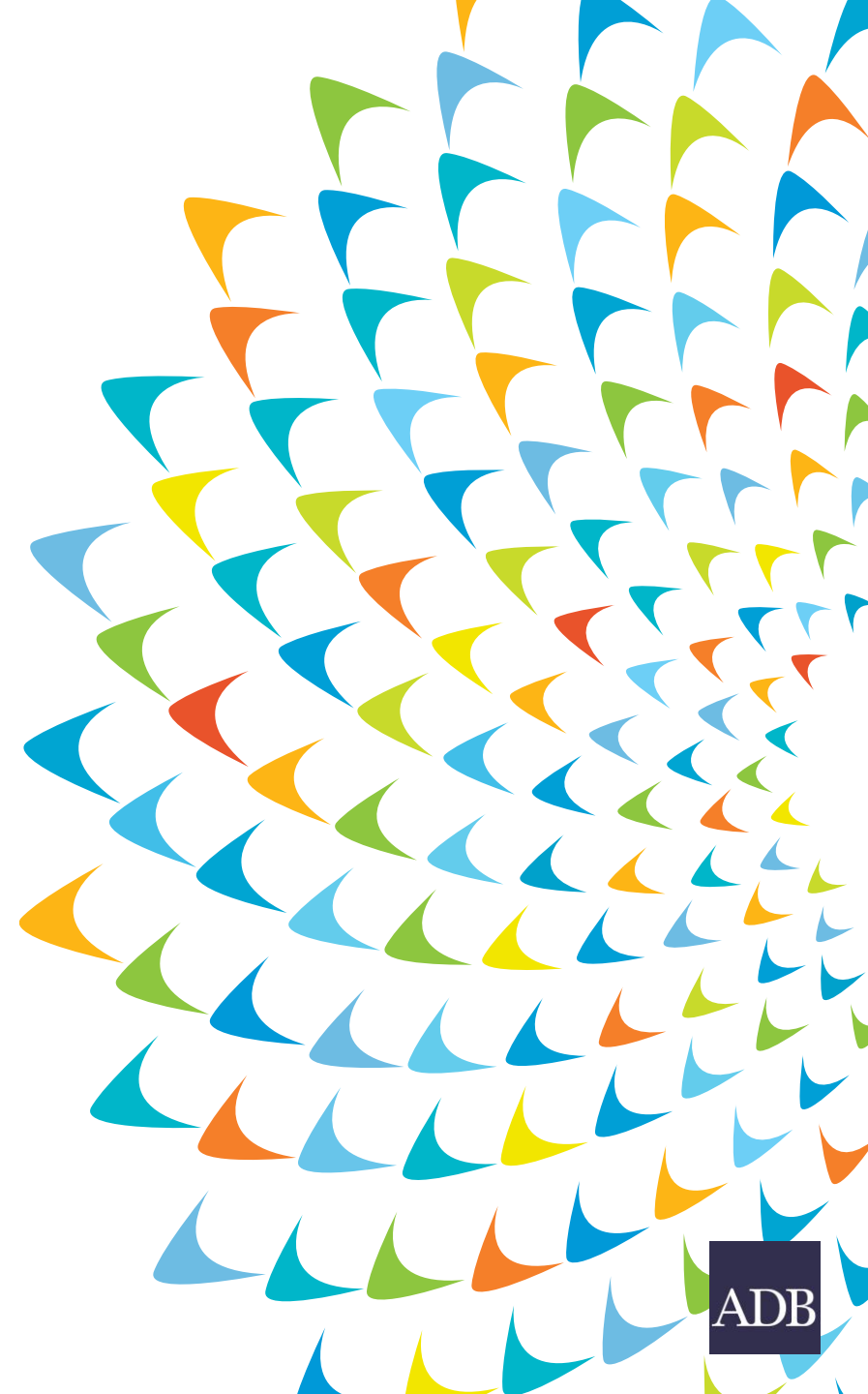


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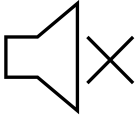
Sanctions and Terrorist Financing

March 2024





Administration

- Please mute your microphones when not speaking 
- Have your mobile phone handy
- Use the group chat if you wish to comment or ask questions
- Raise your hand if you have questions, and unmute yourself
- Parking Lot
- Co-creation of Content
- Participate actively
- Have fun
- Participation Certificate



Have Burning Questions?



<https://app.sli.do/event/fp1CvNN8ZmTShLG56qYtce>

Join at [slido.com: #2286357](https://www.slido.com/join/#2286357)
(live until 29 Mar 2024)





Correspondent Banking and the Practical Approach to AML/CFT

Module 1 - Correspondent Banking – An Introduction

Module 2 – Fundamentals of Customer Due Diligence

Module 3 – Sanctions and Terrorist Financing

Module 4 – Enterprise-Wide Risk Assessment

Module 5 – Transaction Monitoring

Module 6 – Anti-Bribery and Corruption

Module 7 – Suspicious Transaction Investigation and Reporting



Recap of Module 2



How we think of #KYC:



How it should be:



Credit:
<https://www.linkedin.com/in/luke-raven>





High-Risk Jurisdictions subject to a Call for Action - Feb 2024

aka FATF Black List



Democratic People's Republic of Korea



Iran
























Myanmar



Jurisdictions under Increased Monitoring - Feb 2024

aka FATF Grey List

 Bulgaria	 Kenya	 South Africa
 Burkina Faso	 Mali	 South Sudan
 Cameroon	 Mozambique	 Syria
 Democratic Republic of Congo	 Namibia	 Tanzania
 Croatia	 Nigeria	 Turkiye
 Haiti	 Philippines	 Vietnam
 Jamaica	 Senegal	 Yemen



Key Elements of Customer Due Diligence Process

Who:

- Legal Entities
- Individuals



3 Processes


What:

- Onboarding – [KYC/B] *New Customers

Collect, screen, verify info	Customer risk score	EDD for high risk	Approve
<ul style="list-style-type: none"> • General info and profile • E.g. Workplace / Wealth / Trust and Beneficiary 		<ul style="list-style-type: none"> • Politically exposed persons • Criminals • Terrorists • Sanctioned individual / entity • On watchlist 	<ul style="list-style-type: none"> • Your existing customers 

- Periodic Screening / Monitoring for *Existing Customers. Based on Trigger Events.
 - ✓ Ensure update on Information
 - ✓ Check for suspicious transaction reports, trend analysis, investigation outcome

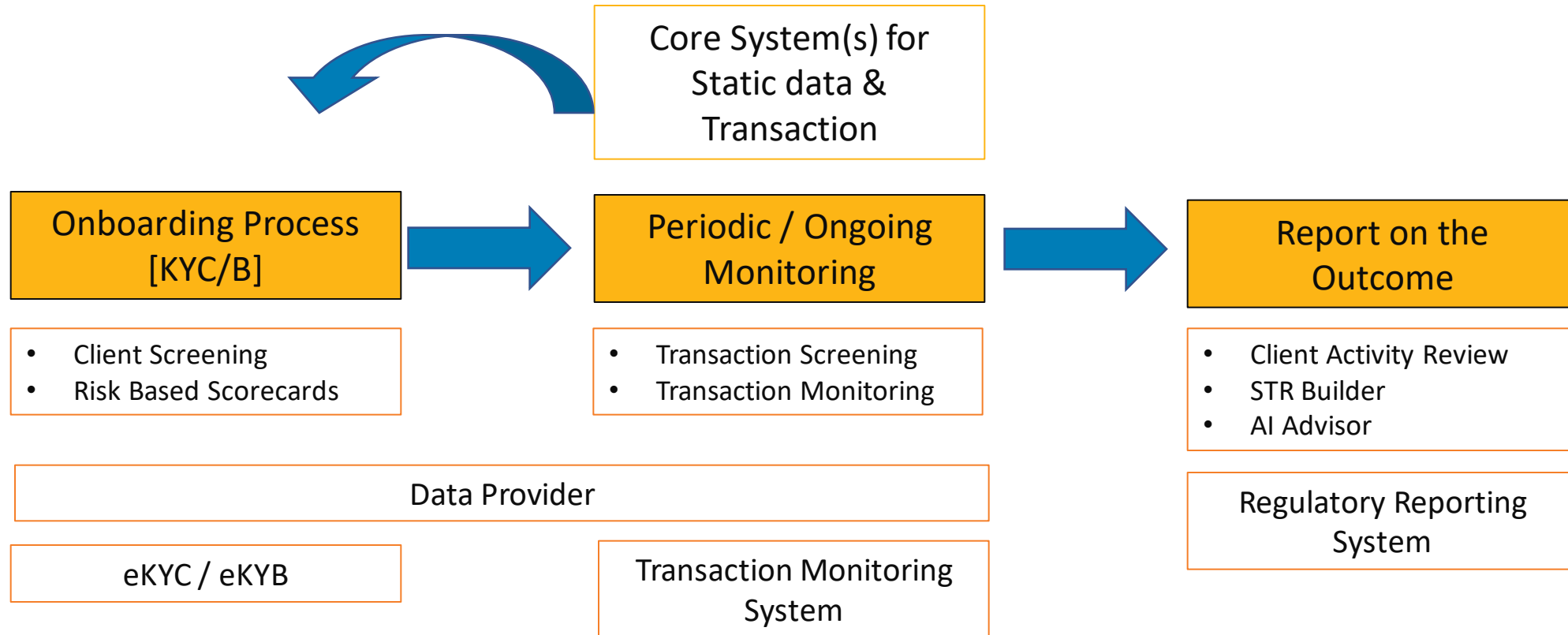
- Ongoing screening / Monitoring for *Existing Customers

Extract report from database	Analyse report	Highlight potential redflags
<ul style="list-style-type: none"> • To check internal database with Data Providers e.g. <u>Worldcheck</u> / <u>Dow Jones</u> 	Pattern analysis <ul style="list-style-type: none"> • No. of submission • Content of submission 	<ul style="list-style-type: none"> • Frequent loans • Unusual withdrawal activity 



Tools

Implementation of Tools into the Processes





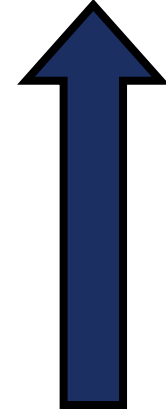
Ongoing monitoring

- Ongoing names screening
- Transaction screening
- Transaction monitoring
- Red flags
- Risk modelling and threshold and detection scenario setting
- False positives
- Periodic review

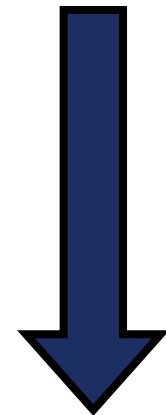


Customer Risk Assessment

Client Risk	<ul style="list-style-type: none">• Type of Client (Individual, Corporate, State Owned, Public Listed, Private, Trust, Foundation)• Verified Sources of Wealth/Funds• Regulation status• Years in Operation
Industry Risk	<ul style="list-style-type: none">• Industry type (Primary)• Industry type (Secondary)
Jurisdiction Risk	<ul style="list-style-type: none">• Country of Incorporation• Country of Operation
Delivery Channel Risk	<ul style="list-style-type: none">• Channels of Delivery
Products Risk	<ul style="list-style-type: none">• Screening at onboarding• Approval at senior level• Existing customer – continuing approval• Enhanced on-going monitoring

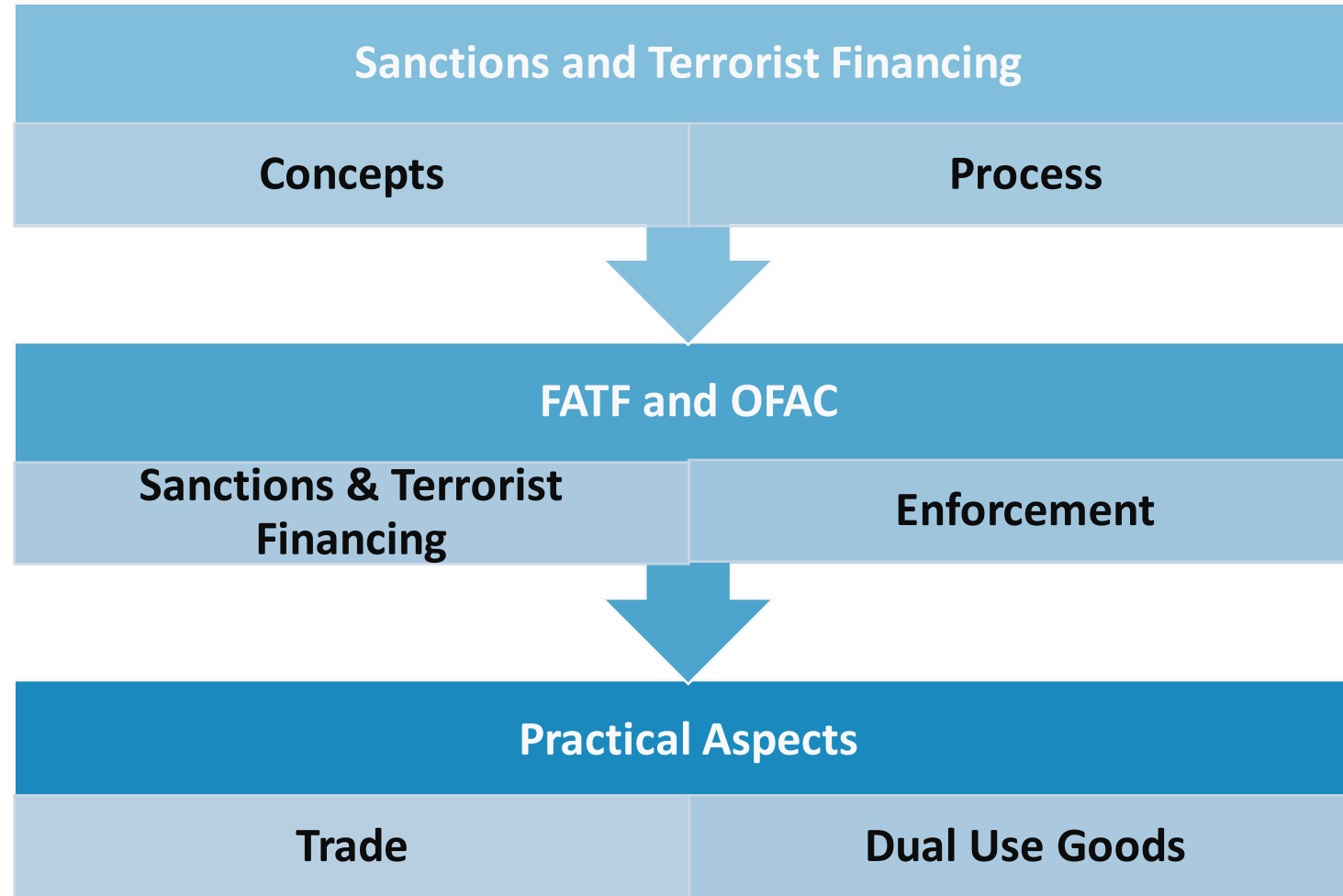


**PEP/Sanctions/
Adverse Media**





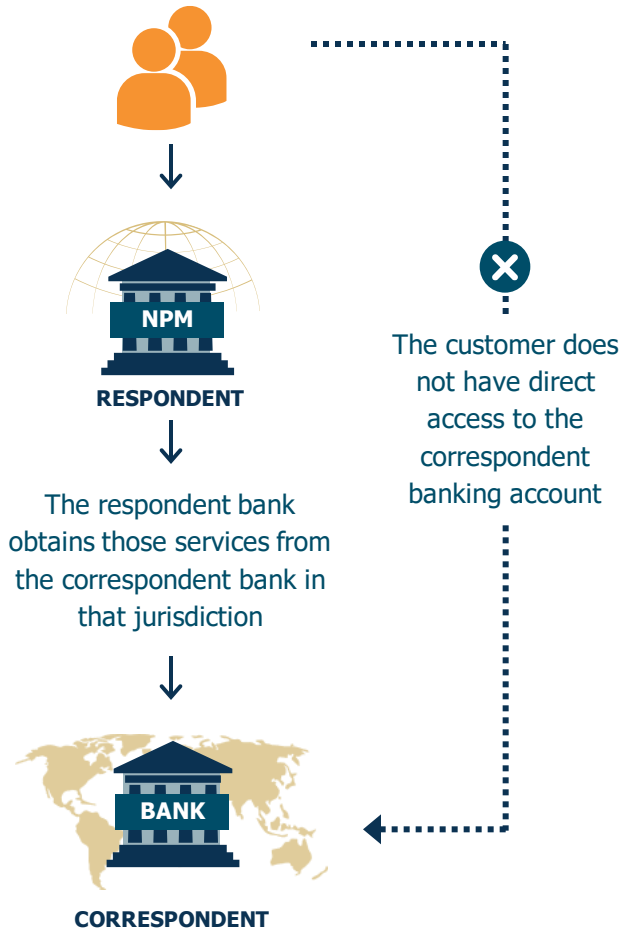
Learning Objectives of this module



NEW PAYMENT METHODS (NPM)

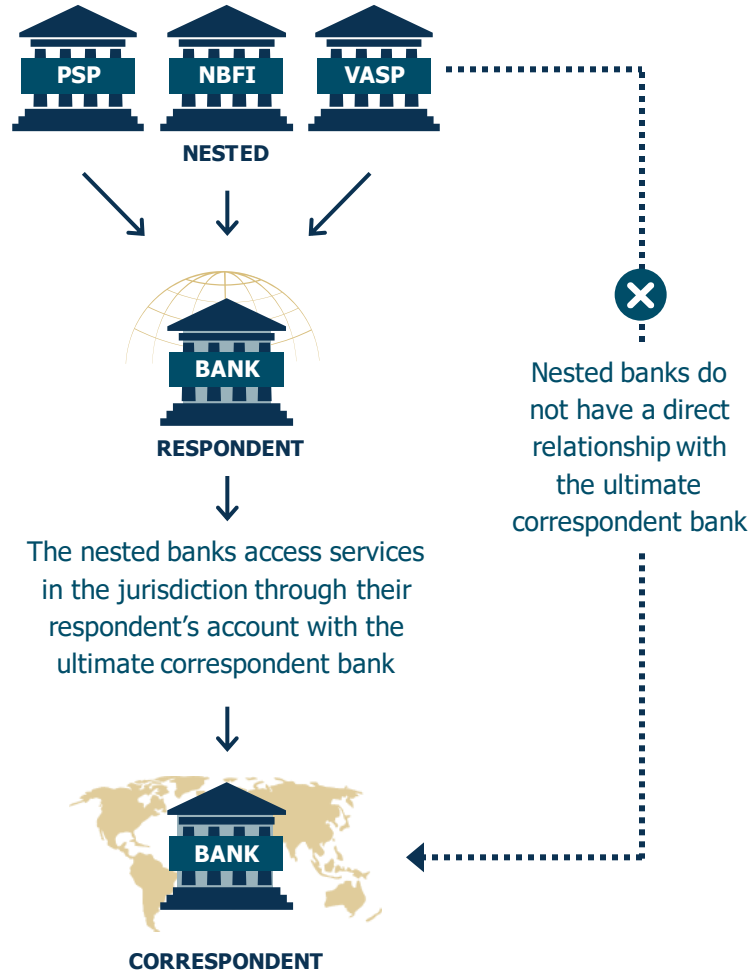
DIRECT

A bank wants to provide its customers with services in foreign jurisdiction



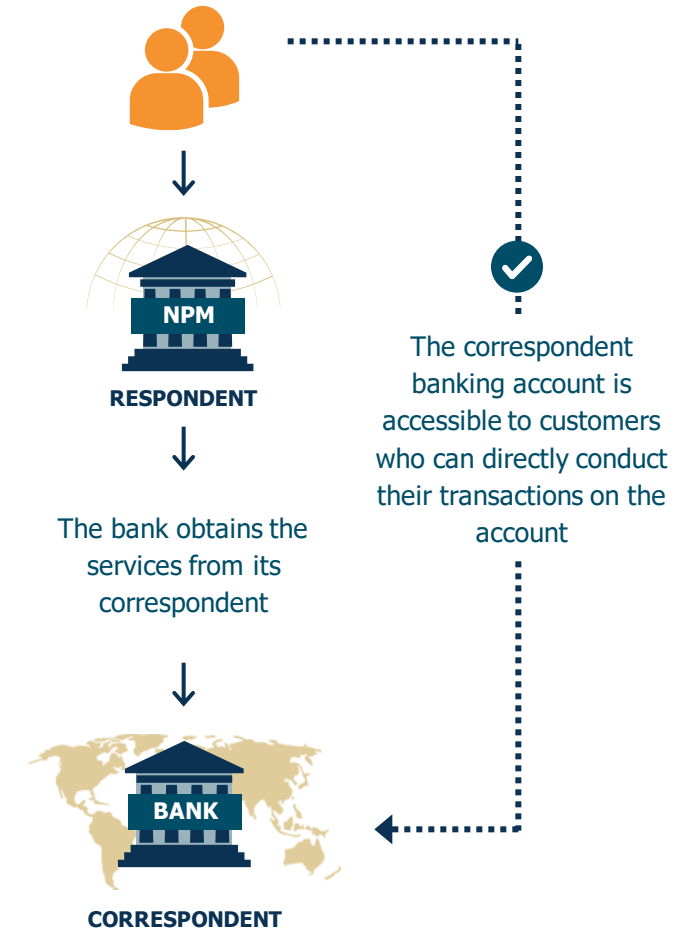
NESTED

A number of banks use another bank's correspondent relationship to conduct transactions and access other financial services



PAYABLE-THROUGH OR PASS-THROUGH

A bank wants to provide its customers with services in foreign jurisdiction





FATF Recommendations 5,6,7 and 8

5. Terrorist Financing Offence - to criminalize terrorist financing on the basis of the Terrorist Financing Convention, and should criminalize not only the financing of terrorist acts but also the financing of terrorist organizations and individual terrorists even in the absence of a link to a specific terrorist act or acts
6. Targeted financial sanctions related to terrorism and terrorist financing
7. Targeted financial sanctions related to proliferation
8. Non-profit organizations - identify the organizations which fall within the FATF definition of non-profit organizations (NPOs) and assess their terrorist financing risks, in line with risk based approach



FATF Effectiveness – Immediate Outcomes



- 1 | Risk, Policy and Coordination**
Money laundering and terrorist financing risks are understood and, where appropriate, actions coordinated domestically to combat money laundering and the financing of terrorism and proliferation.
- 2 | International cooperation**
International cooperation delivers appropriate information, financial intelligence, and evidence, and facilitates action against criminals and their assets.

- 3 | Supervision**
Supervisors appropriately supervise, monitor and regulate financial institutions and DNFBPs for compliance with AML/CFT requirements commensurate with their risks



- 4 | Preventive measures**
Financial institutions and DNFBPs adequately apply AML/CFT preventive measures commensurate with their risks, and report suspicious transactions.
- 5 | Legal persons and arrangements**
Legal persons and arrangements are prevented from misuse for money laundering or terrorist financing, and information on their beneficial ownership is available to competent authorities without impediments

- 6 | Financial intelligence**
Financial intelligence and all other relevant information are appropriately used by competent authorities for money laundering and terrorist financing investigations.

- 7 | Money laundering investigation & prosecution**
Money laundering offences and activities are investigated and offenders are prosecuted and subject to effective, proportionate and dissuasive sanctions.

- 8 | Confiscation**
Proceeds and instrumentalities of crime are confiscated.

- 9 | Terrorist financing investigation & prosecution**
Terrorist financing offences and activities are investigated and persons who finance terrorism are prosecuted and subject to effective, proportionate and dissuasive sanctions.



- 10 | Terrorist financing preventive measures & financial sanctions**
Terrorists, terrorist organisations and terrorist financiers are prevented from raising, moving and using funds, and from abusing the NPO sector.
- 11 | Proliferation financial sanctions**
Persons and entities involved in the proliferation of weapons of mass destruction are prevented from raising, moving and using funds, consistent with the relevant UNSCRs.

Source: <https://www.fatf-gafi.org/en/publications/Fatfgeneral/Effectiveness.html>



US OFAC – Enforcement Actions

Year	Bank	Fines/Settlement	Violation
2012	HSBC	\$1.9 billion	Money laundering and violations of sanctions against Iran
2014	BNP Paribas	\$8.9 billion	Removing information from SWIFT messages to avoid detection of breach of sanctions
2015	Commerzbank	\$1.45 billion	Violating U.S. sanctions against Iran and other countries as well as failing to have an effective anti-money laundering (AML) program failing to conduct due diligence on its foreign correspondent accounts, and willfully failing to file suspicious activity reports
2016	Barclays	\$2.48 million	Failure to capture customer and beneficial owner information for sanctions screening
2018	Société Générale S.A	\$1.3 billion	Processing transactions for individuals and entities subject to OFAC sanctions, removing references to the sanctioned parties in the information sent to US FI's involved in the transaction
2019	Standard Chartered Bank	\$1.1 billion (and a 2-year extension of the Deferred Prosecution Agreement originally entered in 2012)	SCB's compliance program was inadequate to manage the bank's risk and suffered from multiple systemic deficiencies, including failure to respond to warning signs in a timely manner



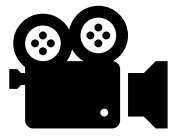
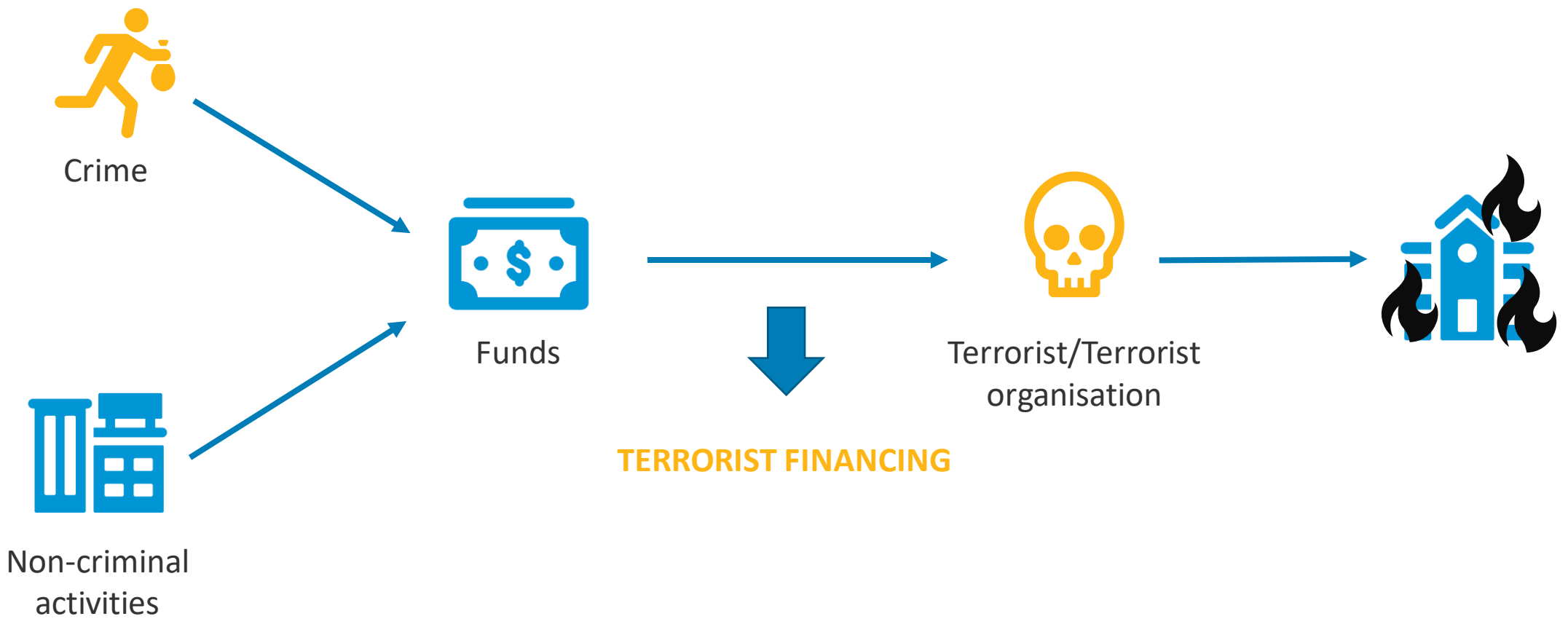
Moscow, 22 March 2024



Image: ISIS' Amaq agency publishing images of alleged attackers



Terrorist Financing



<https://www.youtube.com/watch?v=1PenJQMLe7Y>
<https://www.youtube.com/watch?v=NJOubxle9ts>



Terrorist Financing

"The reason behind our pain is that the seekers of material interests have made us divided, so we have failed to hold fast to the rope of Allah and direct our sacrifice in the proper direction."

Please donate with safe cryptocurrency Monero (XMR) for strengthening Mujahidin:
[QR code] & Monero address

43MXmg1LZbTXRuammAVJwq3X4tLxYv55dVcSweRVJ3LcJvW8YwWYmA76R9n1hxTFBg56XhC6nERJoqM6NiyrdEGjr55yk

PLEASE DONATE FOR WAGING

JIHAD *with* WEALTH

ALLAH SAID:

"O believers! Shall I guide you to an exchange that will save you from a painful punishment? It is to have faith in Allah and His Messenger, and strive in the cause of Allah with your wealth and your lives. That is best for you, if only you knew." [As-Saff, 10-11]

Please donate with safe cryptocurrency Monero (XMR) for waging jihad with wealth and financing those who are waging the same with their lives.

Monero (XMR)

43MXmg1LZbTXRuammAVJwq3
X4tLxYv55dVcSweRVJ3LcJv
W8YwWYmA76R9n1hxTFBg56X
hC6nERJoqM6NiyrdEGjr55yk

Image: ISKP soliciting Monero donations in their Voice of Khurasan from TRM Insights



Tracing Terrorist Financing

- Any crime which results in a profit can be used to finance terrorism.
- Even where the risk of a country facing terrorism attack is low, the country may still face terrorism finance risks.
- Sources of terrorist funding include, but are not limited to, low-level fraud, kidnapping for ransom, the misuse of non-profit organizations, the illicit trade in commodities (such as oil, charcoal, diamonds, gold and the narcotic), and digital currencies.
 - terrorists
 - international narcotics traffickers
 - those engaged in activities related to the proliferation of weapons of mass destruction and
 - any other threats to the national security, foreign policy or economy of nation.



FATF - Proliferation financing

Refers to the act of providing funds or financial services which are used, in whole or in part, for the manufacture, acquisition, possession, development, export, trans-shipment, 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



Understanding Sanctions

Sanction

- What do you understand by the term sanction?
- Who issues sanctions and supervise compliance?
- Who and what can be sanctioned?



Understanding Sanctions

Sanction

- What do you understand by the term sanction?
- Who issues sanctions and supervise compliance?
- Who and what can be sanctioned?

Prevent terrorism / conflict resolution / non-proliferation of weapon of mass destruction / protect human rights



Sanctions

- Restrictions imposed against an individual, entity or country
- Imposed by governments or intergovernmental bodies (e.g., UNSC or OFAC)
- Example of sanctions
 - Economic, Diplomatic, Trade, Individual, Vessels
 - Administered for the purpose of combatting terrorism, terrorist financing, proliferation and proliferation financing (dealing with weapons of mass destruction (WMDs))



<https://www.youtube.com/watch?v=i4fWltgRqiM>



Nature and Types of Sanctions

Nature of sanction

1. Comprehensive
2. Country / Regime-based
3. Activity-based

Types of sanction

1. Financial Sanctions
2. Economic Sanctions
3. Trade Sanctions
4. Other Sanctions

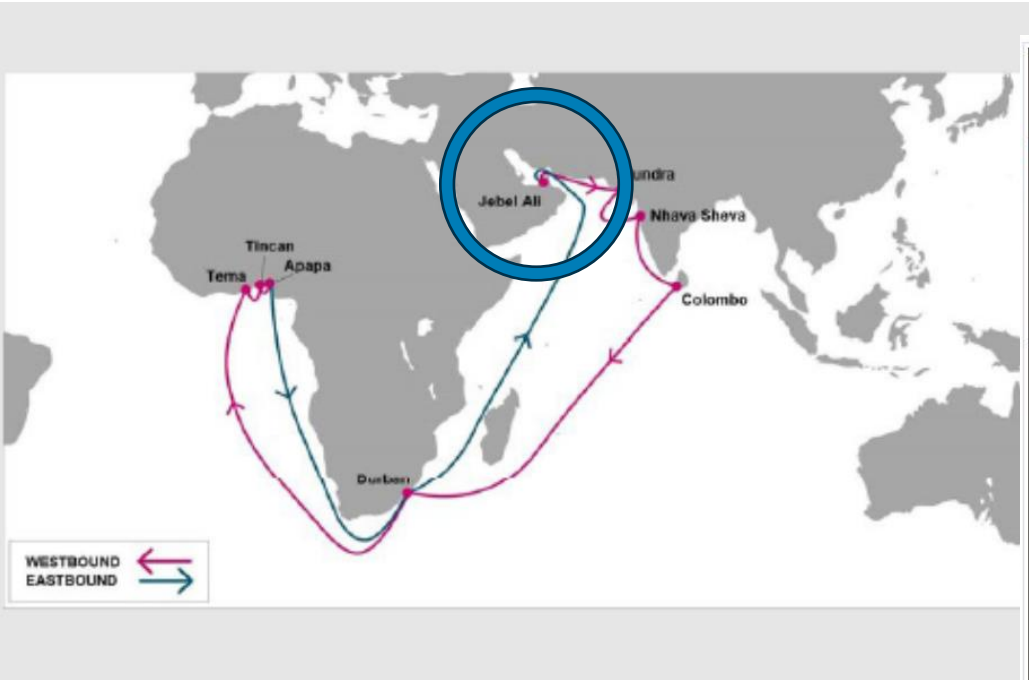


US office of foreign assets control (OFAC)

- Administers and enforces economic and trade sanctions based on US foreign policy and national security goals
- Sanctions include:
 - targeted foreign countries and regimes
 - terrorists
 - international narcotics traffickers
 - those engaged in activities related to the proliferation of weapons of mass destruction and
 - any other threats to the national security, foreign policy or economy of the US



Practical aspects - Trade



No Shipping = No Shopping



Trade-Based Money Laundering (“TBML”)

Common red flags:

- Over- or Under-invoicing: Significant discrepancies between the stated value of goods on invoices and their actual market value
- Multiple Invoicing: Involves generating multiple invoices for the same transaction, often with varying amounts
- Misrepresentation of Goods: The description of goods on shipping documents or invoices does not match the actual goods being shipped.
- High-Risk Products or Industries: Certain goods or industries are more susceptible to TBML due to their complexity, high value, or ease of manipulation (e.g., electronics, precious metals, pharmaceuticals).
- Unusual Shipping Routes or Methods: Transactions involving circuitous shipping routes or unconventional shipping methods
- Cash Payments in International Trade: Payments made in cash for international trade transactions, especially in large amounts, can indicate attempts to conceal the true source
- Third-Party/Unrelated parties Payments: Payments to or from third parties not directly involved in the transaction, particularly in high-risk jurisdictions or with a history of financial crime, or Entities with no apparent business relationship engaging in trade transactions.
- Shell Companies or Fronts: Utilization of shell companies or front companies to obscure the beneficial ownership of assets involved in trade transactions.
- Round-Trip Transactions: Transactions where goods are sold and then repurchased by the same party, often in a different jurisdiction, without a legitimate economic purpose.
- Freight Forwarding Anomalies: Abnormalities in freight forwarding practices, such as frequent changes in freight forwarders or using unregistered freight forwarders.



Dual Used Goods



2020 Beirut Explosion

A large amount of ammonium nitrate stored at the Port of Beirut in the capital city of Lebanon exploded, causing at least 218 deaths, 7,000 injuries, and US\$15 billion in property damage, as well as leaving an estimated 300,000 people homeless.



Dual use goods

Dual-use goods refer to items, materials, or technologies that can have both civilian and military applications:

Advanced Materials: Materials such as carbon fiber, advanced ceramics, and certain polymers can be used in civilian applications like sports equipment or aerospace components, but they also have military applications in armor, missile components, or aircraft structures

Electronics: High-performance electronics like microprocessors, integrated circuits, and sensors can be used in consumer electronics, telecommunications, or medical devices, but they also have military applications in surveillance systems, guidance systems, or radar technology

Software and Information Security Tools: Encryption software, cybersecurity tools, and communication protocols can have both civilian and military uses. While they are essential for securing sensitive information in banking, e-commerce, and communications, they are also vital for military communications and securing classified data

Chemicals and Pharmaceuticals: Certain chemicals and pharmaceuticals can have both civilian and military applications. For example, chemicals used in agricultural fertilizers or pharmaceuticals used in medical treatments can also be used in the production of chemical weapons or in military medical facilities

Aerospace Technologies: Technologies developed for civilian aerospace purposes, such as satellite technology, remote sensing, or navigation systems (like GPS), also have significant military applications in reconnaissance, surveillance, and precision-guided munitions



Dual use goods

Machine Tools and Manufacturing Equipment: Advanced machine tools and manufacturing equipment can be used in civilian industries such as automotive or aerospace manufacturing, but they can also be used in the production of military hardware and weapons systems

Nuclear Technology: Nuclear technology has numerous civilian applications, including power generation and medical imaging, but it also has military applications in the development of nuclear weapons and propulsion systems for submarines and aircraft carriers

Dual-Use Vehicles and Transportation Equipment: Vehicles and transportation equipment designed for civilian use, such as trucks, aircraft, or ships, can also be adapted for military purposes, such as troop transport, logistics support, or as platforms for weapon systems

Biotechnology: Biotechnology research and products, including genetically modified organisms (GMOs), can have both civilian and military applications. While biotechnology is used in agriculture and medicine, it can also be used in the development of biological weapons or for military medical research

Robotics and Autonomous Systems: Robotics and autonomous systems developed for civilian purposes, such as automated manufacturing or unmanned aerial vehicles (drones) for photography, also have military applications in surveillance, reconnaissance, and even combat operations.



Preliminary Survey - top questions/main concerns do you have with regards to Financial Crime Compliance and/or Correspondent Banking?

1.	Digital technology	
2.	How to identify, detect and prevent fraud and scams	
3.	Applying best practices over conducting due diligence checks and not over checking.	*
4.	What are the types of risks associated with the correspondent banking and how do we mitigate the risks?	*
5.	Sanctions exposure	*
6.	From a correspondent bank's perspective, main concern is on nested payment intermediary (PI) relationship as Banks and PIs may not be subjected to the same level of regulatory scrutiny. Banks will need to scrutinise and monitor more complicated scenarios for nesting involving combination of respondent bank and their Bank customer or PI customers or even another level down.	*
7.	Correspondent banking CDDs will need to factor in more vostro review and understanding the proper application of the MX SWIFT messages to develop proper tools to identify for correspondent banking monitoring. Traditional review of CBDDQ and questionnaire may be rendered inadequate for risk management especially when providing Vostro accounts.	



Preliminary Survey - top questions/main concerns do you have with regards to Financial Crime Compliance and/or Correspondent Banking?

8.	Despite they have policies and procedures, what is the comfort level if they are abiding by it	*
9.	Do we have a robust core banking system, adequate controls and measures for anti-financial crime?	*
10.	How to address the underlying concerns of OFAC, FDIC and FED to create a correspondent banking model that meets the needs of Asian (and African) banks who have been systemically disenfranchised (de-risked) by US Banks - either directly or through their regional counterparties.	*
11.	In our quest to find a solution to the CBR problem and given the complexity of it, how do we break it down into smaller actionable steps for the Pacific Island Countries	
12.	The lack of harmonization of different domestic laws and policies	
13.	What the reason and why derisking of banks in the Pacific.	*
14.	A country's correspondent banking relationships with other jurisdictions	
15.	Compliance is a moving target	*



Preliminary Survey - top questions/main concerns do you have with regards to Financial Crime Compliance and/or Correspondent Banking?

16.	Rising cost of compliance	*
17.	What role can partner Governments' play to improve financial crime compliance and support an ongoing correspondent banking presence in the Pacific	
18.	What AI tools are available to assist business and agencies dealing with aspects of FCC	
19.	Trade Base Money Laundering-lack of understanding	*
20.	How do we ensure financial crime is not facilitated through block chain, smart contracts, and distributed ledgers	*
21.	Customer due diligence conducted by correspondent banks	*
22.	Current regulations	
23.	Areas where risk to correspondent banking can be misused by criminals?	*
24.	Exploiting the banking system to layer funds related to money laundering investigations.	



Questions?



Have Burning Questions?



<https://app.sli.do/event/fp1CvNN8ZmTShLG56qYtce>

Join at slido.com: #2286357
(live until 29 Mar 2024)





Resources

- FATF Crowd Funding for Terrorist Financing: <https://www.fatf-gafi.org/en/publications/Methodsandtrends/crowdfunding-for-terrorism-financing.html>
- FATF Ethnically or Racially Motivated Terrorist Financing: <https://www.fatf-gafi.org/en/publications/Methodsandtrends/Ethnically-racially-motivated-terrorism-financing.html>
- FATF Terrorist Financing Risk Assessment Guidance: <https://www.fatf-gafi.org/en/publications/Methodsandtrends/Terrorist-financing-risk-assessment-guidance.html>
- National Money Laundering and Terrorist Financing Risk Assessment: <https://www.fatf-gafi.org/en/publications/Methodsandtrends/Nationalmoneylaunderingandterroristfinancingriskassessment.html>
- Financing for Recruitment for Terrorist Purposes: <https://www.fatf-gafi.org/en/publications/Methodsandtrends/Financing-recruitment-terrorist-purposes.html>
- TRM Insights, In Wake of Moscow Attack Understanding ISIS' Use Of Cryptocurrencies: <https://www.trmlabs.com/post/in-wake-of-moscow-attack-understanding-isis-use-of-cryptocurrencies>
- Risk of Terrorist Abuse in Non-Profit Organizations: <https://www.fatf-gafi.org/en/publications/Methodsandtrends/Risk-terrorist-abuse-non-profits.html>



Thank you.