

AML Tuesday's Session #34 on:

TFS Risk Management, Sanctions Evasion Techniques - Fls

October 15, 2024

Targeted Financial Sanctions

TFS measures restrict sanctioned persons and entities from having access to funds and property under their control and from receiving financial services in relation to such funds and property.

Recommendations 6 and IO 10: **Terrorism and its financing.**

Recommendation 7 and IO 11: **Financing of proliferation of weapons of mass destruction**

- To deny certain individuals, groups, organizations, and entities the means to support terrorism or finance the proliferation of weapons of mass destruction. ▪ To ensure no funds, financial assets or economic resources of any kind as long as they remain subject to the sanction's measures

Targeted Financial Sanctions

01

Terrorism Financing TF

- ISIS and Al Qaida
UNSCR 1267,1989
- The Taliban UNSCR
1988

02

Proliferation Financing PF

- DPRK 1718

03

Other UN Sanctions
Regimes: Somali,
Iraq, Congo, Libya,
CAR, Yemen, South
Sudan, Mali, Beirut

RECAP - What are Targeted Financial Sanctions

Range of sanctions regimes (many countries subject to sanctions)

Range of different targeted sanction measures in each regime (i.e. focused sanctions)

- travel bans
- asset freezes
- arms embargoes
- sectorial sanctions
- WMD-related goods and materials

UN website (www.un.org) contains details for each regime

Today, there are 14 ongoing sanctions regimes

RECAP -
What is the
Proliferation
of WDM for
FATF?

The nuclear program considered prohibited by the
UNSC: **DPRK – UNSCR 1718.**

Remaining actions applicable to **Iran – UNSCR
2231.**

Including: the illegal manufacture, acquisition
development, export, trans-shipment, brokering,
transport, transfer, stockpiling, or use of WMD and
their means of delivery and related materials.

RECAP - What is Proliferation Financing for the FATF?

Prohibited or restricted items

- Weapons + technology
- Offering financial services to DPRK
- Commodities
- Dual-use goods
- Luxury goods

Highly- vulnerable sectors

- Trade
 - Finance
 - Transport
 - Insurance
- High-value goods dealers
- Virtual currency

Effective System for TF-TFS PF-TFS

01

Risk Understanding

1. Business Risk Assessment
2. Risk Appetite

02

Procedures

1. Procedures defining practical steps regarding transaction Monitoring, Screening

03

Screening

1. Customer Screening
2. Transaction Screening
3. Look Back Transaction Review

04

Transaction Monitoring

1. Targeted Scenarios
2. Trends Analysis
3. Bigger Picture

Key Additional Controls



Customer Due Diligence



Data Accuracy



Ongoing Monitoring



Record Keeping



Validation of controls Internal/External

Monaco Guidance - DBT



Comité Consultatif en matière de gel
des fonds et des ressources économiques



Comité Consultatif en matière de gel
des fonds et des ressources économiques

LIGNES DIRECTRICES

SANCTIONS FINANCIÈRES CIBLÉES

A L'INTENTION DES
INSTITUTIONS FINANCIÈRES,
DES ENTREPRISES ET PROFESSIONS NON
FINANCIÈRES DÉSIGNÉES
ET DU PUBLIC¹

DRAWING UP PROCEDURES FOR IMPLEMENTING ASSET FREEZING MEASURES

FIs and DNFBPs must have procedures that clearly explain how to implement asset freezing measures and clearly specify:

- the legal framework applicable to the freezing of funds, including the risk of criminal or disciplinary sanctions in the event of non-compliance with obligations;
- the screening system put in place;
- the scope and frequency of screening;
- the electronic lists used (the National List, external providers, United Nations lists, etc.);
- sources of information used by the FI/DNFBP for screening persons and entities (including commercial databases used to identify adverse information on persons and entities);
- the roles and responsibilities of employees involved in screening, reviewing and updating alerts, maintaining and updating the various screening databases, and transmitting potential matches;
- the authorisations required to access and process alerts;
- the process of analysing alerts and determining whether a potential match is a false positive (person or entity with the same or a similar name) or a confirmed match;
- the measures to be taken when sending a declaration to the DBT on potential matches and the follow-up to the response from this government department following such a request;
- measures to be taken to freeze or restrict access to funds by sanctioned persons;
- the management of the customer or business relationship impacted by a freezing measure and the information to be provided to the customer whose funds have been frozen;
- keeping a record of the actions taken during the processing of the alert;
- the removal implementation of the freezing measure.

Risk Understanding



FIs should consider which areas of its business are most likely to provide services or resources to individuals or entities on the Consolidated List (business lines, sales channels, customer types, geographical locations, etc)



FIs should not assume financial sanctions only apply to money transfers and has not assessed its own risks



FIs should not assess TF/PF risks only to limited Products and services



Trade finance – with High risk Jurisdictions

Risk Understanding – PF Risk Categories BRA

Country/geographic risk example - >
Commercial or business ties, or financial relationships (such as correspondent banking relationships) with a country that is subject to UN sanctions imposing WMD-related restrictions (DPRK or countries in proximity)

Customer risk category -> Any customer or counterparty involved in the manufacture, supply, purchase, or sale of Dual-use items, Proliferation-sensitive or military goods; A customer located in a major financial or trade center.

Product risk category -> financing of sensitive industries in jurisdictions of Proliferation concern; trade finance involving jurisdictions of proliferation concern; transfer of dual use items

Risk Understanding

01

Business Risk Assessment
Emerging Risks

02

Risk Appetite Framework
Customer Acceptance Policy

Policies and Procedures

1. General AML/CFT policy
2. Detailed procedure on Sanctions screening, identification of false positives, real matches, escalation procedure
3. Procedure on reporting to DBT
4. Procedure for transaction monitoring and identification of suspicious activity
5. Alert management and SAR decision making
6. SAR filing

Reporting obligations for professionals in the event that assets or economic resources are frozen

When the assets or economic resources of an individual or legal entity designated either by the United Nations Security Council or by a Ministerial Decision are frozen, the professional who implemented the freeze on assets or economic resources is required to promptly inform the Director of Budget and Treasury by email (dbt.geldefonds@gouv.mc) by returning the completed freeze declaration form.

Template freezing declaration FI

XLSX
16.9 kB



Template freezing declaration DNFBP

XLSX
17.1 kB



Screening Process

01

Customer Screening

- Screening at onboarding and periodic review
- EDD for High Risk Customers

02

2. Transaction Screening

- Real-time screening of payments, wire transfers, and trade transactions.
- Screening against updated sanctions lists and internal watchlists.

Screening Process

01

Customer Onboarding



Customer Screening Should Include

- ▶ Screening of the full name of the natural person
- ▶ In legal entities: Name of the beneficial owners, directors, intermediary entities within the Ownership Structure, Counterparties, any third persons (agents, representatives, etc).
- **Sanctioned** – If the customer is an UN-sanctioned person or entity.
- **Entities owned by UN-sanctioned persons** – During the CDD process, UBO of such entities and screen them against the TFS lists is mandatory.
- **Customer business activities** – Customers producing proliferation-sensitive goods can pose PF risk.
- **Geographic** – customers' locations (residence and business place).

Screening Process

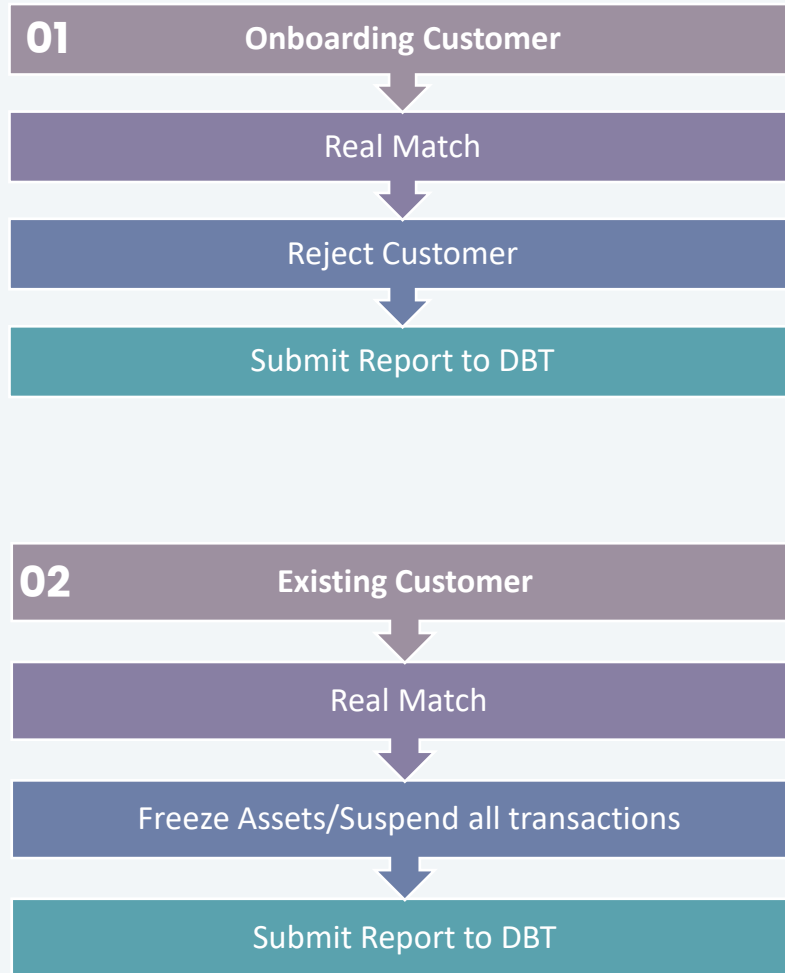
02

Ongoing Basis

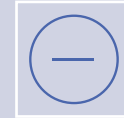
- ▶ Additional Designations
- ▶ Screening of customer base against updated lists
- ▶ Update of lists – manual/automatic

Screening against the relevant sanctions lists should be done during the client onboarding process, on an ongoing basis, and when the UNSC adopts new TFS measures or expands existing ones—including adopting a new sanction regime under Chapter VII of the UNSC.

Screening Process



Potential Match/Alert – match between data and Sanctions lists



False Positive – is a potential match to listed individuals, groups, or entities. Either there is a possible name match or a match to the ambiguous identification data.



Real Match – individual, group or entity matches most or all of identification information under Sanctions List.

Transaction Monitoring

01

The Role of Transaction Monitoring in TFS:

Identifying suspicious activities linked to terrorism and proliferation financing.

02

Monitoring for unusual patterns and behaviors, such as large cash deposits, wire transfers to high-risk jurisdictions, or unusual trade finance activities.

Effective TM System for TFS

01

1. Risk-Based Approach:

- Tailoring transaction monitoring based on customer risk profiles, products, services, and jurisdictions.
- Enhanced monitoring for high risk categories, non-profit organizations, and customers linked to high-risk countries,

02

2. Red Flags and Alerts:

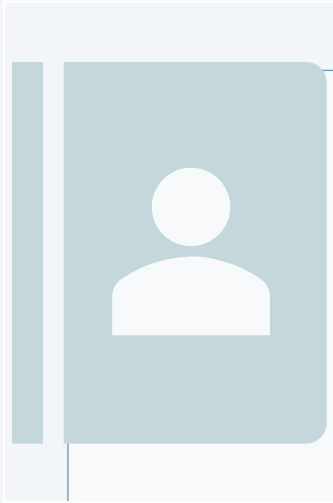
- Common indicators for TF (e.g., transactions with NGOs in conflict zones, use of personal accounts for business).
- Common indicators for PF (e.g., transactions involving dual-use goods, unusual trade routes).

3. Case Management and Investigation:

- Automated alerts for suspicious transactions and escalation protocols.
- Involving compliance and legal teams for further investigation and reporting.

Examples of Red Flags and Indicators

01



Customer Behavior

- Small, frequent cash deposits followed by immediate wire transfers to high-risk regions or conflict zones.
- Customers conducting transactions with NPOs known to operate in areas where terrorist groups are active.
- Unusual transfers to and from personal accounts, especially when linked to countries with active terrorist activities.

02



Account Activity

- Use of cash-intensive businesses as fronts for moving funds through the banking system, with transactions not matching the business profile.
- Customers withdrawing large amounts of cash without clear economic justification.
- Transfers between entities or individuals where one party is in a high-risk or sanctioned country, particularly those known for harboring or supporting terrorist activities.
- Multiple individuals using the same account for sending or receiving international wire transfers.
- Attempts to avoid detection by breaking down large transfers into smaller amounts (known as “structuring” or “smurfing”).

TFS Case Management and Investigation

01

01

Systems generate alerts based on pre-set criteria, such as transfers to/from sanctioned entities or individuals, and large cash withdrawals followed by international wire transfers.

02

Alerts are reviewed by compliance officers who classify the severity and determine if further investigation is needed.

03

Cases that present high-risk indicators are escalated to senior staff for deeper analysis and possible reporting to DBT AMSF-FIU

02

Challenges in TFS Risk Management

01

Challenges:

- Dealing with the volume of alerts and high false positive rates.
- Keeping systems up-to-date with rapidly changing sanctions lists.
- Managing cross-border transactions and complex trade finance activities.

02

Best Practices:

- Adopting a dynamic and adaptable risk management framework.
- Regular training for staff on emerging risks and evolving regulatory requirements.
- Leveraging technology and data analytics to enhance efficiency and accuracy.

Examples of Red Flags and Indicators

- ✓ Payments related to dual-use goods (items with both commercial and military applications) that do not align with the customer's business activities.
- ✓ Use of trade finance mechanisms (e.g., letters of credit) with atypical terms, such as short-term loans with unusual repayment conditions.
- ✓ Payments involving goods that have potential nuclear or missile applications, especially when the transactions involve high-risk jurisdictions.
- ✓ Transactions linked to shell companies or newly established entities without a clear commercial purpose, particularly when connected to regions known for weapons development or sanctions evasion.
- ✓ Use of transshipment points, such as goods passing through multiple jurisdictions before reaching their final destination, making it difficult to trace the origin and purpose.
- ✓ Transactions with freight forwarders or shipping companies with limited information on the true end-users or final recipients of the products.

Examples of Red Flags and Indicators

1. Ownership transfers to previously unknown individuals where the wealth or financial information does not correspond with their reported wealth
2. New equity ownership secured by long-dated loan to former equity owners
3. Multiple beneficial ownership changes with new sanctions designations
4. Off-the-shelf corporations with no trading record with nominee ownership
5. Involvement of a customer or counterparty, declared to be a commercial business, whose transactions suggest they are acting as a money-remittance business
6. Trade Related:
 1. Order for goods is placed by firms or persons from foreign countries other than the country of the stated end-user
 2. Circuitous route of shipment and/or circuitous route of financial transaction
 3. Trade finance transactions involve shipment route through country with weak export control laws or weak enforcement of export control laws
 4. Wire instructions or payment from or due to parties not identified on the original letter of credit or other documentation



*Thank you for your
time*

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Next Session:
29 October, 2024

Topic:
AML/CFT Culture and
Training for
Employees

Today's Host and Presenter: Tamar Goderdzishvili