

Targeted Financial Sanctions (TFS)
on Terrorist Financing (TF) and
Proliferation Financing (PF) of
Weapons of Mass Destruction
(WMD)

At the end of this presentation, you will be able to;

- ▶ Explain what is United Nations Security Council Resolution (UNSCR)
- ▶ Explain what are Targeted Financial Sanctions (TFS)
- ▶ Explain what is Terrorist Financing (TF)
- ▶ Explain what is Proliferation Financing of Weapons of Mass Destruction (PF-WMD)
- ▶ List 5 UNSCRs which are relevant to you as Financial Institutions
- ▶ List 4 regulations in Sri Lanka that make up the legal framework for countering TF and PF-WMD
- ▶ Identify the requirements of your institutions for complying with those regulations
- ▶ Identify the consequence of non-compliance with those regulations
- ▶ Identify changes needed for future reporting

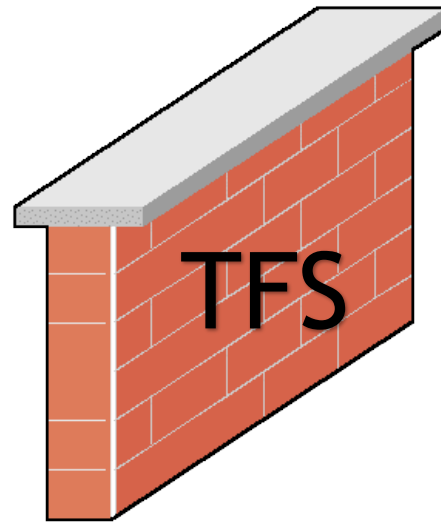
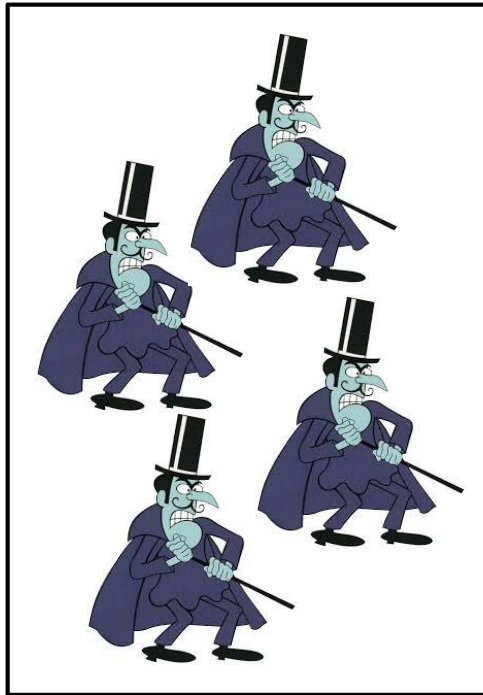
What is United Nations Security Council Resolution (UNSCR)?

- ▶ UN Security Council - Global Policeman
- ▶ Binding Obligatory Orders
- ▶ Famous for imposing sanction measures on countries (and individuals)
- ▶ Financial sanction measures are relevant to Financial Institutions



What are Targeted Financial Sanctions (TFS)?

- ▶ List of “bad actors” who threaten the world peace
- ▶ The lists are updated by the Security Council regularly
- ▶ UN member countries can’t do financial dealings with such designated individuals and entities.



What is Terrorist Financing?

- ▶ Providing funds for terrorist activities
- ▶ Legitimate source as well as criminal sources
- ▶ Terrorists use techniques to evade authorities' attention
- ▶ Tend to be in small amounts than is the case with money laundering
- ▶ Hard to detect the legitimate funds
- ▶ Funds are moved through the formal banking system, as well as other methods

What is Proliferation Financing of Weapons of Mass Destruction (PF-WMD)?

- ▶ Providing funds for the rapid construction of WMD (Chemical/Biological/Radio Active/Nuclear - CBRN)
- ▶ State actors (governments) and non-state actors (individuals and organizations)
- ▶ Closely associated with science and technological research projects
- ▶ Separate UNSCRs for state and non-state actors
- ▶ Currently, North Korea (DPRK) and Iran have been designated



UN Security Council's Approach to Counter PF-WMD

- ▶ Global approach under UNSCR 1540 (2004) and its successor resolutions
- ▶ Country-specific approach under UNSCR 1718 (2006) and UNSCR 2231 (2015) and their (future) successor resolutions

UNSCRs which are Relevant to You as FIs

- ▶ Relevant because they are associated with TFS regimes
- ▶ UNSCR 1267 and related resolutions
 - ▶ Al-Qaida, Taliban and ISIL related individuals and entities
- ▶ UNSCR 1373 and related resolutions
 - ▶ Local terrorist related individuals and entities (LTTE)
- ▶ UNSCR 1718 and related resolutions
 - ▶ North Korea related individuals and entities - *State Actors*
- ▶ UNSCR 2231 and related resolutions
 - ▶ Iran related individuals and entities - *State Actors*
- ▶ UNSCR 1540 and related resolutions
 - ▶ Individuals and organizations (no list!) - *Non-state Actors*

Regulations for Countering the TF and PF-WMD

- ▶ United Nations Regulation No. 1 of 2012 (for UNSCR 1373)
- ▶ United Nations Regulations No. 2 of 2012 (for UNSCR 1267)
- ▶ United Nations (Sanctions in relation to Democratic People's Republic of Korea) Regulations of 2017 (for UNSCR 1718)
- ▶ United Nations (Sanctions in relation to Iran) Regulations No. 1 of 2018
- ▶ United Nations (Sanctions relating to Proliferation of Nuclear, Chemical or Biological Weapons) Regulations of 2017 (for UNSCR 1540)

United Nations Regulation No. 1 of 2012

- ▶ To freeze the funds and other assets of local terrorists.
- ▶ Secretary of the Defense is the Competent Authority (CA)
- ▶ FIU facilitates the implementation process by circulating the updates to REs
- ▶ Currently, a list of 100 individuals and 8 entities (latest update is Gazette Extraordinary No. 2076/18 dated 20/06/2018)
- ▶ Freezing order by CA (Gazette Extraordinary No. 1863/25 dated 22/05/2014) - Regulation 5

United Nations Regulation No. 1 of 2012 (Contd.)

- ▶ All institutions shall immediately freeze funds and other assets of designated individuals and entities
- ▶ Cannot tip off customers
- ▶ Funds credited will also be frozen
- ▶ CA may grant a special authorization to permit the use of frozen funds and assets for special conditions - *regulation 6*
- ▶ Inform after freezing - *regulation 9*
- ▶ Imprisonment and/or fine for non-compliance - *regulation 11*

United Nations Regulation No. 2 of 2012

- ▶ To freeze the funds and other assets of individuals and entities of Al-Qaida/Taliban/ISIL
- ▶ Secretary of the Defense is the Competent Authority (CA), and the FIU is facilitating the implementation process
- ▶ CA has gazetted the first list of designated individuals and entities - *regulation 4*
- ▶ FIU facilitates the implementation process by circulating the updates to REs
- ▶ All institutions shall immediately freeze funds and other assets of designated individuals and entities - *regulation 5*
- ▶ Funds credited will also be frozen

United Nations Regulation No. 2 of 2012 (Contd.)

- ▶ CA can grant a special authorization to permit the use of frozen funds and assets - *regulation 9*
- ▶ Inform the CA and the FIU after freezing - *regulation 12*
- ▶ Inform the customer after freezing and informing FIU & CA - *regulation 13*
- ▶ Can't tip off customer - *regulation 14*
- ▶ Imprisonment and/or fine for non-compliance - *regulation 15*

United Nations (Sanctions in relation to Democratic People's Republic of Korea) Regulations of 2017

- ▶ To freeze the funds and other assets of North Korean individuals and entities (including the government)
- ▶ Secretary of the Defense is the Competent Authority (CA), and the FIU is facilitating the implementation process
- ▶ CA has gazetted the first list of designated individuals, entities and items - *regulations 4 & 19*
- ▶ Institutions cannot facilitate any service for the usage of designated items by North Korean persons - *regulations 4 & 7*
- ▶ Institutions cannot facilitate any financial service for the usage of vessels by North Korean persons - *regulations 6 & 12*

United Nations (Sanctions in relation to Democratic People's Republic of Korea) Regulations of 2017 (Contd.)

- ▶ All institutions shall immediately freeze funds and other assets of designated individuals and entities. Funds to a frozen account will stay frozen - *regulations 8, 9, 19, 20, 21*
- ▶ Institutions cannot facilitate trade with North Korean persons - *regulation 11*
- ▶ Institutions cannot maintain financial relationships with North Korean FIs - *regulation 14*
- ▶ Only one account for North Korean diplomatic missions or consular post - *regulation 18*
- ▶ Inform the CA and the FIU after freezing - *regulation 28*

United Nations (Sanctions in relation to Democratic People's Republic of Korea) Regulations of 2017 (Contd.)

- ▶ Inform the customer after freezing and informing FIU & CA - *regulation 29*
- ▶ Don't tip off the customer - *regulation 30*
- ▶ CA may grant a special authorization to permit the use of frozen funds and assets - *regulation 31*
- ▶ Imprisonment and/or fine for non-compliance - *regulation 34*

United Nations (Sanctions in relation to Iran) Regulations No. 1 of 2018.

- ▶ Immediately freeze funds and other assets of designated individuals and entities - *regulation 9*
- ▶ Less stricter than DPRK regulations (only focused on implementing the TFS provisions)
- ▶ Secretary of the Defense is the Competent Authority (CA), and the FIU is facilitating the implementation process
- ▶ Funds to a frozen account will stay frozen - *regulations 10*
- ▶ Mistaken identities can apply to CA - *regulation 13*
- ▶ Inform the CA and the FIU after freezing - *regulation 14*
- ▶ CA may grant a special authorization to permit the use of frozen funds and assets - *regulation 15*

United Nations (Sanctions relating to Proliferation of Nuclear, Chemical or Biological Weapons) Regulations of 2017 (for UNSCR 1540)

- ▶ UNSCR 1540 is not a TFS regime UNSCR, hence there is no designated list
- ▶ Prevention of proliferation financing by **non-state actors**
- ▶ Import/export/re-export control of items which have dual use (civil/military and proliferation)
- ▶ **Be vigilant when dealing with dual use items**
- ▶ Regulations to effectively implement the Strategic Trade Control (STC) mechanisms will be issued in the future.

Requirements from Financial Institutions

- ▶ Mechanism to screen customers at the time of on-boarding
- ▶ Mechanism to screen the customer database when the lists are updated
- ▶ Be vigilant about the transactions for high risk customers
- ▶ Increase awareness of the staff about the screening requirements

Enhanced Scrutiny of High-Risk Customers and Transactions

► Who are high risk customers?

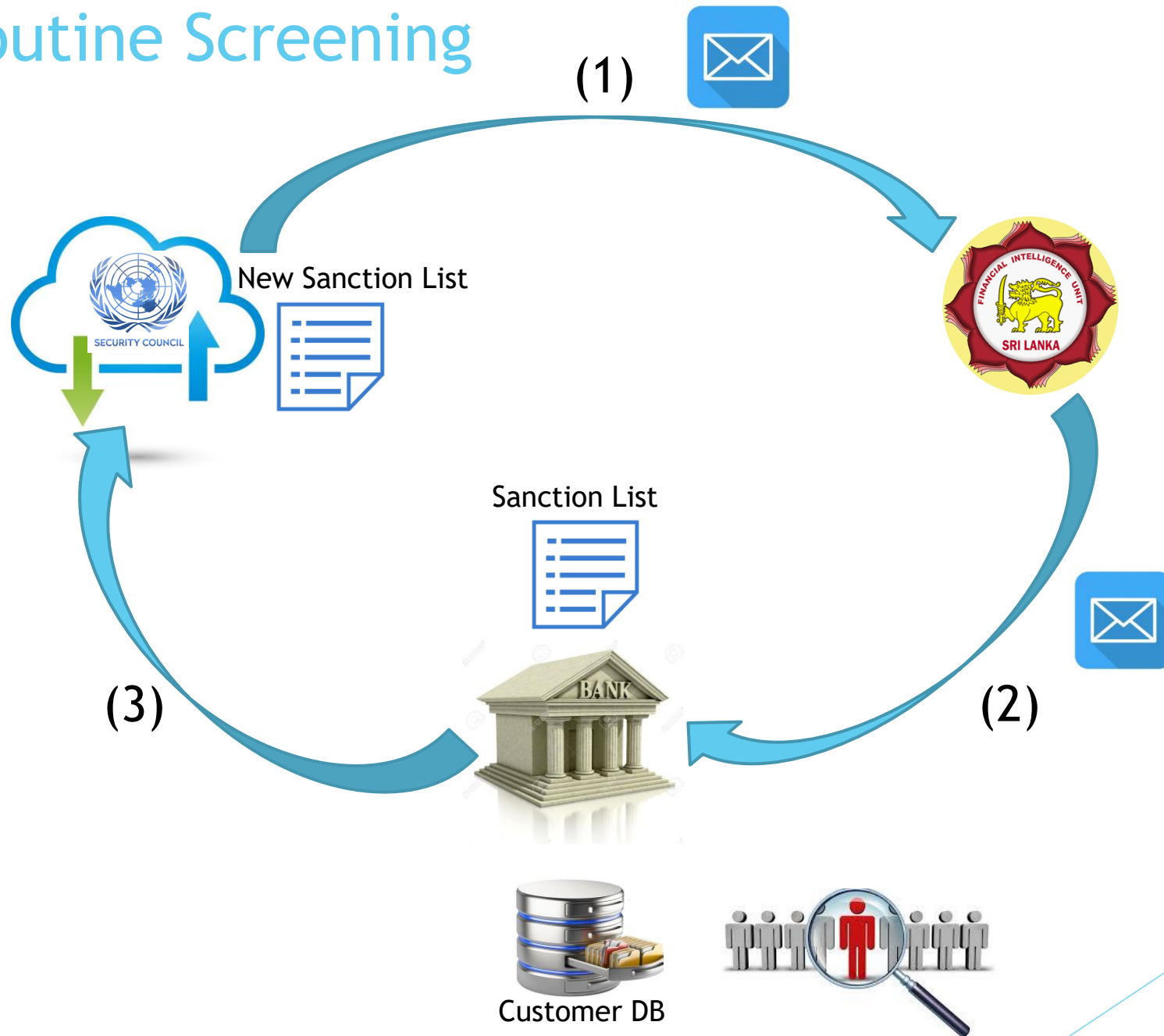
- Politically Exposed Persons (PEPs) from DPRK or Iran
- Who may act on behalf of or at the direction of DPRK and Iran
- Who provide trade services:
 - to Iran, DPRK, or countries neighboring them
 - To countries that have weak AML/CFT/PF controls
 - For dual use items



Additional information on high risk customers and transactions

- purpose of transaction or payment
- details about the nature, end use or end user of the item
- parties to the transaction
- sources of funds
- beneficial ownership of the counterparty
- export control information (copies of export-control or other licenses issued by the national export control authorities, and end-user certification)
- information in accordance with wire transfers

Routine Screening



Elements that may Indicate Proliferation Financing

- ▶ Person or entity in Iran, DPRK or its neighboring countries
- ▶ Person or entity in foreign country concerning of diversion of funds
- ▶ Altering transaction originator information, specially in EFTs
- ▶ Person or entity is “listed” or has a history of export control contraventions
- ▶ Customer activity doesn’t match profile
- ▶ A freight forwarding firm is listed as the product’s final destination
- ▶ Order from one country, end user in another country
- ▶ Shipment incompatible with the technical level of the shipped country
- ▶ Shell companies
- ▶ Circuitous route of shipment and/or circuitous route of financial transaction
- ▶ Shipment route through country with weak import/export control laws
- ▶ shipments inconsistent with normal geographic trade patterns

Elements that may Indicate Proliferation Financing

- ▶ Declared value of shipment seems under-valued vis-à-vis the shipping cost
- ▶ Inconsistencies in information contained in trade documents and financial flows
- ▶ wire transfer activity shows unusual patterns
- ▶ Customer vague/incomplete/resistant on information it provides
- ▶ Payment instruction to parties not identified on the original trade documents
- ▶ Involvement of items controlled under WMD export control regimes
- ▶ Person dealing with complex equipment for which he/she lacks technical background
- ▶ Use of cash or precious metals (e.g. gold) in transactions for industrial items
- ▶ Involvement of a small trading, brokering or intermediary company
- ▶ Transactions between companies on the basis of “ledger” arrangements that obviate the need for international financial transactions
- ▶ Customers or counterparties to transactions are linked
- ▶ Involvement of a university in a country of proliferation concern

Elements that may Indicate Proliferation Financing

- ▶ Vague description of goods
- ▶ Evidence that documents or other representations (e.g. relating to shipping, customs, or payment) are fake or fraudulent
- ▶ Use of personal account to purchase industrial items

Consequences of Non-compliance

- ▶ Imprisonment and/or fines
- ▶ Reputational damage
- ▶ Suspension of business



© Can Stock Photo - csp26941936

Contact

- ▶ Financial Intelligence Unit
 - ▶ Mr. Kosala Harshadewa
Senior Assistant Director
0112477513
- ▶ Ministry of Defense (Competent Authority)
 - ▶ Major Jineth Kamila
0112430860-9 / 0112430870-9
- ▶ Ministry of Foreign Affairs
 - ▶ Mrs. Sanjika Kammanankada
0112325371-5