



**National Anti-Money Laundering and Combating
Financing of Terrorism and Financing of Illegal
Organizations Committee**



United Arab Emirates

Targeted Financial Sanctions Thematic Review Report 2023

The Central Bank of the UAE (CBUAE), together with the Ministry of Justice, Ministry of Economy, the Dubai Financial Services Authority (DFSA) of Dubai International Financial Centre (DIFC) and the Financial Services Regulatory Authority (FSRA) of Abu Dhabi Global Market (ADGM), collectively the “Supervisory Authorities”, conducted a detailed Targeted Financial Sanctions Thematic Review in the UAE.

Supervisory Authority Sub-Committee
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Note: This Thematic Report is intended to provide a summary and overview of risks understood by the UAE’s competent authorities based on supervisory inspections. It does not set out the comprehensive obligations under the *TFS Law*. It does not constitute, nor should it be treated as, legal advice or opinion.



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Introduction

The Central Bank of the UAE (CBUAE), together with the Ministry of Justice, Ministry of Economy, the Dubai Financial Services Authority (DFSA) of Dubai International Financial Centre (DIFC) and the Financial Services Regulatory Authority (FSRA) of Abu Dhabi Global Market (ADGM), collectively the “Supervisory Authorities”, conducted a Targeted Financial Sanction (TFS) thematic review in 2022. The review involved circulating a self-assessment questionnaire to Licensed Financial Institutions (LFIs) and Designated Non-Financial Businesses and Professions (together “Regulated Entities”) operating across the UAE.

Objective

The UAE’s geographic location and role as an international trading and logistical hub makes its financial system susceptible to abuse by terrorist groups, those financing terrorism, and the proliferation of weapons of mass destruction. Therefore, the assessment of compliance levels in implementing Targeted Financial Sanctions effectively is and continues to be a key priority for Supervisory Authorities in the UAE. Since 2019, the UAE has taken major steps to improve the TFS legal framework. Significant efforts were made by the EOCN and Supervisory Authorities to ensure Regulated Entities are aware of their TFS obligations by conducting various outreach sessions, workshops and producing guidance. The objective of this Review is to assess TFS compliance across Regulated Entities based on a standardized questionnaire and to provide regulatory expectations supporting material findings.

TFS Compliance is, and will continue to be, a key regulatory priority for the UAE. Accordingly, this subject will continue to feature in UAE Supervisory Authorities supervisory agenda. Supervisory Authorities maintain a 0- tolerance approach for material TFS breaches. In 2022, Supervisory Authorities levied more than **AED 40 Million** in fines for TFS breaches.

Scope and Methodology

Supervisory Authorities circulated a comprehensive TFS Questionnaire to its Regulated Entities operating in the UAE. Based on the responses to the TFS Questionnaire, each Supervisory Authority selected a sample for further review and testing. The selection process was guided by a methodology that utilizes quantitative inherent risk data, in conjunction with control effectiveness ratings assigned by the supervisors, where available. This enabled the Supervisory Authorities to implement a risk-based, data-driven approach to the prioritization and supervision of TFS Compliance for the calendar year 2022.

The selection of Regulated Entities was driven from the regulated entity’s exposure to TFS risks, assessed by both inherent risk factors and control assessment results. Further, Regulated Entities’ exposure to high-risk jurisdictions for TF/PF purposes was also taken into consideration.

The TFS questionnaire is a self-assessment report from FIs and DNFBPs and therefore supervisors validate these responses through various supervisory interventions, such as desktop reviews and outcomes derived from the onsite inspections.

The TFS questionnaire was disseminated to the sector in the last week of June 2022. The responses were received in July 2022, and the desktop analysis were performed thereafter. The desktop reviews were conducted for within two months (July-September) for all authorities. Onsite TFS inspections continued until the end of the supervisory calendar (December 22)

The Review conducted focused on higher risk sectors, as identified in the UAE's National Risk Assessment (NRA) and Sectoral Risk Assessment (SRA) and therefore, the results of the report is represented at a thematic level only and does not reflect an actual representation of practices across all Regulated Entities in the UAE.

TFS Questionnaire

The TFS Questionnaire was developed by the Supervisory Authorities. The objective of issuing the TFS Questionnaire was to capture the compliance level of all Regulated Entities in the UAE across all supervisors. It was based on TFS obligations set under Cabinet Decision 74 of 2020 and covered the following areas:

1. **Registration.** Imposes the requirement to register in both the EOCN Notification and the goAML system.
2. **TFS Screening.** Indicates when screening should be conducted, who should be screened, record keeping of screening results, and screening for dual-use items.
3. **Internal Controls.** Includes procedures to implement TFS without delay, apply EDD on transactions involving high-risk jurisdictions, verify that customers hold valid permits for dealing in dual-use items, and collaborate with the FIU to verify that TF and PF TFS-related STRs contain sufficient and qualitative information.
4. **TFS Reporting.** Addresses the requirement regarding the submission of Funds Freeze Reports (FFRs) and Partial Name Match Reports (PNMRs) to ensure they contain sufficient information, and the provision of timely responses with additional information as requested by the EOCN.
5. **TFS Training.** Requires Regulated Entities to conduct adequate internal training and awareness sessions for relevant staff and verify attendance at such functions on TFS obligations and sanctions evasion typologies conducted by the EOCN and/or Supervisory Authorities.
6. **TF and PF Risk Assessment.** Requires Regulated Entities to identify and assess both TF and PF risks and keep their assessments up to date.

Overall Observations

- **Senior management oversight**

Senior management should ensure that Regulated Entities have effective TFS systems and controls to ensure on an ongoing basis it is properly informed as to, and takes reasonable measures to comply with, relevant resolutions and sanctions issued by the United Nations Consolidated List and UAE Local Terrorist List.

The outcome of the Review noted that overall Senior Management at Regulated Entities are aware of TFS obligations. However, in some instances, it was noted that Senior Management maintained weak oversight over TFS matters. Some examples include, but not limited to, the following:

- Lack of detailed key TFS – related policies and procedures. In some instances, policies and procedures were not approved by Senior Management. This practice may lead to weaknesses in adhering to TFS obligations.
- Exclusions are not explicitly highlighted to Senior Management and the Board.
- Senior Management were not always aware and informed of the specific TF/PF risks identified in the Sanctions Risk Assessment conducted by the Regulated Entity.
- Inadequate Management Information reports to Senior Management. Insufficient reporting on TF/PF risks limits Senior Management to make necessary decisions, and to timely detect/mitigate TF/PF risks faced by the Regulated Entity.
- Inadequate tracking of alerts pending investigation and ageing of such pending alerts, reasons, any surge/spike in alert volumes, action plan of resolution to comply with reporting timelines obligations.
- Risks of non-compliance, risk acknowledgement/acceptance from Senior Management.
- Lack of dedicated resources to manage and execute Sanction Compliance Programs. Regulated Entities did not establish clear reporting lines to escalate TFS related concerns. Further, in some instances, clear roles and responsibilities for staff were not stipulated. This practice limits staff for being held accountable on TFS matters.
- Non-existence of a dedicated Quality Assurance function (in the case of larger, more complex Regulated Entities) to oversee TFS activities and to ensure periodic testing of control effectiveness.
Senior Management were not always aware and informed of the specific TF/PF risks identified in the Sanctions Risk Assessment conducted by the Regulated Entity.

Regulatory Expectations

- Senior Management should have close oversight over Regulated Entities' Sanctions Risk Framework, TF/PF Risk Assessment outcomes, policies, and processes, including oversight on published Notices and Guidelines by Supervisory Authorities.
- Senior Management should be regularly updated on the implementation of its Sanction Compliance Programs, including the output and performance of its sanctions screening tools. Reporting metrics should include trends, and reports generated by sanction screening systems and/or by sanction screening alert review and investigation teams.
- Senior Management should establish a strong Compliance culture, setting a clear tone-from-the-top to effectively implement TF/PF controls. Senior Management should build the necessary infrastructure supported with adequate skilled resources, tools and systems to appropriately implement TFS requirements.
- Senior Management should establish clear lines of accountability and responsibilities for TFS compliance.
- Senior Management should ensure it establishes dedicated teams to test the effectiveness of TF/PF controls through Quality Assurance/Audit function.

- **Business Risk Assessment**

Regulated Entities are required to identify, evaluate, and understand their ML, TF, and PF risks in a manner commensurate with the nature and size of their business. This assessment should be documented and continually updated. Regulated Entities are required to be aware of regulatory or law enforcement advisories, and/or global terrorism financing (“TF”) and the financing of proliferation of weapons of mass of mass destruction (“PF”) trends and risks and consider them as part of their risk assessment process.

The outcome of the Review indicated that Regulated Entities had comprehensive Business Risk Assessments, covering risks associated with key components such as Customer, Delivery Channels, Products/Services, Transactions and Justification risks. In some instances, it was observed that although some assessments covered inherent TF/PF risk factors, it did not comprehensively cover control effectiveness and mitigation measures in relation to TF and PF. Identified examples include, but is not limited to, the following:

- Risk assessment procedures did not take into consideration outputs from UAE’s National Risk Assessment, topical risk assessments, guidance and typologies circulated by the Supervisory Authorities and the EOCN.
- The outcomes of the TF/PF Risk Assessments are not fed into the Risk Appetite Statements (applicable for large Regulated Entities).
- The risk assessment is at times not granular and lacks quantitative components. It is also not updated on a continuous basis, and does not incorporate comprehensive Risk Mitigation measures, such as having the absence of controls testing to assess effectiveness in calculating the control score and having dedicated policies and procedures available to mitigate TF/PF risks, TFS training, internal controls, systems utilized for TF/PF checks and screening.
- The quality of the risk assessment is generally not detailed and comprehensive within the DNFBP sector.

Regulatory Expectations

- Regulated Entities are required to undertake and document an assessment of the likelihood of dealing with an individual or entity on a Sanctions list. This assessment should be derived from the UAE’s National Risk Assessment, Topical Risk Assessments, guidance and typologies circulated by the Supervisory Authorities and the EOCN.
- As part of the risk assessment process, Regulated Entities should develop and maintain a comprehensive written sanctions risk appetite approved by the senior management and embedded through policies, procedures, and screening systems parameterization.
- Regulated Entities should ensure that the risk assessment remains current and up to date based on changes (e.g. new product or services or the use of new delivery channel) to the business, and that comprehensive components pertinent to TF/PF

risk mitigation measures in line with the business nature and size are incorporated in the assessment.

- **Registration on EOCN Notification System**

Regulated Entities are required to register to the EOCN's website in order to receive notifications related to any new listing, re-listing, updating, or de-listing decisions issued by United Nations Security Council (UNSC) and UAE Supreme Council.

The outcome of the Review noted that all of Regulated Entities are aware of their obligation and had subscribed to receive updates from the EOCN. These Regulated Entities were able to demonstrate that they have subscribed directly with UN Security Council and/or have private subscription services to receive TFS -related updates. However, for large institutions in some instances did not have comprehensive list management processes to ensure they are screening the most up-to-date lists at all times. Further, regulated entities (who rely on third party list providers) did not also have robust validation processes in place to ensure new designations or recent updates are captured in the lists.

Regulatory Expectations

- Regulated Entities are required to register on the EOCN's website in order to receive notifications related to any new listing, re-listing, updating, or de-listing decisions issued by the UN Security Council, the UAE Supreme Council. This should be done at the time of licensing/registration and on an ongoing basis.
- Regulated Entities should ensure that their appointed Compliance officer is aware of the TFS registration obligation, and has subscribed to the EOCN Notification System. Regulated Entities should avoid using personal accounts, and rather register through official email addresses that represent the Regulated Entity.

- **Internal Controls – Policies and Procedures**

Regulated Entities are required to maintain appropriate policies and procedures to prevent funds or services from being made available to sanctioned individuals/entities. The policies and procedures must be driven by the outcome of the TF/PF risk assessment to ensure the risks are adequately mitigated.

The outcome of the Review noted that Regulated Entities maintain TFS policies and procedures. However, in several instances, these were deemed to be high level in nature and did not accurately reflect actual practices applied by the Regulated Entity. Some of the identified examples include, but are not limited to, the following:

- Regulated Entities did not have sufficient controls and oversight in place to ensure data quality and governance structures are embedded within a Sanction Compliance Program.

- Regulatory Entities do not have a documented and clear sanction related policies and procedures, including documented sanction screening methodologies for various systems and tools. As a result, there were instances whereby Regulated Entities:
 - Lack of comprehensive documentation on processes pertaining to sanction screening configurations, exclusions, whitelisting and testing periodicity;
 - Lack of coverage and exclusions that require management approval;
 - Weak procedures and governance around sanction screening filter tuning; and
 - Weak governance on the implementation of filtering new rules/ configuration.
- Regulated Entities internal procedures did not always document the requirement of maintaining a valid permit when dealing in the Export and Import of dual-use items before processing transactions or engaging in a business relationship.
- Particularly with DNFBPs, Regulated Entities did not always circulate related TFS policy and procedures to relevant employees.

Regulatory Expectations

- Regulated Entities are required to update their policy and procedures to ensure they comply with the TFS obligations set under Cabinet Decision 74 of 2020 Regarding Terrorism Lists Regulation and Implementation of UN Security Council Resolutions on the Suppression and Combating of Terrorism, Terrorist Financing, Countering the Proliferation of Weapons of Mass Destruction and its Financing and Relevant Resolutions. They should include at a minimum the following requirements:
 - Regulated Entities should ensure that data quality and governance structures are in place and embedded within a Sanction Compliance Program.
 - Regulated Entities must maintain documented policies and procedures, on sanction related obligations such as Fund Freezing Reports and Partial Name Match Reports. The procedures should also include sanction screening methodologies for payment/name screening/transaction systems (where applicable).
 - Regulated Entities must maintain clear procedures that outline screening trade transactions against the list of commodities and dual use goods subject to control, and procedures on screening processes for names of parties to any transactions (e.g., buyer, seller, agent, freight forwarder, etc.) and the use of alias. Regulated Entities must also document processes around blocking and rejecting transactions and customers appropriately.
 - TFS policy and procedures must be circulated to relevant staff, ensuring they are aware of the obligations through assessments and training.

- **TFS Screening System**

This section of the TFS Questionnaire covered TFS Screening implemented by Regulated Entities. In summary, it covered various screening systems, including

screening trade-based transactions that may involve dual-use goods against the UAE Control Lists.

The outcome of the Review noted that majority of Regulated Entities placed screening systems and conducted regular screening and reviews (including transaction screening) of their client databases against names on lists issued by the UN Security Council, the Sanctions Committee and the Local Terrorist Lists, and were immediately notified of any changes to such lists. However, based on the size and nature of the Regulated Entities, the effectiveness of the systems in place varied. . Some of the identified gaps include, but are not limited to, the following:

- Data quality issues pertaining to customer information.
- Ongoing enhancements are required on model monitoring, model validation, and model tuning.
- Where reliance is placed on system vendors, Regulated Entities need to understand the mechanism behind the thresholds and tuning.
- Transaction monitoring systems do not contain comprehensive red flags to detect terrorist financing, proliferation financing sanctions evasion and wire stripping.
- Documentation supporting the adjudication of alerts are at times generic and details of the underlying TF/PF risk is not determined.
- Lack of maintaining screening results for record keeping requirements
- In cases where manual processes are implemented, the process lacked proper documentation.
- Regulated Entities with manual processes do not have quality control checks performed, and thus could lead to human /operational errors.

Regulatory Expectations

- Regulated Entities are required to have effective screening systems appropriate to the nature, size and risk of their business and conduct quality control checks on a regular basis.
- Regulated Entities are required to screen their client database on an ongoing basis and immediately after lists are updated. They will need to consider associated parties, such as Directors and Beneficial Owners when conducting TFS checks. In addition, Regulated Entities are required to remain aware of dual-used goods lists issued by the EOCN.
- Regulated Entities are required to maintain a clear audit trail for any potential matches and are required to document the underlying TF/PF risks.
- Regulated Entities utilizing manual processes should ensure proper quality checks are performed to avoid errors.

• TFS Reporting

Regulated Entities have a requirement to implement freezing measures, without delay, if a customer is listed by the UN Consolidated List and UAE Local Terrorist List.

Subsequently, they are required to immediately notify the Supervisory Authority of action taken and provide information on the sanction person and/or entity.

To facilitate timely reporting, In August 2021, the Sub-Committee for Supervisory Authorities in the UAE (the UAE SCSA) issued a new Administrative Decision No. (1) of 2021 on 15 July 2021 titled: *Approving the immediate reporting mechanism for financial institutions and designated non-financial businesses and professions pursuant to Cabinet Resolution 74 of 2020 concerning terrorist lists, and the implementation of Security Council resolutions on the prevention and suppression of terrorism and terrorist financing and the prevention of the proliferation and financing of weapons, and related resolutions* (the Administrative Decision).

The Administrative Decision requires Regulated Entities to utilize the reporting mechanism on the goAML platform for the purposes of meeting their reporting obligations set out in Article 21(5) of UAE Federal Cabinet Decision No. (74) Of 2020 Regarding Terrorism Lists Regulation and Implementation of UN Security Council Resolutions. In particular, Regulated Entities must submit the following reports via the goAML platform: (1) Funds Freeze Reports; and (2) Partial Name Match Reports (the TFS Reports). The TFS Reports submitted via the goAML platform are received simultaneously by the EOCN and the relevant Supervisory Authority for each Regulated Entity.

In 2022, the EOCN and Supervisory Authorities received a total of 49 Funds Freeze Reports (FFRs) and 145 Partial Name Match Reports (PNMRs) from Regulated Entities. Based on the review of these reports, the EOCN noted that 24% of the FFRs and 27% of the PNMRs were incorrect reports. This is mainly due to Regulated Entities submitting TFS Reports for persons not on the UN Consolidated List and UAE Local Terrorist List (i.e. the reported persons match names on other sanctions lists (e.g. OFAC, UK HMT, EU) and positive screening results for non-related to TFS crimes. In addition, a number of submissions were made due to incomplete ID information of the beneficiary (non-client) on file.

In addition, the EOCN also observed that there is a lack of sufficient information submitted in FFRs and PNMRs. In some cases, the transaction amount is reported as "0" without any clear description of the action taken by the firm (e.g. rejected transaction, past engagement, temporarily suspended, etc.).

Regulatory Expectations

Regulated Entities are required to submit FFRs and PNMRs to report name matches on the UN Consolidated List and UAE Local Terrorist List. If Regulated Entities identify persons on other sanctions lists (e.g. OFAC, UK HMT, EU) or the persons appears in screening results for non-related TFS crimes (e.g. criminal charges brought in other countries), the firm should report these using an STR/SAR Forms.

Regulated Entities should also embed FFR and PNMR – and other related requirements in their Policies and Procedures, enabling them to verify the matches before submitting TFS Reports.

In the case where there is a partial name match, Regulated Entities should have procedures to manage the customer account and relationship post reporting.

- **TFS Training**

Regulated Entities are required to prepare and provide training covering TF and PF risks to all relevant Employees as appropriate and at regular intervals. The outcomes of the Review noted that majority of Regulated Entities have established training programs to its employees. However, there were instances identified where necessary trainings were not attended by the relevant employees. There were instances where the training did not include the latest regulatory requirements, nor recent international and local, as well as regulatory updates, to ensure employees are able to recognize red flags and sanctions evasion typologies.

Regulatory Expectations

Regulated Entities are required to have tailored TFS training programs, and must ensure mandatory attendance by all employees. Trainings must cover sanction-related requirements as reflected in the policies and procedures, TFS internal controls, and TF/PF threats, risks, vulnerabilities, and sanction evasion typologies.

The training program should be based on the Regulated Entity's risk profile (including outcomes of the TF/PF risk assessment and any audit/regulatory findings) and tailored to employees' specific roles. Training should be conducted on a frequent basis and training statistics should be a part of ongoing reporting to Senior Management.

Regulated Entities should also ensure all new employees and Senior Management undergo necessary TFS training as soon as reasonably practicable. Strict measures must be applied to those who fail to complete training. Ongoing training should be provided to all relevant employees and must be in line with regulatory requirements.

Supervisory Authorities expect relevant employees (i.e. Compliance, MLROs and employees within Sanctions units/departments, if applicable) to attend TFS training sessions held by the EOCN.

Next Steps

- Regulated Entities are expected to ensure they remediate the above observations and implement the necessary measures to strengthen their TFS framework before **31 July 2023**. Any follow up reviews that determine repeated findings, will be referred to Enforcement for immediate action.
- Regulated Entities should perform a self-review of their compliance against their TFS obligations. Where this self-review identifies any gaps, these should be reported along with a detailed Risk Mitigation Plan to the relevant Supervisory Authority no later than **15 June 2023**. Following this the Supervisory Authority may conduct a further sample to test the compliance in respect of the findings.
- Regulated Entities are encouraged to seek guidance from Supervisory Authorities on any areas of uncertainty regarding TFS requirements.
- Supervisory Authorities may take enforcement actions against Regulated Entities who fail to take adequate steps to address the identified weaknesses and gaps with the stipulated timeframes.

Sector	Supervisor	Contact Details
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Designated Non-Financial Businesses and Professions: UAE Dealers in Precious Metals and Stones UAE Real Estate UAE Auditors and Accounting UAE Trust and Company Service Providers	Ministry of Economy	AML@ECONOMY.AE
UAE Securities Sector	Securities and Commodity Authority	AMLTFC@SCA.AE
DFSA Relevant Persons (Authorized Firms, DNFBPs and Registered Auditors)	Dubai Financial Service Authority	Submit response via the DFSA eportal available on the DFSA's website.
ADGM Relevant Persons (Financial Institutions ("FIs"), Virtual Assets Service Providers (VASPs) and Designated Non-Financial Businesses and Professions ("DNFBPs"))	Financial Services Regulatory Authority-(FIs) Registration Authority (DNFBPs)	FCCP@adgm.com
Designated Non-Financial Businesses and Professions: Legal Sector	Ministry of Justice	gmofollow@moj.gov.ae

Appendix 1: Regulatory References

The thematic inspections on LFIs' and DNFBPs Targeted Financial Sanction were conducted based on the below:

1. Federal Law No. (13) of 2007 related to Commodities subjected to import and export control;
2. Federal Decree Law No. (20) of 2018 on Anti-Money Laundering and Combating the Financing of Terrorism and Financing of Illegal Organizations;
3. Cabinet Decision No 10 of 2019 - Concerning the implementing regulation of Decree Law no 20 of 2018 on Anti- Money Laundering and Combating the Financing of Terrorism and Illegal Organizations
4. Cabinet Decision No. 74 of 2020 - Regarding Terrorism Lists Regulation and Implementation of UN Security Council Resolutions on the Suppression and Combating of Terrorism, Terrorist Financing, Countering the Proliferation of Weapons of Mass Destruction and its Financing and Relevant Resolutions (Cabinet Decision 74)
5. Cabinet Resolution 50 of 2020 concerning the control list annexed to Federal Law 13 of 2007 related to Commodities subjected to import and export control;
6. Federal Decree No. 26 of 2021 on Anti-Money Laundering and Combating the Financing of Terrorism and Financing of Illegal Organizations; and
7. TFS relevant Rules, Notices and Guidance issued by the Supervisory Authorities and the Executive Office for Control and Non-Proliferation.