AML Tuesday's Session #35 on:

TFS Risk Management, Sanctions Evasion Techniques - DNFBPs

October 22, 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

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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?

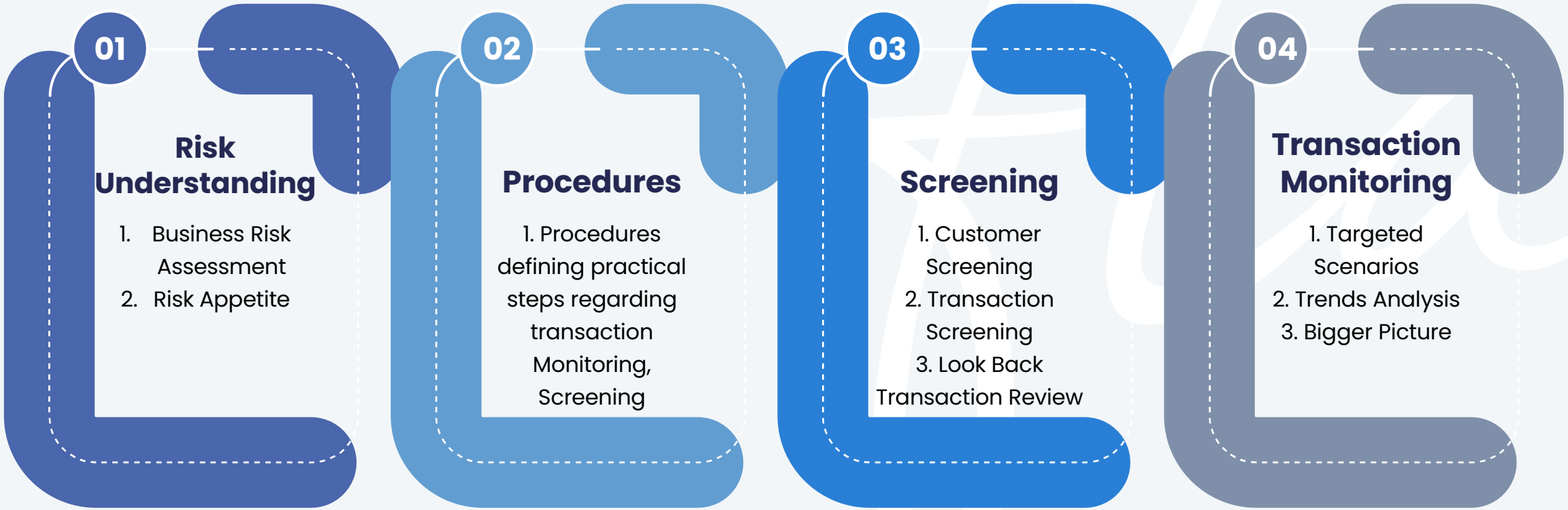
Prohibited or restricted items

- 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



Key Additional Controls

- Customer Due Diligence
- Data Accuracy
- Ongoing Monitoring
- Record Keeping
- Validation of controls Internal/External

Monaco Guidance - DBT


Gouvernement Princier
PRINCIPAUTÉ DE MONACO

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 PUBLIC[1]

1

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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.

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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

01 Onboarding Customer

- Real Match
- Reject Customer
- Submit Report to DBT

02 Existing Customer

- Real Match
- Freeze Assets/Suspend all transactions
- Submit Report to DBT

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.

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

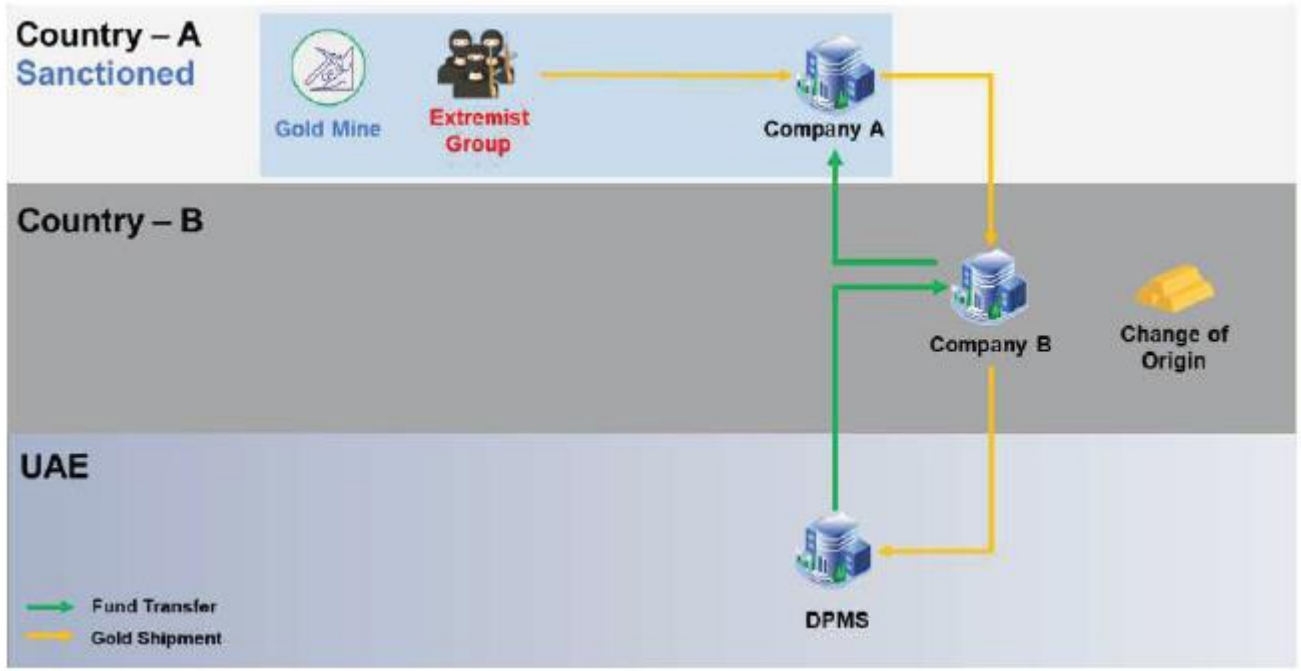
02

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

Case Study



Source: *Strategic Review of Targeted Financial Sanctions Case Studies, 2024, UAE*

TF Indicators

01

- Transactions with a person who lives in, or an entity that operates out of, certain high-risk jurisdictions such as locations in the midst of or in proximity to, armed conflict where terrorist groups operate or locations which are subject to weaker ML/TF controls.
- Client identified by media or law enforcement as having travelled, attempted or intended to travel to high-risk jurisdictions (including cities or districts of concern), specifically countries (and adjacent countries) under conflict and/or political instability or known to support terrorist activities and organizations.
- Transactions involve persons or entities identified by media and/or sanctions lists as being linked to a terrorist organization or terrorist activities.

02

- Law enforcement information provided which indicates persons or entities may be linked to a terrorist organization or terrorist activities.
- Person or entity states or eludes that they support violent extremism or radicalization.
- Client provides multiple variations on their name, address, phone number or additional identifiers.

FINANCIAL TRANSPARENCY ADVISORS

Thank you for your time

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Next Session:
5 November, 2024

Topic:
AML/CFT Culture and Training for Employees

Today's Host and Presenter: Tamar Goderdzishvili