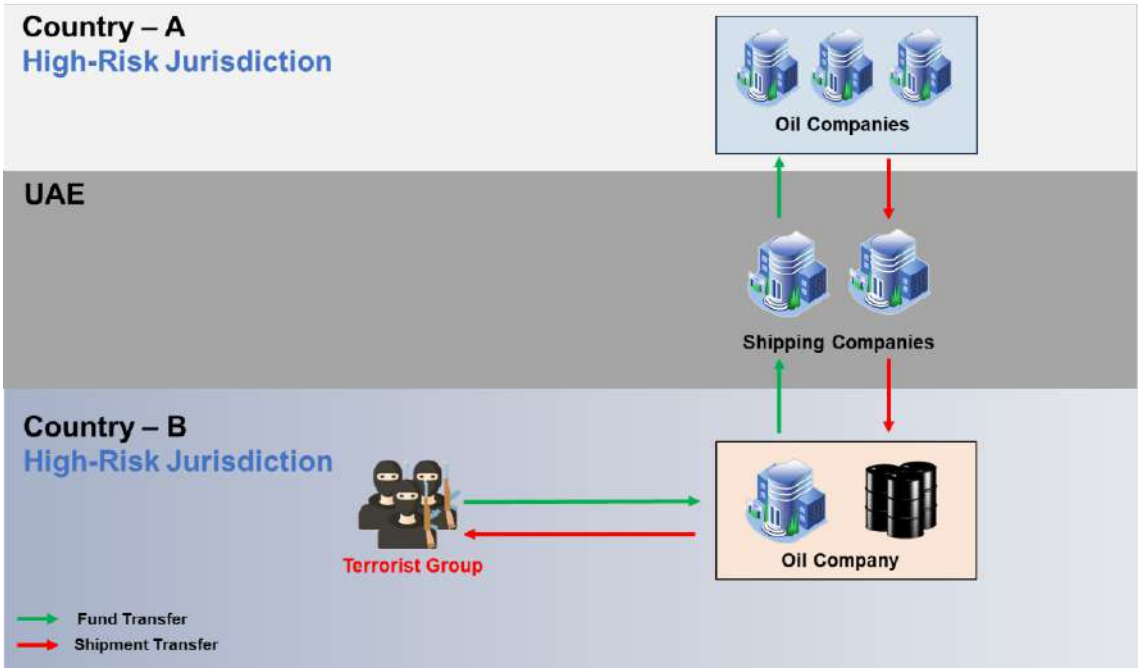


- **<u>Fourth Pattern/Typology:</u>** <u>Forged Documents and Bills</u>

  Intelligence information on the maritime industry found that illicit actors were forging documents and using the UAE as a transit point to ship oil for the benefit of sanctioned terrorist group located in country B.

  The investigation revealed that the proceeds of selling the oil were transferred to country A through the shipping companies in the UAE.

Figure TF – (4 – 7) Forge Documents and Bills

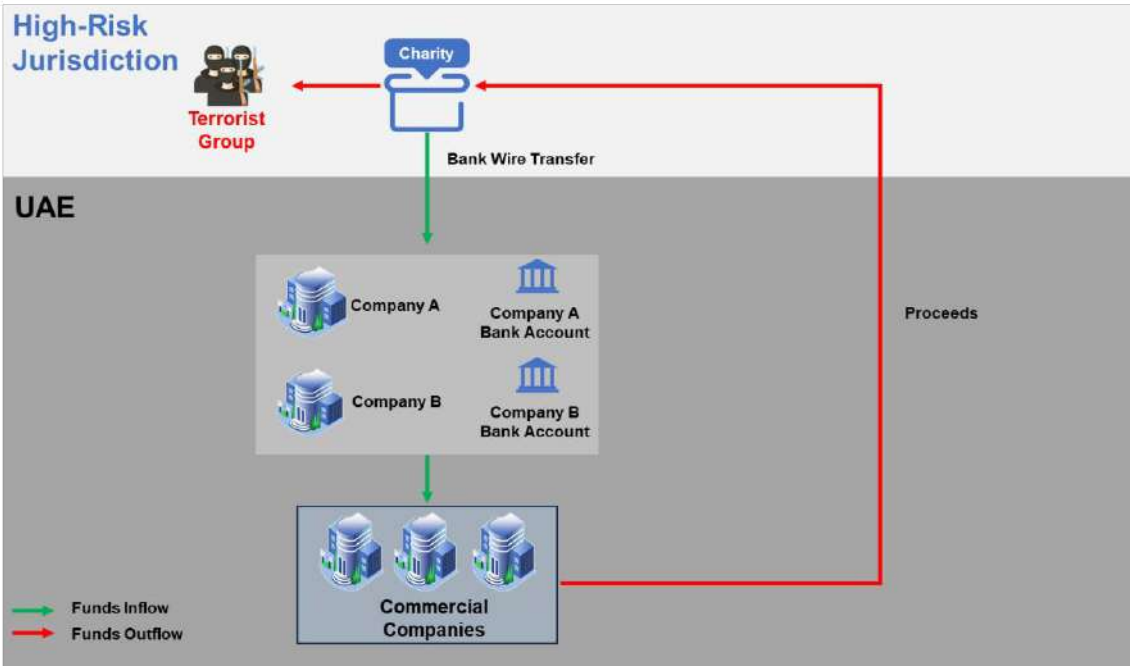


- **Fifth Pattern/Typology:** Using Front Companies

  A local bank filed STR regarding incoming wire transfers from a high-risk jurisdiction to a front company's bank accounts in the UAE.

  The front companies used the funds received to invest in commercial companies. The return of the investments were transferred to an NPO controlled by terrorist groups.

Figure TF – (5 – 7) Using Front Companies



- **PF Patterns and Typologies**

  - **First Pattern/Typology:** The use of financial system

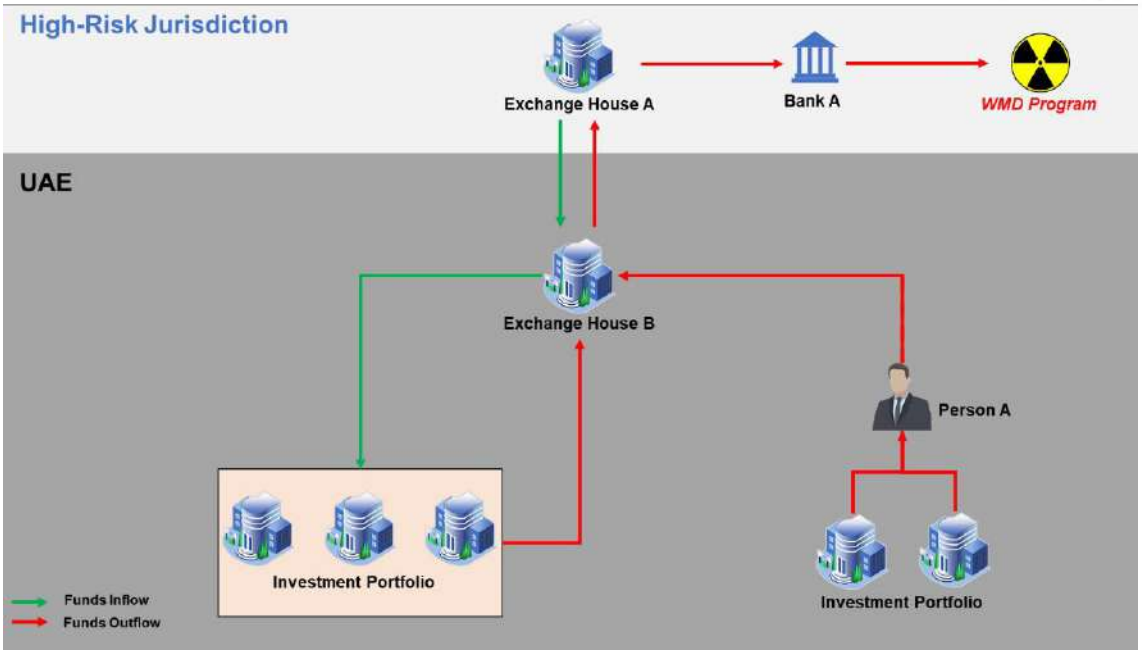
    A local exchange house B submitted STR on suspicious behaviour of multiple high value inward/outward transactions conducted by 5 different companies working as investment portfolios.

    Two of the five companies were obtaining funding from investment portfolios and transferring the funds to exchange house A via person A who manages the two investments.

    The other three investment portfolios transferred the funds directly to exchange house B to ultimately move them to the high-risk jurisdiction.

Investigations revealed that exchange house A and bank A are controlled by an entity that supports WMD programs.

Figure PF – (1 – 4) Use of Financial System



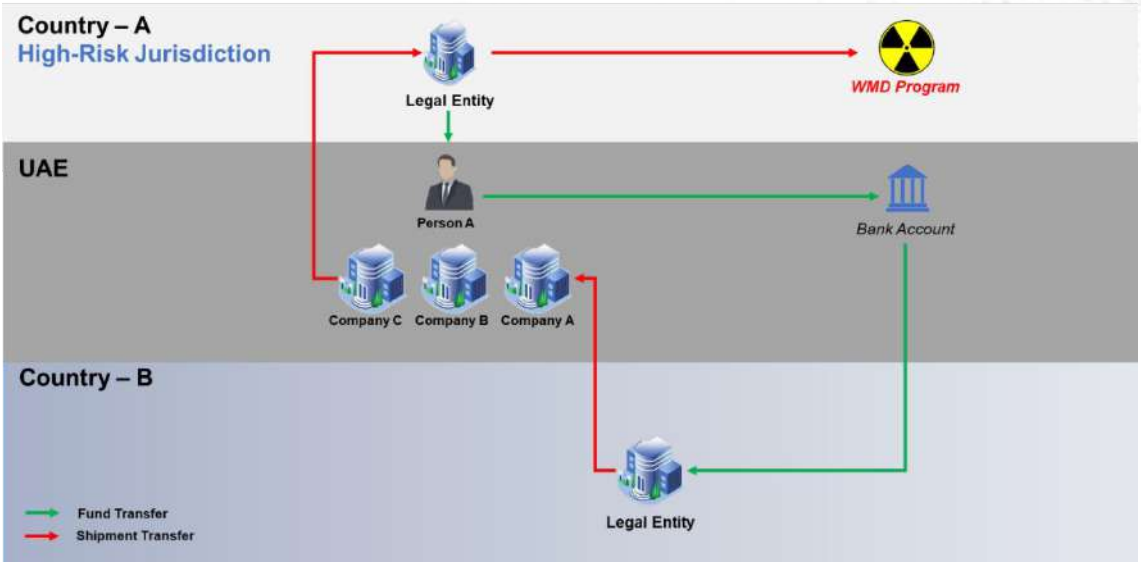
- **Second Pattern/Typology:** The Shipment of Dual-use Items

An export control entity identified that the technical description of an electronic tool was manipulated where the item specification was slightly below the threshold to be considered controlled during the permit request by company A

The investigation revealed that person A owns three companies and uses them for transhipment of the electronic item. Additionally, he received money from a legal entity in high-risk jurisdictions to deliver the electronic item.

Furthermore, the investigation led to uncover transactions related to the sale, shipment, and export of dual use goods to a legal entity in a high-risk jurisdiction that supports WMD program.

Figure PF – (2 – 4) Shipment of Dual-Use Items



Chapter 2: Classification of TFS Cases for the Period (2022 – 2023)

12. In this section it's worth noting that the source of information was replaced by reporting entities as the cases are only from STRs submitted by reporting entities and should not be compared to the previous time periods as a one-to-one basis since the previous chapter includes cases from multiple sources.

Based on Reporting Entity

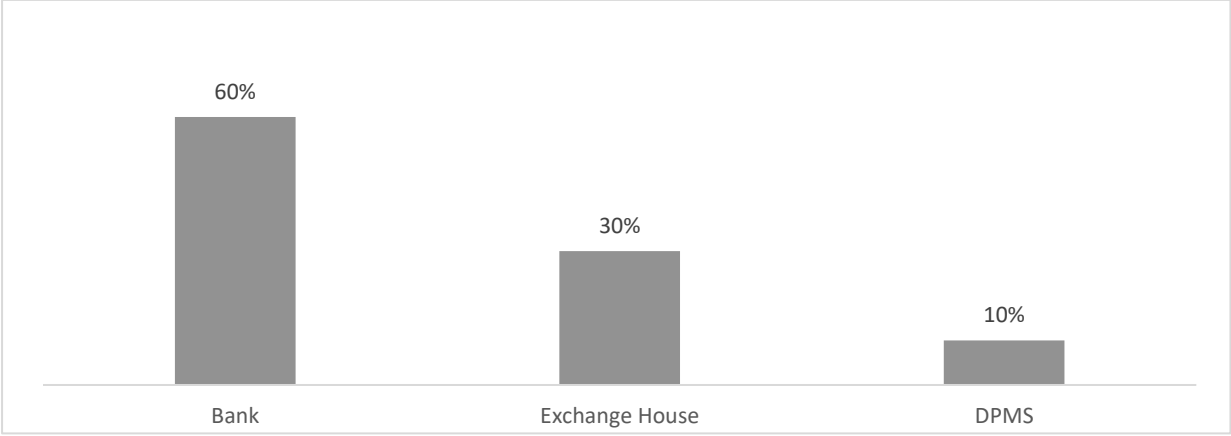
13. The table below lists the 3 main reporting entities that contributed to building the 10 cases analyzed in this period. It is noticed from the table below that the highest reports came from the banking sector submitting STRs which then led to identifying TF/PF activities or sanction evasion from the UN Sanctions List and Local Terrorist List.

14. Furthermore, Exchange Houses come in second position proving the contribution of the private sector in uncovering TFS related issues.

Table 4 – Number of cases based on reporting entities (2022 – 2023)

Reporting Entity	*Number*
Bank	6
Exchange House	3
DPMS	1

Figure 4 - Percentage of cases classified by reporting entity.



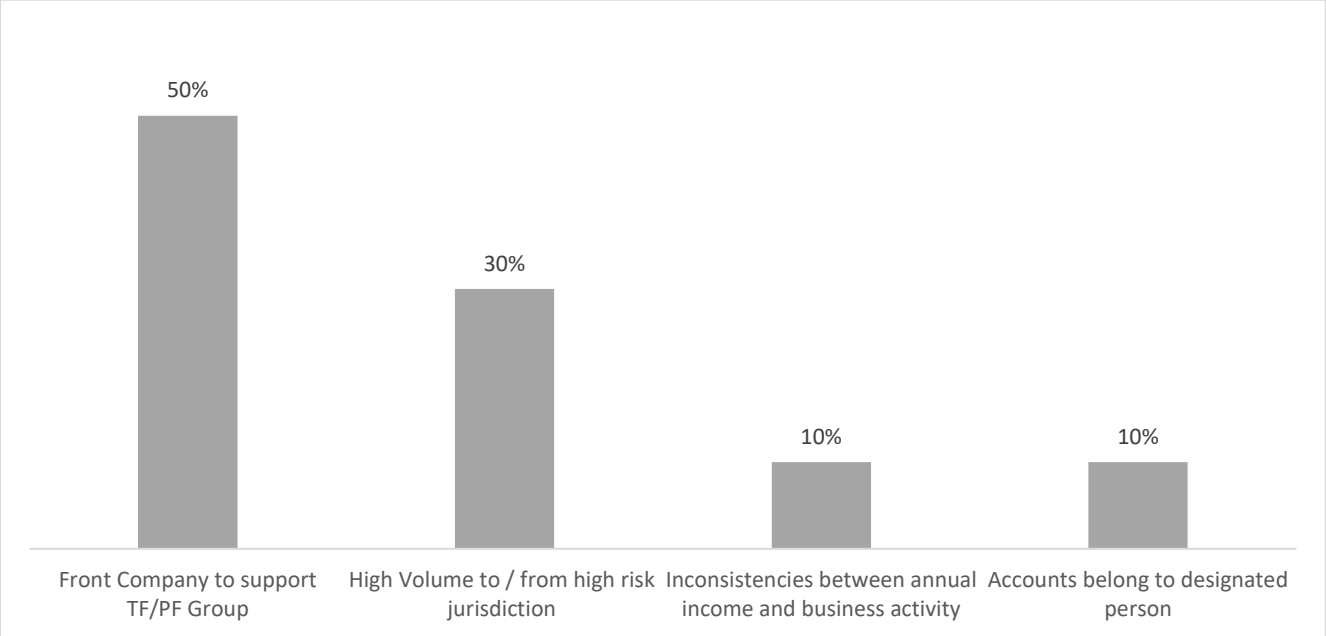
Based on Suspicion Identified

15. The table below lists the 4 types of suspicions which the cases were based on. As shown in the results below, the highest type of suspicion for reporting methods used by criminals to disguise their support of TF/PF activities were mainly through establishing front companies and high-volume transfers to high-risk jurisdictions. A slight difference from chapter 1 where suspicions were from front companies in the first place and shipment of dual use items in the second place. These results show that TF and PF actors are trying alternative methods to achieve their goals.

Table 5 – Number of cases based on suspicion type (2022 – 2023)

Type of Suspicion	*Number*
Front Company to support TF/PF Group	5
High Volume to / from high-risk jurisdiction	3
Inconsistencies between annual income and business activity	1
Accounts belong to designated person	1

Figure 5 - Percentage of cases classified by type of suspicion



Based on Tools and Instruments Used

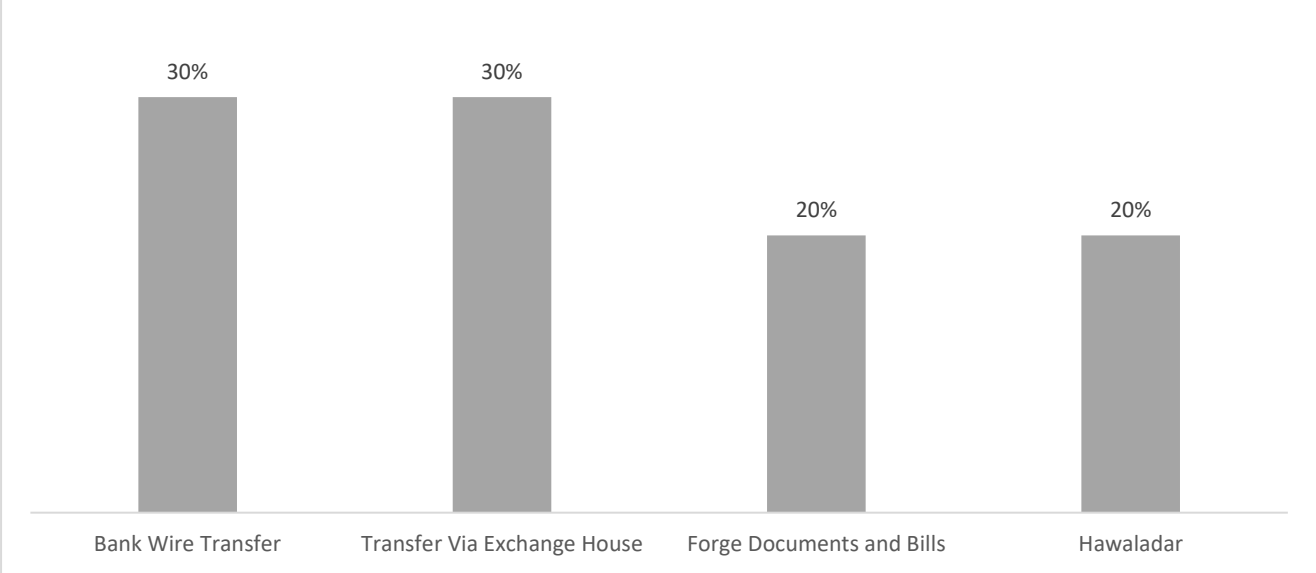
16. The table below lists the 4 tools and instruments used by criminals to transport funds and other assets to assist TF activities or PF programs. The most common tools and instruments used by criminals are, transfers via bank or exchange house. The table also shows that forging documents and bills still pose a high risk which was identified in the previous period

(2019-2021).

Table 6 – Number of cases based on tool and instruments used (2022 – 2023)

Tool or Instrument	Number
Wire Transfer via Banks	3
Transfer via Exchange House	3
Transfers via Hawala-Dar	2
Forge Documents and Bills	2

Figure 6 – Percentage of cases classified by tool and instrument used



TFS Patterns & Typologies

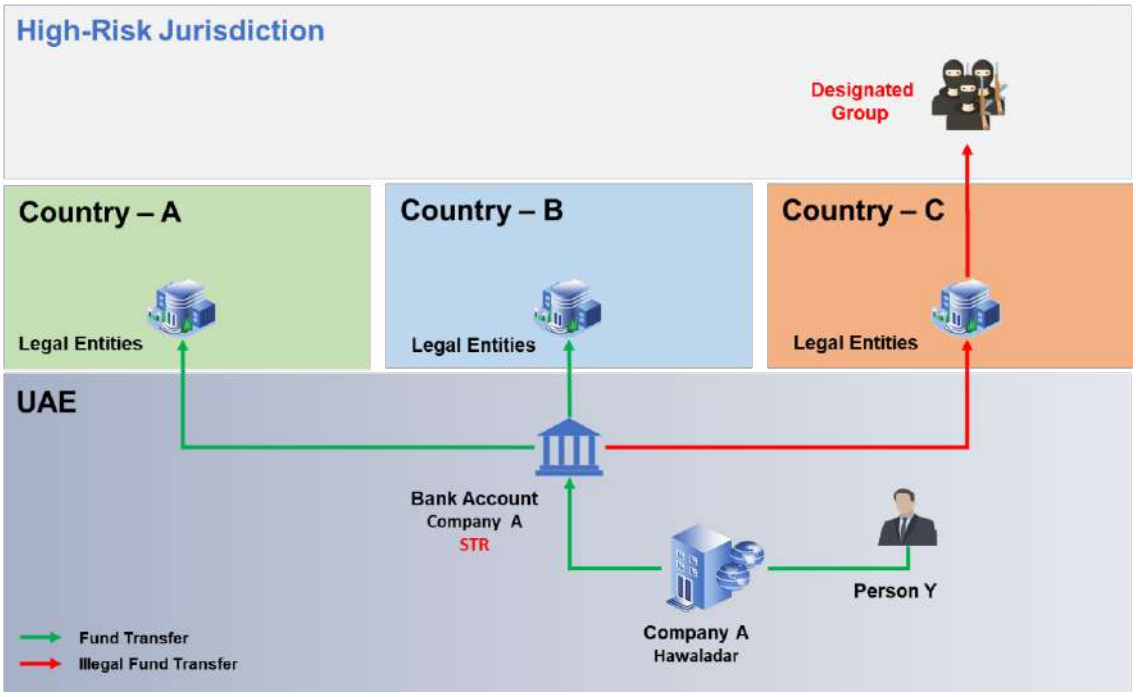
17. A set of patterns was identified based on the TFS cases that are frequently used by criminals to avoid financial targeted sanctions. The patterns also include the main sectors, methods and the instruments used to pass on any financial or non-financial transactions to support designated individuals, groups, or entities.

- **TF Patterns and Typologies**
    - **First Pattern/Typology:** Front Companies for TF Activities

      Suspicious transaction report was filed by local bank regarding person Y who used his company's bank accounts as a hawaladar to transfer funds to a conflict zone.

The investigation revealed transfers were conducted to three countries country A, country B, country C. Where it was confirmed that funds that passed through country C reached a terrorist group.

Figure TF – (6 – 7) Front companies.

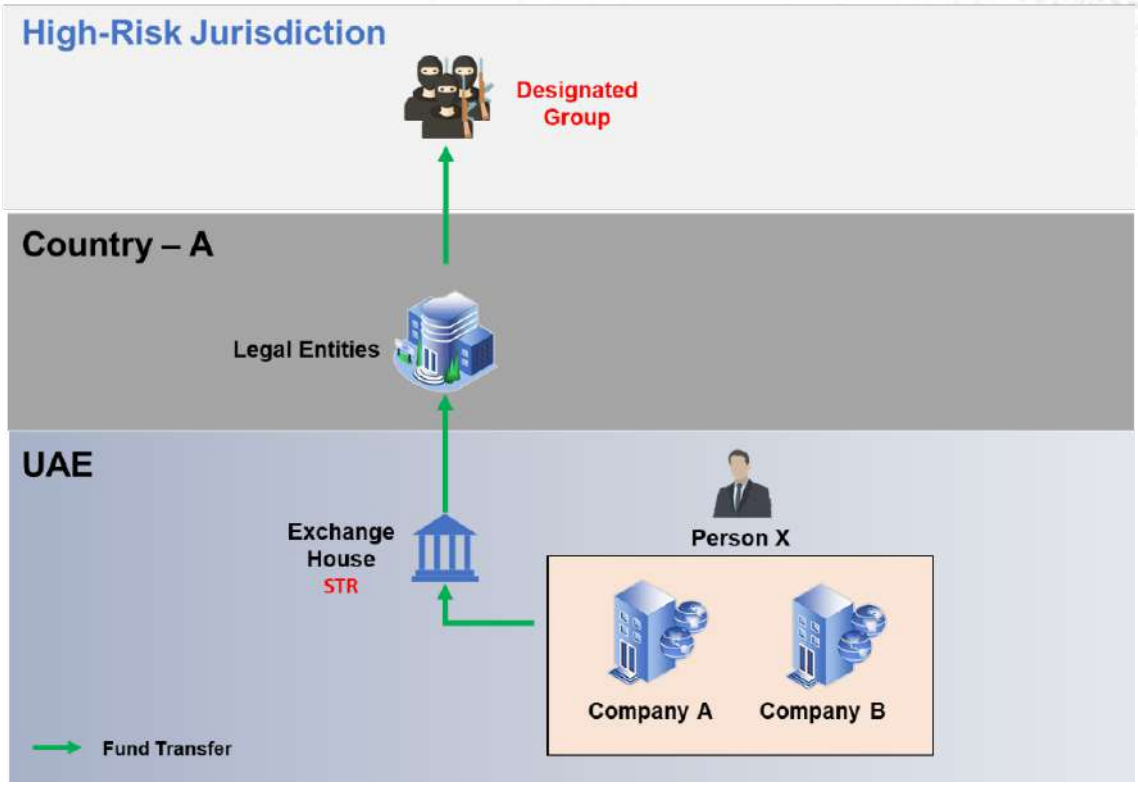


- **<u>Second Pattern/Typology:</u>** <u>High Volume Transfer to High-Risk Jurisdiction</u>

  An STR is submitted by an exchange house when person X transfers money to country A, a high-risk jurisdiction, through the exchange house using large amounts of cash.

  Investigations revealed that person X established and managed two companies, company A and B, for the sake of raising funds and supporting terrorist groups in the high-risk jurisdiction.

Figure TF – (7 – 7) High Volume Transfer to High-Risk Jurisdiction



- **PF Patterns and Typologies**

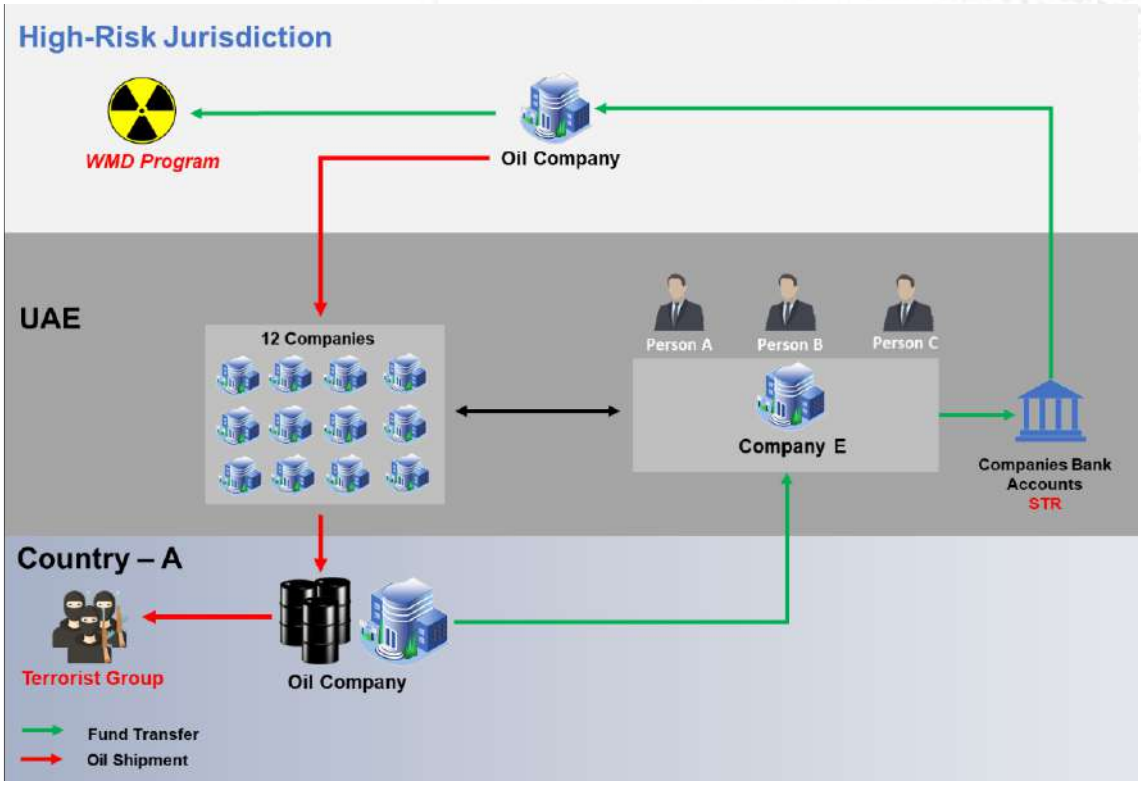
  - **First Pattern/Typology:** Oil Trade

    This case study was triggered through an STR from a local bank suspecting the multiple high-volume transactions occurring between company E and another 12 companies in the UAE.

    Person A along with two other individuals established a front company (Company E) operating in ship supply and trade of oil and gas. Company E utilized 12 affiliated companies operating in the same sector to ship oil from high-risk jurisdiction to country A using the UAE as a transhipment.

    The proceeds of selling the oil to the Terrorist group was sent back through the UAE financial system to support the WMD program.

Figure PF – (3 – 4) Oil Trade



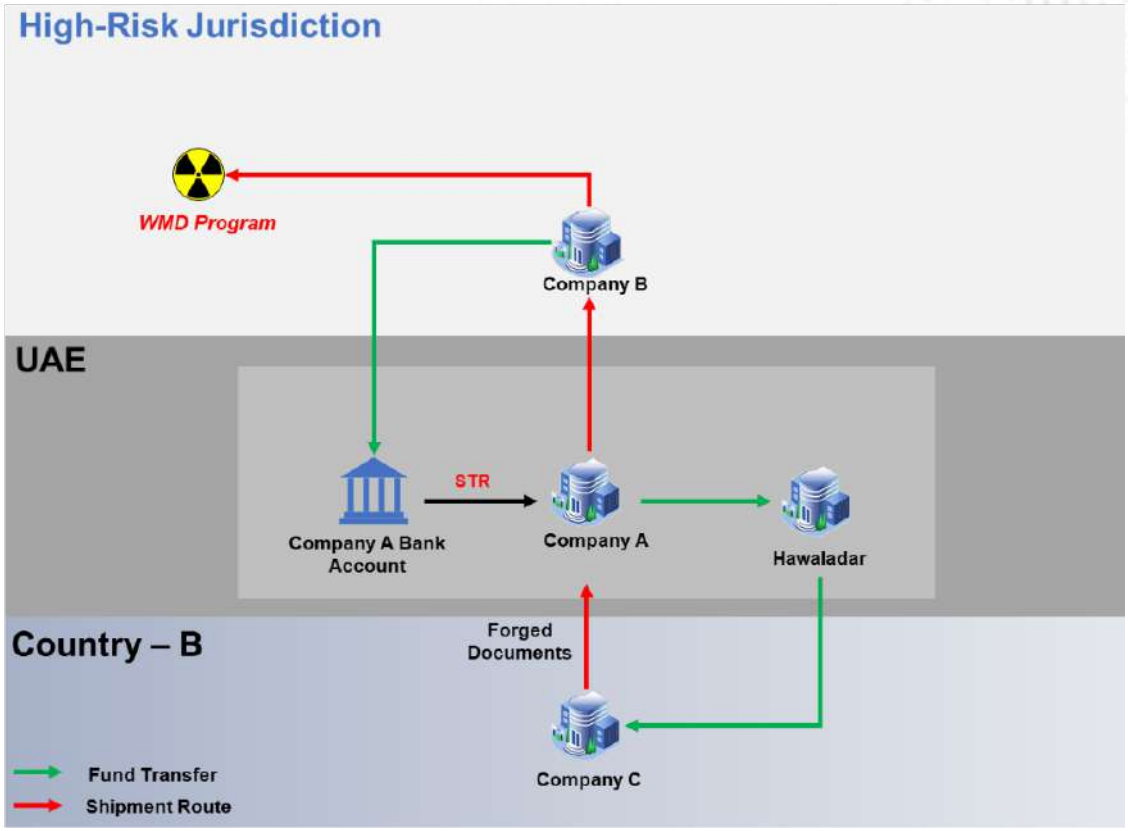
- **Second Pattern/Typology:** Forged Documents and Bills

  STR was received from a local bank on company A suspecting the high-volume transfers received from company B, which is located in a high-risk jurisdiction, intended to purchase goods. The declared value of goods purchased was significantly lower than the actual market price.

  The investigation revealed that company A forged documents and falsified the end destination so they could hide the origin and nature of the goods to re-export them to a high-risk jurisdiction.

  The investigation also uncovered that fund received from company B were transferred to company C via hawaladar to purchase devices that produce missiles and other WMD related systems.

Figure PF – (4 – 4) Forged Documents and Bills



Highlights and Conclusion

18. Through this document it was noticed that over the years illicit actors have diversified their TF, PF and sanction evading methods and techniques. Therefore FIs, DNFBPs and VASPs have to be constantly on the lookout for innovations in supporting illegal activities and sanctions evasion methods used by criminals to finance terrorist groups or WMD programs.

19. It was also noticed that the involvement of the private sector played a crucial role in identifying sanction evasion activities by reporting cases based on suspicions associated with their relevant sector risks. STRs that contained high quality information assisted the LEAs to build successful cases that later resulted in tracing and seizing funds related to TF/PF activities and eventually resulting in the disruption of illicit financial networks.

20. Through this document, the EOCN aims to provide a clear reference for the first lines of defence across all sectors aiming to disrupt illicit financial networks related to TFS regimes. The impact and importance of proactive information sharing by the private sector is demonstrated in more details in the "Targeted Financial Sanctions Implementation Guideline" published by the EOCN.

Recommendations

- The FIs, DNFBPs and VASPs to reflect the results of the document into their consideration while updating their internal policies, procedure, controls and training plans.
- The FIs, DNFBPs and VASPs should conduct their institutional TF/PF risk assessments to understand, identify and mitigate their inherent risks while also taking into consideration the national risk assessments and the findings of this document.
- The FIs, DNFBPs and VASPs should conduct enhanced due diligence to the cross-border trade finance transactions related to high-risk jurisdictions that have weak export control regulations.
- The FIs, DNFBPs and VASPs should promptly report instances on sanction evasion and TF/PF activities identified to the FIU by using the associated Reasons for Reporting (RFRs) within the GoAML platform.
- The FIs, DNFBPs and VASPs register to the EOCN e-learning platform to keep up to date with the relevant

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