

# ***Typologies on the circumvention of Targeted Sanctions against Terrorism and the Proliferation of Weapons of Mass Destruction***

United Arab Emirates

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## Acronyms

CBUAE	Central Bank of United Arab Emirates
DPRK	Democratic People's Republic of Korea
Executive Office or EO	The Executive Office of the Committee for Goods & Materials Subjected to Import & Export Control
FATF	Financial Action Task Force
FANR	Federal Authority for Nuclear Regulation
FCA	Federal Customs Authority
FIU	Financial Intelligence Unit
ISIL	Islamic State in Iraq and the Levant (Da'esh)
PF	Proliferation Financing
TF	Terrorist Financing
UAE	United Arab Emirates
UN	United Nations
UN Panel of experts	The Panel of Experts pursuant to UNSCR 1874 related to the Nuclear Programme of the Democratic People's Republic of Korea
UNSC	United Nations Security Council

UNSCR	United Nations Security Council Resolution
US	United States of America
WMD	Weapon of Mass Destruction

## Contents

Acronyms.....	1
Introduction.....	5
Targeted Financial Sanctions related to Terrorism and Terrorist Financing.....	6
Banking Services.....	7
Money Remitters .....	8
Exchange Houses .....	8
Hawala and Other Similar Service Providers (HOSSP).....	9
Online Payment Facilities .....	10
The Misuse of Non-Profit Organizations (NPOs) .....	12
Support for Recruitment of Foreign Terrorist Fighters.....	12
NPO Affiliation with a Terrorist Entity.....	13
Donations to NPOs Affiliated with Terrorist Groups.....	14
Cash Smuggling .....	14
Smuggling of Gold.....	15
Circumventing Sanctions Through Trade.....	16
Trade In Dual-Use Goods.....	16
Trade of Communication Devices.....	17
Trade of Natural Resources.....	17
Trade of Oil and Derivates .....	17
Trade of Charcoal from Somalia .....	18
The Misuse of Legal Entities .....	18
The Use of Virtual Assets to Support TF Groups.....	20
Transferring funds via Bitcoin.....	20
Use of Virtual Assets Ethnically or Racially Motivated Terrorist Financing.....	20
Promotion of virtual currency to fund terrorism.....	20
Targeted Financial Sanctions Related to Proliferation of WMD.....	22
The use of Banking Sector .....	23
Designated banks maintain representative offices and agents abroad.....	23
Financial activities of diplomatic and other personnel of the DPRK.....	24
Transfers through banks .....	24
Use of cash to circumvent US sanctions .....	25
Cyberactivity targeting financial institutions .....	25
Operation "FASTCash".....	26

Cyberattack on Cryptocurrency Exchange House .....	27
Economic Resources.....	27
Oil Ship-To-Ship Transfers .....	28
Smuggling Petrochemicals .....	28
Nickel Wire .....	28
Carbon Fiber .....	29
Trade-In Other Goods .....	29
Generator.....	29
Vibration Analysis Devises.....	30
Misuse of Legal Entities or Arrangements.....	31
Purchasing Aircraft Equipment Through 3rd Party .....	31
DGS Marine.....	31
The GENCO/KOGEN Group .....	32
GENCO Network .....	34
The Glocom Group.....	34
Financial Operations Of Glocom/Pan Systems Pyongyang .....	35
TFS - TF Red Flags .....	37
TFS – PF Red Flags .....	39
References .....	42
Document Change Log .....	45

## Introduction

The United Nations Security Council (UNSC), pursuant to Chapter VII of the United Nations Charter with the aim to maintain peace and security through its Resolutions and Sanctions Committees, mandates the implementation of various sanctions regimes. This document is focused mainly on the UNSC sanctions regimes, particularly, those related to non-proliferation of weapons of mass destruction, terrorism, and their financing.

The term *Targeted Financial Sanctions (TFS)* includes both asset freezing and prohibitions to prevent funds or other assets from being made available, directly or indirectly, for the benefit of individuals, entities, groups, or organization who are designated pursuant to the UNSCRs and Local Terrorist List. In particular, the UNSC has imposed targeted financial sanctions on individual, entities and group considered global terrorists, and to the nuclear programs of Iran and DPRK.

This document presents cases and examples from the UAE and other countries on how these sanctioned activities, persons, groups, or entities have received financing and support, therefore in violation or evading UNSC Resolutions (UNSCR) in particular the ones related to UNSCR 1267 (1999), 1989 (2011), 1988 (2011), 1718 (2006), 2231 (2015) and their successor resolutions. This document also presents cases related to the national UAE terrorist list in accordance with UNSCR 1373.

This document also includes a list of red-flags and indicators that help the financial institutions (FIs) and Designated non-financial businesses and Professions (DNFBPs) to detect any suspicious transactions related to Terrorist Financing (TF) and Proliferation Financing (PF).

All information presented in this document derives from public sources and guidelines issued by FATF. It includes a compilation of UAE and international case studies aiming to provide trends and methods used by sanctioned persons, groups, or entities to circumvent the UNSCR. The government authorities and private institutions to ensure full implementation of TFS requirements, effectively preventing the breach, non-implementation or evasion of TFS.

## Targeted Financial Sanctions related to Terrorism and Terrorist Financing

The term terrorist financing includes the provision of funds or assets to commit terrorist activities. This term includes providing food, lodging, training, and making means available such as transportation and communication equipment. Such financing can occur with money or in kind, and funds involved can be from legal or illegal sources. The targeted financial sanctions aim to prevent the financing of terrorists.

The following are methods and cases that illustrate how terrorist groups have misused economic sectors or activities to fund their activities, in breach of sanctions. This document compiles information from documents developed by the UNSC, the United Nations Office on Drugs and Crime (UNODC), and the Financial Action Task Force (FATF).

### Terrorist Financing Methods

In its report "Financing of the Terrorist Organization Islamic State in Iraq and the Levant (ISIL)" of 2015, FATF identified that this terrorist organization earns revenue primarily from five sources: (1) illicit proceeds from the occupation of territories, such as bank looting, extortion, control of oil fields and refineries, and robbery of economic assets and illegal taxation of goods and cash that transit territory where ISIL operates; (2) kidnapping for ransom; (3) donations including by or through non-profit organizations; (4) material support such as support associated with foreign terrorists fighters and (5) fundraising through modern communication networks<sup>1</sup>.

The Joint Report of the Counter-Terrorism Committee Executive Directorate and the Analytical Support and Sanctions Monitoring Team pursuant to resolutions 1526 (2004) and 2253 (2015) concerning Islamic State in Iraq and the Levant (ISIL) (Da'esh), Al-Qaida and the Taliban and associated individuals and entities on actions taken by the Member States to disrupt terrorist financing, prepared pursuant to paragraph 37 of UNSCR 2462 (2019), of 3 June of 2020 ("Joint Report") concludes from a questionnaire sent to all United Nations Member States that the most frequently used channels for terrorist financing are (1) the formal banking system; (2) cash smuggling; (3) the money services business; and (4) informal remitters or hawala<sup>2</sup>.

The Joint Report also accounts for the abuse of technology (including social media, prepaid cards, and mobile banking) for terrorist purposes, noting that terrorist financing was facilitated by recent developments in mobile payments and the anonymity of money transfers and illicit donations via crowdfunding platforms.<sup>3</sup>

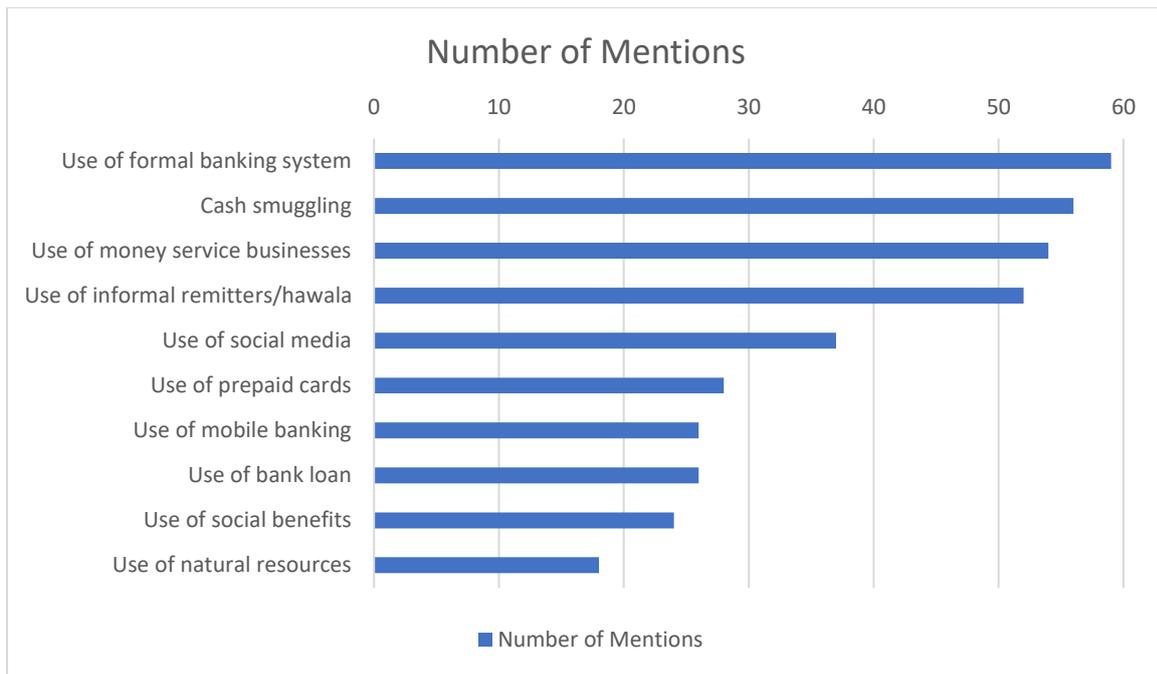
<sup>1</sup> Financial Action Task Force, 2015, p. 12

<sup>2</sup> United Nations Counter-Terrorism Committee Executive Directorate and the Analytical Support and Sanctions Monitoring Team pursuant to resolutions 1526 (2004) and 2253 (2015) , S/2020/493, p. 16.

<sup>3</sup> United Nations Counter-Terrorism Committee Executive Directorate and the Analytical Support and Sanctions Monitoring Team pursuant to resolutions 1526 (2004) and 2253 (2015) , S/2020/493, p. 17.

The UNSC notes that terrorists and terrorist groups raise funds through various means, including exploiting natural resources, kidnapping for ransom, and links to organized crime and drug trafficking. The Joint Report notes the potential for terrorism financing through the construction and real estate sectors, the use of shell companies to conceal cash, the use of non-profit organizations, and trade-based terrorism financing.<sup>4</sup>

**Figure-1: Methods most frequently used by terrorist financiers**



Source: United Nations Counter-Terrorism Committee Executive Directorate and the Analytical Support and Sanctions Monitoring Team pursuant to resolutions 1526 (2004) and 2253 (2015), S/2020/493, p. 16.

## Banking Services

The formal banking system is vulnerable to the circumvention of sanctions related terrorist financing because all financial product and services, could be misused or vulnerated to finance terrorism, in addition to the difficulty of distinguishing between legitimate and illegitimate low-cost transactions and detecting indirect transactions. Unfortunately, transaction-monitoring programs are often unable to identify terrorism financing.<sup>5</sup>

<sup>4</sup> United Nations Counter-Terrorism Committee Executive Directorate and the Analytical Support and Sanctions Monitoring Team pursuant to resolutions 1526 (2004) and 2253 (2015) , S/2020/493, p. 17.

<sup>5</sup> United Nations Counter-Terrorism Committee Executive Directorate and the Analytical Support and Sanctions Monitoring Team pursuant to resolutions 1526 (2004) and 2253 (2015) , S/2020/493, p. 16.

## Continued access to bank accounts by foreign terrorist fighters

Foreign terrorist fighters are individuals who travel to a states other than their state of residence or nationality for the purpose of the perpetration, planning, or preparation of, or participation in, terrorist acts or the providing or receiving of terrorist training, including in connection with armed conflict<sup>6</sup>.

According to financial information, terrorist financing risks were identified when foreign cash withdrawals via ATMs made in areas located near territories where ISIL operates by unknown individuals. These withdrawals were taken from US-based bank accounts using a debit card. Another terrorist financing risk identified was the existence of large deposits into bank accounts followed by immediate foreign cash withdrawals in areas located near to territories where ISIL operates. This information reveals the terrorism financing risks posed by the ability of the individuals who are believed to have travelled to areas occupied by ISIL to reach their bank accounts in their home countries.<sup>7</sup>

## Money Remitters

Along with the banking sector, the remittance sector has been exploited to move illicit funds and is also vulnerable to Terrorist Financing. In countries where access to banking services is limited, remittance providers may be the primary financial institution through which consumers can engage in cross-border funds transfer activity. Remittance providers are especially vulnerable to abuse by Terrorist Financing where they are unregulated, not subject to appropriate AML/CFT supervision, or where they operate without a license (thus working without any AML/CFT controls)<sup>8</sup>.

## Exchange Houses

The UAE authorities arrested a person for transferring money to a jihadist group in the Philippines who pledged allegiance to ISIL terrorist organization. The suspect received money from persons from different places in the UAE using Exchange House. The money was sent through multiple payments and in small amounts so that the UAE authorities would not identify them. The investigation determined that the transferred funds' total value accounted for AED 120,000 (USD 32,671).

<sup>6</sup> Security Council resolution 2178 (2014) S/RES/2178

<sup>7</sup> Financial Action Task Force, February 2015, p. 23

<sup>8</sup> Financial Action Task Force, October 2015, p.26

## Hawala and Other Similar Service Providers (HOSSP)

There are several reasons why HOSSPs poses a terrorist financing vulnerability, including a lack of registration and supervision, settlement across multiple jurisdictions through value or cash outside of the banking system, the use of businesses that are not regulated financial institutions, the use of net settlement and the commingling of licit and illicit proceeds<sup>9</sup>.

## Funds Sent to Boko Haram

The UAE authorities received information from secret sources and LEA intelligence on six individuals of Nigerian nationality suspected of financing Boko Haram, a terrorist group designated in the UAE Local Terrorist List and UN List (UNSCR 1989), by transporting and transferring funds from the UAE to the terrorist group. The suspects conducted large transfers which were not commensurate with their income from their jobs in the UAE.

The investigation found that the suspects received the funds in cash (Nigerian Naira) in Nigeria and transported the cash physically to the UAE. The funds were concealed and their source disguised when entering the UAE. Once in the UAE, some of the funds were exchanged for U.S. dollars then re-exchanged to Naira and physically transported back to Nigeria, while other funds were transferred back to Nigeria through exchange houses in which some of the suspects were employed. These funds were from illegal sources and included funds stolen from the Nigerian government.

In April 2017, law enforcement authorities arrested the suspects and seized AED 3,000,000 in cash and instrumentalities worth AED 40,000 in the possession of the suspects. The Prosecution issued a freeze order on cash (AED 3,000,000) and instrumentalities (AED 40,000). The six suspects were prosecuted and convicted of TF (and other offenses). In 2019, the court sentenced two defendants to life imprisonment and four defendants to imprisonment for ten years followed by deportation. The court also confiscated the full value of cash and instrumentalities seized and frozen.

## Funds Sent to ISIL In Afghanistan

The UAE authorities arrested nine (9) persons who were members of the ISIL terrorist organization that received military training on the use of weapons in Khorasan, Afghanistan. The suspects were involved in moving, transferring, and sending funds through a Hawala Service provider using tailor shops. They were also exchanging the currency into US dollars and handing it over to persons with Afghan nationalities for them to send them to Afghanistan. The transferred funds' value reached AED 243,410 (USD 66,270).

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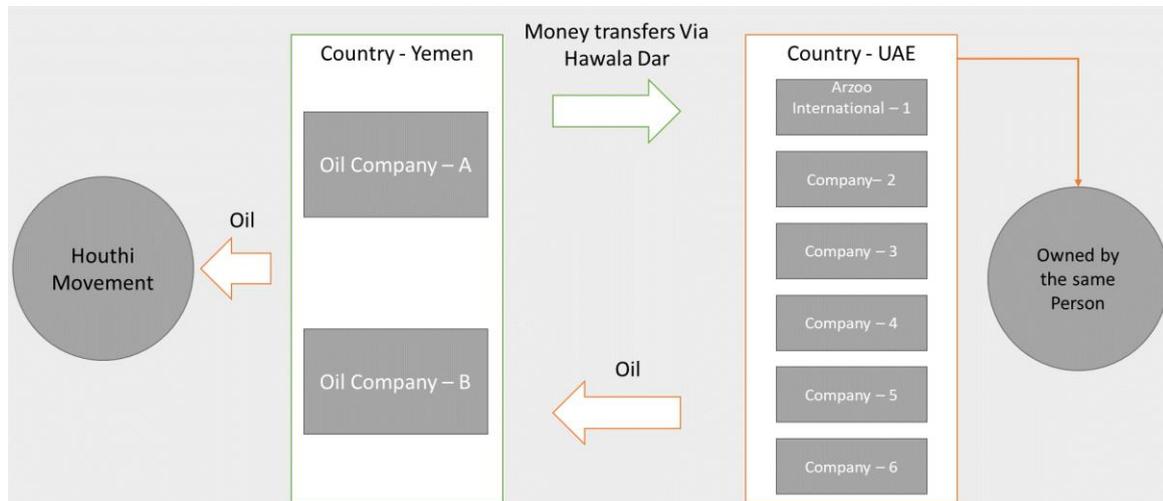
<sup>9</sup> Financial Action Task Force, October 2013, p. 41

## Funds Sent to Houthies In Yemen

The UAE authorities received intelligence showing high volume money transfers sent via Hawala from two oil companies based in Yemen to six entities based in the UAE. The six entities shared the same beneficial owner, and one of the entities (Company A) was mentioned in an official communication (OC) received by the UAE from the UN Yemen Panel of Experts. Shortly thereafter, the beneficial owner of the six companies transferred the financial activities of the six entities to a new entity (Company B), also based in the UAE, and appointed a nominee as the owner of Company B to hide the beneficial ownership details.

Initial investigations uncovered that the originators of the transactions were two Houthi-owned oil companies. (The Houthi Movement in Yemen is designated in the Local Terrorist List pursuant to Cabinet Decision No. 41 of 2014.) The State Security Prosecution issued freeze orders on the assets of the involved persons and entities and their bank accounts with a total amount of AED 54 million. Five main suspects were detained and interrogated, one of whom was the beneficial owner of the six entities mentioned above.

The UAE Authorities also took the decision to suspend the trade licenses of the companies involved, and one of the companies (H F Z A ARZOO INTERNATIONAL FZE) was designated on the Local Terrorist List based on Cabinet Resolution No. 83 of 2021.



## Online Payment Facilities

Online payment facilities offered through dedicated websites or communications platforms make it easy to transfer funds electronically between parties. Funds

transfers are often made by electronic wire transfer, credit card, or alternate online payment facilities.<sup>10</sup>

Online payment facilities can be vulnerable to identity theft, credit card theft, wire fraud, stock fraud, intellectual property crimes, and auction fraud. The following cases illustrate how online payment facilities are vulnerable to circumvent sanctions related to terrorism.

## Fundraising Through the Internet

Information obtained by way of Intelligence indicated that some individuals associated with ISIL have called for donations via social media and have asked the donors to contact them through online communication tools. The donors would be asked to buy an international prepaid card (e.g., a credit for a mobile line or to purchase an application or other program which stores credit) and send the number of the prepaid card via online communication tools. The fundraiser would then send the number to one of his followers in a close country from Syria and sell the card number at a lower price and take the cash that was afterward provided to ISIL<sup>11</sup>.

## Online Financial Accounts Used for Fundraising

The United Kingdom case against Younis Tsouli: Profits from stolen credit cards were laundered by several means, including transfer through e-gold online payment accounts, which were used to route the funds through several countries before reaching their intended destination. The laundered money was used both to fund the registration by Tsouli of 180 websites hosting Al-Qaida propaganda videos and to provide equipment for terrorist activities in several countries. Approximately 1,400 credit cards were used to generate approximately £1.6 million of illicit funds to finance terrorist activity<sup>12</sup>.

## The Use of Social Media and Telegram Platforms to Promote Terrorist Activities

- The UAE authorities investigated persons who adopted terrorist and extremist ideas. They use information technology to explore methods to organize terrorist organizations and send money to terrorists and ISIL. One of the suspects, adopting the ideology of ISIL, was caught communicating with terrorist persons from abroad using Social Media platforms. He had also exchanged videos and photos endearing and promoting ISIL and transferred these clips to colleagues for

<sup>10</sup> United Nations Office on Drugs and Crime, 2012, p. 7

<sup>11</sup> Financial Action Task Force, February 2015, pp. 24-25

<sup>12</sup> United Nations Office on Drugs and Crime, 2012, p. 7

promotion. Also, through his communication via social media, he communicated with a person from outside the UAE who requested financial assistance to join the ISIL. The suspect sent an amount of money to help this other person join ISIL through an Exchange house, and he had also provided an amount of money to two (2) of his colleagues to help them prepare for travel so that they could join the ISIL.

- A person was arrested in the UAE for aiding Al-Nusra and its affiliated groups in Syria, by providing them logistical. The suspect also supported the fighters in the Turkmen Brigade in Syria and provided transportation to country X border. He confessed that he used his account on one of the social networking platforms to collect assistance and fundraise to support Al-Nusra and the armed brigades in Syria. Also, used a telegram platform to promote terrorist organizations by publishing videos and pictures endearing and promoting the organizations. The value of the money raised was approximately AED 312,000.
- Based on an investigation carried out by the UAE authorities, it was identified that there are group of people residing in the UAE who support ISIL by using various means. Accordingly, a person of Syrian nationality was arrested for facilitating the transfer of funds in favour of members of the Al-Nusra organization. The suspect used one of the social networking platforms to tell a friend about the location of the money and requested him to send it through an exchange house to another person who is in country X, who is a member of the Al-Nusra Front. The amounts of money that he transferred accumulated to AED 10,000.

## The Misuse of Non-Profit Organizations (NPOs)

Individuals and organizations seeking to fundraise for terrorism and extremism support may attempt to disguise their activities by claiming to be engaged in legitimate charitable or humanitarian activities. They may establish NPOs for these purposes<sup>13</sup>. The following cases illustrate how NPOs are vulnerable to be misused to circumvent sanctions related to Terrorism.

### Support for Recruitment of Foreign Terrorist Fighters

On 4 November 2010, Al Rehmat Trust, an NPO operating in Pakistan, was designated pursuant to US Executive Order (EO) 13224 for being controlled by, acting on behalf of, and providing financial support to designated terrorist organizations, including al Qaida and affiliated organizations.

Al Rehmat Trust was found to be serving as a front to facilitate efforts and fundraising for an UN-designated terrorist organization, Jaish-e Mohammed (JEM). After it was banned in Pakistan in 2002, JEM, a UN 1267 designated Pakistan-based terrorist group, began using Al Rehmat Trust as a front for its operations. Al Rehmat Trust has

<sup>13</sup> Financial Action Task Force, October 2015, p. 32

provided support for militant activities in Afghanistan and Pakistan, including financial and logistical support to foreign fighters operating in both countries. In early 2009, several prominent members of Al Rehmat Trust were recruiting students for terrorist activities in Afghanistan. Al Rehmat Trust has also been involved in fundraising for JEM, including for militant training and indoctrination at its mosques and madrassas. As of early 2009, Al Rehmat Trust had initiated a donation program in Pakistan to help support families of militants who had been arrested or killed. In addition, in early 2007, Al Rehmat Trust raised funds on behalf of Khudam-ul Islam, an alias for JEM.

Al Rehmat Trust has also provided financial support and other services to the Taliban, including financial support to Afghanistan's wounded Taliban fighters<sup>14</sup>.

### **NPO Affiliation with a Terrorist Entity**

In August 2013, the US Department of the Treasury designated the Jamia Taleem-UI-Quran-Wal-Hadith Madrassa, also known as the Ganj Madrassa, pursuant to US Executive Order (EO) 13224 for being controlled by, acting on behalf of, and providing financial support to al-Qa'ida and other designated terrorist organizations. The Ganj Madrassa is a school in Peshawar, Pakistan, that was found to be serving as a training centre for and facilitating funding for UN and U.S.-designated terrorist organizations, including al-Qa'ida, Lashkar-e Tayyiba, and the Taliban. The activities of the Ganj Madrassa exemplify how terrorist groups, such as al-Qa'ida, Lashkar-e Tayyiba, and the Taliban, subvert seemingly legitimate institutions, such as religious schools, to raise and divert charitable donations meant for education to support terrorist training and violent acts. The action did not target all madrassas, which often play an essential role in improving literacy and providing humanitarian and developmental aid in many areas of the world; it only identified this specific madrassa as supporting terrorism and terrorist financing.

The Ganj Madrassa is controlled by UN-designated al-Qa'ida facilitator Fazeel-A-Tul Shaykh Abu Mohammed Ameen Al-Peshawari, also known as Shaykh Aminullah. Shaykh Aminullah was designated by both the United States pursuant to US Executive Order (EO) 13224 for being controlled by, acting on behalf of, and providing financial support to designated terrorist organizations and the United Nations (UN) in 2009 for providing material support to al-Qa'ida and the Taliban.

The Ganj Madrassa serves as a terrorist training centre where students have been trained to conduct terrorist and insurgent activities under the guise of religious studies. In some cases, students were trained to become bomb manufacturers and suicide bombers. Shaykh Aminullah has directed donations provided for the school to terrorist groups such as the Taliban, which use the money to fund the ongoing violence in Afghanistan<sup>15</sup>.

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<sup>14</sup> Financial Action Task Force, June 2014, p. 46

<sup>15</sup> Financial Action Task Force, June 2014, p. 117

## Donations to NPOs Affiliated with Terrorist Groups

- On 11 October 2020, a local bank froze and raised a notification to the Central Bank that Company X sent a wire transfer “donation” of GBP 5,000 (AED 25,000) to a beneficiary located in Country A. The notification mentioned that the recipient was identified as “Islamic Relief”, which is a name similar to a listed designation in the UAE Local Terrorist List pursuant to Cabinet Decision No 41 to 2014.

The UAE authorities reviewed Company X’s criminal records and verified financial transactions and any related information or documents. The investigation remains ongoing towards Company X; however, the Person was clear of any criminal records or suspicious activities. The UAE authorities took preventative measures towards the designated entity's website being banned to prevent further donations.

- On 31 August 2021, a local bank raised a Partial Name Match Report (PNMR) via GoAML. The bank identified (through open-source information) a business relationship between a customer (regional bank) and the Islamic Relief Worldwide (IRW), which is registered as a charity and supervised by Country A.

According to Cabinet Decision 74 to 2020, the bank took immediate action in freezing the accounts without delay and informed the Executive Office – IEC and Supervisory Authority with all relevant information.

## Cash Smuggling

Cash continues to be a prevalent aspect of terrorist operations. While funds may be raised in several ways, they are often converted into cash to be taken to conflict zones. This is assisted by porous national borders, difficulty in detecting cash smuggling (particularly in the small amounts that are sometimes smuggled for TF purposes), and the existence of informal and unregulated economies<sup>16</sup>. The following cases illustrate how smuggling is used to circumvent sanction on Terrorism.

The UAE authorities arrested a person involved in providing Yemen's Houthi Terrorist Movement with funds and assistance by sending funds estimated at AED 200,000 with a driver who transported such cash across the land borders.

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<sup>16</sup> Financial Action Task Force, October 2015, p. 23

## Smuggling of Gold

The UAE authorities provided intelligence to the Federal Customs Authority on an illegal shipment heading from Country X to UAE that belongs to an extremist movement in Country X. The leader of the extremist movement is designated in OFAC. The Federal Customs Authority issued a notice to all local customs to increase the inspection procedures on any shipment being imported from Country X. Local Customs have identified Person S with an illegal shipment coming from Country X. Customs and State Security have conducted a criminal investigation and found that the shipment contains 60 kgs of Gold without proof of origin.

The UAE Prosecution has received all the information related to the investigation and issued an order to arrest Person S and seize the shipment.

The court reviewed the documents based on the investigation reports received from UAE Prosecution and have issued a verdict on Person S to serve a lifetime prison sentence and confiscate the 60 kgs of gold worth AED 6,000,000.

## Cash Couriers

Over a period of three consecutive days, three individuals declared a total amount of some EUR 90,000 in cash to customs officials at the airport in Brussels. The funds are said to originate from NPO A from Germany as part of humanitarian aid in Burundi, Benin, and Zimbabwe. The three couriers are all Belgian nationals and have been living in Belgium for a long time. A Belgian coordinating body of a radical Islamic organisation transferred money to accounts held by the three individuals. Over a one-year period, approximately EUR 20,000 was withdrawn in cash, and EUR 10,000 was transferred to Turkey.

According to the German FIU, NPO A was one of the largest Islamic organizations in Germany. NPO A is said to be linked with NPO B, which had been banned in Germany for allegedly supporting a terrorist organization. All of NPO B's board members also played a significant role in NPO A.

According to information from the Belgian intelligence services, the three individuals referenced above are known to be involved in local branches of a radical Islamic organization. Given the nature of the transactions and the links between the two NPO referenced above, Belgian authorities suspect that at least part of the funds described above could have been used to support terrorist activities.<sup>17</sup>

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<sup>17</sup> Financial Action Task Force, October 2015, p. 23

## Circumventing Sanctions Through Trade

Trade can be very vulnerable to circumvent sanctions against terrorism. It is challenging to identify when sanctioned persons are involved in any part of the value of chain of trade. The following cases illustrate how sanctions can be circumvented through trade.

### Trade In Dual-Use Goods

- Early 2019, the UAE authorities received intelligence information regarding two business activities, owned by Naif Al Jarmouzi, and supports the Houthi Movement in Yemen, a terrorist group designated in the UAE Local Terrorist List. Moreover, the terrorist group received support through multiple channels such as cash, chemical materials, electronics, electrical generators, solar panels, and telecom gadgets and that was made through forging bills of lading. One hundred tons of chemical items, among them MDA, were identified as being shipped and valued at AED 220,000.

The investigations have identified a total amount of AED 101,000 belonging to the suspect and his companies and were used to support the Houthi Movement in Yemen. Moreover, a report from the customs authorities confirmed that bills of lading were forged.

The UAE Prosecution issued an order to arrest Naif Al Jarmouzi, freeze and confiscate funds and other assets totaling an amount of AED 101,000 and suspend the business activities of Naif Al Jarmouzi's companies.

The UAE Prosecution provided the Supreme Council for National Security with reasonable grounds to designate Naif Al Jarmouzi and his three companies, accordingly, the individual and the two entities were designated in the Local Terrorist List based on Cabinet Decision No. 83 of 2021.

- An informal intelligence information was received by UAE authorities about a shipment transported as a transit. The shipment contained a chemical component listed as a dual-use item. After investigation, the UAE authorities identified that the beneficiary of this shipment is the "Somali Youth Movement", which is designated in the UAE Local Terrorist List and UNSCR 1267 list.

The UAE Prosecution confirmed, with the support of experts, that the shipment material is Potassium Nitrate, an item listed as an explosive precursor according to paragraph (28) of UNSCR 2498 (2019). The shipment included four containers worth a value of AED 247,000. The UAE Prosecution issued an order to seize and restrain the shipment in coordination with federal customs and relevant port authorities.

## Trade of Communication Devices

A Yemeni national supplied Yemen's Houthi Terrorist Movement with funds, means of communication, tools, and chemicals through a shipping company. The suspect has carried out several equipment smuggling operations to Yemen through a company in the UAE with the support of a third suspect. These suspects smuggle a consignment of servers and communication devices belonging to Telecom Company (six (6) wooden boxes containing servers - a large number of small cartons in it containing small black devices) in favour of the Houthis in Yemen for an amount of USD 13,000. To smuggle them, the suspect tore down the papers affixed indicating that these were communication devices and dyed the Telecom Company logo attached on the wooden boxes with a black dye to cover them up and not allow them to be identified. A third suspect produced and forged bills of lading with different data for the shipped devices. They were recorded in the bill of lading as computers and automobile spare parts. The aim was to facilitate importing and smuggling from one of the land border crossings in the UAE due to the prohibition to export them into Yemen. The first suspect also smuggled communication equipment, SIM cards, generators, and chemicals in favour of the Houthis.

In another similar case, another person was arrested by the UAE authorities for shipping auto spare parts and pipes, as well as wired and wireless devices (walkie-talkies) based on instructions from Houthi leaders.

## Trade of Natural Resources

The targeted financial sanctions imposed by the United Nations include the freezing and prohibition to provide economic resources, including natural resources to terrorists. The following are cases that show how there was an attempt to circumvent sanctions, but UAE authorities were able to prevent these resources to reach terrorists.

## Trade of Oil and Derivates

UAE authorities arrested a person for supplying Yemen's Houthi Terrorist Movement with funds and Iranian diesel. The diesel was smuggled through maritime routes from country X to the Port of Al-Hudaydah in Yemen. The diesel was sold to entities affiliated with Yemen's Houthi Terrorist Movement through three (3) companies owned by the suspect that operate in the oil business. The value of the companies in Yemen is estimated at AED 255,000,000 (USD 69,426,000).

## Trade of Charcoal from Somalia

Based on UN resolution no (2036) in 2012 regarding the ban of charcoal from Somalia due to using charcoal revenue to financing Alshabab terrorist group, FCA, Local Customs and the EO has ban importing charcoal from Somalia and monitor the trade and market for diversion of the goods. The following is the investigation findings:

1. Somalin Charcoal has diverted to several country such as Comoros and Iran
2. Counterfeited Certified of Origin
3. Counterfeited bill of Lading

UAE authorities seized the Charcoal and sold it in auctions.

## The Misuse of Legal Entities

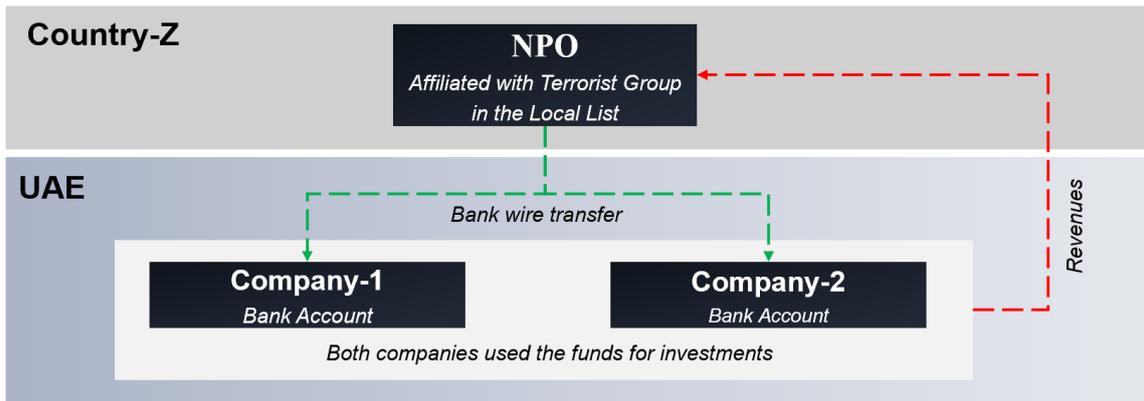
Legal entities can be misused to circumvent sanctions by means of the characteristics of the legal type of entity, for example by using a legal entity as a shell company, or complex legal structures to obscure the beneficial owner. Another method is through the misuse of the economic activity developed by the legal entity. Trade and commercial activities are among the highly vulnerable activities for sanctions evasion related to terrorism. The following case illustrate how legal entities in the UAE can be misused to circumvent sanctions.

- A local bank submitted an STR to the FIU related to domestic legal persons, NYBI Trading and KCL General Trading. Both companies have received funds from foreign NPOs from Country Z which affiliates with the Muslim Brotherhood, a terrorist group listed on the UAE Local Terrorist List.

The UAE authorities found that both companies were had the same beneficial owner (Fadi Kamar) and their income was not consistent with their stated business activity. The investigation found that the companies had transferred a total amount of AED 51 million to different legal persons within the UAE using cheques or cash withdrawals.

The FIU, in cooperation with the Central Bank issued a freezing order for accounts held by the companies in this network. As a result of the order, 49 accounts with a total value of AED 29 million were frozen.

Post investigations, the UAE Prosecution referred 31 individuals and 28 entities to court. The court issued a verdict to imprison the main suspect (Fadi Kamar) for life and nine other suspects were sentenced to ten years of imprisonment. In addition, the convicts were ordered to pay a penalty of AED 500,000 per person. The court also convicted two entities (NYBI Trading and KCL General Trading) penalizing them with AED 500,000 each and terminating their business licenses. The remaining 21 individuals and 26 entities were declared innocent. The court confiscated a total of AED 20 million related to the convicted persons.



- The UAE authorities received intelligence information from informal sources of Person X who resides in the UAE and has a relation with “Jabhat Al Nusra & Ahrar alsham”, which is designated under the UAE Local Terrorist List and UNSCR 1267 list. Person X established business activities in the UAE to support the designated terrorist group.

The investigations revealed that Person X has three companies that are used to financially support the terrorist organization. In addition, the investigations identified funds and other assets worth AED 5.6 million belonging to Person X.

The UAE Prosecution issued an order to freeze all funds and other assets that belonged to Person X and transferred the case to Court and is pending a verdict.

- The UAE authorities received intelligence identifying four UAE companies related to the Muslim Brotherhood, which is designated on the UAE’s Local Terrorist List. The companies operated in the financial and real estate sectors.

The UAE authorities found that the companies had changed their capital structure and transferred money among their accounts to conceal its original source and invest the money on behalf of the designated group. Two companies had purchased real estate in the UAE with a total amount of AED 150 million. The total assets of the four companies amounted AED 283 million.

In addition to the four companies, nine individuals were found to be affiliated to the designated group.

Nine individuals were arrested, and the licenses of the four companies were deactivated by UAE Prosecution. All assets and bank accounts were frozen for all suspects and the case was transferred to the Court. The Court sentenced each of the nine individuals to ten years in prison, revoked the licenses of the four entities, and confiscated all assets of the four companies, including the real estate, amounting to AED 283 million. The court also assessed penalties of AED 100 million.

## **The Use of Virtual Assets to Support TF Groups.**

### **Transferring funds via Bitcoin**

Financial Investigation into the terror attack perpetrated by the Christchurch Mosque shooter in New Zealand on 15 March 2019 found that he had made multiple donations to ERW entities overseas, including Generation Identitaire in France and Martin Sellner in Austria, referencing 'gift' and 'keep up the good work', as well as that he made use of VAs to transfer funds. He was found to be engaged with 'like-minded' individuals via social media, chatrooms and forums. This case involves spontaneous cooperation after the fact from FIU of the countries involved.

Source: New Zealand <sup>18</sup>.

### **Use of Virtual Assets Ethnically or Racially Motivated Terrorist Financing**

One far-right organization in South Africa created their own stable coin that operates on a 1:1 ratio with the local currency (South African Rand (ZAR)).

The stable coin, managed by an application styled PayApp, enables the group to use digital money as cash. The transactional data lasts 24 hours and thereafter is untraceable.

Bank statement analysis conducted on the accounts of members of the right-wing organization identified specific transactional references used.

The references are in English and or Afrikaans, and include military reference to military ranks, which is indicative of the fact that the group had or has a formal military structure and chain of command.

The Organization raised funds up to ZAR 268,000 (EUR 14,720). ERW actors in South Africa are known to receive financial support from individuals in foreign jurisdictions like the USA, UAE, Australia and Switzerland.

Source: South Africa<sup>19</sup>

### **Promotion of virtual currency to fund terrorism**

On 28 August 2015 Ali Shukri Amin was sentenced to 11 years in prison to be followed by a lifetime of supervised release and monitoring of his internet activities for conspiring to provide material support and resources to the ISIL.

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<sup>18</sup> FATF report Ethnically or Racially Motivated Terrorism Financing June 2021

<sup>19</sup> FATF report Ethnically or Racially Motivated Terrorism Financing June 2021

Amin pleaded guilty on 11 June 2015. He admitted to using social media platform to provide advice and encouragement to ISIL and its supporters. Amin, who used the social media handle @Amreekiwitness, provided instructions on how to use bitcoin, a virtual currency, to mask the provision of funds to ISIL, as well as facilitation to ISIL supporters seeking to travel to Syria to fight with ISIL.

Additionally, Amin admitted that he facilitated travel for a Virginia teenager, who travelled to Syria to join ISIL in January 2015. This teenager, was charged on 10 June 2015, in the Eastern District of Virginia with conspiring to provide material support to terrorists, conspiring to provide material support to ISIL and conspiring to kill and injure people abroad.

Amin's social media account boasted over 4,000 followers and was used as a pro-ISIL platform during the course of over 7,000 communications. Specifically, Amin used this account to conduct conversations on ways to develop financial support for ISIL using on-line currency, such as bitcoin, and ways to establish a secure donation system or fund for ISIL.

For example, Amin shared a link of an article via social media platform he had written entitled "Bitcoin wa' Sadaqat al-Jihad" (Bitcoin and the Charity of Jihad). The article discussed how to use bitcoins and how jihadists could utilise this currency to fund their efforts. The article explained what bitcoins were, how the bitcoin system worked and suggested using Dark Wallet, a new bitcoin wallet, which keeps the user of bitcoins anonymous. The article included statements on how to set up an anonymous donation system to send money, using bitcoin, to the mujahedeen.

Source: United States<sup>20</sup>

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<sup>20</sup> Emerging Terrorist Financing Risks 2015

## Targeted Financial Sanctions Related to Proliferation of WMD

Recommendation 7 of the FATF Standards requires countries to implement proliferation financing-related Targeted Financial Sanctions (TFS) made under United Nations Security Council Resolutions (UNSCRs or resolutions). Recommendation 2 requires countries to put in place effective national cooperation and, where appropriate, coordination mechanisms to combat the financing of proliferation of weapons of mass destruction (WMD). Immediate Outcome 11 and certain elements of Immediate Outcome 1 relating to national cooperation and coordination aim to measure how effective countries are implementing these Recommendations<sup>21</sup>.

The United Nations Security Council (UNSC or UN Security Council) has a two-tiered approach to counter proliferation financing through resolutions made under Chapter VII of the UN Charter and thereby imposing mandatory obligations for UN Member States:

### Global Approach Under UNSCR 1540 (2004) and Its Successor Resolutions:

i.e. broad-based provisions both prohibiting the financing of proliferation-related activities by non-state actors and requiring countries to establish, develop, review and maintain appropriate controls on providing funds and services, such as financing, related to the export and trans-shipment of items that would contribute to WMD proliferation. Obligations under the global approach exist separately and do not form part of the FATF Recommendation 7 and its Interpretive Note, and Immediate Outcome 11, but do form part of the FATF Recommendation 2 and are relevant in the context of other FATF requirements on combating terrorist financing and money laundering; and

### Country-Specific Approach Under UNSCR 1718 (2006) And UNSCR 2231 (2015) And Their (Future) Successor Resolutions:

i.e., country-specific resolutions against the Democratic People's Republic of Korea (DPRK) and the Islamic Republic of Iran (Iran). The scope and nature of DPRK-related sanctions have been expanded following the country's repeated violations of UN resolutions. On the other hand, UNSCR 2231 (2015), endorsing the Joint Comprehensive Plan of Action (JCPOA), terminated previous provisions of resolutions relating to Iran and WMD proliferation, including UNSCRs 1737 (2006), 1747 (2007), 1803 (2008) and 1929 (2010), but retained TFS on a number of individuals and entities designated pursuant to these resolutions and also established new specific restrictions, including a number of other measures. TFS obligations under the country-specific approach form part of the FATF Recommendation 7 and Immediate Outcome 11<sup>22</sup>.

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<sup>21</sup> FATF Guidance on Counter Proliferation Financing 2018

<sup>22</sup> FATF Guidance On Counter Proliferation Financing 2018

The term proliferation of weapon of mass destruction (proliferation) does not limit itself to providing or allowing chemical, biological, radiological, or nuclear material or equipment to build weapons, but it also involves the transfer and export of technology, goods, software, services or expertise that could be used in nuclear, chemical or biological weapons-related programs. The targeted financial sanctions aim to prevent the financing of proliferation.

Proliferation financing is providing financial services to those related programs for the transfer and export of nuclear, chemical, or biological weapons, their means of delivery, and related materials. It also involves the financing of trade in sensitive goods needed to support or maintain those programs, even if those goods are not related to any nuclear, chemical, or biological material, such as oil, coal, steel, and military communication equipment. Additionally, proliferation financing includes the financial support to individuals or entities engaged in proliferation, even if they perform other activities that are not related to such programs, such as diplomats, shipping companies, fisheries, and trade-in commodities companies.

The following are cases of violations or evasion of the sanctions imposed by the UNSC related to the Nuclear Programme of the Democratic People's Republic of Korea (DPRK), as presented by the Panel of Experts pursuant to UNSCR 1874, between 2017 and 2020 ("the UN Panel of experts") and the UAE cases related to Proliferation Financing. This paper also gives examples of cases related to the circumvention of the United States of America's sanctions imposed on Iran and the UN sanctions pursuant to UNSCR 1737, continued by UNSCR 2231 related to Iran's nuclear program.

The cases that are explained here involve many sectors, including the financial, trade, and shipping industries. The aim is to increase the awareness in all economic sectors about these sanctions and the importance of their implementation.

## **The use of Banking Sector**

### **Designated banks maintain representative offices and agents abroad**

The UN Panel of experts reported in February 2017 that it had obtained information showing that two UNSC sanctioned banks, Daedong Credit Bank (DCB) and Korea Daesong Bank (KDB), are both operating on Chinese territory, through representative offices in Dalian, Dandong, and Shenyang. A director of such offices also served as a director of a designated company, DCB Finance Ltd., registered in the British Virgin Islands. DCB Finance shared several officers with DCB. When the DCB correspondent accounts were closed in 2005, DCB Finance was set up to undertake wire transfers and business transactions on its behalf<sup>23</sup>.

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<sup>23</sup> Report of the Panel of Experts pursuant UNSCR 1874, S/2017/150, p. 75

The representative in Dalian of DCB and DCB Finance undertook transactions worth millions of United States dollars, including several of \$1 million or more. He also facilitated payments and loans between companies linked to DCB. He exchanged large quantities of bulk cash transferred to China from the DPRK into newer and larger denomination United States dollar notes. He also regularly undertook foreign exchange between United States dollars and euros and transferred balances between DCB and its shareholder, Korea Daesong Bank. When DCB established representative offices in Shenyang in late 2012 and Dandong in 2014, the three offices cooperated in managing the activities of foreign exchange, transfer, bulk cash exchange, and loans<sup>24</sup>.

In 2019, the UAE expelled representatives of the following DPRK Banks:

- Representative and Deputy representative of Korea Kumgang Group Bank
- A representative of Korea Kumgang Group Bank: Who transported DPRK laborers' money in the Middle East to the DPRK.

### **Financial activities of diplomatic and other personnel of the DPRK**

The UN Panel of experts investigated diplomatic or official personnel of the DPRK who act on behalf of the country's sanctioned financial institutions to establish illicit banking networks and provide the country with access to global banking systems.

The UN Panel of experts investigated reports that Jo Kwang Chol, an accredited member of the administrative and technical staff at the Embassy of the DPRK in Austria since 2016, had engaged in sanctions evasion activities on behalf of the designated Foreign Trade Bank. According to information provided by Austria, Mr. Jo had attempted to gain access to Korea Ungum Corporation's frozen accounts at an Austrian bank. Austrian authorities froze the accounts in July 2015 owing to suspected money-laundering activity. At the time, the total balance was approximately \$1,895,633<sup>25</sup>.

### **Transfers through banks**

US authorities in 2016 and 2019 indicated the woman, Ma Xiaohong, her company, Dandong Hongxiang Industrial Development Corp., and other executives in the company on charges of money laundering and helping North Korea evade international sanctions.

Before the indictments, Ma and Dandong Hongxiang routed money to North Korea through China, Singapore, Cambodia, the US, and elsewhere, using an array of shell

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<sup>24</sup> Report of the Panel of Experts pursuant UNSCR 1874, S/2017/150, p. 76

<sup>25</sup> Report of the Panel of Experts pursuant to UNSCR 1874, S/2020/151, p. 63

companies to move tens of millions of dollars through US banks in New York. There is an estimate that in 2015 there were transfers of US \$85.6 million<sup>26</sup>.

## Use of cash to circumvent US sanctions

The United States and the United Arab Emirates (UAE) jointly took action to disrupt an extensive currency exchange network in Iran and the UAE that has procured and transferred millions in US dollar-denominated bulk cash to Iran's Islamic Revolutionary Guard Corps-Qods Force (IRGC-QF) to fund its malign activities and regional proxy groups. Specifically, the US Department of the Treasury's Office of Foreign Assets Control (OFAC) designated nine Iranian individuals and entities. Iran's Central Bank was complicit in the IRGC-QF's scheme and actively supported this network's currency conversion and enabled its access to funds that it held in its foreign bank accounts. This network of exchangers and couriers has converted hundreds of millions of dollars<sup>27</sup>.

## Cyberactivity targeting financial institutions

There is evidence that the DPRK, by means of cyberattacks, is stealing funds from financial institutions and cryptocurrency exchanges in different countries, which allows the country to evade financial sanctions and generate income in ways that are harder to trace and subject to less government oversight and regulation. During 2019, there were investigations of at least 35 reported instances of DPRK actors attacking financial institutions, cryptocurrency exchanges, and mining activity designed to earn foreign currency, including in the following Member States: Bangladesh (2 cases), Chile (2), Costa Rica (1), the Gambia (1), Guatemala (1), India (3), Kuwait (1), Liberia (1), Malaysia (1), Malta (1), Nigeria (1), Poland (1), the Republic of Korea (10), Slovenia (1), South Africa (1), Tunisia (1) and Viet Nam (1)<sup>28</sup>.

According to the UN Panel of Expert, since 2019, there is a marked increase in such cyber activities' scope and sophistication. Some estimates placed the amount illegally acquired by the DPRK at as much as \$2 billion<sup>29</sup>.

<sup>26</sup> NCBC News, 2020, available at <https://www.nbcnews.com/news/world/secret-documents-show-how-north-korea-launders-money-through-u-n1240329>

<sup>27</sup> U.S. Department of Treasury, 2018, [https://home.treasury.gov/news/press-releases/sm0383#:~:text=Washington%20%E2%80%93%20Today%20the%20United%20States,IRGC%20QF\)%20to%20fund%20its](https://home.treasury.gov/news/press-releases/sm0383#:~:text=Washington%20%E2%80%93%20Today%20the%20United%20States,IRGC%20QF)%20to%20fund%20its), accessed on February 1, 2021.

<sup>28</sup> Report of the Panel of Experts pursuant UNSCR 1874, S/2019/691, p. 26

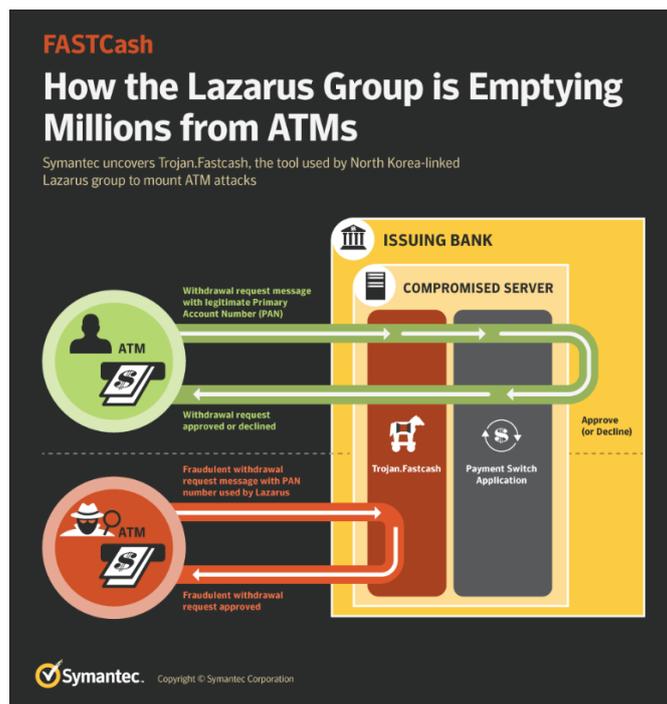
<sup>29</sup> Report of the Panel of Experts pursuant UNSCR 1874, S/2019/691, p. 26

## Operation "FASTCash"

In its report of August 2019, the UN Panel of experts reported on a cyberattack carried out by DPRK cyber actors who gained access to the infrastructure managing entire automatic teller machine networks of a country. The purposes were to install malware modifying transaction processing in order to force 10,000 cash distributions to individuals working for or on behalf of the DPRK across more than 20 countries in five hours. That operation required large numbers of people on the ground, which suggests extensive coordination with DPRK nationals working abroad and possibly cooperation with organized crime<sup>30</sup>.

The operation, known as "FASTCash," was enabled by Lazarus, a group involved in both cybercrime and espionage, with apparent links to DPRK. With this operation, it was possible to fraudulently empty ATMs of cash. To make fraudulent withdrawals, Lazarus first breaches targeted banks' networks and compromises the switch application servers handling ATM transactions.

Figure-2: Diagram showing Lazarus Group schemes used to circumvent UN sanctions



Source: "FASTCash: How the Lazarus Group is emptying millions from ATMs," Symantec, 2 October 2018. Available at [www.symantec.com/blogs/threat-intelligence/fastcash-lazarus-atm-malware](http://www.symantec.com/blogs/threat-intelligence/fastcash-lazarus-atm-malware).

Once these servers are compromised, previously unknown malware (Trojan.Fastcash) was deployed. In turn, this malware intercepts fraudulent Lazarus cash withdrawal requests and sends fake approval responses, allowing the attackers to steal cash from ATMs.

<sup>30</sup> Report of the Panel of Experts pursuant UNSCR 1874, S/2019/691, p. 26

According to a US government alert, one incident in 2017 saw cash withdrawn simultaneously from ATMs in over 30 different countries. In another major incident in 2018, cash was taken from ATMs in 23 separate countries. To date, the Lazarus FASTCash operation is estimated to have stolen tens of millions of dollars<sup>31</sup>.

## Cyberattack on Cryptocurrency Exchange House

In 2019, DPRK cyber actors shifted focus to targeting cryptocurrency exchanges. Some cryptocurrency exchanges have been attacked multiple times, in particular those registered in the Republic of Korea. Bithumb was reportedly attacked by DPRK cyber actors at least four times. The first two attacks, in February and July 2017, resulted in losses of approximately \$7 million each, with subsequent attacks in June 2018 and March 2019 resulting in the loss of \$31 million and \$20 million, respectively, showing the increased capacity and determination of DPRK cyber actors. Similarly, Yobit (formerly Yapizon) suffered multiple attacks involving a \$4.8 million loss in April 2017 and then 17 percent of its overall assets in December 2017, forcing the exchange to close<sup>32</sup>.

## Economic Resources

The DPRK uses bulk cash and gold to transfer value by circumventing the formal financial sector entirely. The following are some cases reported by the UN Panel of Experts.

On 6 March 2015, Bangladesh seized 26.7 kg of gold bars and jewellery (worth \$1.4 million) from the hand luggage of the First Secretary of the embassy of the DPRK in Dhaka. An invoice related to those goods had been issued by AMM Middle East General Trading in Dubai, United Arab Emirates, and they were collected from Singapore. The First Secretary had flown into and out of Singapore from Dhaka on the same day, leaving the airport for three hours. He had undertaken on average one such trip per month to Singapore over the previous 15 months from both Dhaka and Beijing (ranging from a few hours to two days on the ground), suggesting that he was serving as a regular diplomatic courier smuggling gold and other items in evasion of sanctions. He was accompanied by other diplomats of the DPRK on some of the trips<sup>33</sup>.

On 17 March 2016 in Sri Lanka, an overseas worker of the DPRK was arrested at the airport in Colombo carrying \$167,000 in cash, gold jewellery, and watches. He was in route from Oman to Beijing and made no customs declaration. He was accompanied by five other individuals from the DPRK who were working in Oman for a construction company of the DPRK based in Dubai with a post office box address. He produced a list with 311 names of workers of the DPRK whose families in Pyongyang he was to

<sup>31</sup> FASTCash: How the Lazarus Group is emptying millions from ATMs, Symantec, 2 October 2018. Available at [www.symantec.com/blogs/threat-intelligence/fastcash-lazarus-atm-malware](http://www.symantec.com/blogs/threat-intelligence/fastcash-lazarus-atm-malware).

<sup>32</sup> Report of the Panel of Experts pursuant UNSCR 1874, S/2019/691, p. 28

<sup>33</sup> Report of the Panel of Experts pursuant to UNSCR 1874, S/2017/150, p. 79

pay (with amounts varying from \$200 to \$1,500, with an average of around \$300 per family)<sup>34</sup>.

### **Oil Ship-To-Ship Transfers**

Since 2018, the UN Panel of expert's evidence of an increasing frequency of ship-to-ship transfers and one unprecedented prohibited petroleum product transfer comprises 57,623.491 barrels alone, worth \$5,730,886. The Panel's investigation of this transfer reveals a very sophisticated case of DPRK-related vessel identity fraud, highlighting new sanction evasion techniques that defeated the due diligence efforts of the region's leading commodity trader, as well as the United States and Singaporean banks that facilitated the fuel payments and a leading United Kingdom insurer that provided protection and indemnity cover to one of the vessels involved. The case also underlines, once again, the extremely poor reporting, oversight, monitoring, and control over the vessels exercised by the flag-of-convenience States under whose jurisdiction they apparently sail and also the lack of implementation of freezing sanctions<sup>35</sup>.

### **Smuggling Petrochemicals**

UAE Authorities received intelligence on a maritime business activity that belongs to Person – Z where the leads identify that the person forged shipment policies that belong to Iranian petroleum products being shipped to the UAE from Country – (A).

The UAE authorities found that Person – Z forged the shipment policies to support the Iranian proliferation activities in selling petroleum products and smuggling money to entities based in Iran. In addition, Person – Z assisted Iranian companies in registering the vessels with different country flags to avoid US sanctions.

The UAE Prosecution reviewed the investigation reports, where it issued an order to arrest Person – Z / owner and freeze funds and other assets worth of AED 39,000,000 (USD 10,620,000).

### **Nickel Wire**

In 2019, the UAE authorities received information that Person Z had ties to the Iranian Revolutionary Guards Corps (IRGC) and was involved in financing the nuclear program in Iran in violation of UNSCR 2231. Person Z used the UAE as a transit point

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<sup>34</sup> Report of the Panel of Experts pursuant to UNSCR 1874, S/2017/150, p. 79

<sup>35</sup> Report of the Panel of Experts pursuant UNSCR 1874, S/2019/691, p. 8

for a low-value shipment containing samples of nickel rods/wire which were imported from Country A and destined for Iran.

The UAE authorities identified four bank accounts with a total balance of AED 22,000 that belonged to the suspect and his three companies and were used to support the IRGC. The investigations revealed that Person Z was in negotiations to ship larger quantities of the nickel rods/wire to Iran.

The UAE Prosecution issued an order to arrest Person Z and immediately froze all funds in accounts controlled by Person Z and three companies he controlled, totaling AED 22,000. The UAE Prosecution also suspended the business activity of those companies. The case has been referred to the competent court and is pending a verdict.

## **Carbon Fiber**

In collaboration with the UAE, the US Department of the Treasury's Office of Foreign Assets Control (OFAC) designated 11 entities and individuals involved in procurement on behalf of Iran's ballistic missile program. OFAC sanctioned Mabrooka Trading Co LLC (Mabrooka Trading) – based in the United Arab Emirates (UAE) – and a UAE-based network involved in procuring goods for Iran's ballistic missile program. This network obscured the end user of sensitive goods for missile proliferation by using front companies in third countries to deceive foreign suppliers. It has also designated five Iranian individuals who have worked to procure ballistic missile components for Iran.

Hossein Pournaghshband and his company, Mabrooka Trading, were providing or attempting to provide financial, material, technological, or other support to Navid Composite Material Company (Navid Composite), an entity also sanctioned by the US in connection with Iran's ballistic missile program. At the time of its designation, Navid Composite was contracting with Asia-based entities to procure a carbon fiber production line in order to produce carbon fiber probably suitable for use in ballistic missile components. Since at least early 2015, Pournaghshband used his company, Mabrooka Trading, to procure materials and other equipment for Navid Composite's carbon fiber production plan. Pournaghshband is also designated for having provided or attempting to provide financial, material, technological, or other support to Mabrooka Trading<sup>36</sup>.

## **Trade-In Other Goods**

### **Generator**

The UAE authorities arrested a man suspected of importing a generator through the company he owned, which operated in the oil and gas business. He imported the

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<sup>36</sup> U.S. Department of Treasury , 2017, <https://www.treasury.gov/press-center/press-releases/pages/il0322.aspx> accessed on February 1, 2021.

generator from country A, and originally the bill of lading said it was going to be re-exported to country B. But after the device entered the UAE, he forged a bill of lading. He changed the final beneficiary's name from country B to Port of Asalouyeh in Iran, aiming to send the device to Iran's Nuclear Program. The suspect also made financial transfers of the generator's value through his accounts in local banks that were made in batches through the use of a third State, and then transfer the money to a company in country A. The generator was seized, and the suspect was sentenced to ten (10) years imprisonment, deportation, and the confiscation of the device.

## Vibration Analysis Devices

- During the permit-approval process, FANR identified a suspicious shipment that contained a dual-use item. Company X, based in a UAE free zone, had submitted three permits to export inverters valued at AED 95,040. The inverters were listed in the UAE Export Control List and classified as a dual-use item. The documents submitted by Company X included a bill of lading and a bill of sales and purchase (BSP), which had conflicting information on the seller's information and the origin country of the shipment. The documents specified that these items were destined for Iran.

The UAE authorities identified that Company X submitted a forged bill of lading, which declared itself as the shipper, while the BSP identified the seller as another company located in Country T. the UAE authorities determined that the purported seller primarily trades in nuts and thus that its business was not consistent with the trade transaction. Further investigations uncovered that the items were in fact imported by the seller from Country H to the UAE. Company X also provided forged documents of having multiple branches in Country U to mislead the authorities and evade sanctions imposed on the Iran nuclear program.

A physical inspection of Company X's premises determined that it was operating as a front for of the buyer of the inverters, located in Iran. The UAE prosecution identified and froze three bank accounts with a total balance of AED 34,000 related to Company X. Furthermore, Customs authorities seized the shipment and State Security Prosecution ordered a freeze on the shipment (AED 95,040).

- In Q2 of 2019, an export application from Company A, based in the UAE, was received by the Executive Office – IEC through the Online Permitting System (OPS) to export an electronic item manufactured in Country B to Iran. The Executive Office – IEC requested more technical details related to the shipment. Company A declared that the item being shipped has a frequency of 599Hz, which is slightly below the threshold for this item to be considered as a dual-use item (600Hz).

The UAE authorities conducted an inspection of the shipment and concluded that Company A provided a false declaration, and the actual technical specification of the item is 650Hz, which is above the dual-use threshold. Subsequently, the EUAE authorities immediately froze the shipment, which was valued at AED 86,000.

The information was shared with the liaison customs officer in Country B to investigate the exporter of the item and validate whether it held a valid license to export such items to Iran. Country B investigated the exporter and its branches and revealed that the exporter did not hold the valid license to export the electronic item and used a general license to circumvent the export system. In addition, Country B seized the electronic equipment and other relevant documents belonging to the exporter and the case was referred to Country B's public prosecution for further investigations.

## **Misuse of Legal Entities or Arrangements**

### **Purchasing Aircraft Equipment Through 3rd Party**

FIU received a suspicious transaction report from a bank in which Person A owns two companies, one of which (Company A) is suspected to purchase aircraft equipment from companies in Country U. The equipment was shipped to Company B, based in the UAE, and working on behalf of an entity listed on the OFAC list that might supports Iranian nuclear program.

The UAE authorities confirmed that Person A and his companies have a business relationship with a listed entity, and the company was used to cover the ultimate beneficiary of the purchased equipment to avoid sanctions. Which a freeze order was issued on his personal and corporate bank accounts.

The UAE Prosecution has confirmed a reasonable ground based on the investigation reports, an order was issued to arrest Person A and freeze the funds and other assets worth AED 4,800,000.

### **DGS Marine**

Until July 2012, DGS Marine was a Liechtenstein-registered offshore business company located at a fiduciary's office in Vaduz. Following June 2012 media reports that DGS's director, David Skinner, had issued insurance certificates for Iranian-owned oil tankers transporting oil from Syria allegedly in contravention of European Union sanctions, the Liechtenstein Financial Authority issued a July 2012 warning notice stating that DGS Marine was not licensed to issue insurance in Liechtenstein. Following the Liechtenstein warning notice, Mr. Skinner registered DGS Marine as a BVI business company in August 2012. The UN Panel of experts was able to confirm that DGS Marine was not licensed or authorized to issue insurance in the BVI either.

In addition, the 2009 DGS Marine annual report contained false information regarding the identity of an individual described as DGS Marine's "independent auditor," calling into question the certification of DGS Marine's annual financial statements. DGS Marine did not respond to the Panel's inquiries, and during the course of the Panel's investigation, the death of Mr. Skinner was announced, and shortly afterward, the DGS website was shut down. Media reporting subsequently indicated that DGS Marine was

an elaborate insurance scam that, while maintaining offices in the United Kingdom, Cyprus, Denmark, Vietnam, India, China, and the United Arab Emirates, did not possess the millions of pounds in securities alleged in its annual reports.<sup>37</sup>

### **The GENCO/KOGEN Group**

This is a case, published in the UN Panel of experts report pursuant to resolution UNSCR 1874 in March 2019 and August 2019, involving the Korea General Corporation for External Construction (a.k.a. GENCO, a.k.a. KOGEN) group, a network of legal companies and arrangements registered in different countries linked with the Reconnaissance General Bureau, a North Korean intelligence agency that manages the State's clandestine operations.

The UN Panel of experts reported on the ongoing investigation into GENCO/KOGEN that showed that the company has a large reach and extensive network in several countries in the Middle East, Africa, and Eurasia, where it utilizes laborers, prohibited cooperative entities, and joint ventures of the DPRK and earns significant revenue. According to a country, GENCO/KOGEN "has worked to supply North Korean laborers in the Middle East for the purpose of earning hard currency for [the] North Korea [n government]."The Panel's investigations found evidence of KOGEN activity by a joint venture with a company of the United Arab Emirates<sup>38</sup>.

According to corporate registration documents, GENCO is the partial owner of a cooperative construction entity or joint venture company in the Russian Federation, LLC "SAKORENMA," with majority ownership belonging to a Russian national. This cooperative entity or joint venture maintains an account with a Russian bank. Furthermore, the company shares addresses, contact information, and shareholders with three other companies, all of which engage in construction-related activities. In addition, corporate registry documents show that GENCO operates two official representative offices in the Russian Federation, one in Vladivostok and one in Khasan, that together formally employ 17 foreign nationals.<sup>39</sup>

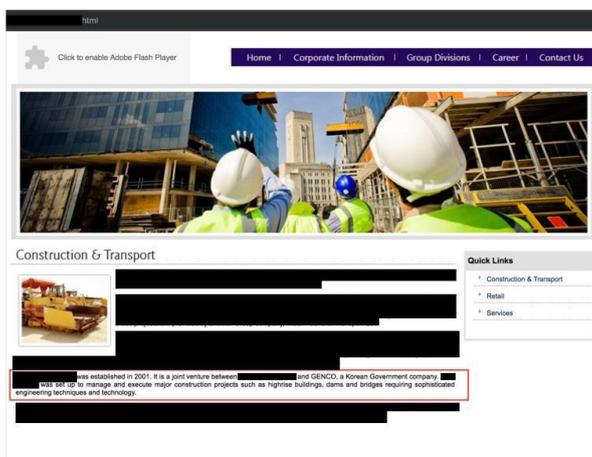
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<sup>37</sup> Panel of Experts pursuant UNSCR 1874, S/2017/150, p. 206

<sup>38</sup> Report of the Panel of Experts pursuant UNSCR 1874, S/2019/171, p. 56

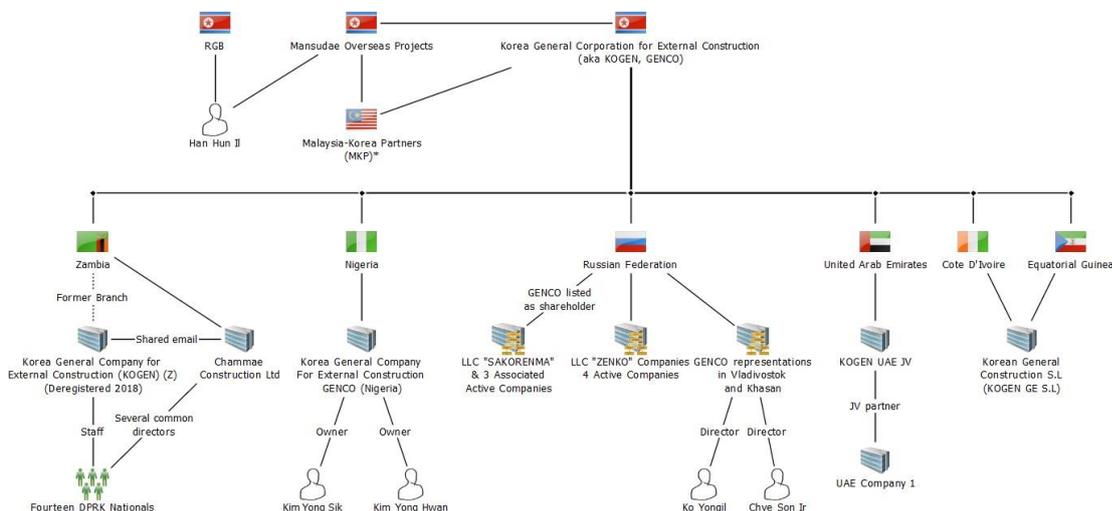
<sup>39</sup> Report of the Panel of Experts pursuant UNSCR 1874, S/2019/171, p. 56

Figure-3: Website of KOGEN entity in the United Arab Emirates



The presence of GENCO/KOGEN in Africa covers Nigeria, Côte d'Ivoire, and Equatorial Guinea. In Nigeria, it is registered as "Korea General Company for External Construction GENCO (Nigeria)." In Côte d'Ivoire, "Korea General Construction SL (KOGEN GE SL)" was registered in 2012. The website of the African Union Inter-African Bureau for Animal Resources lists KOGEN GE SL as its implementing partner for a project funded by Equatorial Guinea. KOGEN was separately reported as a contractor for the Rebola Municipal Stadium, completed in 2016, which documents suggest earned KOGEN approximately \$30.5 million. Local news claims that KOGEN opened a new, large national headquarters in Equatorial Guinea the same year<sup>40</sup>.

Figure-4: I2 chart showing GENCO/KOGEN network



<sup>40</sup> Report of the Panel of Experts pursuant UNSCR 1874, S/2019/171, p. 56

## GENCO Network

Source: *The Report of the UN Panel of experts pursuant UNSCR 1874, S/2019/171, p. 57.*

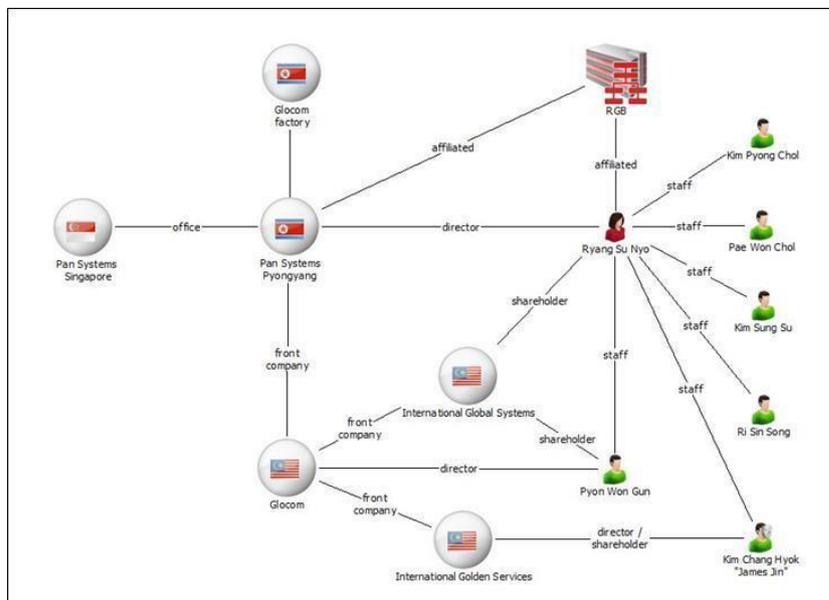
Analysis of GENCO/KOGEN bank accounts in Zambia, in dollars and in the local currency, showed regular cash and cheque activity and high account turnover. The accounts demonstrated similar patterns of cheque deposits, followed by incoming transfers, followed by regular cheque withdrawals<sup>41</sup>.

## The Glocom Group

Glocom is a Malaysia based company that advertises radio communications equipment for military and paramilitary organizations. Glocom claims a presence in more than 10 countries and a prominent international reputation gained through participating, according to its website, in three biennial "Defense Service Asia" arms exhibitions since 2006. However, Glocom is not officially registered and has no presence at its listed physical address. Two other Malaysia based companies acting on its behalf: International Golden Services Sdn Bhd and International Global Systems Sdn Bhd<sup>42</sup>.

**Figure-5: Pan Systems Pyongyang network**

Source: Report of the UN Panel of Experts pursuant UNSCR 1874, S/2017/150, p. 36.



Information obtained by the UN Panel of experts demonstrates that Glocom is a front company of the DPRK company Pan Systems Pyongyang Branch (Pan Systems

<sup>41</sup> Report of the Panel of Experts pursuant UNSCR 1874, S/2019/171, p. 55

<sup>42</sup> Report of the Panel of Experts pursuant UNSCR 1874, S/2017/150, p. 34

Pyongyang), which is linked to a Singaporean company named Pan Systems (S) Pte Ltd (Pan Systems Singapore)<sup>43</sup>.

According to information obtained by the Panel, Pan Systems Pyongyang is operated by the Reconnaissance General Bureau, the country's premier intelligence agency, designated under UNSCR 2270 (2016). This shows how the Bureau enables its key agents to generate revenues for its operations through such networks. Additionally, the UN Panel of experts determined that "Wonbang Trading Co." is an alias of Pan Systems Pyongyang. The information shows that Pan Systems Pyongyang also regularly received funds from the Korea Mining Development Trading Corporation (KOMID)<sup>44</sup>.

### **Financial Operations Of Glocom/Pan Systems Pyongyang**

In its banking operations, Pan Systems Pyongyang and its front companies used an extensive network of individuals, companies, and offshore bank accounts to procure and market arms and related material. The global network consisted of individuals, companies, and bank accounts in China, Indonesia, Malaysia, Singapore, and the Middle East. In particular, €36,939 was transferred to International Global Systems in 2008 from an account at the Damascus branch of a Middle Eastern bank<sup>45</sup>.

Since 1998, Pan Systems Pyongyang and International Global Systems have used accounts in United States dollars and euros at Daedong Credit Bank (a DPRK Bank) to gain access to the international financial system, including through bank accounts in China. These accounts were used to transfer funds to a supply chain of more than 20 companies located primarily on the Chinese mainland, in Hong Kong, China, and Singapore. In recent years, procurement shifted almost entirely to companies in China and Hong Kong, China. Most of these companies supplied electronic products, radio components, and casings consistent with Glocom's advertised military communications equipment, while others were transport companies. The network also made regular transfers to various facilitators with Chinese, Korean, foreign, and code names working in China, Indonesia, Malaysia, and the Middle East<sup>46</sup>.

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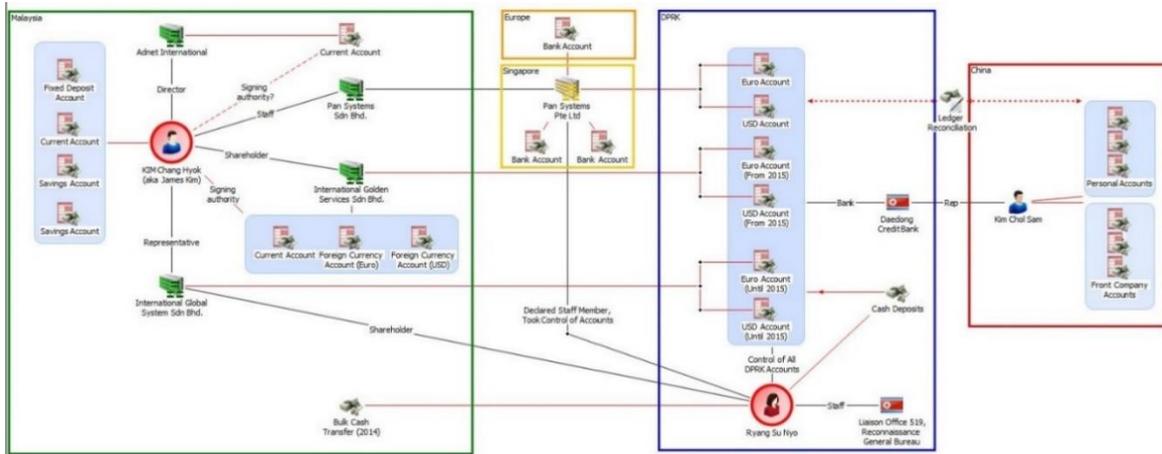
<sup>43</sup> Report of the Panel of Experts pursuant UNSCR 1874, S/2017/150, p. 34

<sup>44</sup> Report of the Panel of Experts pursuant UNSCR 1874, S/2017/150, p. 36

<sup>45</sup> Report of the Panel of Experts pursuant UNSCR 1874, S/2017/150, p. 77

<sup>46</sup> Report of the Panel of Experts pursuant UNSCR 1874, S/2017/150, p. 77

Figure-6: Accounts controlled by Glocom



Source: Report of the UN Panel of Experts pursuant UNSCR 1874, S/2018/171, p. 64

In terms of incoming transfers, Pan Systems Pyongyang received large remittances from an account at a major bank in Malaysia, as well as from numerous companies of the DPRK. Transfers were also made from the Shenyang consulate of the DPRK. Pan Systems Pyongyang also regularly used bulk cash transfers. In addition, Pan Systems Pyongyang received funds from two designated entities, KOMID and Hyoksin Trading Corporation. Between 2011 and 2013, Hyoksin made multiple euro-denominated transfers to Pan Systems Pyongyang, as did KOMID between 2011 and 2015<sup>47</sup>.

In addition to its four bank accounts with the Daedong Credit Bank in Pyongyang, the Glocom network controlled at least 10 accounts in four other countries between 2012 and 2017, including through Malaysia-based front companies. Records show that these multiple overseas accounts allowed Glocom to continuously move funds between accounts it controlled in different banks and countries in the course of its illicit trade<sup>48</sup>.

<sup>47</sup> Report of the Panel of Experts pursuant UNSCR 1874, S/2017/150, p. 78

<sup>48</sup> Report of the Panel of Experts pursuant UNSCR 1874, S/2018/171, p. 64

## TFS - TF Red Flags

Considering the above typologies, the following are some red flags or indicators that could be looked at more closely or monitored by financial institutions and designated non-financial businesses or professions to identify TF potential sanctions circumventions of your clients, their business, or their transactions.

- A large number of incoming or outgoing funds transfers take place through a business account, and there appears to be no logical business or other economic purpose for the transfers, particularly when this activity involves higher-risk locations.
- Funds transfers do not include information on the originator, or the person on whose behalf the transaction is conducted, when the inclusion of such information would be expected.
- Funds are sent or received via international transfers from or to higher-risk locations.
- Foreign exchange transactions are performed on behalf of a customer by a third party, followed by funds transfers to locations having no apparent business connection with the customer or to higher-risk countries.
- Transactions involving foreign currency exchanges are followed within a short time by funds transfers to higher-risk locations.
- Funds are generated by a business owned by persons of the same origin or by a business that involves persons of the same origin from higher-risk countries (e.g., countries designated by national authorities and FATF as non-cooperative countries and territories).
- Multiple accounts are used to collect and funnel funds to a small number of foreign beneficiaries, both persons and businesses, particularly in higher-risk locations.
- A customer obtains a credit instrument or engages in commercial financial transactions involving the movement of funds to or from higher-risk locations when there appear to be no logical business reasons for dealing with those locations.
- Transactions involving certain high-risk jurisdictions such as locations in the midst of or in proximity to, armed conflict where terrorist groups operate or locations, which are subject to weaker ML/TF controls.
- Multiple personal and business accounts or the accounts of non-profit organizations or charities are used to collect and funnel funds to a small number of foreign beneficiaries.
- An account opened in the name of an entity, a foundation or association, which may be linked or involved with a suspected terrorist organization.
- The use of funds by a non-profit organization is not consistent with the purpose for which it was established.
- Raising donations in an unofficial or unregistered manner.
- Client donates to a cause that is subject to derogatory information that is publicly available (e.g., crowdfunding initiative, charity, non-profit organization, non-government organization, etc.).
- Client identified by media or law enforcement as having travelled, attempted or intended to travel to high-risk jurisdictions (including cities or districts of

- concern), specifically countries (and adjacent countries) under conflict and/or political instability or known to support terrorist activities and organizations.
- Transactions involve individual(s) or entity(ies) identified by media and/or Sanctions List as being linked to a terrorist organization or terrorist activities.
  - Client conducted travel-related purchases (e.g., purchase of airline tickets, travel visa, passport, etc.) linked to high-risk jurisdictions (including cities or districts of concern), specifically countries (and adjacent countries) under conflict and/or political instability or known to support terrorist activities and organizations.
  - Individual or entity's online presence supports violent extremism or radicalization.
  - Irregularities during the CDD process which could include, but is not limited to:
    - Inaccurate information about the source of funds and/or the relationship with the counterparty.
    - Refusal to honor requests to provide additional KYC documentation or to provide clarity on the final beneficiary of the funds or goods.
    - Suspicion of forged identity documents
  
  - The following redflags are related to the use of Virtual Assets / Cryptocurrency:
    - The use of virtual assets to send funds to a few select wallets at unregulated virtual assets exchanges (or exchanges in territories where sanctioned people have influence or sanctioned jurisdictions).
    - Financial institutions should pay particular attention to the transfer of funds to a virtual assets exchange's operational banking account (to fund a virtual asset wallet) followed by the crypto-to-fiat conversion (either more or less) from the same exchange within a relatively short period of time.

## TFS – PF Red Flags

Below are the Red-flags and Indicators of Possible Proliferation Financing to the 2018 FATF Typologies Report on Proliferation Financing that can help the public and private sector (FIs & DNFBPs) to detect any suspicious transactions to proliferation financing<sup>49</sup>:

- Transaction involves person or entity in foreign country of proliferation concern.
- Transaction involves person or entity in foreign country of diversion concern.
- The customer or counterparty or its address is similar to one of the parties found on publicly available lists of “denied persons” or has a history of export control contraventions.
- Customer activity does not match business profile, or end-user information does not match end user’s business profile.
- A freight-forwarding firm is listed as the product’s final destination.
- Order for goods is placed by firms or persons from foreign countries other than the country of the stated end-user.
- Transaction involves possible shell companies (e.g., companies do not have a high level of capitalisation or displays other shell company indicators).
- Transaction demonstrates links between representatives of companies exchanging goods i.e., same owners or management.
- Circuitous route of shipment (if available) and/or circuitous route of financial transaction.
- Transaction involves persons or companies (particularly trading companies) located in countries with weak export control laws or weak enforcement of export control laws.
- Transaction involves shipment of goods inconsistent with normal geographic trade patterns (e.g., does the country involved normally export/import good involved).
- Transaction involves financial institutions with known deficiencies in AML/CFT controls and/or domiciled in countries with weak export control laws or weak enforcement of export control laws.
- Based on the documentation obtained in the transaction, the declared value of the shipment was obviously under-valued vis-à-vis the shipping cost.
- Inconsistencies in information contained in trade documents and financial flows, such as names, companies, addresses, final destination etc.
- Pattern of wire transfer activity that shows unusual patterns or has no apparent purpose.
- Customer vague/incomplete on information it provides, resistant to providing additional information when queried.
- New customer requests letter of credit transaction awaiting approval of new account.
- Wire instructions or payment from or due to parties not identified on the original letter of credit or other documentation.

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<sup>49</sup> FATF, 2018. *Guidance on Counter Proliferation Financing – The Implementation of Financial Provisions of United Nations Security Council Resolutions to Counter the Proliferation of Weapons of Mass Destruction*, FATF, Paris [www.fatf-gafi.org/publications/fatfrecommendations/documents/guidance-counter-proliferation-financing.html](http://www.fatf-gafi.org/publications/fatfrecommendations/documents/guidance-counter-proliferation-financing.html)

- Involvement of items controlled under WMD export control regimes or national control regimes.
- Involvement of a person connected with a country of proliferation concern (e.g., a dual-national), and/or dealing with complex equipment for which he/she lacks technical background.
- Use of cash or precious metals (e.g., gold) in transactions for industrial items.
- Involvement of a small trading, brokering or intermediary company, often carrying out business inconsistent with their normal business.
- Involvement of a customer or counterparty, declared to be a commercial business, whose transactions suggest they are acting as a money-remittance business.
- Transactions between companies on the basis of “ledger” arrangements that obviate the need for international financial transactions.
- Customers or counterparties to transactions are linked (e.g., they share a common physical address, IP address or telephone number, or their activities may be coordinated).
- Involvement of a university in a country of proliferation concern.
- Description of goods on trade or financial documentation is nonspecific, innocuous or misleading.
- Evidence that documents or other representations (e.g., relating to shipping, customs, or payment) are fake or fraudulent.
- Use of personal account to purchase industrial items.
- The following Red-Flags are specific to proliferation Financing cases related to the UAE and other regional countries:
  - The use of representative offices of UNSC sanctioned banks to remit DPRK labours money to DPRK.
  - The use of extensive currency exchange networks to transfer bulk cash to Iranian nuclear program.
  - The use of cyber-attacks by the DPRK regime to steal funds from FIs and crypto currency exchanges.
  - Transactions involved in sale, shipment, or export of dual use goods on incompatible with technical level of the country being shipped (e.g., semiconductor manufacturing equipment being shipped to a country that has no electronics industry).
  - Trade finance transaction involved shipment route with weak export control laws.
  - Dealings, directly or through a client of your client, with sanctioned countries or territories where sanctioned persons are known to operate.
  - The use of shell companies through which funds can be moved locally and internationally by misappropriating the commercial sector in the UAE.
  - Dealings with sanctioned goods or under embargo. For example:
    - Weapons
    - Oil or other commodities
    - Luxury goods (for DPRK sanctions)
  - Dealings with controlled substances / Dual-Use items.
  - Identifying documents that seemed to be forged or counterfeited.
  - Identifying tampered or modified documents with no apparent explanation, especially those related to international trade.
  - When the flows of funds exceed those of normal business (revenues or turnover).

- The activity developed or financed does not relate to the original or intended purpose of the company or entity. For example:
  - For companies, they are importing high-end technology devices, but they are registered as a company that commercializes nuts.
  - For a non-profit organization, they are exporting communication devices, but they are an entity aimed to provide health services.
- Very complex commercial or business deals that seem to be aiming to hide the final destiny of the transaction or the good.
- Complex legal entities or arrangements that seem to be aiming to hide the beneficial owner.
- Carrying out of multiple ATM cash withdrawals in short succession (potentially below the daily cash reporting threshold) across various locations in territories where sanctioned people have influence or in the border of sanctioned countries.

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## Document Change Log

The following main amendments have been made to the Typologies on Circumvention of the Targeted Sanctions Against Terrorism and Proliferation of Weapons and Mass Destruction since the text was adopted in March 2021.

Page Number	Type of amendments	Sections subject to amendments
8	Addition of a new section and case study	To add a section to clarify the trends and methods that can be used to Finance the "Houthies Movement" by including a case study.
12 & 13	Addition of two case studies	To add two case studies to "NPO Affiliation with Terrorist Entity" section.
15	Addition of a case study	To add a case study that demonstrate the trade of dual use by a terrorist group (Somalia Youth Movement).
17 & 18	Addition of two case studies	To add two case studies to the section titled "Misuse of legal entities" to elaborate more about the methods used in Sanction Evasion.
18 & 19	Addition of new section	To add a new section on using virtual assets to support TFS
-	Deletion of section	To delete the section under the title "Indirect Making economic resources available".
26	Addition of a case study	To add a case study under the title of the section "Smuggling Petrochemicals".
28	Addition a case study	To add a case study to demonstrate the international cooperation for countering Proliferation Financing.

35 - 39	Rearrange the TFS-Red flags	To rearrange the red flags to include to separated sections one for "TFS- TF Red Flags" and the other for "TFS-PF Red Flags".
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