

## Risk alert – Sanctions risk

### Overview

The sanctions regimes are moving at pace – with OFSI publishing new sanctions against individuals in response to the situation in Ukraine on an almost daily basis. The UK government has indicated it will continue to issue new sanctions.

This will inevitably increase the risk that one of your existing clients, or prospective clients, may be hit by sanctions and it is important that you are alert to the risks and behaviours that may result. Those who have already been sanctioned, or fear they will be next, may be attempting to disguise ownership of assets held in the UK/EU and US.

It is important to cast a critical eye over your existing client base to identify patterns of behaviour that may suggest that assets are being restructured to avoid sanctions. Be alert to the risk that new clients may approach you for help in restructuring their asset portfolio.

### What should firms be alert to

#### Current ownership and control – review of client base.

Review the know-your-client information you have in place on your existing clients and ensure you understand who controls the asset/entity. Challenge whether this information makes sense and identify those clients who might be subject to sanctions. Make sure you have completed verification or screening processes that are proportionate to the risk.

Consider the risks prevalent around 'golden visas' where countries in the EU including Cyprus, Malta, Portugal, and the UK provided individuals with citizenship in return for investments in their respective countries. Perform sanction checking if you do not already do so and consider additional intelligence gathering such as open-source searches.

#### Transfer of ownership

We have seen some anecdotal evidence that assets are being transferred to family members or other associates to avoid sanctions. This is a typology that has been observed before, in previous rounds of financial sanctions. There have been instances of major businesses being transferred to a child of the original owner, who on the face of it, has neither the experience nor the skills to manage the business. In such cases the risk that the parent remains a "shadow" controller is significant. In other cases, the transfers have been made to trusts. It is important to understand the terms of these trusts, who controls the trust (both legally and in practice) and who can benefit from it.

Exercise your professional scepticism as you assess these changes:

- Is there a transfer of full beneficial ownership or are there arrangements or understandings, whether these are documented or not, which mean that the transferor retains an interest in the assets?
- Be alert to apparent changes in ownership/control amongst your existing client base. Are these bona fide changes or attempts to obfuscate ownership and control?
- Similarly, when new clients approach you for work, consider whether there are signs of recent changes.

It is reasonable to ask a client why they are making the changes to their assets so that you can understand the business rationale.

#### Changes in professional advisors

Clients concerned about the impact of sanctions or subject to sanctions may start to change their behaviours and consider changing their professional advisors. Larger professional advisors with sophisticated intelligence gathering systems may be concerned about existing clients and disengage.

Ask yourself why a client has come to you? Does their choice make commercial sense? Where were they before and why did they move? Ensure you have the professional clearance letter and do not be afraid to contact the prior advisors for further information.

## Indicators of Sanctions Evasion Risk

The following are red flag indicators of sanctions evasion:

- Russian clients communicating changes to the beneficial ownership of their Private Investment Companies (PICs) to non-Russian or dual national family members
- Requests to transfer assets between Russian national/dual-national family members
- Use of trust arrangements, with circumstances of transfers calling into question whether the original owner retains indirect control or otherwise could retain a benefit from the assets transferred
- Assets transferred have usually been shares in companies, both UK and overseas, including both minority and controlling stakes in these businesses
- Payments from venture capital and private equity vehicles, many located in offshore jurisdictions or far east
- Clients seeking to move all their assets to other financial institutions and closing their accounts in London
- Clients domiciled in Russia asking whether they can make transfers to their London account
- Attempts to purchase sanctioned Russian securities, which have drastically fallen in price
- Payments received by UK businesses, often in innovative areas, also with some elements of ownership by Russia nationals
- Payments via a Fintech with Russian investor nexus
- Research on private equity / venture capital vehicles and some PSC/officers of UK businesses showing individuals connected to Russian industry previously subject to sectoral sanctions and on occasion PEPs
- Russian HNWI who are already on international sanctions lists (but not UK list) and/or who anticipate that they may become a sanctions target, transferring assets to family members and/or close associates such as employees
- Change in address and names for Russian entities 1 day prior to invasion
- Change of UBOs from Russian to other nationalities
- Circumvention attempts through Open Account TBML typology – e.g. increase in third party open account payments

## Where to get further guidance

OFSI Sanctions guidance - [General Guidance - UK Financial Sanctions.pdf \(publishing.service.gov.uk\)](#)

## Suspicious Activity Reporting [SARs]

If you know or suspect ML or TF activity you should make a SAR and use the Glossary Code **XXSNEXX**. Guidance on reporting is available at: [www.nationalcrimeagency.gov.uk](http://www.nationalcrimeagency.gov.uk)

## Data Protection Considerations

Please consider your obligations under the relevant data protection regulations and where necessary remove any related personal data from your systems securely and within a satisfactory timeframe.

## Disclaimer

The Accountancy AML Supervisors' Group (AASG) accept no responsibility for any loss, damage or expense arising in connection with the use of information in this alert. Any use will be taken to signify agreement to these conditions.

## Handling advice – Legal information

This report is supplied by the UK's NCA under Section 7(4) of the Crime and Courts Act 2013. It is exempt from disclosure under the Freedom of Information Act 2000. It may be subject to exemptions under other UK legislation. Except where permitted by any accompanying handling instructions, this information must not be further disclosed without the NCA's prior consent, pursuant to schedule 7, Part 3, of the Crime and Courts Act 2013.

This report may contain 'Sensitive Material' as defined in the Attorney General's guidelines for the disclosure of 'Unused Material' to the defence. Any sensitive material contained in this report may be subject to the concept of Public Interest Immunity. No part of this report should be disclosed to the defence without prior consultation with the originator.

## Protecting this document

This document uses the United Kingdom's Government Security Classification System (GSCS) and has been graded as **OFFICIAL**. There are no specific requirements for storage and it can be considered safe for wide distribution within your organisation and for use in staff training or awareness programmes. However, unless otherwise specified, this information is not intended for general public dissemination and should not be included on public facing websites, external mailing lists, social media or other outlets routinely used by you to deliver information to the public without the prior and specific permission of the NCA Alerts team. We therefore request that you risk manage any onward dissemination in a considered way. This document should be disposed of by cross-cut shredder, pulping or incineration.