

GUIDELINES ON TARGETED FINANCIAL SANCTIONS (TFS)



**GUIDELINES
ON TARGETED
FINANCIAL
SANCTIONS**

**FOR SAFA MEMBER
BODIES**



MESSAGE FROM PRESIDENT

SOUTH ASIAN FEDERATION OF ACCOUNTANTS (SAFA)



I am pleased to share an important development in our ongoing efforts to impart awareness among the member bodies regarding important subject and one of them is the Anti-Money Laundering. The SAFA Anti Money Laundering Committee has taken a significant stride in its commitment to promoting a secure and transparent financial system within the South Asian region. I am delighted to announce the completion of the Guidance on Targeted Financial Sanctions.

This comprehensive guidance serves as a valuable resource for accounting professionals, regulators, and stakeholders involved in combating money laundering, terrorist financing, and other illicit activities. It provides clear and practical instructions on the implementation of targeted financial sanctions in accordance with international standards and best practices.

By adopting this guidance, our regional countries will be better equipped to identify, prevent, and disrupt the flow of illicit funds, thereby safeguarding the integrity of our financial systems and contributing to global efforts in countering financial crimes.

I would like to extend my sincere appreciation to the Chairman SAFA AML Committee, Mr. Khalid Rahman and all members of the committee for their unwavering dedication and expertise in developing this guidance. Their tireless efforts reflect SAFA's commitment to promoting professional excellence and integrity across the South Asian region.

I encourage all stakeholders to utilize this guidance effectively, ensuring its widespread adoption and implementation in our respective countries. Together, we can create a robust and resilient financial environment that fosters trust, transparency, and economic growth.

Thank you for your continued support and dedication to upholding the highest standards of professionalism and integrity.

CA. Nihar N Jambusaria
President

South Asian Federation of Accountants (SAFA)

MESSAGE FROM CHAIRMAN

SAFA COMMITTEE ON ANTI – MONEY LAUNDERING

I am pleased to share the comprehensive document on “Guidelines on Targeted Financial Sanctions (TFS) for the member countries of South Asian Federation of Accountants (SAFA).

This document includes the FATF Recommendations related to Sanctions screening and the suggested processes by which the Accountants of the member bodies can ensure compliance of this very important aspect under the overall AML / CFT Regime.

The member countries are required to effectively implement the FATF recommendations (commonly known as FATF Standards on AML / CFT). These standards set out a comprehensive and consistent framework of measures which countries should implement in order to combat money laundering and terrorist financing, as well as the financing of proliferation of weapons of mass destruction.

This comprehensive document will help the member bodies in understanding the obligations of TFS under the FATF Regime and it is hoped that the member bodies of SAFA will strive to ensure compliance of the FATF recommendations in order to fight the menace of Money Laundering and Terrorism Financing and to strengthen the compliance regime of the entire region.

I would like to acknowledge the cooperation of the Committee members in providing Rules and Regulations related to AML / CFT applicable in their respective countries. Also, I would like to appreciate the efforts of Mr. Raheel Rehman, Secretary SAFA AML Committee in formulation of this comprehensive guideline.



Khalid Rahman, FCA
Chairman – SAFA Committee on AML



PURPOSE

- 1) TFS Guidance on Sanctions Screening aims to aid Reporting Entities (REs) to understand their obligations with respect to TFS. The guidance sets out sanctions screening as a control, the fundamentals of which are derived from legal / regulatory requirements and expectations, as well as international best practices.
- 2) Sanctions are prohibitions and restrictions put in place with the aim of maintaining or restoring international peace and security. They generally target specific individuals, entities, particular sectors, industries or interests. They may be aimed at certain people and targets in a particular country or territory, or some organization or element within them.

LEGAL OBLIGATION

- 3) The South Asian countries are under legal obligation to implement the FATF Recommendations on TFS, on account of being a responsible member of the United Nations.
- 4) In order to combat terrorist financing and fulfill its obligations, these countries rely on a number of legal provisions contained in the Laws and Regulations related to Anti-Money Laundering. These provisions vary from proscription of organizations and persons, freezing and seizure of assets, etc., to criminalizing different forms of terrorist financing and other required measures.

IMPLEMENTATION OF TFS OBLIGATIONS

- 5) The FATF Recommendations require Reporting Entities not to form business relationship with the individuals / entities and their associates that are sanctioned under United Nations Security Council (UNSC) Resolutions adopted by South Asian Countries.
- 6) The relevant authorities of Countries should issue Statutory Instructions to provide legal cover for implementing sanction measures under UNSC resolutions. These instructions shall be in respect of designated individuals / entities require assets freeze (including funds and other financial assets or economic resources), travel ban and arms embargo, in addition to other measures in accordance with the UNSC resolutions.

ACTIONS TO BE TAKEN BY REPORTING ENTITY

- 7) Each RE is required to immediately scan its customer data bases and their Beneficial Owners' associates for any matches with the stated designated person(s) / entity(ies) on the receipt of Statutory Instructions; issued by the relevant authorities on United Nations Security Council Resolutions.
- 8) On the basis of Due Diligence, RE may take a review of Risk Category Allotted to Customer. As per revised Risk Category, the monitoring and further Due Diligence process could be conducted.



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- 9) In case of a true match or suspicion of a designated person, following actions have to be taken immediately by Reporting Entities;
 - a) If it is an existing customer / client or a beneficial owner of customer / client, freeze without delay the customer's fund and other financial assets or economic resources or block the transaction, without prior notice;
 - b) Not provide any services or funds to the designated person in accordance with the respective notification;
 - c) Reject the transaction or attempted transaction or the onboarding of the customer, if the relationship has not commenced;
 - d) Lodge a STR / SAR with the Financial Intelligence Unit (FIU)
 - 10) Reporting Entity must ascertain potential matches with the UN Consolidated List to confirm whether they are true matches to eliminate any "false positives". The reporting entity must make further enquiries from the client or counter – party (where relevant) to assist in determining whether it is a true match. In case there is substantial match, and there are sufficient grounds for suspicion that the customer / funds belong to sanctioned entity / individual, the REs may, after conducting an internal enquiry, consider raising a STR / SAR to FIU.

False Positives –

If your reporting entity is undertaking the screening on a manual basis, there should be no or very few false positives. If you have a substantial match with names, date of birth and location, then it is a true match from your reporting entity's perspective. They should be reported and transactions frozen, or customer rejected. The authorities will have more information to determine whether it is a true match from their perspective. It is not uncommon for the same name and date of birth to be identified, and then authorities conclude that it is not the person listed in the sanctions list.

If your reporting entity is using an automatic screening service, and depending on the sophistication of the screening service, false positives will be very common. The reason is some of those screening systems are configured to generate a "match" based purely on name or part name match, and not on all of the identifiers e.g. name, date of birth, address or geographic region. If the electronic system produces a match, the reporting firm will need to check manually whether it is a true match or a false match by reviewing all the identifiers.

- 11) Reporting entities shall make their sanctions compliance program an integral part of their overall AML / CFT compliance program, and accordingly should have policies, procedures, systems and controls in place w.r.t to sanctions compliance. REs shall provide adequate sanctions related training to their staff. When conducting risk assessments, REs shall, take into account any sanctions that may apply (to customers or countries).
- 12) REs should not provide any services to designated entities and individuals or their associated persons, as the case may be. For this purpose, necessary measures should be taken including but not limited to the following controls:
 - a) In case of entity, it should be ensured that its beneficial owners, directors, members, trustees and authorized signatories are not linked with any designated entities and individuals (included in the sanction lists), whether under the same name or with a different name.



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- b) The association of individuals / entities with designated entities and individuals may be determined on the basis of appropriate screening of sanctions lists, publicly known information or linkages.
 - c) While establishing new business relationship or extending services to customers, any similarity between the identifying information of the customer and that of designated entities and individuals including national identification number, address, etc. may be viewed properly and investigated for necessary action as per requirements.
 - d) REs should monitor their relationships on a continuous basis. If any relationship with the designated entity / individual is found, immediate action shall be taken as per the applicable legislations, including reporting to the FIU.
 - e) REs shall maintain up to date data / MIS of all frozen assets / funds, attempted or rejected transactions, and the same shall be made available to Regulators as and when required.
- 13) REs shall, after due consideration of circumstances where customers and transactions are more vulnerable to be involved in TF and PF activities, identify high-risk customers and transactions and apply enhanced scrutiny. RE shall carry out checks on the names of potential and new customers, as well as regular checks (under a defined frequency) on the names of existing customers, beneficial owners, transactions, and other relevant parties against the names in the abovementioned lists, to determine if the business relationship involves any sanctioned person / entity, or person associated with a sanctioned person / entity / country. This check to be carried out especially when there is change in particulars of any sanctioned person/entity or there is a new entry in the Sanctions list.
 - 14) In the Customer Identification Policy, RE may identify the notified activities and related business with High Risk Category which shall be monitored for Due Diligence with Shorter Periodicity and scanning those customers with list provided by legal authorities.
 - 15) In case of or suspicion of a designated person, the RE may make discreet inquiries for gathering relevant information and following actions may be taken immediately by Reporting Entities;
 - As prescribed under the laws of the land, RE is to inform full details to the concerned government authority.
 - On receipt of an order, in respect of the concerned customer, issued by the competent government authority for freezing of the asset, RE to make a note of it and freeze the assets immediately.
 - In case the concerned government authority, based on verification, advises the RE that the customer or the beneficial owner is not the designated person, the RE to immediately unfreeze the assets.
 - In case of unfreezing order from the concerned government authorities, seek guidance from the concerned government authorities.
 - 16) For effective monitoring, REs should endeavour to identify properly all beneficial owners of customers, obtain essential identifying information about them, and maintain this in their customer-databases. Such details should be updated, periodically as per the legal position in the Country, and whenever there are any triggers for suspicion, RE may take steps as mentioned in above Section. 15.
 - 17) Sanctions' compliance to be part of entire AML/CFT Framework of the Reporting entity.



DISCLAIMER:

- 18) All reasonable care has been taken in the preparation of this Guideline document, but it necessarily contains information in summary form and is therefore intended for general guidance only. The publication does not amend or override, and it is not intended to be a substitute for reading the Laws, Regulations and guidance issued in SAFA Countries as well as by the United Nations.
- 19) A person should utilize his / her professional judgment and the facts and circumstances involved in each particular case. The information presented in this Guideline document should not be construed as legal, auditing, or any other professional advice or service. The preparer of this document do not accept any liability to any party for any loss, damage or costs howsoever arising, whether directly or indirectly, whether in contract, or otherwise from any action or decision taken (or not taken) as a result of any person relying on or otherwise using this document or arising from any omission from it.

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GLOSSARY

TFS	Targeted Financial Sanctions
RE	Reporting Entities
FATF	Financial Action Task Force
STR / SAR	Suspicious Transactions Reports / Suspicious Activity Reports
FIU	Financial Intelligence Unit
AML	Anti – Money Laundering
CFT	Countering Financing of Terrorism
TF	Terrorist Financing
PF	Proliferation Financing

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