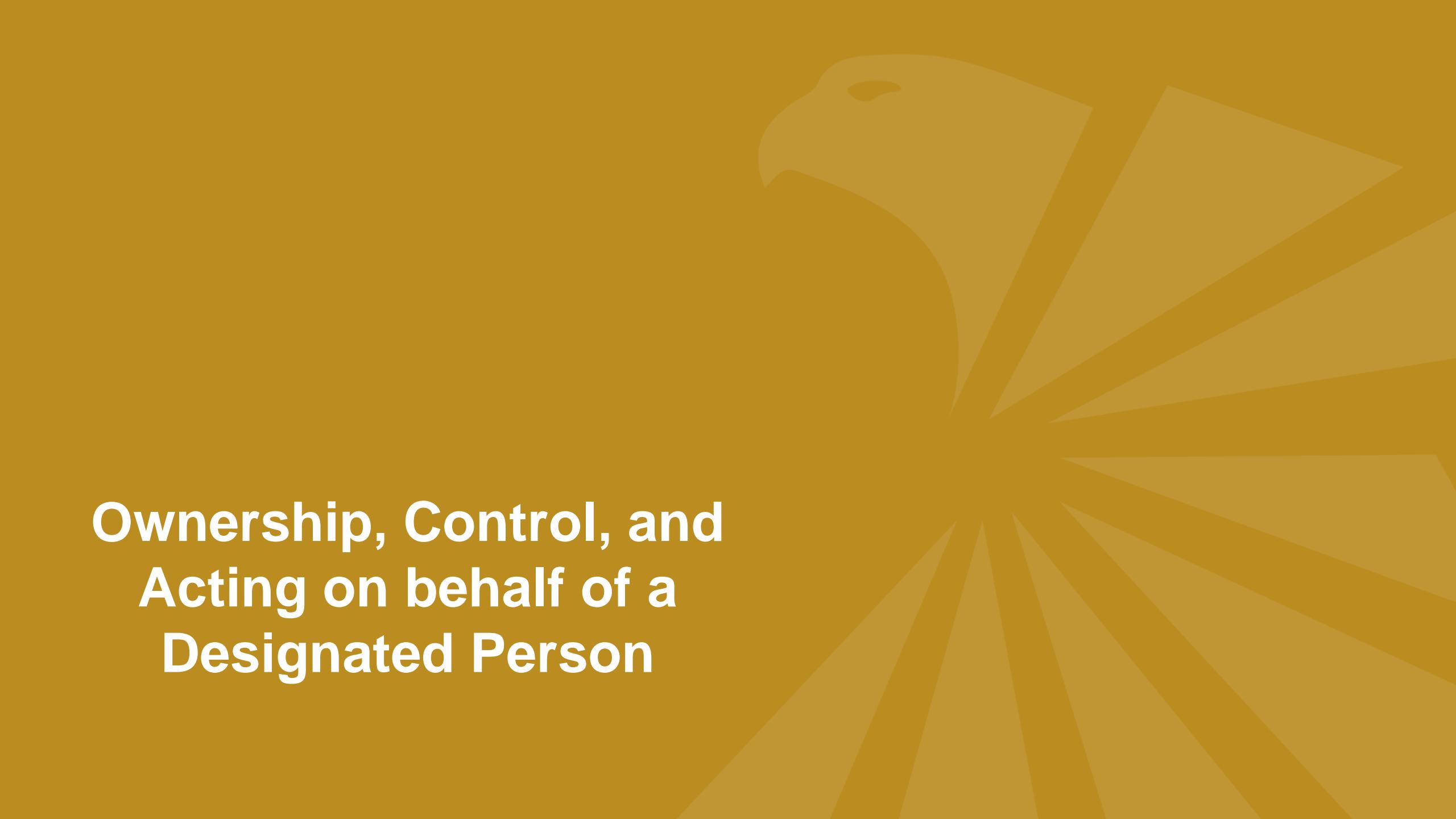




Considerations for Monitoring Customers and Transactions – UBO

11 July 2024



Ownership, Control, and Acting on behalf of a Designated Person



Cabinet Decision 74 of 2020 enforce the following:

UAE Terrorist List

UN Consolidated List

TFS measures apply to:

- a) Any Person (natural or legal) designated in these lists.
- b) Any entity, directly or indirectly **owned or controlled by** an Person designated under a.
- c) Any Person **acting on behalf of or at the direction of** any Person designated under a & b.



Majority Interest (Ownership)

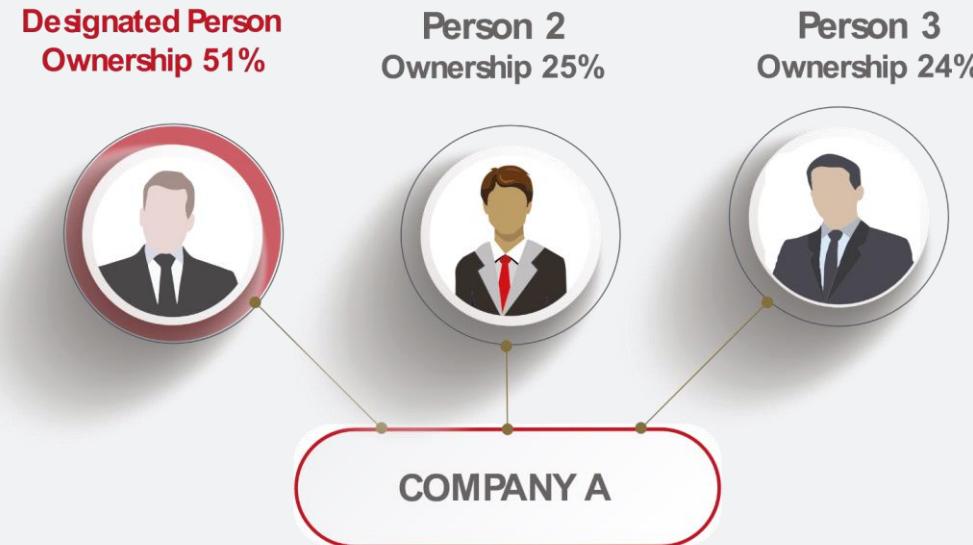
- In implementing TFS, the criterion to be taken into account:



- When assessing whether a legal entity is majority owned by a designated individual or entity is the possession of more than 50% of the proprietary rights of the legal entity or having a controlling interest in it.
- If this criterion is satisfied, it is considered that the legal entity or arrangement is owned by another individual or entity and is **subject to freezing measures**.



Majority Interest (Ownership) - Example



Action

- The funds or other assets of non-designated Company A must be frozen without delay since the Designated Person owns more than 50% of non-designated Company A.
- Other than the assets of Company A, the funds or other assets of the two non-designated owners (Person 2 and 3) must not be frozen since they are not designated and there is no legal evidence to suggest that they are acting on behalf of the Designated Person.



Minority Interest (Ownership)

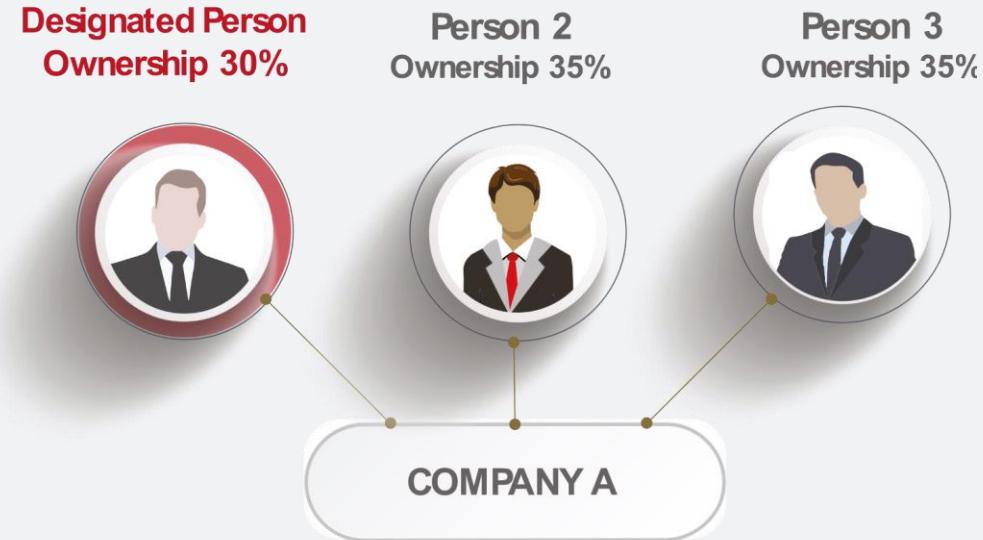
- In implementing TFS, the criterion to be taken into account:



- A designated person holding 50% or less of the proprietary rights of a legal entity is considered to be holding a minority interest in the legal entity. **In that case, the legal entity is not subject to freezing measures.**
- However, FIs, DNFBPs, and VASPs must remain attentive to any changes in the ownership structure of the legal entity whereby the designated person's stake increases to greater than 50% or if they obtain a controlling interest.
- FIs, DNFBPs, and VASPs must also ensure that funds or other assets (e.g. profits, proceeds from sale of assets, etc.) due to the designated person are subject to freezing measures and are not made available under any circumstances.



Minority Interest (Ownership) - Example



Action

- The funds or other assets of non-designated Company A must not be frozen since the Designated Person owns less than 50% of non-designated Company A and does not hold a majority interest.
- Any funds or other assets due to the Designated Person as a result of owning 30% of Company A must be subject to freezing measures.
- The funds or other assets of the two other owners must not be frozen since they are not designated and there is no legal evidence to suggest that they are acting on behalf of the Designated Person.
- However, extreme vigilance is required to monitor any changes in the ownership structure in which Person A's stake in Company A increases to above 50% or if he obtains a majority interest.



Control

- FIIs, DNFBPs, and VASPs should apply freezing measures in cases in which a designated person holds a minority interest, **if there is evidence that the designated person exerts control over the legal entity (despite owning a minority interest).**
- The criteria to be taken into account when assessing whether a legal entity is mainly controlled by another person or entity, alone or pursuant to an agreement with another shareholder or other third party, could be any of the following:

Having the right to appoint or remove a majority of the members of the administrative or management body.

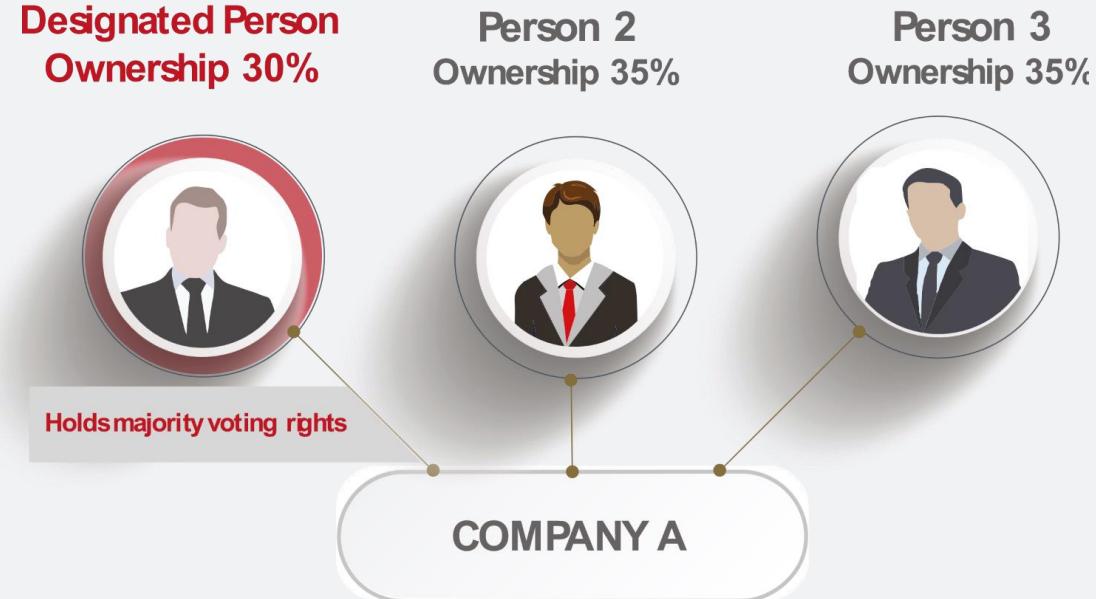
Controlling the majority voting rights in a legal entity pursuant to an agreement with shareholders.

Having a power of attorney or authorized signatory arrangement over a legal entity.

Having the right to exercise a dominant influence over a legal person pursuant to an article in the Memorandum or Articles of Association.



Control - Example



Action

- Despite the Designated Person holding a minority interest, the funds or other assets of Company A must be frozen without delay since the signed agreement between the Designated Person and the other owners proves that Person A exerts control over Company A by holding majority of the voting rights.

Strategic Review



Strategic Review for TFS



The document:

- Covers the period from 2019 – 2023
- Review 33 cases collected
- Understanding of:
 - Most common methods and instruments
 - Sources of information
 - Suspicions that result in cases related to TFS
- Studying changes in sanctions evasion patterns across the years



Strategic Review – TF Typologies

(2019 – 2021)

- Smuggling of Gold
- Using third party or family member
- The Misuse of NPOs
- Forged Documents and Bills
- Using Front Companies

(2022 – 2023)

- Front Companies for TF Activities
- High Volume Transfer to High-Risk Jurisdiction



Strategic Review – PF Typologies

(2019 – 2021)

- Abusing financial System
- Shipment of Dual use item
- Using Front Companies

(2022 – 2023)

- Oil Trade and using front companies
- Forged Documents and Bills

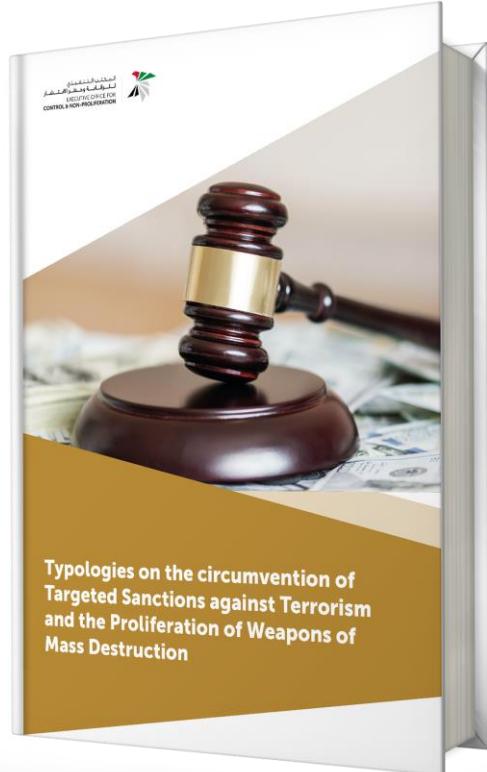
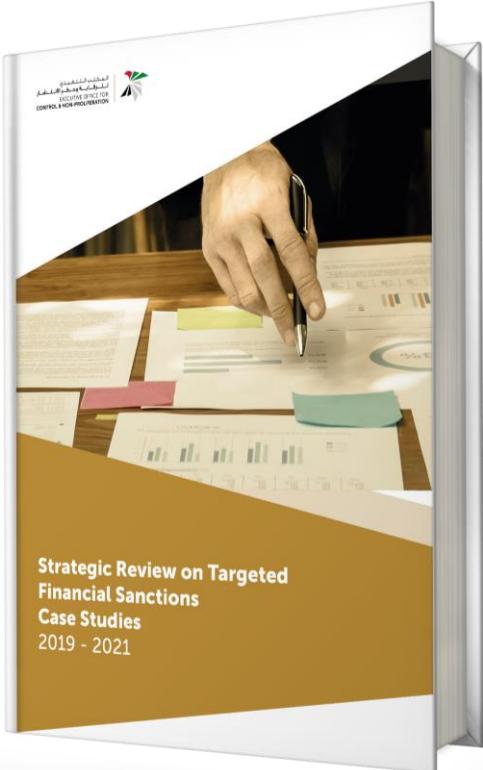


Recommendations

- The FIs, DNFBPs and VASPs to **reflect the results** of the document into their consideration while updating their internal policies, procedure, controls and training plans.
- The FIs, DNFBPs and VASPs should conduct their institutional TF/PF risk assessments to understand, **identify** and **mitigate** their inherent risks while also taking into consideration the national risk assessments and the findings of this document.
- The FIs, DNFBPs and VASPs should conduct **enhanced due diligence** to the **cross-border trade finance transactions** related to high-risk jurisdictions that have **weak export control regulations**.
- The FIs, DNFBPs and VASPs should **promptly report** instances on sanction evasion and TF/PF activities identified to the **FIU** by using the associated Reasons for Reporting (RFRs) within the GoAML platform.



Other Publications



- For Further clarification, you can refer to EOCN publications such as Typologies documents, Strategic Review documents, and other valuable resources.

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EXECUTIVE OFFICE FOR
CONTROL & NON-PROLIFERATION



CONTACT US: TFS@EOCN.GOV.AE



Considerations for monitoring customers and transactions - UBO

11 July 2024

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Pekka Dare
President ICA



Pekka Dare



The BIG
Compliance
Conversation





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Obligations for FIs, DNFBPs & VASPs

Customer Due Diligence

FATF Recommendation 10:

- a) Identify & Verify
- b) Beneficial Ownership
- c) Nature of Relationship
- d) Ongoing



What can you do?

FATF Recommendation 10:

- a) Identify & Verify
- b) Beneficial Ownership
- c) Nature of Relationship
- d) Ongoing



EOCN to cover UAE requirements as per the Guidance

Drivers for Understanding Ownership and Control

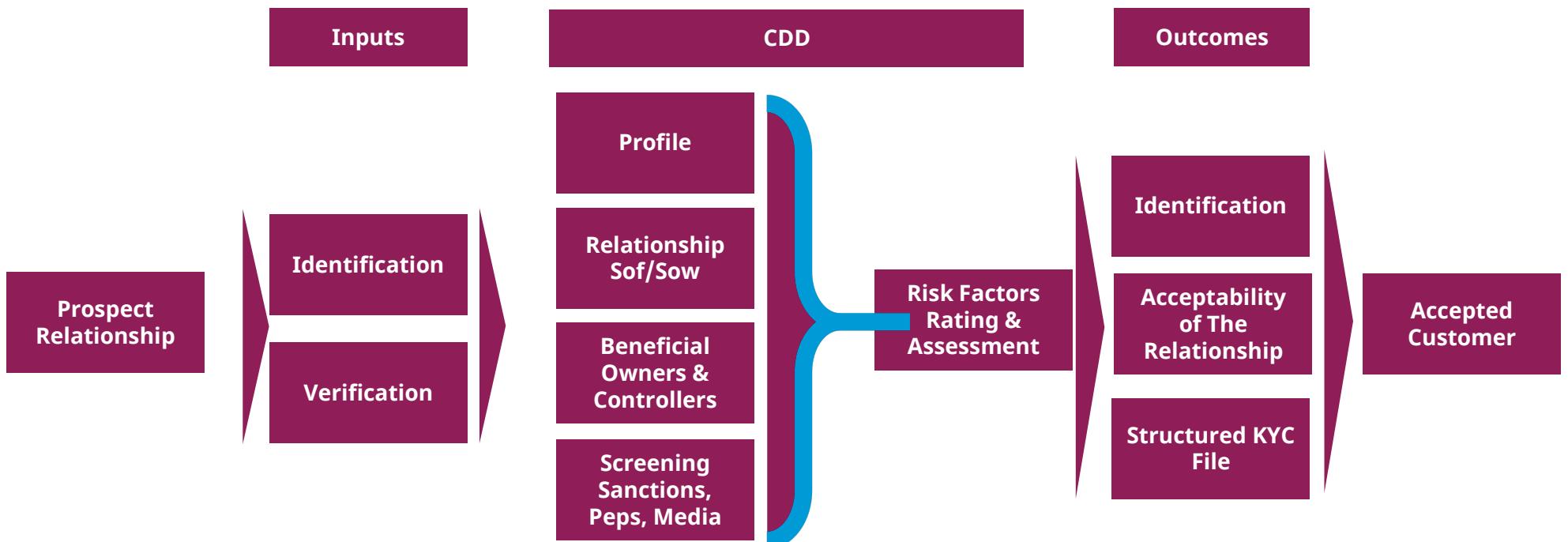


Regulatory Drivers

- AML/CTF
- Sanctions
- Counter Proliferation Finance
- Tax
- Conduct of Business
- ESG Compliance



The CDD 'Journey'



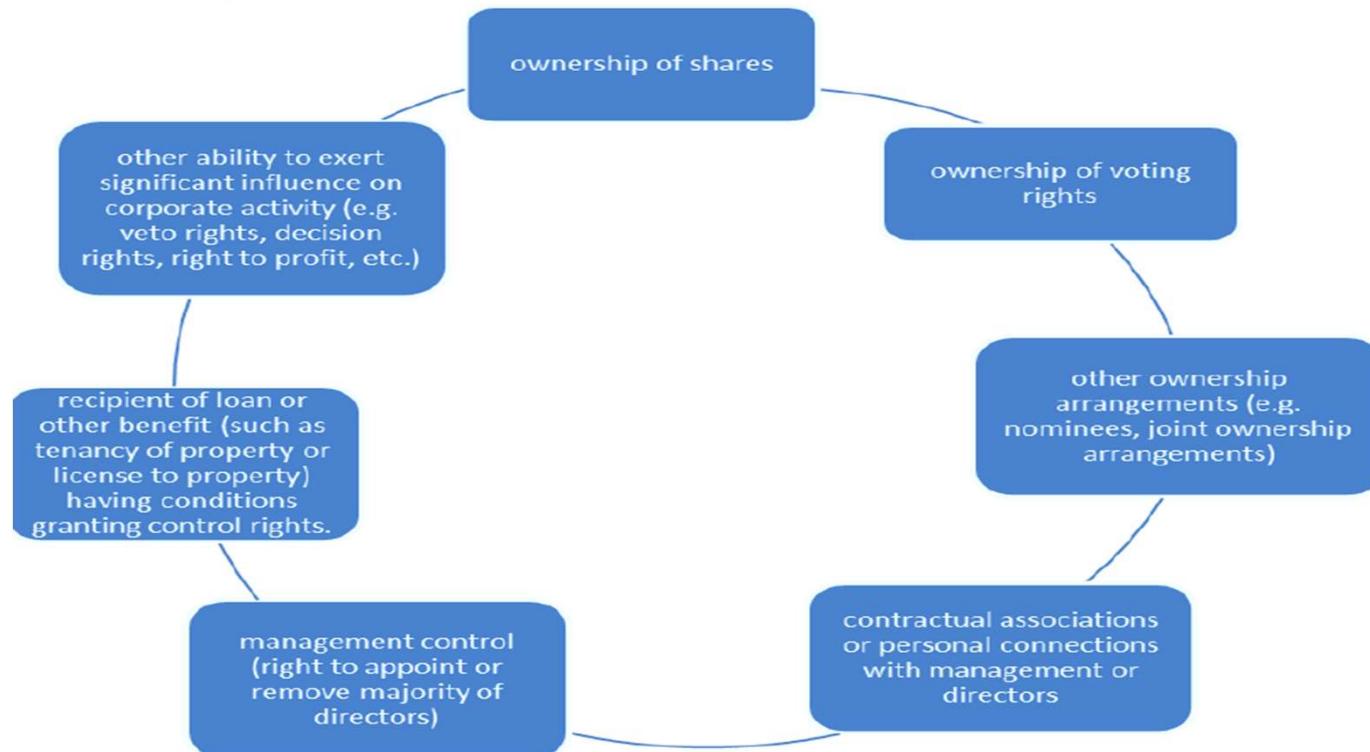
Beneficial Ownership

Natural person(s) who ultimately **own(s) or control(s)** a customer and/or the natural person on whose behalf a transaction is being conducted. It also includes those persons who exercise ultimate effective control over a legal person or arrangement.



Direct and Indirect Ownership & Control

Figure 3. Forms of Direct and Indirect Ownership and Control

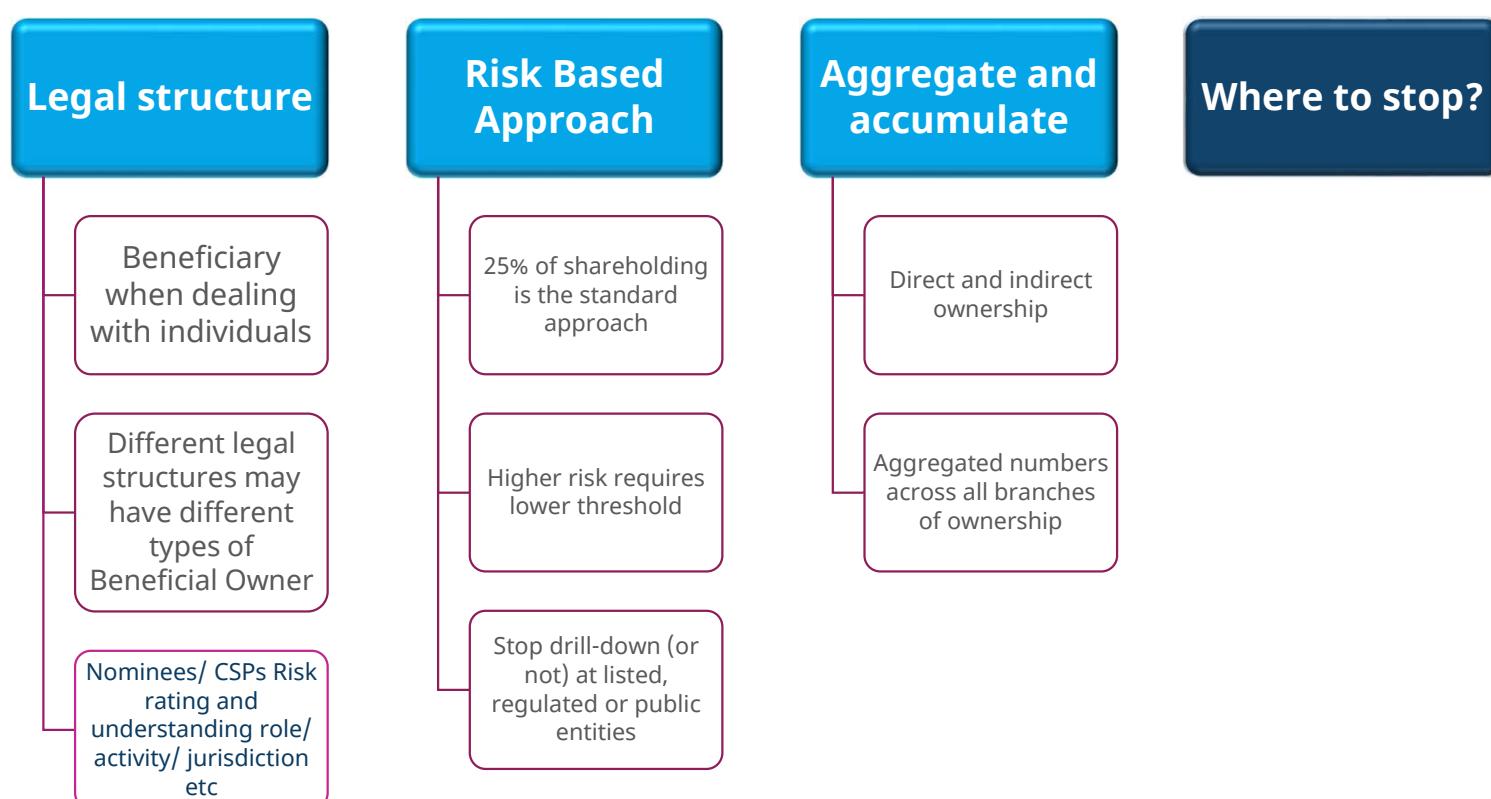


https://publications.iadb.org/en/publications/english/viewer/A_Beneficial_Ownership_Implementation_Toolkit_en_en.pdf

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Beneficial Owner: Considerations



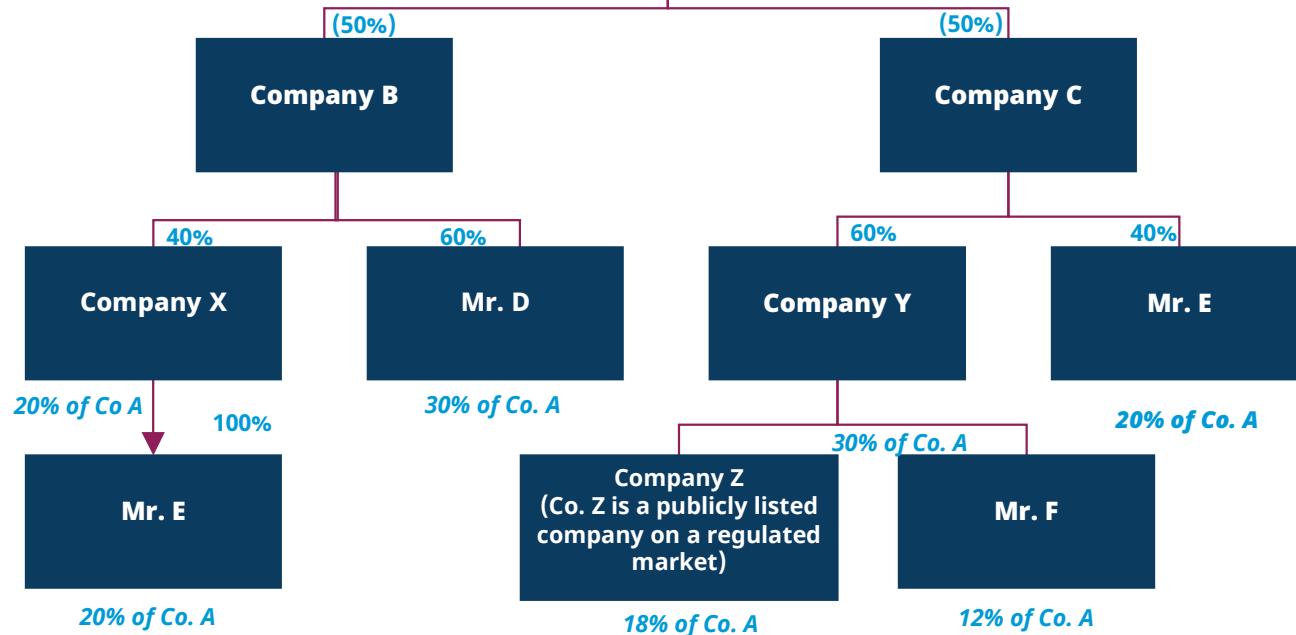
Legal Persons & Complex Structures

- Identifying the UBO



Question (5 mins):
Who is the UBO for Company A?

Private Company A
is our direct
customer/original
applicant



Select one of
the following:

- A) Company X
- B) Company Y
- C) Company Z
- D) Mr D
- E) Mr E
- F) Mr F



Multiple Choice

Share your answers via <https://www.classpoint.app/join> or chat



Customer Risk - Legal Persons

ML/TF Risks & Vulnerabilities

- Complex structures / shareholding
- Use of nominees – directors & shareholders
- Trading companies
- Bearer share companies
- Holding and investment companies
- Shell/tax haven companies – physical presence?
- Mismatched business profile
- Use of similar name entities

Question (5 mins):

Who potentially can be nominee directors or nominee shareholders?

SECRECY FOR SALE: INSIDE THE GLOBAL OFFSHORE MONEY MAZE

Meet the Queen of Nevis

By James Ball | November 25, 2012, 2:30 pm



The Nevis home of Sarah Petre-Mears (inset), nominee director of more than 1,200 companies. Photo: James Ball

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Individuals with effective control

- Aggregated ownership
- Ownership below threshold
- Nominees/ CSPs how to assess risk?
- Family members & close associates
- Historical founder
- Head of decision-making body in a parent company



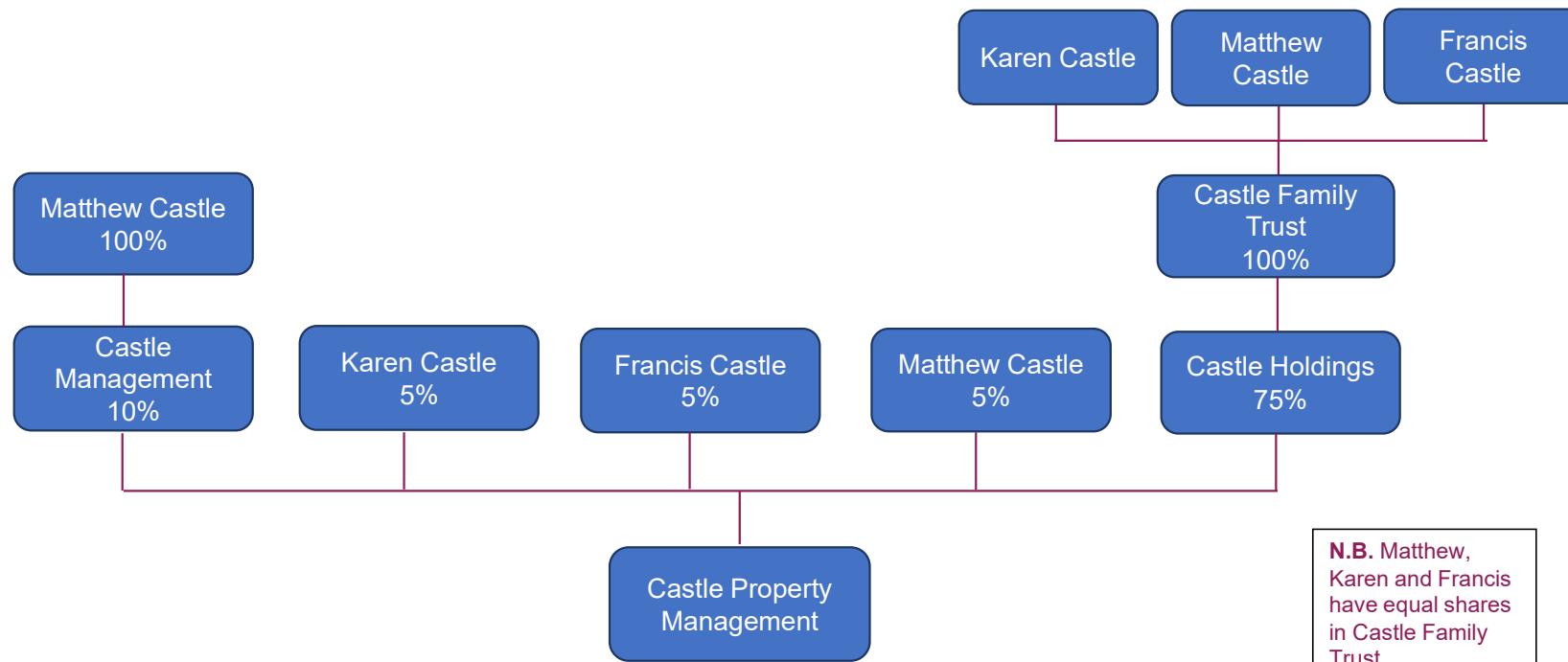
Rules for Controllers

pre-
accepted
rules. noun
set of ex-
principles

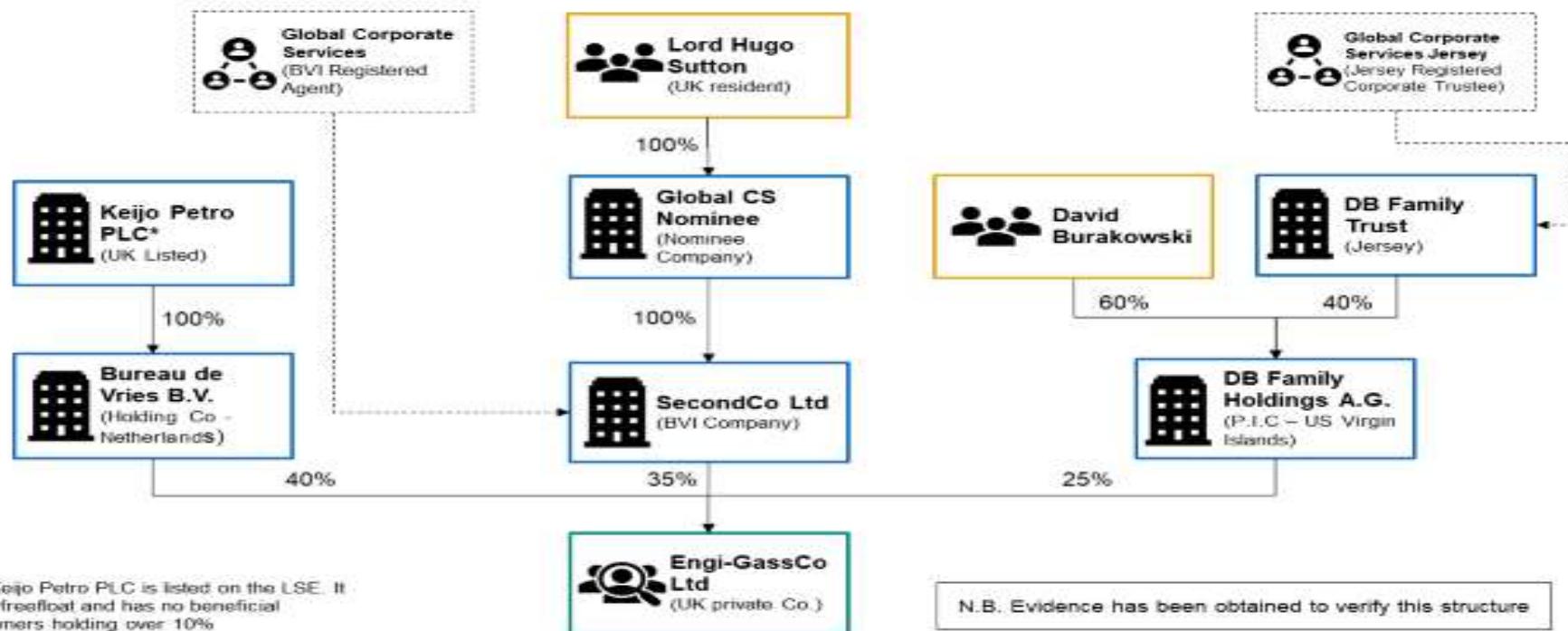
- There is always at least **one** controller to identify
- First unwrap the **ownership chain**
- In the absence of a parent company in the ownership structure, **beneficial owners** are the next party to investigate
- **Active vs Passive** controllers
- Private persons can exercise control **through multiple ownerships and control points**
- Look for **by who** and **how** the customer's affairs are being controlled



Understanding Ownership & Control- Simple or Complex?



Case Study- Effective control?

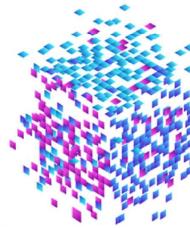
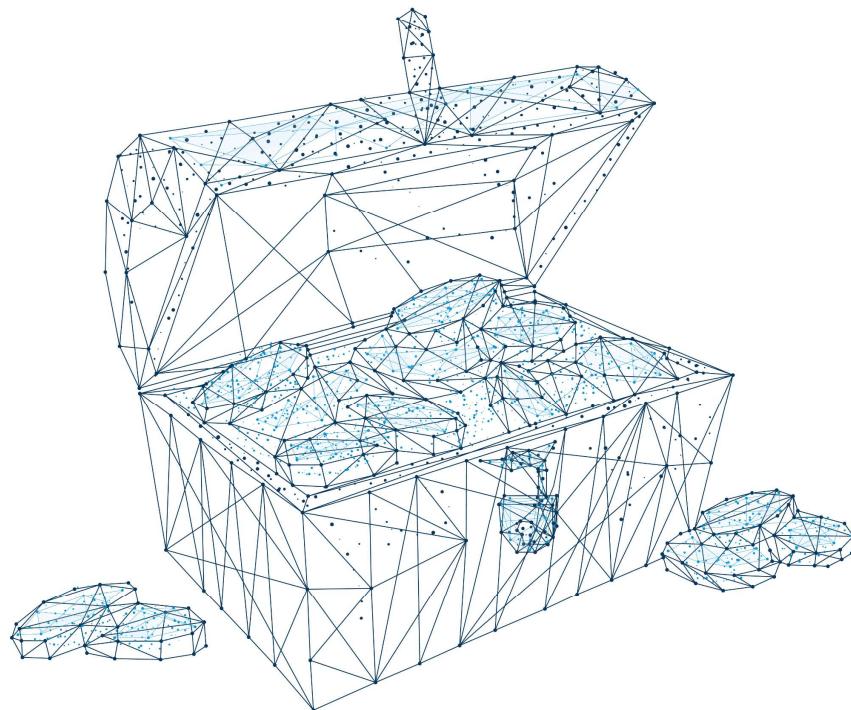


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The Pandora Papers



What do the Pandora Papers reveal



2.9 tera bytes of data within...

**11.9 million documents
contain sensitive financial
and legal information from...**



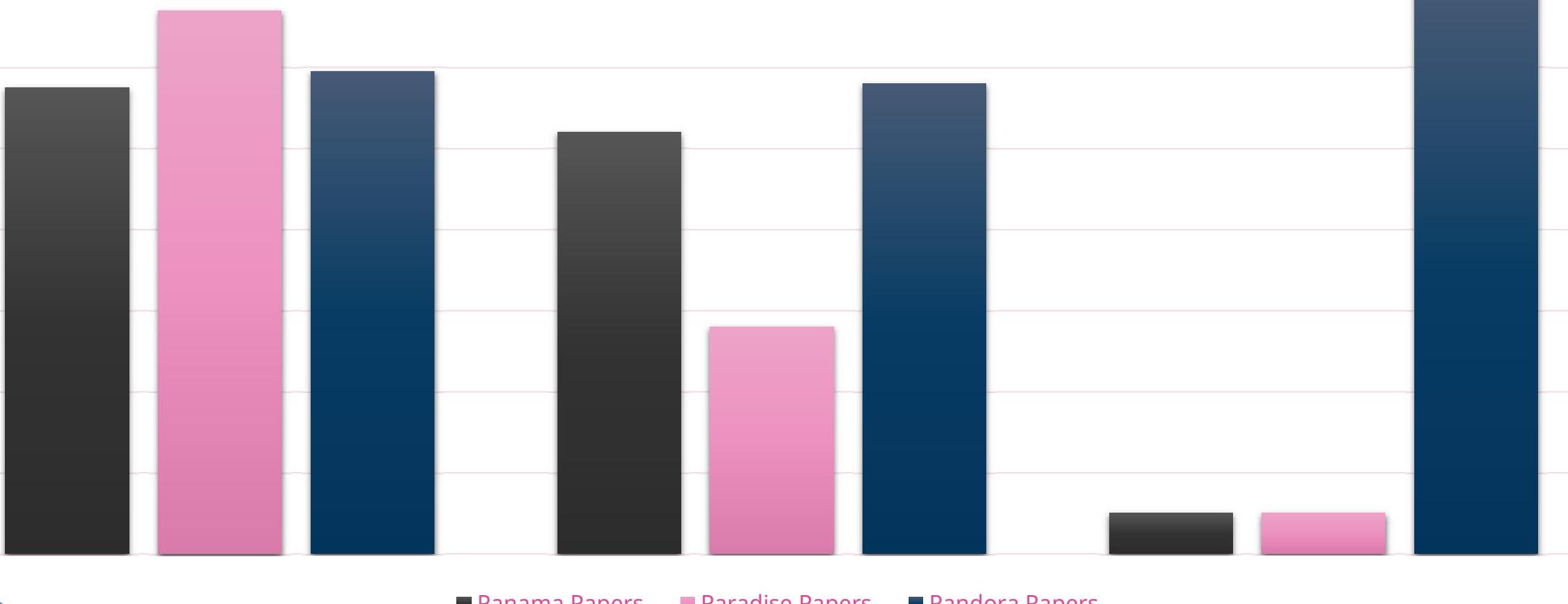
**14 corporate service
providers (CSPs).**

Panama, Paradise, Pandora Papers

Documents

Volume Data

CSPs



■ Panama Papers ■ Paradise Papers ■ Pandora Papers



Provider	Records	Founding Office Location	
All About Offshore Limited	270,328	Seychelles	
Alemán, Cordero, Galindo & Lee	2,185,783	Panama	
Alpha Consulting Limited	823,305	Seychelles	
Asiaciti Trust Asia Limited	1,800,650	Hong Kong	
CCS Trust Limited	149,378	Belize	
CIL Trust International	459,476	Belize	
Commence Overseas Limited	8,661	British Virgin Islands	
Demetrios A. Demetriades LLC	469,184	Cyprus	
Fidelity Corporate Services Limited	213,733	British Virgin Islands	
Glenn D. Godfrey and Company LLP	189,907	Belize	
Il Shin	1,575,840	Hong Kong	
Overseas Management Company Inc	190,477	Panama	
SFM Corporate Services	191,623	Switzerland, United Arab Emirates	
Trident Trust Company Limited	3,375,331	British Virgin Islands	

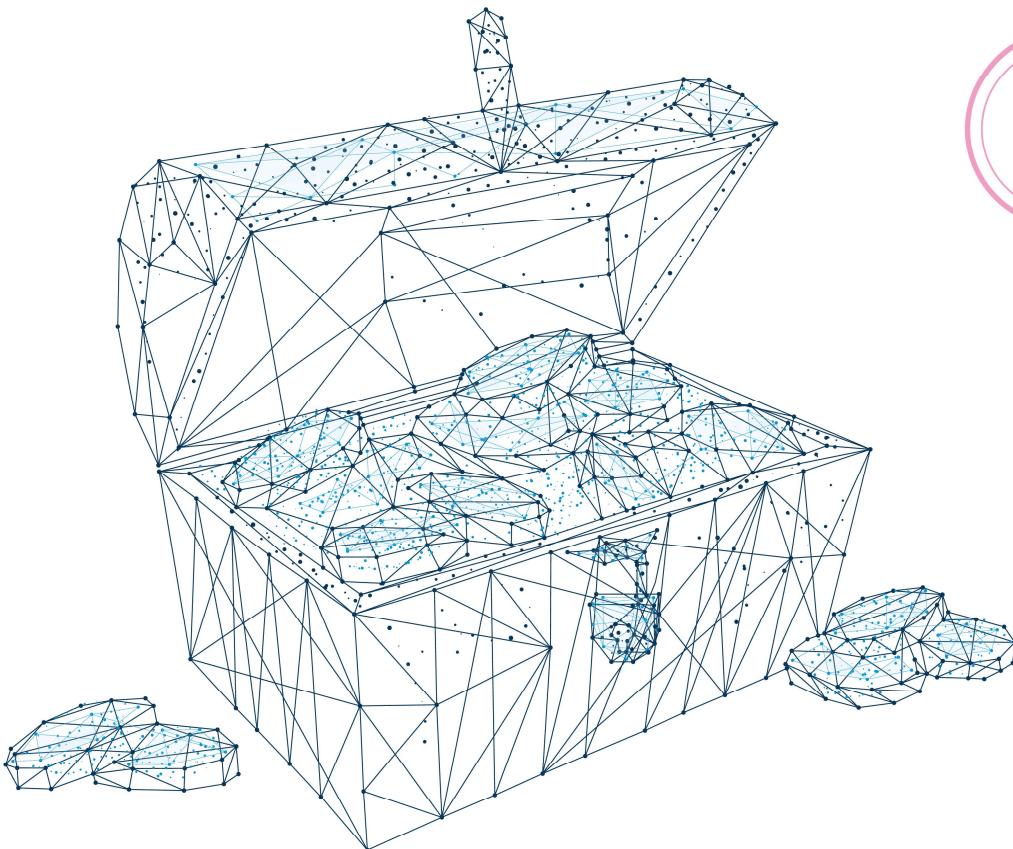
Source: OCCRP



\$ \$ \$ \$
CRIME



What's happening in response to the problem of concealed beneficial ownership?



2013

The G8 summit committed to a common set of principles that would increase tax and beneficial ownership transparency

2014

The Financial Action Task Force published a report showing how companies and other legal arrangements have been misused

2018

The EU 5th Anti Money Laundering Directive required EU member states to establish beneficial ownership registers

2021

In June, G7 Finance Ministers committed to strengthen national registers of beneficial ownership



Five Key Fixes:

- Make beneficial ownership registers a requirement
- Clearly define 'beneficial ownership'
- Require independent verification
- Increase ownership transparency on foreign companies
- Close loopholes: bearer shares and nominees

Typology 1: Shell Companies

- Used to obscure BO, providing a layer of anonymity for the true owners. These entities typically have no significant operations or assets, **existing primarily on paper**. By establishing a network of interconnected shell companies across various jurisdictions, the actual owner can hide their identity behind multiple layers of legal entities.
- This complex web makes it challenging for investigators to trace the ownership chain back to the UBO. The use of shell companies is prevalent in money laundering schemes, where illicit funds are funneled through these entities to mask their origin and integrate them into the financial system. By operating in **jurisdictions with lax corporate governance and reporting requirements**, these structures exploit regulatory gaps to facilitate anonymity.

Typology 2: Trusts and Nominee Arrangements

- A sophisticated method for concealing BO. In a trust, assets are transferred to a trustee who manages them on behalf of beneficiaries. The **trust structure can be designed to obscure the identity of the real owners**, especially when the trustee is in a different jurisdiction with stringent privacy laws.
- This separation between legal ownership and beneficial interest complicates efforts to identify the actual owners of the assets.
- **Nominee arrangements involve appointing individuals or entities to act on behalf of the true owners.** Nominee directors, shareholders, or officers are often used to represent the company in official records, while the **real decision-makers remain hidden**. This typology is particularly effective in countries with limited requirements for disclosure of nominee arrangements.

Typology 3: Complex Corporate Structures and Offshore Entities

- Complex corporate structures involving multiple layers of companies across various jurisdictions are frequently employed to conceal beneficial ownership. By establishing subsidiaries, affiliates, and holding companies in different countries, the true owners can create a labyrinthine network that obfuscates their identity. These structures often involve the use of offshore entities in tax havens, where secrecy laws prevent the disclosure of ownership information.
- Offshore entities, such as International Business Companies (IBCs) or Special Purpose Vehicles (SPVs), provide additional layers of secrecy. These entities can be used to hold assets, conduct transactions, and manage investments while shielding the beneficial owners from scrutiny. The combination of complex corporate structures and offshore entities makes it exceedingly difficult for authorities to trace the ownership trail.

Typology 4: Layered Corporate Entities

- Layered corporate entities involve the use of multiple companies in different jurisdictions to create a complex and opaque structure that obscures the identity of the beneficial owner. By setting up a chain of companies, each one owning the next, it becomes challenging for regulators and investigators to trace the ownership back to the ultimate beneficiary. These layers can include a mix of domestic and international entities, further complicating the ownership trail. This typology is commonly used in tax evasion and money laundering schemes. The multiple layers create a barrier to transparency, allowing the beneficial owner to remain hidden while still exercising control over the assets. Regulators face significant difficulties in penetrating these structures, especially when they span across countries with varying levels of corporate transparency and cooperation.

Key Challenges/Strategies for CDD and identifying UBOs

- Complexity = challenge and question (i.e. jurisdiction) and = EDD
- Public registry access/ accuracy firewalls
- Nominees
- Trusts
- Open-Source data
- Obtain certification from a credible, independent regulated 3rd part e.g. law firm or accountant
- Reg tech proprietary tools i.e. Dun and Bradstreet etc.
- Role based scenario training for 1st Line and RMs.
- Due diligence of Trust and Corporate Service Providers
 - Standing, reputation, services provided.



Transparency International : 'At Your Service'

Top registered addresses for suspicious UK companies

- Cornwall Building, 45 Newhall St, Birmingham 1,455
- Suite B, 2nd Floor, 175 Darkes Lane, Potters Bar 1,094
- Unit 5, Olympia Industrial Estate, Coburg Road, London 810
- Office 11, 43 Bedford Street, London 636
- Suite B 11, Churchill Court, 58 Station Road, Harrow 519
- Unit W17, Mk Two Bus Centre, Barton Road, Bletchley 395



Transparency International : 'At Your Service'

Top nominees signing off accounts for UK companies

- | | |
|-----------------------|-----|
| • Ali Moulaye | 516 |
| • Sabine Boze/Vickers | 207 |
| • Erik Vanagels | 133 |
| • Juri Vitman | 62 |
| • Kang Dong-Hee | 32 |



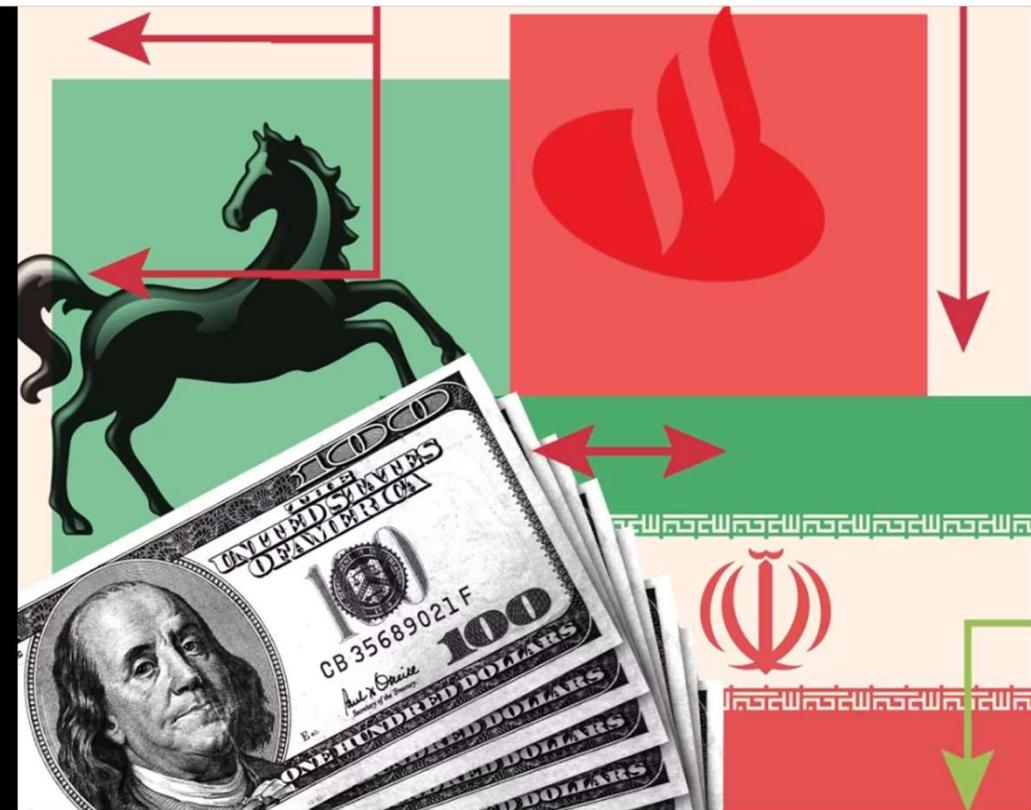


Case Study – UBO and Sanctions Evasion

UK banks + Add to myFT

Iran used Lloyds and Santander accounts to evade sanctions

Tehran-backed Petrochemical Commercial Company operated from office near Buckingham Palace



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Case Study – UBO and Sanctions Evasion

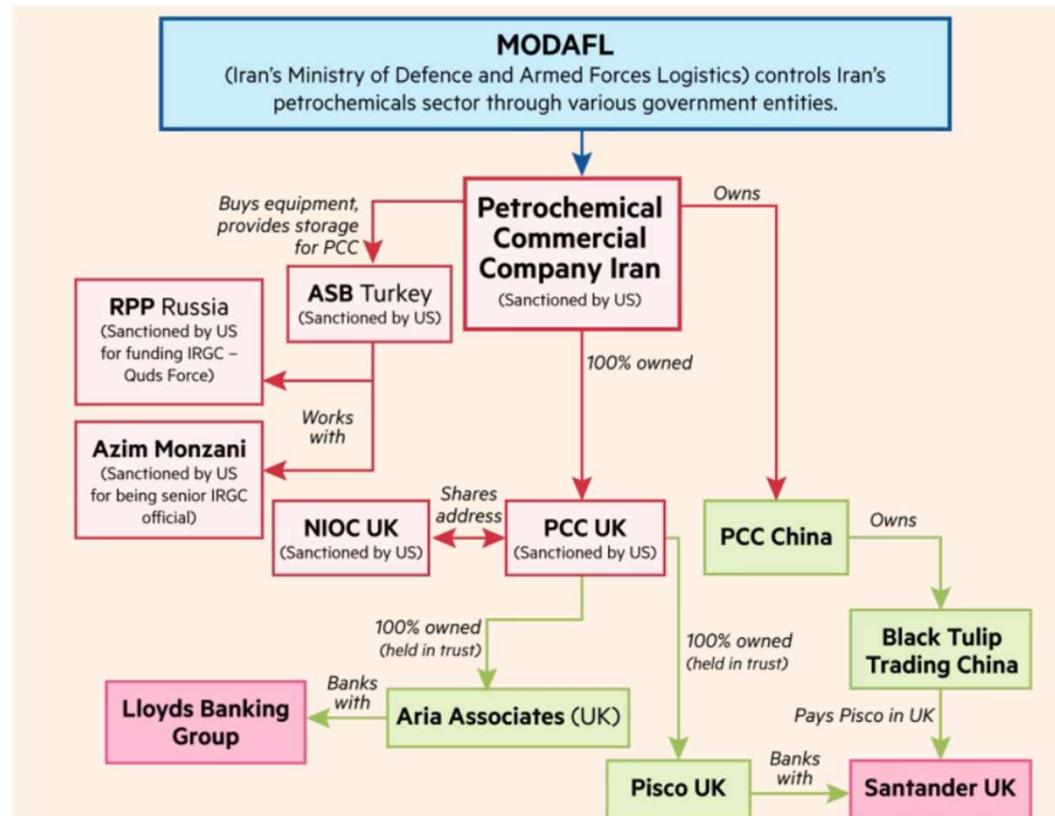
- Iran used two of the UK's biggest banks to covertly move money around the world as part of a vast sanctions-evasion scheme backed by Tehran's intelligence services.
- Lloyds and Santander UK provided accounts to British front companies secretly owned by a sanctioned Iranian petrochemicals company based near Buckingham Palace.
- The state-controlled Petrochemical Commercial Company was part of a network that the US accuses of raising hundreds of millions of dollars for the Iranian Revolutionary Guards and of working with Russian intelligence agencies to raise money for Iranian proxy militias.
- PCC and its British subsidiary PCC UK have been under US sanctions since 2018. During this time PCC's UK has continued to operate out of an office in London by using a complex web of front entities in Britain and other countries.



<https://www.ft.com/content/aac08cf4-a6f2-4e39-995f-23f7fa5ea5ea>



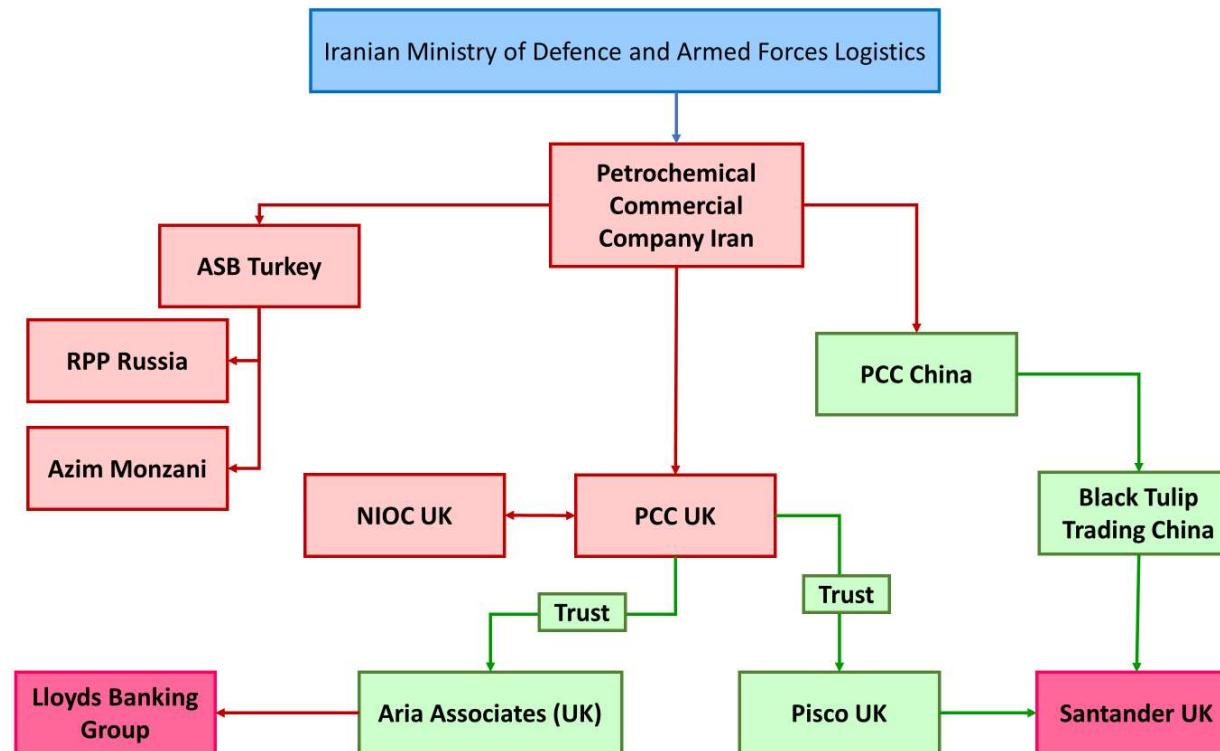
Case Study – UBO and Sanctions Evasion



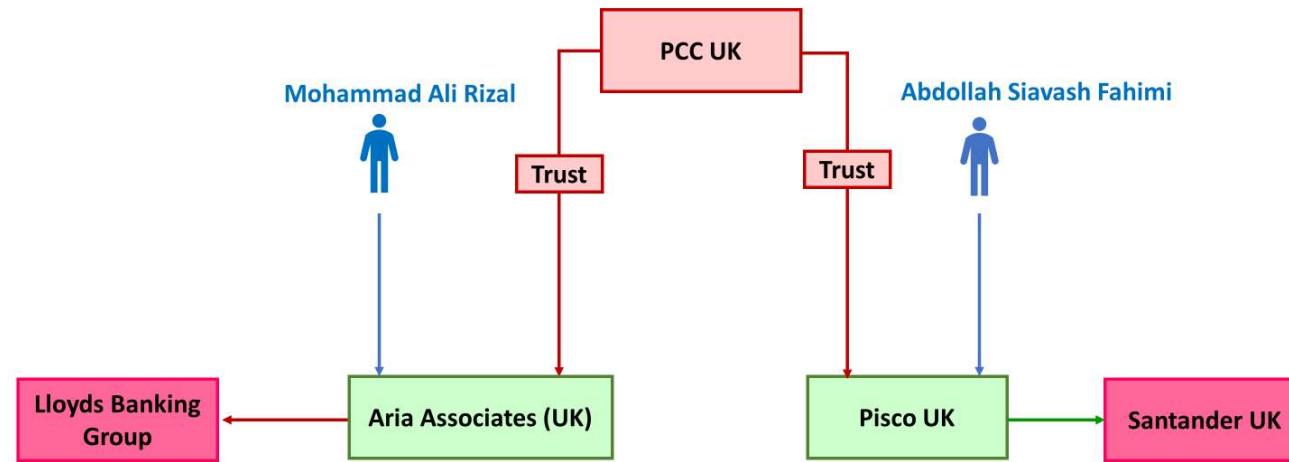
<https://www.ft.com/content/aac08cf4-a6f2-4e39-995f-23f7fa5ea5ea>

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Case Study – UBO and Sanctions Evasion



Case Study – UBO and Sanctions Evasion



Case Study – UBO and Sanctions Evasion

- PCC has used UK companies to receive funds from Iranian front entities in China while concealing their real ownership through “trustee agreements” and nominee directors.
- One of these companies, Pisco UK, is registered to a detached house in England and used an account with Santander UK. Pisco UK is owned by a British national, Abdollah-Siauash Fahimi. However, internal documents, some of which have been leaked online, show that Pisco is fully controlled by PCC and that Fahimi signed an agreement to own the company in trust on its behalf.
- Fahimi has used a PCC email address for correspondence with company officials in Tehran. He was a director of PCC UK from 2021 until 2022. In 2021 Pisco’s Santander account received a transfer from a Chinese company called Black Tulip, which is another trustee company controlled by a PCC employee.
- The US Treasury last year accused Iranian petrochemicals companies of using multiple front entities to evade sanctions by routing sales through Asia.



<https://www.ft.com/content/aac08cf4-a6f2-4e39-995f-23f7fa5ea5ea>



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Case Study – UBO and Sanctions Evasion

- Santander said it was unable to comment on specific client relationships but was “highly focused on sanctions compliance”. The bank added that it was “not in breach of US sanctions based on our investigation.” A person familiar with the situation said the bank has closed Pisco’s account.
- Another PCC front company in the UK is Aria Associates, which has an account with Lloyds. It is officially owned by Mohamed Ali Rejal, who is the deputy chief executive of PCC UK and has regularly communicated with company officials in Tehran. In July 2021 a PCC accounting official in Tehran emailed Rejal about a planned payment from China, telling him: ***“Please send us the safe account No. For payment.”*** Rejal instructed the accounting official to transfer the money into Aria Associates’ Lloyds account, writing: ***“Please make sure that there should not be any indication of PCC or PCC (UK).”***

Strategic review and Case study regarding front company (To be presented by EOCN)



Feedback



<https://www.surveymonkey.co.uk/r/workshpevl>

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Compliance professionals.**





Thank you

www.int-comp.org

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