



لجنة السلع والمواد الخاضعة لرقابة الاستيراد والتصدير  
COMMITTEE FOR GOODS & MATERIAL SUBJECTED TO IMPORT & EXPORT CONTROL

# Strategic Review on Targeted Financial Sanctions Case Studies 2019-2021

The Executive Office Of The Committee For Goods & Materials  
Subjected To Import & Export Control  
Date: November 2021

## Acronyms

DNFBPs	Designated Non-Financial Businesses and Professions
EO IEC	The Executive Office of the Committee for Goods & Materials Subjected to Import & Export Control
FATF	Financial Action Task Force
FIs	Financial Institutions
FIU	Financial Intelligence Unit
Local Terrorist List	National terrorist list issued by the UAE Cabinet
Sanctions Lists	Local Terrorist List and UN Consolidated List
STR/SAR	Suspicious Transaction Report / Suspicious Activity Report
Supervisory Authorities	Federal and local authorities which are entrusted by legislation to supervise FIs, DNFBPs, VASPs and non-profit organizations or the competent authority in charge of approving the pursuit of an activity or a profession in case a supervisory authority is not assigned by legislation.
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. Please note that all current United Nations sanctions regimes have their own Sanctions Committee.
UNSCR	United Nations Security Council Resolution

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# 1. Introduction

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 & countering the financing of proliferation of weapons of mass destruction, in particular, targeted financial sanctions (TFS) regimes as defined by the UN.

Security Council sanctions have taken several different forms, in pursuit of a variety of goals. The measures have ranged from comprehensive economic and trade sanctions to more targeted measures such as arms embargoes, travel bans, and financial or commodity restrictions. The Security Council has applied sanctions to support peaceful transitions, deter non-constitutional changes, constrain terrorism, protect human rights and promote non-proliferation of weapons of mass destruction (WMDs).

As stated above, the UN sanctions regimes include different measures that countries must apply; however, the following explains only how to implement in the UAE the targeted financial sanctions related to the freezing measures and prohibition to provide funds and services in accordance with the UNSC resolutions related to Terrorism and proliferation financing. Individuals and legal entities in the UAE should also refer to relevant rules, regulations, and guidance published by the Executive Office of the Committee for Goods and Materials Subject to Import and Export Control, Supervisory Authorities and the UN Security Council.

## **a. EO IEC's Role:**

- Act as a central authority to ensure implementation of Targeted Financial Sanctions in the UAE.
- Receive and process grievances against listing in UN Consolidated List and Local Terrorist Lists decisions.
- Receive and process applications to use frozen funds as per Sanctions Lists.
- Work closely with the Supreme Council for National Security with regard to the local listing.
- Circulate updates to the Local Terrorist List and UN Consolidated List to the government and private sector.
- Coordination and exchange of information between government agencies.

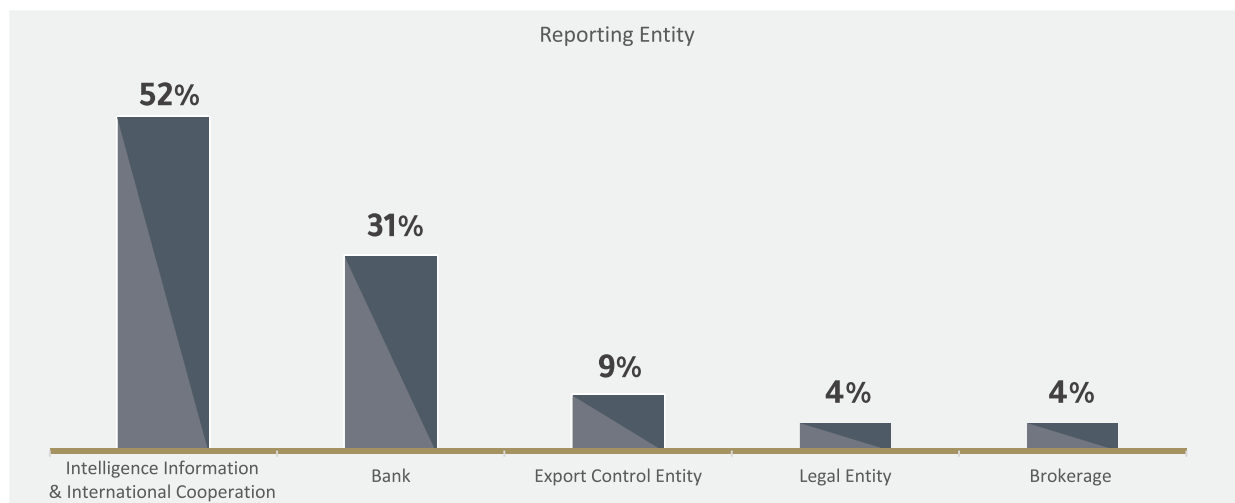
## 2. Methodology, Source and Timeline

This report is based on 23 cases and examples from the UAE that demonstrate 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, particularly during the period 2019 - 2021.

## 3. Classification of TFS Reports based on Source of Information

Based on the results below it is noticed that the highest source of information is from Intelligence Information and International Cooperation which leads to identify TFS (TF / PF) activities or sanction evasion from UN sanction list or international sanction regimes. Furthermore, the banks have proved through STR reporting to the FIU about suspicious transaction that occurs on mainland or free zones, which provide leads to the law enforcement agencies to trace and freeze funds related to TFS activities.

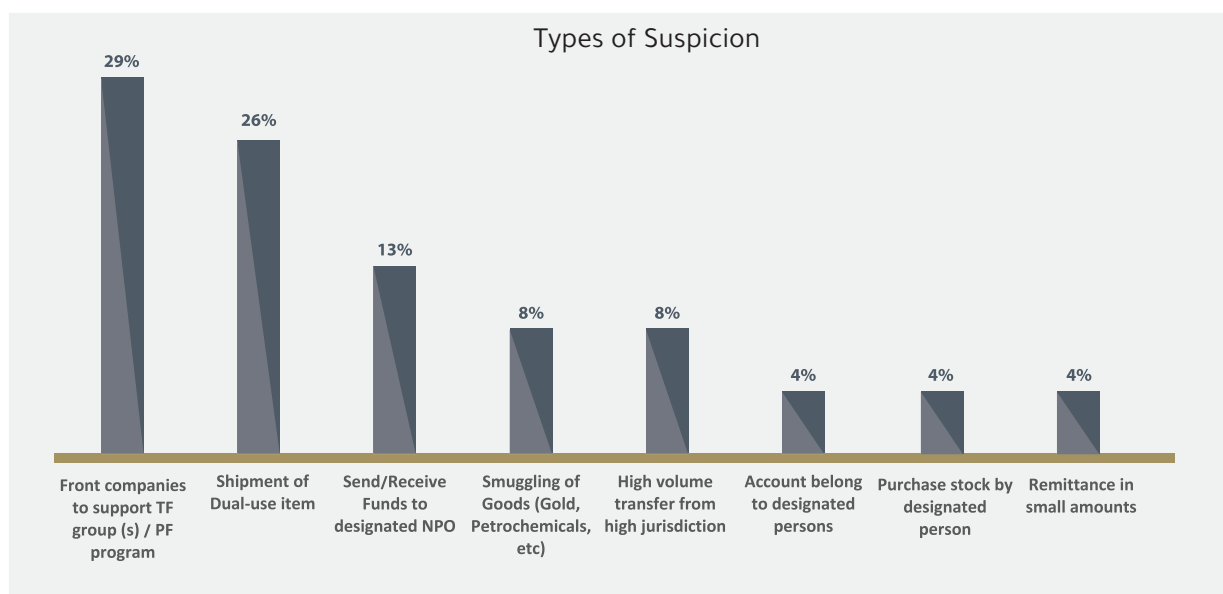
Source of Information	Number
Intelligence Information & International Cooperation	12
Bank	7
Export Control Entity	2
Legal Entity	1
Brokerage	1



## 4. Classification of TFS Reports based on Suspicion

Based on the results below, the highest suspicious methods used by the designated individuals, entities or groups to support TF activities or PF programs are mainly through shipments of dual-use items and using front or shell companies.

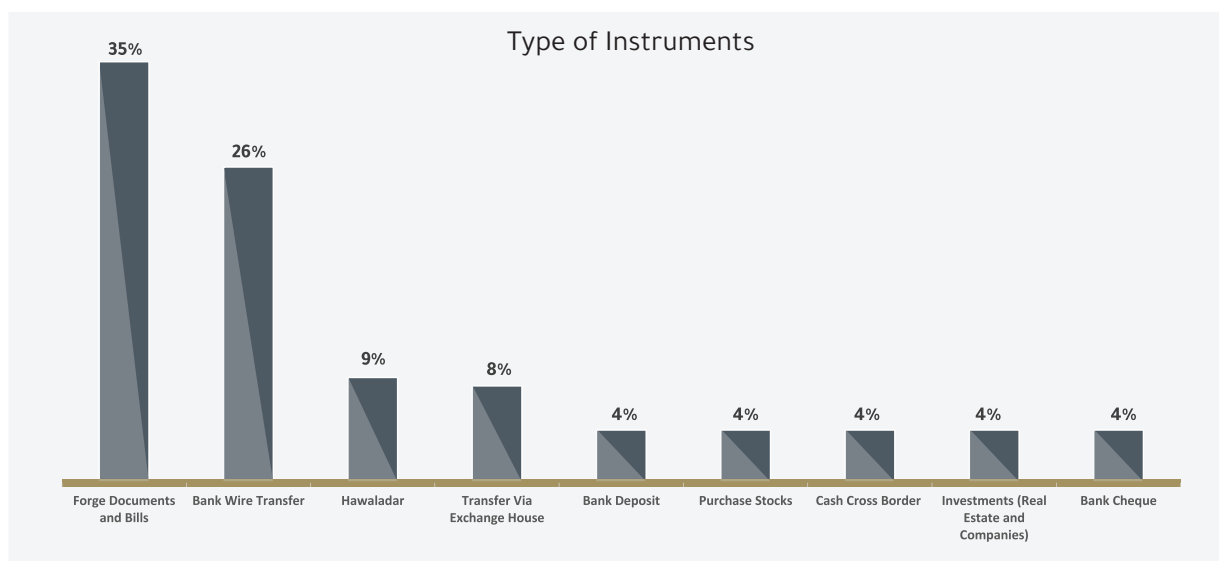
Type of Suspicion	Number
Front companies to support TF group (s)/ PF program	7
Shipment of Dual-Use items	6
Send/Receive Funds to designated NPO	3
Smuggling of Goods (Gold, Petrochemicals, etc.)	2
High volume transfer from high-risk jurisdictions	2
Account Belong to Designated Persons	1
Purchase stock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



## 5. Classification of TFS Reports based on Instruments

Based on the results below, the highest instruments used by the designated individuals, entities or groups to transport funds and other assets from high-risk jurisdiction to assist TF activities or PF programs are mainly through using forged documents and bills, and bank wire transfers.

Type of Instruments	Number
Forge Documents and Bills	8
Bank wire transfer	6
Transfer Via Exchange Houses	2
Hawala-Dar	2
Purchase Stocks	1
Bank Deposit	1
Cash Cross Borders	1
Investments (Real Estate, Companies, etc.)	1
Bank Cheque	1





## 6. TF risk assessment

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. In contrast to the 2018 TF RA, the 2020 version involved participation by a broad range of stakeholders and is based on the analysis of a much wider set of data and information sources, and not limited in scope to any given number of terrorist organizations but focused instead on TF risks in general, considering the specific factors that characterize TF threats and vulnerabilities in the UAE's context through different risk scenarios. The UAE's domestic risks as well as its status as an international financial centre were the main perspectives through which the TF RA was conducted. The risks of the UAE being used for (1) collection, (2) movement, and (3) use of funds for terrorism purposes were considered and rated separately as advised by the FATF in the Terrorism Financing Risk Assessment Guidance 2019<sup>1</sup>. The following table provides a summary of the findings on the various individual TF risk scenarios that were analysed, and the respective inherent risk, mitigating measures, and residual ratings.

	Risk Scenario	Inherent Risk	Mitigating Measures	Residual Rating
1	Fundraising Through social media	M-H	S	M-L
2	Crowd funding	M-L	S	L
3	Fundraising Through Virtual Currencies	M-H	M	M-H
4	Donations/Non-Profit Organizations	M-H	S	M-L
5a	Trade Activities in the UAE - Selling of goods by terrorists or terrorist networks	H	M	H
5b	Trade Activities in the UAE - Purchase of Goods or Services by terrorists or terrorist networks	H	M	H
5c	Trade Activities by terrorist or terrorist networks using UAE Legal Entities	H	M	H
6	Funds Transfers to/from High-Risk Jurisdictions	H	S	H
7	Ownership or Control over UAE Financial Institutions or MVTs	M-H	S	M-L
8	Smuggling or Transportation of Cash, including through FTFs	h	M	H
9	Investment of or Financial Management of terrorism related funds in the UAE	H	M	H
10	Terrorist Attacks in the UAE	M-H	S	M-L

Ratings: Strong (S), High (H), Medium-High (M-H), Moderate (M), Medium-Low (M-L), Low (L)

1 ) <https://www.fatf-gafi.org/publications/methodsandtrends/documents/terrorist-financing-risk-assessment-guidance.html>



The above-mentioned risk scenarios were then subsumed under the three FATF-identified terrorism funding methods, to identify the extent of the UAE's residual risk for each. The findings are as follows:

Funding Method	UAE's Residual
1 - Collecting terrorism related funds in the UAE	Medium - Low
2 - Moving terrorism related funds through the UAE	High
3 - Using terrorism related funds in the UAE	Medium
<b>OVERALL</b>	<b>Medium - High</b>

Overall, the new TF RA's analysis demonstrates the wide range of risks the UAE faces in the context of TF, the need for the country to continue strengthening its risk mitigation measures, and the UAE's deep commitment to playing an active and key role in the global fight against terrorism and proliferation financing.

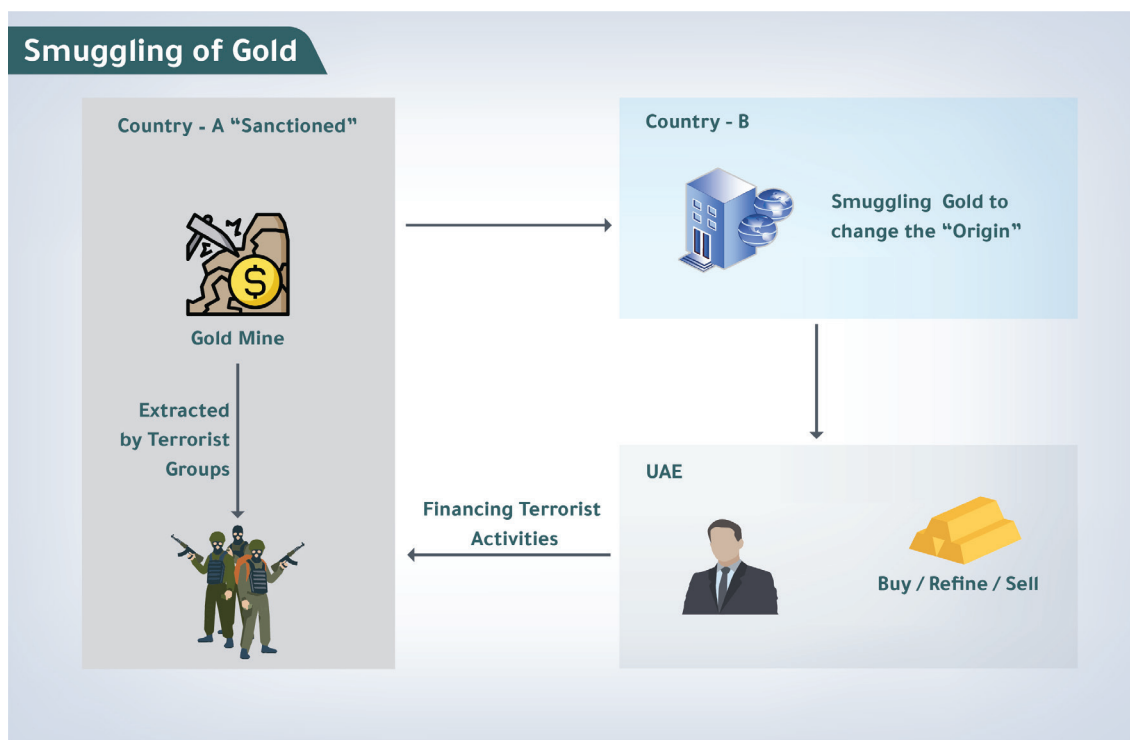
## 7. Patterns based on TFS case studies

A set of patterns was identified based on the TFS cases that are frequently used by criminals to avoid TFS. The patterns 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.

### a. TFS - TF Patterns

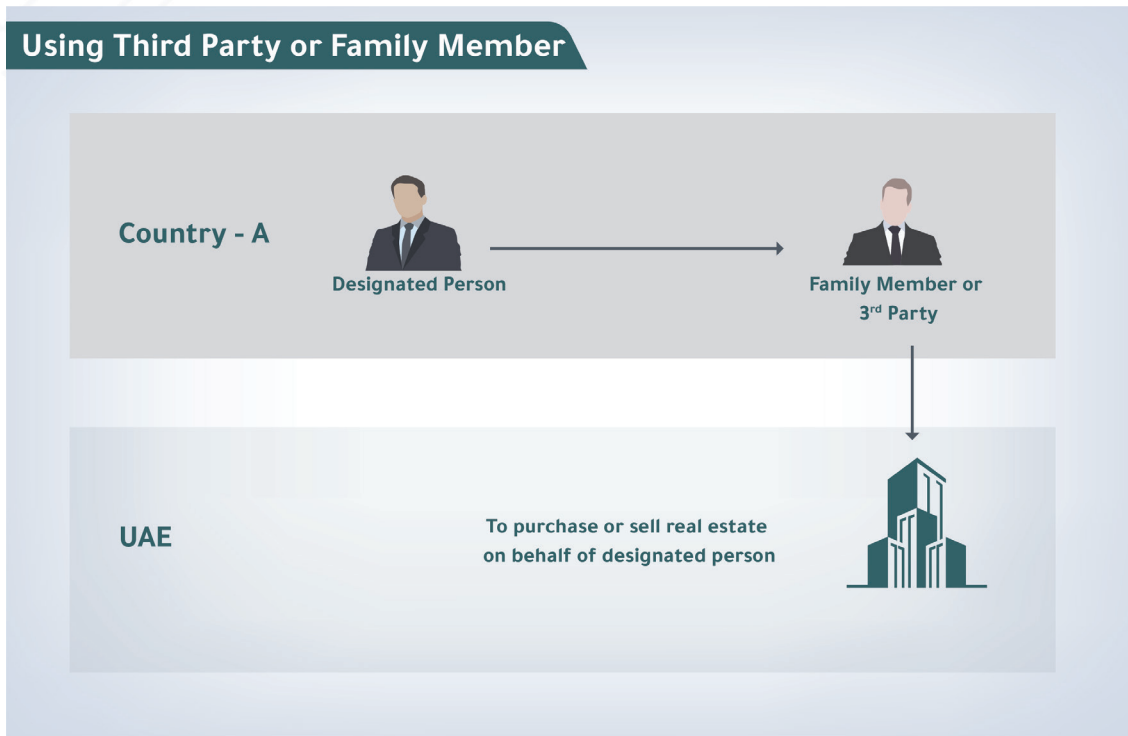
#### First Pattern: Smuggling of Gold

- Gold extracted by terrorist groups from sanctioned Country A and transported cross-border to Country B to change the origin of the gold export. It is then exported from Country B to UAE to be refined, sold, and commercialized and the proceeds are then remitted back to the terrorist groups.



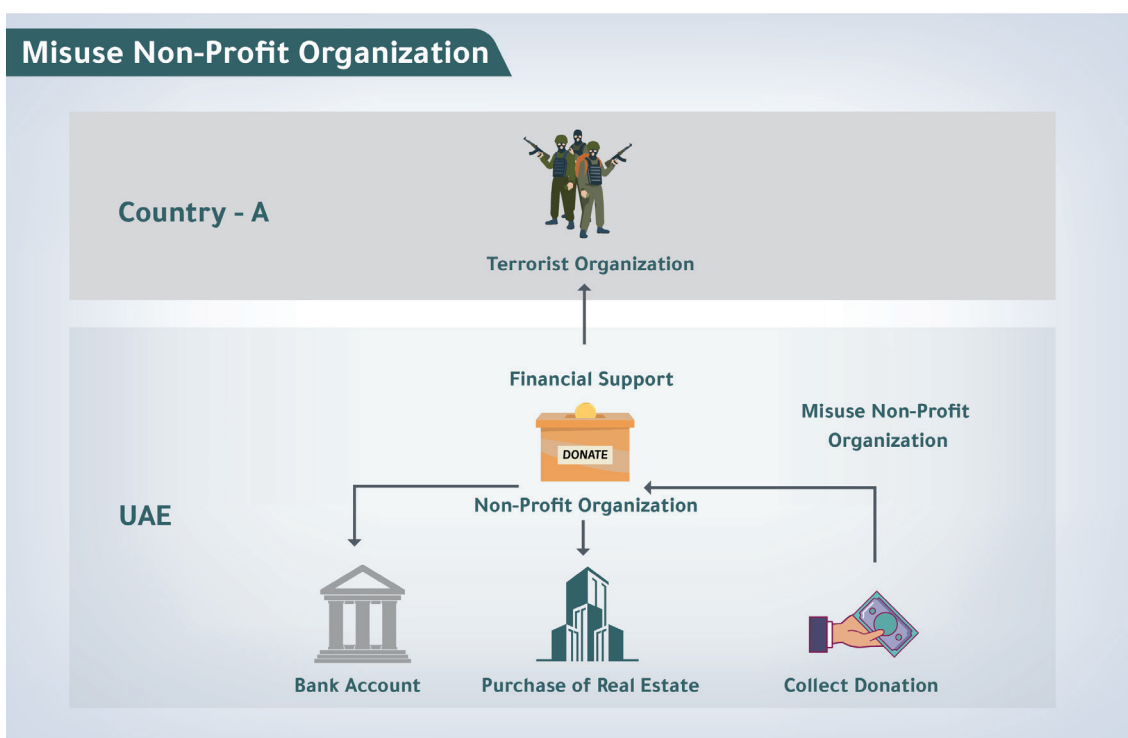
## Second Pattern: Using Third Party or Family Member

- A designated person residing in Country A uses a family member to purchase or sell real estate in UAE.



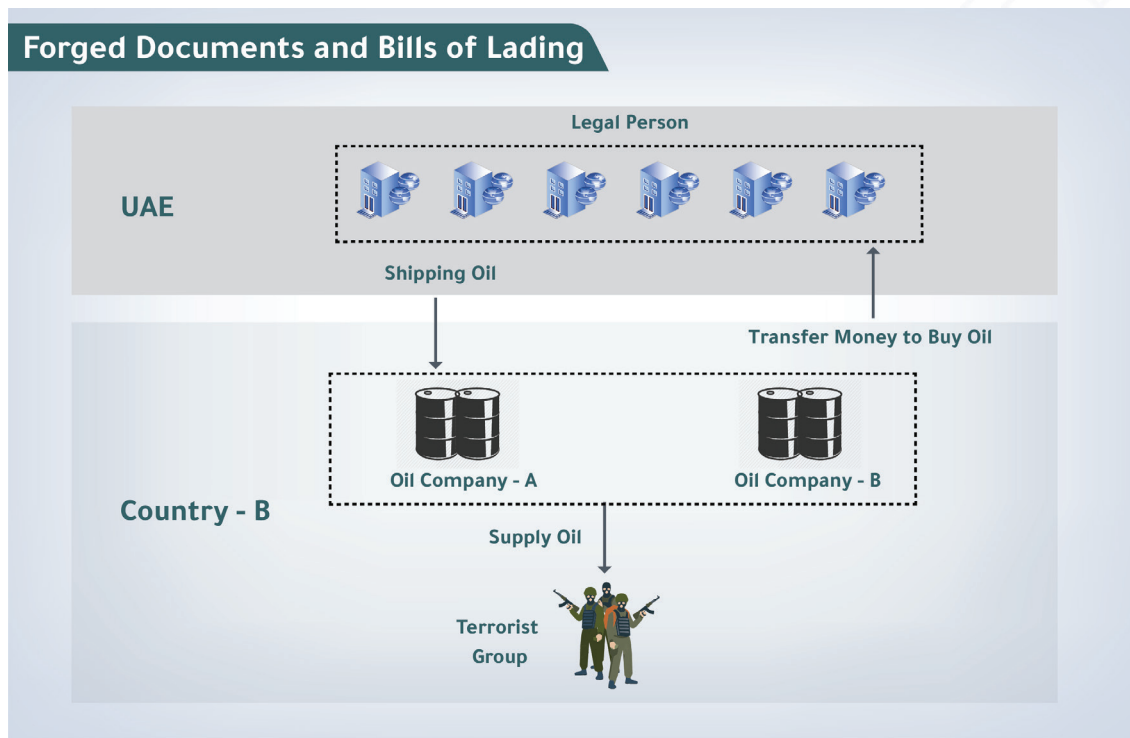
## Third Pattern: Misuse of NPOs

- NPOs are misused to operate as a front on behalf of terrorist organizations where the NPO requests donations, holds bank accounts, and purchases real estate on behalf of the terrorist organization;
- Using Hawaladars to remit funds to NPOs in foreign countries that support designated entities;



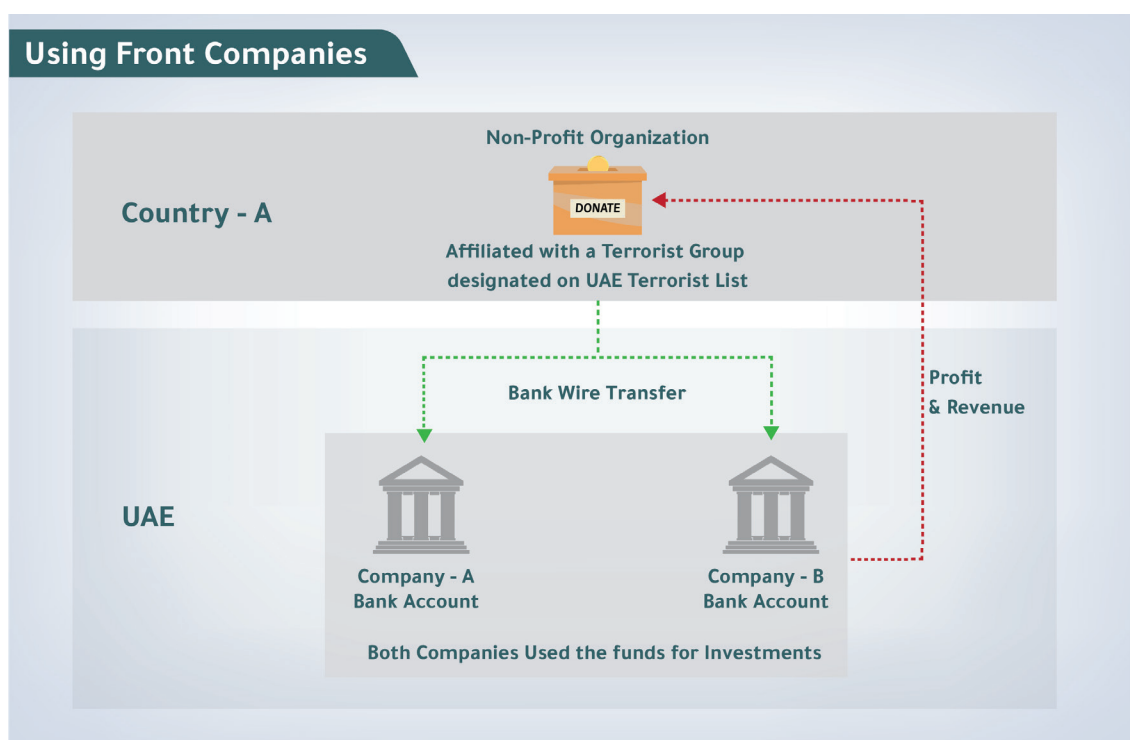
#### Fourth Pattern: Forged Documents and Bills of Lading

- Using the UAE as a transit point for the shipping of oil and other restricted chemicals for the benefit of designated entities by forging the bill of lading;



#### Fifth Pattern: Using Front Companies

- Using front companies in foreign countries to hide the origin of gold shipments from a sanctioned country to be smuggled and sold in the UAE for the benefit of designated groups; and
- Using general trading business activities to collect funds from different sources to support a designated terrorist group (e.g. ISIS).

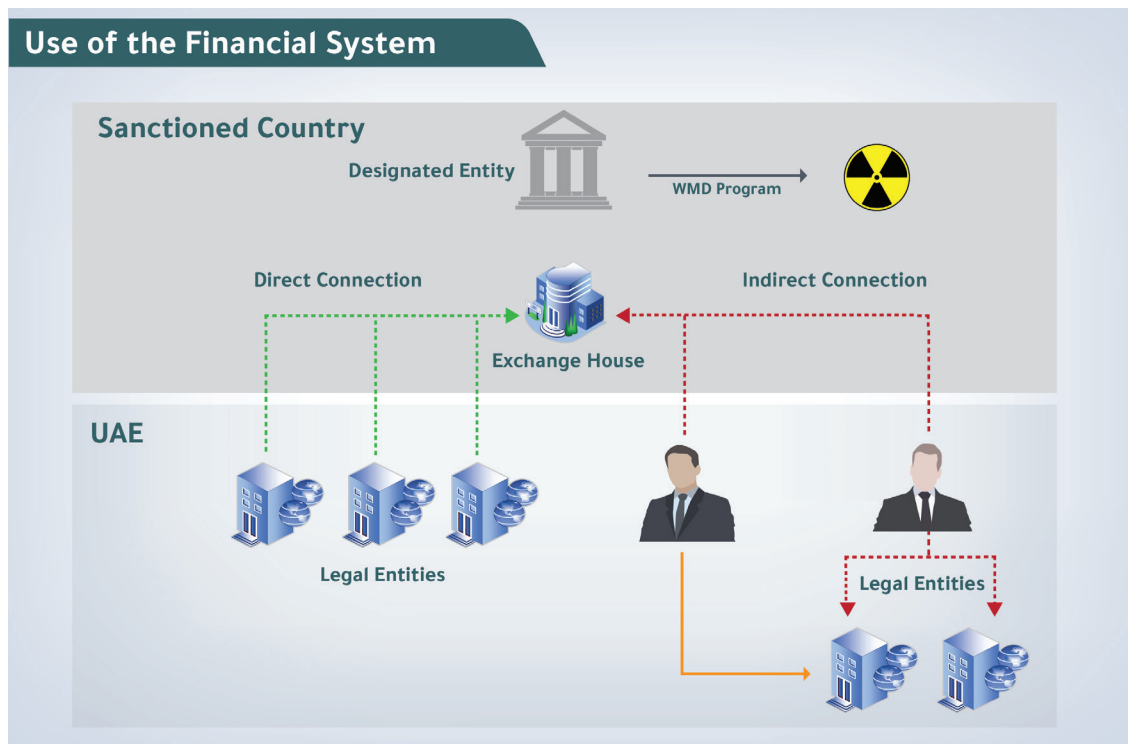


## b. TFS - PF Patterns

According to the cases investigated by the state security prosecution in field of proliferation financing, a list of patterns was identified which cover the patterns and methods used by designated individuals or groups to circumvent PF-related sanctions. The patterns include the following examples:

### First Pattern: Use of the Financial System

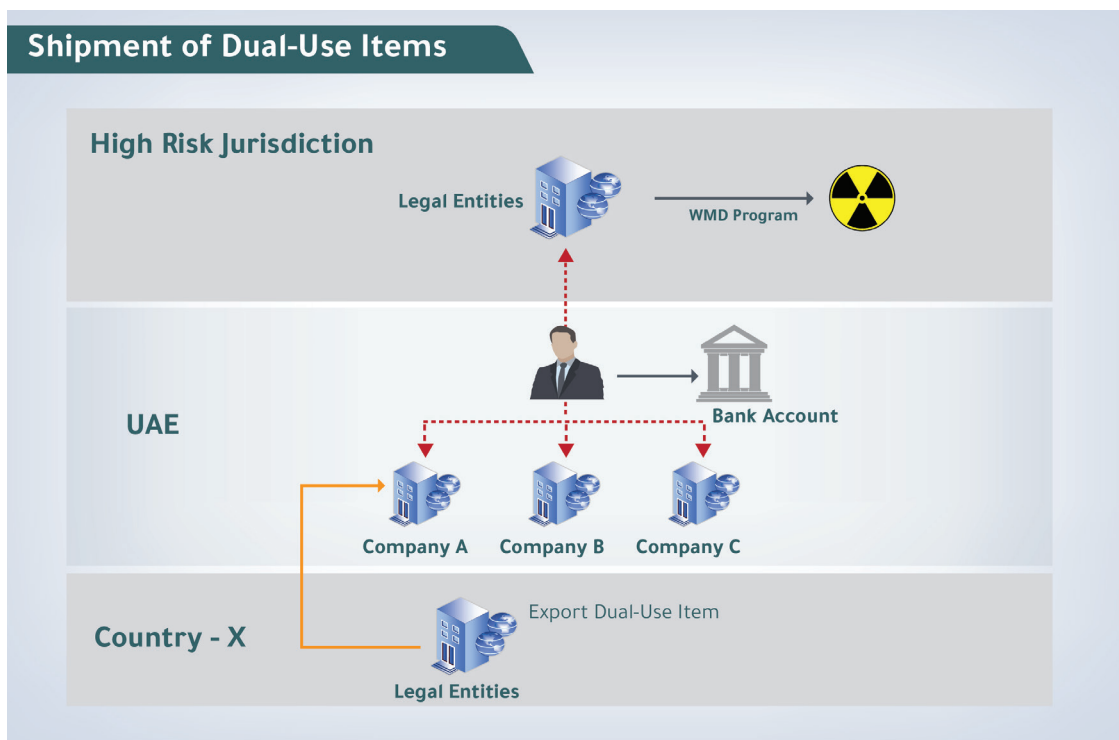
- The use of currency exchange networks to transfer bulk cash to fund a sanctioned country nuclear program;



- The use of representative offices of UNSC sanctioned banks to remit DPRK labourers' money to DPRK. The bank office was closed and the representative was deported.

## Second Pattern: Shipment of Dual-Use Items

- Transactions related to the sale, shipment, or export of dual use goods that are not compatible with technical level of the receiving country; and
- Trade finance transaction involved shipment routes with weak export control laws.



## 8. Red flags

### TFS - TF

- Carrying out cash withdrawals in short succession (potentially below the daily cash reporting threshold) across various locations in territories where sanctioned people have influence or in the border of sanctioned countries.
- Funds are sent or received via international transfers from or to higher-risk locations.
- Foreign exchange transactions are performed on behalf of a customer by a third party, followed by funds transfers to locations having no apparent business connection with the customer or to higher-risk countries.
- Multiple personal and business accounts or the accounts of non-profit organizations or charities are used to collect and funnel funds to a small number of foreign beneficiaries.
- Transactions involve individual(s) or entity(ies) identified by media and/or Sanctions List as being linked to a terrorist organization or terrorist activities.
- Individual or entity's online presence supports violent extremism or radicalization.



- Irregularities during the CDD process which could include, but is not limited to:
  - ◆ Inaccurate information about the source of funds and/or the relationship with the counterparty.
  - ◆ Refusal to honor requests to provide additional KYC documentation or to provide clarity on the final beneficiary of the funds or goods.
  - ◆ Suspicion of forged identity documents
- Transactions involve individual(s) or entity(ies) identified by media and/or Sanctions List as being linked to a terrorist organization or terrorist activities.
- The use of funds by a non-profit organization is not consistent with the purpose for which it was established.
- Client donates to a cause that is subject to derogatory information that is publicly available (e.g., crowdfunding initiative, charity, non-profit organization, non-government organization, etc.).

## **TFS - PF**

- The following Red-Flags are specific to proliferation financing cases related to the UAE and other regional countries which can help the FIs and DNFBPs to detect the suspicious transaction and report STRs to the FIU:
- Dealings, directly or through a client of your client, with sanctioned countries or territories where sanctioned persons are known to operate.
- The use of shell companies through which funds can be moved locally and internationally by misappropriating the commercial sector in the UAE.
- Dealings with sanctioned goods or under embargo. For example:
  - ◆ Oil or other commodities
  - ◆ Dual-Use items (wire nickel, inverters, etc.)
- Identifying documents that seemed to be forged or counterfeited.
- Identifying tampered or modified documents with no apparent explanation, especially those related to international trade.
- The activity developed or financed does not relate to the original or intended purpose of the company or entity. For example:
  - ◆ For companies, they are importing high-end technology devices, but they are registered as a company that commercializes nuts.
  - ◆ For a non-profit organization, they are exporting communication devices, but they are an entity aimed to provide health services.
- Very complex commercial or business deals that seem to be aiming to hide the final destiny of the transaction or the good.
- Complex legal entities or arrangements that seem to be aiming to hide the beneficial owner.



## 9. TFS Statistics

The effectiveness of the UAE's TFS framework is reflected in the recent freezing and confiscation statistics.

In terms of freezing, both government authorities and private sector entities have demonstrated increased awareness on implementing TFS without delay.

Between 2019 and September 2021, government authorities have frozen AED 540 million, while private sector entities froze AED 676 million.

In terms of confiscation, the UAE courts have confiscated AED 414 million between the years of 2019 and September 2021.

### TFS - Terrorist Financing (TF) Government Sector

	Frozen Amount (AED Million)			Confiscated (AED Million)		
	2019	2020	2021	2019	2020	2021
<b>Cash</b>	29	13	63	3	20	7
<b>Real Estate</b>	-	283	9	-	-	283
<b>Others</b>	0.5	-	142	0.04	-	101
<b>Total</b>	<b>540</b>			<b>414</b>		

### TFS - Terrorist Financing (TF) Private Sector

Year	Types of Reporting Entities	Frozen Amount (AED Million)		
		Number of Potential Matches	Number of Confirmed Match	Frozen Assets - Amount (AED Million)
<b>2020</b>	FIs	7	-	0.073
<b>2021</b>	FIs	71	124	589
	DNFBPs	14	9	87
<b>Total</b>		<b>92</b>	<b>133</b>	<b>676</b>

## TFS - Proliferation Financing (PF)

In 2019 and 2021 (up to September) a total of 63,962,065 AED in asset were frozen related to targeted financial sanctions on proliferation financing.

Frozen Amount (AED Million)		
Year	2019	2021
Cash	63.7	0.034
Other Assets (Dual-Use Items)	0.086	0.095
Total	64	

## 10. Recommendations

- FIs, DNFBPs, and VASPs should integrate the red flags mentioned in this document in their screening system to detect suspicious transactions related to TF, PF and sanctions evasion.
- FIs, DNFBPs, and VASPs should conduct enhanced due diligence to cross-border trade finance transactions related to high-risk jurisdictions with low export control regulations.
- FIs, DNFBPs, and VASPs should verify all parties of transactions related to shipment of dual-use items and that transactions have clear economic purposes.

