

Targeted Sanctions

ARAFAT ALFAYOUMI

EXECUTIVE DIRECTOR OF AML/CFT SUPERVISION DEPARTMENT

CENTRAL BANK OF JORDAN

AUGUST 2022



Contents

- ❖ What are Sanctions?
- ❖ What are Sanctions designed to do?
- ❖ Types of Sanctions
- ❖ Sources of Sanctions
- ❖ FATF Expectations
- ❖ Some common misconceptions about Sanctions.
- ❖ Implications of sanctions violations.
- ❖ Reporting Entities Responsibilities Regarding Sanctions
- ❖ Regulatory authority Responsibilities regarding Sanctions.

What are sanctions?

Sanctions are measures that are put in place to fulfil a range of purposes. These include complying with UN and other international obligations, supporting foreign policy and national security objectives, as well as maintaining international peace and security, and preventing terrorism.

WHAT ARE SANCTIONS DESIGNED TO DO?

- Financial sanctions are generally imposed to:
- Drive a regime, or individuals within a regime, into changing their behavior (or aspects of it) by increasing the cost on them to such an extent that they decide to cease the offending behavior;
- Constrain a target by denying them access to key resources needed to continue their offending behavior, including the financing of terrorism or nuclear proliferation;
- Signal disapproval, stigmatizing and potentially isolating a regime or individual, or as a way of sending broader political messages nationally or internationally; and/or
- Protect the value of assets that have been misappropriated from a country until these assets can be repatriated.

Types of Sanctions

Comprehensive Sanctions

- These types of sanctions are usually applied to countries (and the systems which run the country).
- Comprehensive Sanctions prohibit institutions from dealing with certain states/countries; however, some exceptions may take place, especially concerning humanitarian aid.
- Countries under this type of sanction will face many challenges in Import and Export Trade, and with international financial transactions.

Sectoral Sanctions:

- This type of sanction applies at a country or jurisdictional level.
- Under this type of sanction, dealing with a country in a specific sector is prohibited, for example, energy, petroleum, arms, gold and diamonds.
- It is permissible to deal with the targeted state in other sectors as long as the transaction-related parties are not listed on a sanctions list.

Targeted Sanctions

- This type of sanction usually applies to individuals, entities, and groups.
- Dealing with individuals or groups under this type of sanction is prohibited.
- This may include not allowing them to enter the country (Travel Ban), freezing their assets, or not being permitted to sell them military equipment.



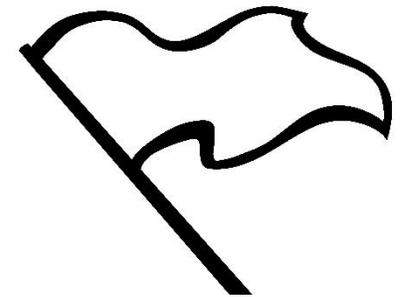
Targeted Sanctions



This includes individual or organization financing whether the terrorist action happened or did not happen. It also includes financing individuals to travel and in aim to prepare, plan and participate in terrorist financing and receive training.

This includes presenting money , financial services, or fully and partially financing individuals or entities to produce, own, develop, import, intermediate, transfer, hold, or use nuclear, chemical or biological weapons.

Sources of sanctions



**Individual Country
Sanctions Regimes**

FATF EXPECTATIONS: TERRORIST FINANCE SANCTIONS

FATF Recommendation 6: Targeted financial sanctions related to terrorism and terrorist financing

Countries should implement **targeted financial sanctions regimes** to **comply** with **United Nations Security Council resolutions** relating to the prevention and suppression of **terrorism and terrorist financing**. The resolutions require countries to **freeze without delay** the funds or other assets of, and to ensure that **no funds or other assets are made available**, directly or indirectly, to or for the benefit of, any person or entity either:

(i) designated by, or under the authority of, the United Nations Security Council under Chapter VII of the Charter of the United Nations, including in accordance with resolution 1267 (1999) and its successor resolutions; or

(ii) designated by that country pursuant to resolution 1373 (2001).

FATF EXPECTATIONS: Proliferation of Weapons of Mass Destruction And Its Financing

FATF Recommendation 7: Targeted financial sanctions related to proliferation

Countries should **implement targeted financial sanctions to comply with United Nations Security Council resolutions** relating to the prevention, suppression and **disruption of proliferation of weapons of mass destruction and its financing.**

These resolutions require countries to **freeze without delay the funds or other assets of, and to ensure that no funds and other assets are made available, directly or indirectly,** to or for the benefit of, any person or entity designated by, or under the authority of, the United Nations Security Council under Chapter VII of the Charter of the United Nations.

SOME COMMON MISCONCEPTIONS

Sanctions and Counter Terrorist Finance (CTF) are the same thing:

- Only some sanctions regimes relate to CTF
- Increasing use of sanctions for Serious Organised Crime Purposes and Human Rights issues (so-called Magnitsky sanctions in the US)
- Many other obligations relating to CTF other than sanctions compliance

Sanctions Compliance is all about screening customers and transactions:

- Screening names of individuals and entities is one important aspect of sanctions compliance
- But some sanctions are activity-based and apply to anyone engaged in that activity

Regulatory challenges for Compliance Officers

Compliance with domestic and international sanctions regimes has become one of the main regulatory challenges for

Banks compliance officers . The consequences of breaching the associated regulatory obligations are extremely serious

and almost always lead to heavy fines and significant reputational damage.

Banks should Focus on..

Trade Finance:

- The ability to issue, advise, confirm or ultimately pay out against a letter of credit often raises sanctions issues where a sanctioned destination or a sanctioned party is involved.
- When presentation of documentation by a beneficiary highlights that the underlying transaction may in itself be prohibited.
- Banks are often faced with very difficult legal and relationship management issues with regards to trade financing instruments such as, performance bonds, advance payment guarantees where it is claimed that the underlying transaction has been adversely affected by sanctions measures.

Regulatory challenges for Compliance Officers

Capital markets transactions

- Ensuring that asset management functions have adopted appropriate sanctions risk management procedures in relation to the acquisition of securities and administration of funds.
- This includes the potential implications when a sanctioned investor is identified, or when it is established that a financial institution has traded, either in a primary or secondary market, securities in a company which may have breached international sanctions.
- The associated obligations include ensuring that the financial institution is not engaged with prohibited investors, shareholders or investments. These issues are likely to arise in a situation where a financial institution does not have existing processes to (re-)screen counter-parties and third parties to assess whether a company derives its profits from activities which are sanctioned, or is owned or controlled by a sanctioned party, or is head-quartered or established in a sanctioned jurisdiction

Regulatory challenges for Compliance Officers

Corporate financing Functions :

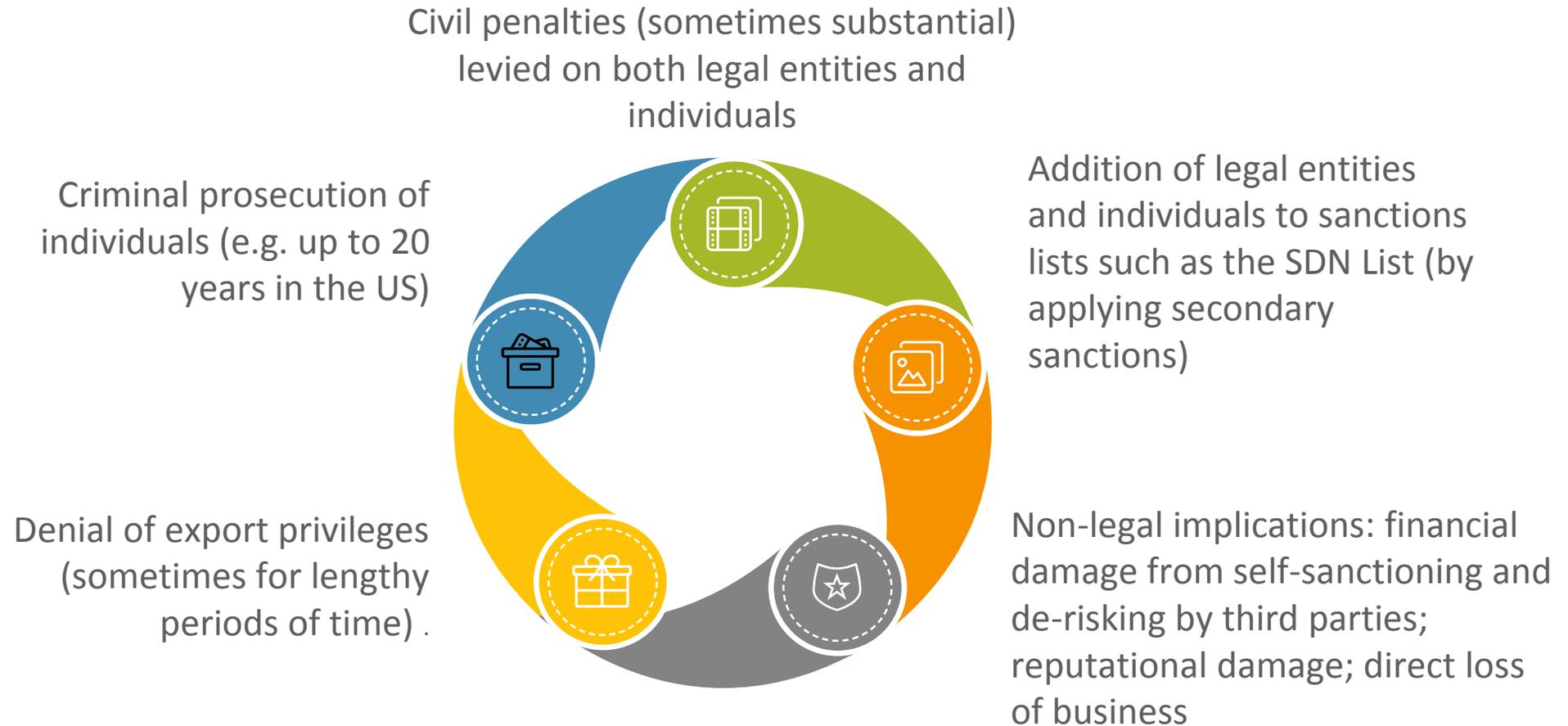
- Functions involved in managing due diligence in relation to advisory, debt restructuring, and equity issuance must consider compliance with international sanctions provisions.
- Increasingly sanctions provisions extend beyond traditional asset-freezing measures. In particular, they now focus on financing and financial assistance in relation to the production or export of arms and weapons and other so-called "dual-use" items.
- Specific sanctions programs also focus on financing, financial assistance and investment activities in key economic sectors, for example the energy sector, the financial services sector, or the logistics sector.

Regulatory challenges for Compliance Officers

Global transaction banking :

- Given the volume of daily transactions undertaken by major financial institutions, the ability to undertake "real time" screening of transactions in a manner which does not overly burden business continuity is an important factor.
- Financial institutions should be able to demonstrate that they have wider procedures to manage the screening process, for example: proper escalation of matters to appropriate senior management committees; staff who are properly trained to perform their sanctions functions; relevant risk categorization of issues raised by screening software; risk sensitive screening of both customers and payment transactions; and appropriate calibration of any screening system's settings.

Implications of sanctions violations



Key trends in the sanctions space

- Human rights sanctions regimes (US, UK, EU)
- Corruption-related sanctions regimes (US, UK)
- Sectoral sanctions
- Wider use of secondary sanctions
- Export controls vs financial sanctions
- De-risking & self-sanctioning
- New Russia sanctions (2022)

Overview of the Office of Foreign Assets Control (OFAC)

The Office of Foreign Assets Control (OFAC) of the U.S. Department of the Treasury administers and enforces economic and trade sanctions based on U.S. foreign policy and national security goals.

Responsible for administering and enforcing economic and trade sanctions against:

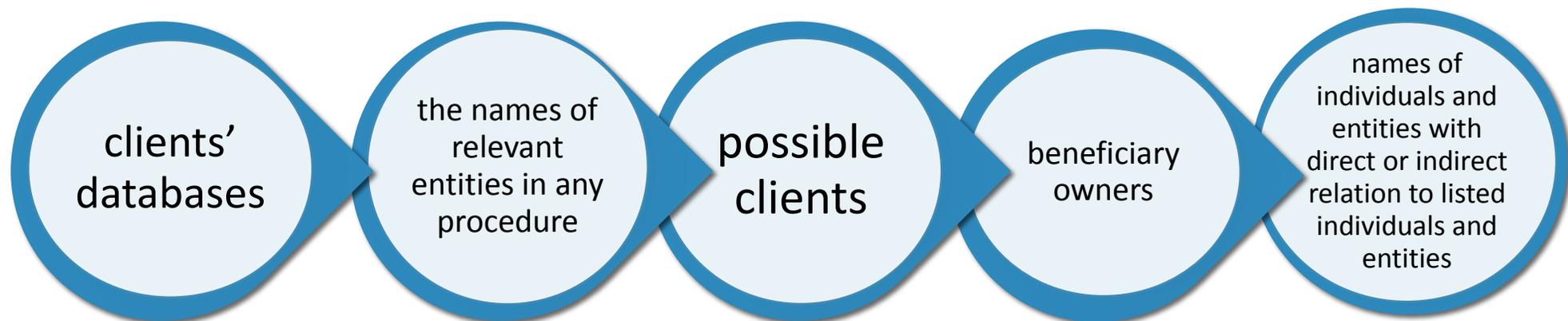
- Targeted hostile countries and their agents
- Regimes, the actions or policies of which constitute a national emergency
- Organizations and individuals sponsoring terrorism
- International narcotics traffickers
- Proliferation of weapons of mass destruction
- Transnational organized crime

Overview of the Office of Foreign Assets Control (OFAC)

- OFAC regularly publishes guidance on sanctions programs and industry practices as well as updates to its sanctions lists.
- U.S. persons, wherever located, are prohibited from transacting with, directly or indirectly, blocked persons or their property or interests in property.
- Violations of sanctions are punishable by civil (OFAC) and criminal (DOJ) monetary penalties against individuals and/or institutions.

Reporting Entities responsibilities regarding Sanctions

1. **Testing** databases and procedures regularly, and comparing them with the names listed in the International Sanctions Lists and the National Lists, including any amendments to the mentioned lists, provided that they include search for the following:

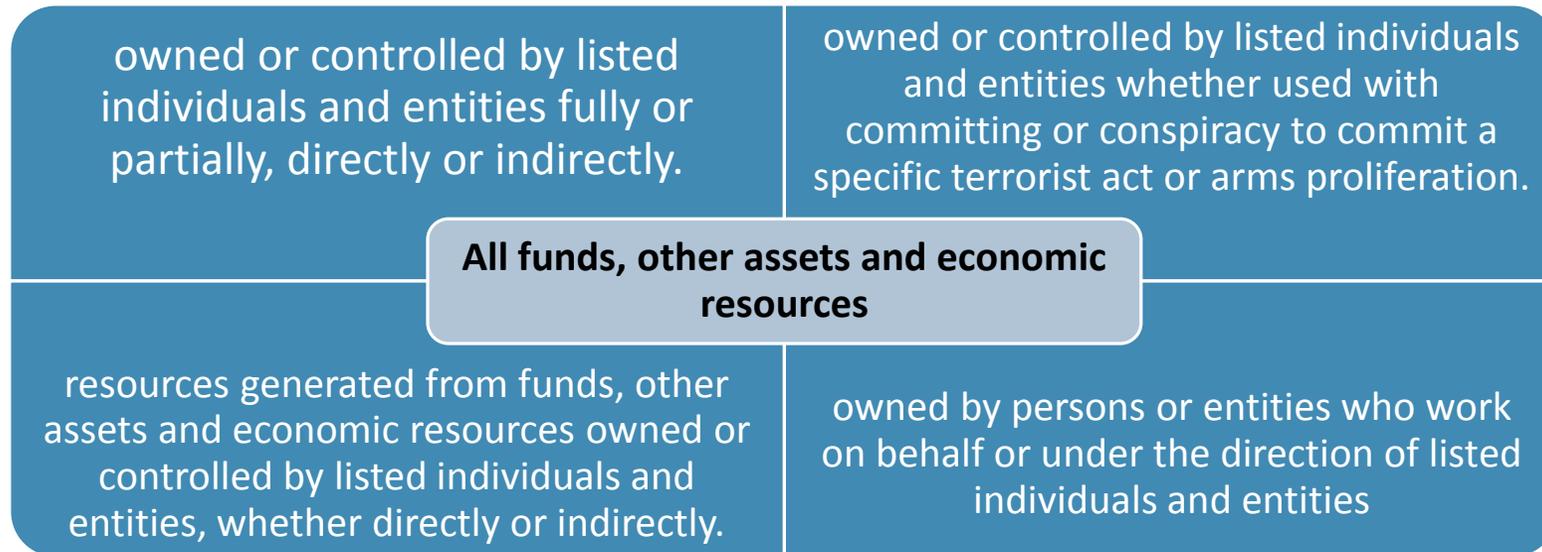


Reporting Entities responsibilities regarding Sanctions - Continued

- 2. Ongoing** research in clients' databases **before** conducting any transaction or entering into a business relationship with any individual to ensure they are not listed in the Sanctions Lists or the National List.

Reporting Entities responsibilities regarding Sanctions - Continued

3. The reporting entities should, without prior notification, freeze all funds and other assets in addition to economic resources immediately upon listing without delay, and the freezing extends to cover the following:



Reporting Entities responsibilities regarding Sanctions - Continued

4. **Immediate** notification to the designated authorities and supervisory authorities about the funds, other assets and economic resources which were frozen, and any procedures taken in that regard, in pursuit of implementing the provisions of these instructions. If it appears that one of their former clients or an accidental client they dealt with are listed in Sanctions Lists or the National Lists.
5. **Placing** necessary **internal controls and procedures**, and implementing them effectively to ensure compliance to the obligations imposed by the supervisors.
6. **Placing** and executing **policies** and procedures **prohibiting their employees from notifying the client** or any third party, whether directly or indirectly, that a freezing decision and other measures would be made per the Provisions of the instructions hereof.
7. **Cooperating** with the designated authorities as well as supervisory authorities in verifying submitted information.

Supervisors responsibilities regarding Sanctions

1. Supervising and following up on reporting entities' compliance to executing the provisions of the instructions hereof through onsite and offsite supervision.
2. Taking one or more actions or imposing sanctions in case a violation by the reporting entities.

Question and
Comments?