



The Central Bank Of The UAE'S AML/CFT Thematic Review Counter Measures on FATF - High Risk Jurisdiction

ABSTRACT

This thematic review sets out the key findings and CBUAE's expectations for licensed financial institutions to apply countermeasures in relation to the AML/CFT risks associated with FATF's high risk jurisdictions.



Contents

1. Glossary of Terms	2
2. Background.....	3
3. Applicable Law	4
4. FATF directive – High Risk Jurisdiction.....	4
5. Thematic Review Findings	5
5.1. Policy and Procedures	5
5.2. ML/TF Risk Assessment.....	6
5.3. Transaction Monitoring and Screening.....	7
5.4. KYC Controls.....	8



1. Glossary of Terms

CBUAE	Central Bank of the United Arab Emirates
CDD	Customer Due Diligence
FATF	Financial Action Task Force
NAMLCFTC	National Anti-Money Laundering And Combatting Financing of Terrorism And Financing of Illegal Organizations Committee
HRCTR	High-Risk Country Transaction Report
PF	Proliferation Financing
LFI	Licensed Financial Institutions
AMLDD	Anti-Money Laundering Department
ML	Money Laundering
TF	Terrorism Financing
AMLCFT	Anti-Money Laundering and Counter Financing Terrorism
KYC	Know Your Customer



2. Background

The Central Bank of the UAE (“CBUAE”) Anti Money Laundering and Combatting the Financing of Terrorism Department’s (“AMLDT”) risk-based-supervision approach and methodology includes the assessment of its licensed financial institution’s (“LFI”) Money Laundering/Terrorist Financing (“ML/TF”) risk profile through the collection and analysis of ML/TF risk indicators.

The AMLDT assessed its LFIs’ exposure to ML/TF risks on a thematic basis, focusing on key ML/TF threats and vulnerabilities derived from the risks outlined in FATF’s 40 Recommendations, the UAE’s National Risk Assessment (“NRA”) and Topical Risk Assessments.

From the CBUAE’s sectorial risk assessments, counter measures on FATF’s high risk jurisdictions, amongst others, is identified as a high risk area in the inherent risk parameters for the Banking sector. Subsequently, the CBUAE issued a specific counter measures guidance notice to LFIs in relation to risks associated with FATF’s high risk jurisdictions and the regulatory expectations around due diligence standards to effectively manage those risks.

As per the FATF, high risk jurisdictions are classified as having significant strategic deficiencies in their regimes to counter money laundering, terrorist financing, and proliferation financing. On a regular basis, all financial institutions in the UAE shall review and update the list of FATF’s high risk jurisdictions. LFIs should also apply the counter measures and/or enhanced due diligence measures as appropriate and proportionate to the level of risks when establishing relationship with any of the FATF’s high risk jurisdictions.

This review aims to assess at a thematic level, for selective LFIs based on their inherent risks, the AML/CFT controls specific to counter measures on FATF’s high risk jurisdictions in compliance with the FATF and NAMLCFTC directive. The review consisted issuance of a focused questionnaire to selective LFIs and follow-up interviews and discussions for institutions in banking sectors.

Since the sample size was limited, the results should be viewed as representative at thematic level drawing on the most common practices observed, noting that a fair



proportion of LFIs in the United Arab Emirates (“UAE”) may in fact have stronger or more positive measures.

3. Applicable Law

1. Decree Federal Law No. (20) of 2018 on Anti-Money Laundering and Combating the Financing of Terrorism and Illegal Organizations (“AML-CFT Law”).
2. Cabinet Decision No. (10) of 2019 concerning the Implementing Regulation of Decree Federal Law No. 20 of 2018 on Anti-Money Laundering and Combating the Financing of Terrorism and Illegal Organizations (“AML-CFT Decision”).
3. Cabinet Decision No. (58) of 2020 regulating the Beneficial Owner Procedures (“Cabinet Decision 58”)
4. All relevant Guidance issued by the Central Bank of the UAE

4. FATF directive – High Risk Jurisdiction

As per the directives of the Financial Action Task Force (FATF), high risk jurisdictions are classified as having significant strategic deficiencies in their regimes to counter money laundering, terrorist financing, and proliferation financing.

For all countries identified as high risk, the FATF calls on all members and urges all jurisdictions to apply enhanced due diligence. In the most serious cases, countries are called upon to apply counter measures to protect the international financial system from the ongoing money laundering, terrorist financing, and proliferation financing (ML/TF/PF) risks emanating from the country. This list is often referred to as the ‘black list’.

When the FATF places a jurisdiction under increased monitoring, it means the country has committed to resolve swiftly the identified strategic deficiencies within agreed timeframes and is subject to increased monitoring. This list is often externally referred to as the “grey list”.



5. Thematic Review Findings

The purpose of the thematic review on counter measures is to highlight the common findings across the identified LFIs. In addition, these findings will provide more specific and targeted feedback to the sector.

The thematic review outcome is shared across the sectors so that the LFIs can benchmark themselves, make necessary changes to their AML/CFT policies around counter measures in relation to high risk jurisdiction, and enhance the related controls.

5.1. Policy and Procedures

The majority of the LFIs, that were part of the review, have a dedicated policy, or relevant sections in their AML/CFT policy that sets out requirement to periodically maintain the grey or black listed countries based on the information issued by the FATF and NAMLCFTC. In addition to this, it is identified that the LFIs also have policy and controls in place to monitor occasional transactions going to the high risk jurisdictions.

There is awareness among LFIs to update their policy to cover the implementation of targeted financial sanctions requirements according to applicable UN Security Council Resolutions and |Cabinet Decision No. (74) of 2020.

SUPERVISORY EXPECTATION

The supervisory expectation from LFIs is to periodically maintain the FATF- High risk jurisdictions information. The information should be in place to monitor the transactions, including the occasional transactions conducted by the financial institution. It is also expected from LFIs to cover targeted financial sanctions requirements according to applicable UN Security Council Resolutions and Cabinet Decision No. (74) of 2020.



5.2. ML/TF Risk Assessment

The thematic review indicates that the LFIs have adopted risk based approaches in risk rating their customers. The majority of the LFIs consider FATF's list of high risk jurisdictions as a critical parameter.

The customers are periodically risk assessed based on the risk categories as defined by the LFIs or on trigger events.

SUPERVISORY EXPECTATION

LFIs are encouraged to regularly review the FATF-Grey list and high-risk jurisdiction list. In addition, take into consideration these jurisdictions as a parameter to apply the risk based approach to risk rate their customers.



5.3. Transaction Monitoring and Screening

The thematic review indicates that most LFIs monitor the inward and outward transactions coming from or going to the FATF high risk jurisdictions. In addition to monitoring occasional transactions, banks have also implemented automated monitoring systems that generate alerts on transactions related to FATF's high risk jurisdictions in real-time. Furthermore, LFIs have implemented dedicated scenarios to monitor transactions and activities pertaining to the high risk jurisdictions.

However, the thematic review indicates that a few LFIs do not have automated transaction monitoring controls. Instead, transactions involving FATF's high risk jurisdictions are monitored through a manual or a hybrid (semi-manual, semi-automated) processes. In addition, it is observed that LFIs apply manual monitoring controls on transactions processed through correspondent banking relationships.

The majority of LFIs produce internal reports on transactions related to FATF's high risk jurisdictions, for compliance review, management reporting and internal audit, in addition to high risk countries transactions report (HRCTR) to senior management.

SUPERVISORY EXPECTATION

LFIs are encouraged to use automated transaction monitoring systems. In addition, the monitoring systems should include dedicated detection scenarios for transactions involving FATF's high risk jurisdictions.

The LFIs should also comply with the internal reporting mechanisms on monitoring transactions and activities pertaining to FATF's high risk jurisdictions, and report suspicious transactions to the UAE FIU where relevant.



5.4. KYC Controls

The countermeasure thematic review indicates that a few of the LFIs have representative offices or branches in countries that are part of the FATF's blacklist. Further, many LFIs have UBOs/POA/Signatory/Shareholder/Director relationships linked to the FATF's high risk jurisdictions. In addition, a few LFIs have correspondent banking relationships with financial institutions based in the FATF's high risk jurisdictions, of which some are locally incorporated while the others are branches of foreign institutions.

SUPERVISORY EXPECTATION

LFIs are expected to apply enhanced due diligence measures to all business relationships and transactions involving jurisdictions that are part of FATF's black list, including natural persons and legal entities and those acting on their behalf.