

# **The Joint Money Laundering Steering Group**



## Prevention of money laundering/ combating terrorist financing

### **2020 REVISED VERSION**

GUIDANCE FOR THE UK FINANCIAL SECTOR

#### **PART III – SPECIALIST GUIDANCE**

**June 2020**

*Note: This guidance may be outdated and is currently being reviewed (May 2023)*

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## **PART III: SPECIALIST GUIDANCE**

*Note: This guidance may be outdated and is currently being reviewed (May 2023)*

*This specialist guidance is incomplete on its own. It must be read in the context of the main guidance set out in Part I of the Guidance.*

*This material is issued by JMLSG to assist firms by setting out guidance on how they may approach meeting certain general obligations contained in legislation and regulation, or determining the 'equivalence' of particular overseas markets, where there is no expectation or requirement in law that such guidance be formally approved by HM Treasury.*

*Section 3 of the the guidance in this Part therefore does not carry the same Ministerial approval as the other guidance in this Part, and in Parts I and II.*

### **CONTENTS**

- 1. Transparency in electronic payments (Wire transfers)**
- 2. [Equivalent jurisdictions DELETED - MOVED TO ANNEX TO PART I CHAPTER 4]**
- 3.\* Equivalent markets**
- 4. Compliance with the UK financial sanctions regime**
- 5. Directions under the Counter-Terrorism Act 2008, Schedule 7**

\*This section does not carry HM Treasury Ministerial approval

## 1: Transparency in electronic payments (Wire transfers)

*Note: This section may only be relevant to a limited number of firms in the financial sector (see Part I, paragraphs 5.2.10ff). Part A refers to FATF R16 and Part B to Cover Payments.*

### PART A – FATF R16

#### Background

- 1.1 FATF issued Recommendation 16 in February 2012 (previously Special Recommendation VII, first issued in 2001), with the objective of enhancing the transparency of electronic payment transfers (“wire transfers”) of all types, domestic and cross border, thereby making it easier for law enforcement to track funds transferred electronically by terrorists and criminals. A revised Interpretative Note to this Recommendation was also issued by the FATF in February 2012. R16 and the Interpretive Note are available at <http://www.fatf-gafi.org/publications/fatfrecommendations/documents/fatf-recommendations.html>.
- 1.2 Recommendation 16 is addressed to FATF member countries, and was implemented in member states of the European Union, including the UK, through Regulation 2015/847, at :<http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=celex%3A32015R0847>.
- 1.3 When at least one of the PSPs is established in the EU, the Regulation requires the ordering financial institution to ensure that all wire transfers carry specified information about the originator (Payer) who gives the instruction for the payment to be made and the beneficiary (Payee), the recipient of the payment. The core requirement is that this information consists of name, address and account number; however, there are a number of permitted variations and concessions, see below under **Information Requirements** (paragraphs 1.14ff).
- 1.4 As the text of this Regulation has EEA relevance, the three non-EU Member States of the EEA, i.e., Iceland, Liechtenstein and Norway, are expected to enact equivalent legislation. As and when this happens, references in this guidance to *intra-EU* can be understood to include these states. However, for the time being the reduced information requirement available within the EU will not apply to payments to and from those countries.
- 1.5 During 2008, the AML Task Force of the three Level 3 Committees (European Banking Supervisors, Securities Regulators and Insurance and Operational Pensions) investigated the varying approaches of Payment Service Providers across the EU to the inward monitoring obligations contained in the Regulation. Following consultation with industry and others, they published in October 2008 a ‘Common Understanding’ designed to achieve a more consistent approach by Payment Service Providers. Further details are set out at paragraphs 1.31 and Annex 1-I.
- 1.6 On 22 September 2017, the European Supervisory Agencies issued [Guidelines](#) on measures that should be taken in order to comply with Regulation 2015/847. Payment Service Providers should read the JMLSG text in conjunction with these Guidelines, which are at:

[https://esas-joint-committee.europa.eu/Publications/Guidelines/Joint%20Guidelines%20to%20prevent%20terrorist%20financing%20and%20money%20laundering%20in%20electronic%20fund%20transfers%20\(JC-GL-2017-16\).pdf](https://esas-joint-committee.europa.eu/Publications/Guidelines/Joint%20Guidelines%20to%20prevent%20terrorist%20financing%20and%20money%20laundering%20in%20electronic%20fund%20transfers%20(JC-GL-2017-16).pdf)

## Scope of the Regulation

1.7 The Regulation is widely drawn and intended to cover all types of funds transfer falling within its definition as made “at least partially by electronic means”, other than those specifically exempted wholly or partially by the Regulation. For UK-based Payment Service Providers (PSPs) it therefore includes, but is not necessarily limited to, international payment transfers made via SWIFT, including various Euro payment systems, and domestic transfers via CHAPS and BACS. The Regulation specifically exempts the following payment types:

- transfers where both Payer and Payee are PSPs acting on their own behalf - this will apply to MT 200\* series payments via SWIFT. This exemption will include MT 400 and MT 700 series messages when they are used to settle trade finance obligations between banks (\*cover payments using MT 202/202COVs **are**, however, in scope – see Part B of this guidance);
- Services listed in points (a) to (m) and (o) of Article 3 of Directive 2007/64/EC.
- transfers by a payment card, an electronic money instrument or a mobile phone, or any other digital or IT prepaid or postpaid device with similar characteristics, providing that the card, instrument or device is used exclusively for payment for goods or services and that any transfer flowing from the transaction is accompanied by the number of the card, instrument or device . It should, however, be noted that the use of a payment card, an electronic money instrument or a mobile phone, or any other digital or IT prepaid or post-paid device with similar characteristics in order to effect a person-to-person transfer of funds does fall within the scope of the Regulation;
- transfers whereby the Payer withdraws cash from his/her own account. This is designed to exempt ATM withdrawals outside the EU which would otherwise attract the full information requirement;
- transfers to public authorities for taxes, fines or other levies;
- transfers carried out through cheque images exchanges, including truncated cheques ;

1.8 The following payment types are also exempt under the Regulation (under derogations which are not used in the UK):

- Article 2 (5), which exempts small payments for goods and services, relates to giro payment systems in a few other member states;
- funds transfers of €150 or less for charitable, religious, cultural, educational, social, scientific or fraternal purposes to a prescribed group of non-profit organisations which run annual / disaster relief appeals and which are subject to reporting and external audit requirements or supervision by a public authority and whose names and supporting details have been specifically communicated by the Member State to the Commission. This applies only to transfers within the territory of the Member State. The exemption is designed to ensure that small charitable donations to certain bona fide bodies are not frustrated, but has limited practical relevance in the UK, where typical mechanisms for making payments to charities, e.g., by credit transfer or by card payment within the EU, will either not be subject to the Regulation, or where they are, will be compliant with it in any case;

- 1.9 The UK credit clearing system is out of scope of the Regulation as it is paper-based and hence transfers are not carried out “by electronic means”. Cash and cheque deposits over the counter via bank giro credits are not therefore affected by the Regulation.

Note: The Regulation defines “Payee” as the intended recipient of transferred funds. Recognizing that a perverse and wholly unworkable interpretation could be put on those words, where a named Payee might have been a conduit for an undisclosed ‘final recipient’ to serve a criminal objective, this Guidance takes the position that ‘final recipient’ can only practically be understood as referring to the party named in the transfer as the beneficiary of the payment.

See paragraph 1.18 below in relation to the merchant acquisition payment process.

### **Pre-conditions for making payments**

- 1.10 Payment Service Providers (PSPs) of Payers and Payees must ensure that the information conveyed in the payment relating to account holding customers is accurate and has been verified. The verification requirement is deemed to be met for account holding customers of the PSP whose identity has been verified, and where the information obtained by this verification has been stored in accordance with anti-money laundering requirements, i.e., in the UK in accordance with the Money Laundering Regulations 2017, which gave effect to the Fourth EU Money Laundering Directive. This position applies even though the address shown on the payment transfer may not have been specifically verified. No further verification of such account holders is required, although PSPs may wish to exercise discretion to do so in individual cases; e.g., firms will be mindful of Part I, paragraphs 5.317 – 5.3.20, concerning customers with existing relationships. (See 1.13ff where the named Payer is not the holder of the account to be debited.)
- 1.11 Where both PSPs are based in the EEA –
- PSPs of Payers must only verify the information on the Payer if the transfer exceeds €1,000 (single or linked), if the funds have been received in cash or anonymous electronic money, or if there are reasonable grounds for suspecting money laundering or terrorist financing.
  - PSPs of Payees must only verify the information on the Payee if the transfer exceeds €1,000 (single or linked), if the funds are paid out in cash or anonymous electronic money, or if there are reasonable grounds for suspecting money laundering or terrorist financing.
- 1.12 Evidence of verification must be retained with the customer information in accordance with **Record Keeping Requirements** (see 1.20-1.21).

### **Information Requirements**

#### **1.13 Complete payer and payee information:**

Except as permitted below, complete Payer and Payee information must accompany all wire transfers. Effectively, the complete Payer and Payee information requirement applies where the destination PSP is located in a jurisdiction outside the European Union. Complete Payer information consists of: name, address and account number. Complete Payee information consists of: name and account number.

- Address ONLY may be substituted with the Payer’s date and place of birth, or national identity number or customer identification number. This Guidance recommends that these options are only deployed selectively within a firm’s processes to address particular needs.

It follows that in the event a Payee PSP demands the Payer's address, where one of the alternatives had initially been provided, the response to the enquiry should point that out. Only with the Payer's consent or under judicial compulsion should the address be additionally provided.

- Where the payment is not debited to a bank account, the requirement for the account number(s) must be substituted by a unique identifier which permits the payment to be traced back to the Payer.
- The extent of the information supplied in each field will be subject to the conventions of the messaging system in question and is not prescribed in detail in the Regulation.
- The account number could be, but is not required to be, expressed as the IBAN (International Bank Account Number).
- The Regulation applies even where the Payer and Payee hold accounts with the same PSP.
- Where a bank is itself the Payer, as will sometimes be the case even for SWIFT MT 102 and 103 messages, this Guidance considers that supplying the Bank Identifier Code (BIC) constitutes complete Payer information for the purposes of the Regulation, although it is also preferable for the account number to be included where available. The same applies to Business Entity Identifiers (BEIs), although in that case the account number should always be included. As the use of BICs and BEIs is not specified in FATF Special Recommendation 16 or the Regulation, there may be requests from Payee PSPs for address information.
- Generally, firms will populate the information fields from their customer database. In cases where electronic banking customers input their details directly the Payer's PSP is not required, at the time that the account is debited, to validate the Payer's name and/or address against the name and address of the accountholder whose account number is stated on the payment transfer.
- Where the named Payer is not the accountholder the Payer's PSP may either substitute the name and address (or permitted alternatives) of the account holder being debited (subject to any appropriate customer agreement), or execute the payment instruction with the alternative Payer name and address information provided with the consent of the accountholder. In the latter case, provided the Payer PSP retains all relevant data for 5 years, the Payer PSP is required to verify only the information about the accountholder being debited (in accordance with Article 5.3a. of the Regulation). PSPs should exercise a degree of control to avoid abuse of the discretion by customers.

It is important to note that this flexibility should not undermine the transparency of Payer information sought by FATF Special Recommendation 16 and the Regulation. It is designed to meet the practical needs of corporate and other business (e.g., solicitor) accountholders with direct access who, for internal accounting reasons, may have legitimate reasons for quoting alternative Payer details with their account number.

- Where payment instructions are received manually, for example, over the counter, the Payer name and address (or permitted alternative) should correspond to the account holder. Any request to override customer information on a similar basis to that set out above for electronic banking customers should be contained within a rigorous referral and approval mechanism to ensure that only in cases where the PSP is entirely satisfied that the reason is legitimate should the instruction be exceptionally dealt with on that basis. Any suspicion

arising from a customer's behaviour in this context should be reported to the firm's Nominated Officer.

- Payee PSPs are not obligated to pass on to the payee all the payer information they receive with a transfer. However, Regulation 38 of the Payment Services Regulations 2009 provides inter alia that:

"The payee's payment service provider must, immediately after the execution of the payment transaction, provide or make available to the payee the information specified in paragraph (2).

(2) The information referred to in paragraph (1) is—

(a) a reference enabling the payee to identify the payment transaction and, where appropriate, the payer and any information transferred with the payment transaction;"

#### **1.14 Reduced Payer Information:**

Where the PSPs of both Payer and Payee are located within the European Union, wire transfers need be accompanied only by at least the payment account number of both the payer and the payee. The account number of the payer can be substituted for unique transaction identifier where the payment is not being debited from an account.

- However, if requested by the Payee's PSP, complete information (where the transaction is over €1,000) must be provided by the Payer's PSP within three working days, starting the day after the request is received by the Payer's PSP. ("Working days" is as defined in the Member State of the Payer's PSP). For payments under €1,000 only the name and payment account number (or unique transaction identifier) are required.
- Article 24 of the Regulation provides for the circumstances in which transfers of funds between EU Member States and territories outside the EU with whom they share a monetary union and payment and settlement systems may be treated as transfers within the Member State, so that the reduced information requirement can apply to payments passing between that Member State and its associated territory (but not between any other Member State and that territory). In the case of the UK such arrangements will include the Channel Islands and the Isle of Man.
- Firms which avail themselves of the option to provide reduced payer information in intra-EU transfers should bear in mind that they may face requests for additional information (especially name) from payee banks for the purpose of sanctions screening (see section 4: *Compliance with the UK financial sanctions regime*, paragraph 4.94).

#### **1.15 Batch File Transfers:**

A hybrid complete/reduced requirement applies to batch file transfers from a single Payer to multiple Payees outside the EU in that the individual transfers within the batch need carry only the Payer's account number or a unique identifier, provided that the batch file itself contains complete Payer information.

#### **1.16 Payments via Intermediaries:**

Intermediary PSPs (IPSPs) must, subject to the following guidance on technical limitations, ensure that all information received on the payer and payee which accompanies a wire transfer

is retained with the transfer. On a risk based approach the IPSP must determine whether to execute, reject or suspend a transfer of funds lacking the required payer or payee information.

It is preferable for an IPSP to forward payments through a system which is capable of carrying all the information received with the transfer. However, where an IPSP within the EU is technically unable to on-transmit Payer information originating outside the EU, it may nevertheless use a system with technical limitations provided that:

- if it is aware that the payer or payee information is missing or incomplete it must concurrently advise the payee's PSP of the fact by an agreed form of communication, whether within a payment or messaging system or otherwise.
- it retains records of any information received for five years, whether or not the information is complete. If requested to do so by the payee's PSP, the IPSP must provide the payer information within three working days of receiving the request.

Where the IPSP becomes aware subsequent to processing the payment that it contains meaningless or incomplete information either as a result of random checking or other monitoring mechanisms under the IPSP's risk-based approach, it must:

- (i) seek the necessary information on the Payer and Payee

and/or

- (ii) take any necessary action under any applicable law, regulation or administrative provisions relating to money laundering or terrorist financing.

Where a PSP repeatedly fails to provide the required information on the payer or payee, the IPSP must take steps, which may include the issuing of warnings and setting of deadlines, before either rejecting any future transfers of funds from the PSP or restricting or terminating its business relationship with the PSP. Such repeated failures must be reported to the NCA.

- 1.17 As indicated in paragraph 1.7, card transactions for the purchase of *goods and services* are out of scope of the Regulation provided that the number of the card, instrument or device, allowing the transaction to be traced back to the payer, accompanies the movement of the funds. The 16 digit Card PAN number serves this function.

Similarly, the Card PAN number meets the information requirement for all Card transactions for any purpose where the derogation for transfers within the European Union applies, as explained in and subject to the conditions set out in paragraph 1.13.

Complete payer information is required in all cases where the card is used to generate a direct credit transfer, including a balance transfer, to a payee whose PSP is located outside the EU. These are "push" payments, and as such capable of carrying the information when required under the Regulation.

Otherwise, Card transactions are "pull" payments, i.e., the transfer of funds required to give effect to the transaction is initiated by the merchant recipient rather than the Card Issuer and under current systems it is not possible for any information in addition to the PAN number to flow with the transfer in those cases where the transaction is arguably not for 'goods and services' but is settled to a PSP outside the EU. Examples include Card transactions used to make donations to charity or place bets. As a matter of expediency these transactions must therefore be treated as 'goods and services'. FCA and HM Treasury have supported that interpretation for the time being, subject to further review at an unspecified future date on the basis that the transactions are traceable by the PAN number.



## 1.18 Merchant Acquisition

Part II sector 2: *Credit cards* paragraphs 2.9-2.11 briefly describe the payment processing service provided by merchant acquirers in respect of debit and credit card transactions undertaken at point of sale terminals or on the internet. For internet-based transactions a separate PSP, operating under a contractual agreement with the merchant in the same way as a merchant acquirer, may act as a payment gateway to the payment clearing process interfacing as necessary with the merchant's acquirer. These internet PSPs may also accommodate payment methods in addition to cards.

A more detailed explanation of the processing of card transactions may be found in Annex 5 of the October 2009 Approach document of the regulator (the FSA, now the FCA) in relation to the Payment Services Regulations. <https://www.fca.org.uk/publication/archive/payment-services-approach.pdf>

There are two distinct funds transfers within the overall payment process: first, the collection by the merchant acquirer via the card schemes of the cardholder's funds from the card issuing firm where he holds his account (or where other payment methods are used the funds are collected by the internet PSP direct from the purchaser); secondly, the merchant acquirer (or the internet PSP for non-card transactions) pays the funds over in a separate transaction to the merchant's bank account. The second transfer will normally be a consolidated settlement payment following reconciliation, which aggregates many different transactions, and is made net of fees after an agreed period of time to safeguard against transaction disputes. Details of the underlying transactions are made available to the merchant for its own reconciliation purposes.

Consequently, for the purposes of the Regulation, the internet PSP or merchant acquirer is not an intermediary PSP but is rather the PSP of the payee and is subject to the obligations described in chapter 3 of the Regulation to the extent that they are relevant, i.e., in relation to electronic funds transfers other than card transactions which enjoy a qualified exemption under Article 2(3) of the Regulation. So far as the merchant's bank is concerned the merchant acquirer or the internet PSP is the 'Payer' of the separate consolidated settlement payment and that bank does not receive or require the underlying cardholder PAN number information (or payer details for non-card transactions).

Although the payment process operates in the way described, it should be noted that a full audit trail is available in case of need so that the traceability objective of the Regulation is in no way compromised.

## 1.19 Minimum standards

The above information requirements are minimum standards. It is open to PSPs to elect to supply complete Payer and Payee information with transfers which are eligible for a reduced information requirement and thereby limit the likely incidence of inbound requests for complete information. (In practice a number of large UK and European banks have indicated that they will be providing complete payer information for all transfers where systems permit). To ensure that the data protection position is beyond any doubt, it would be advisable to ensure that terms and conditions of business include reference to the information being provided.

## Record Keeping Requirements

- 1.20 The Payee's PSP and any intermediary PSP must retain records of any information received on a Payer for five years, at which point the personal data must be deleted, unless otherwise provided for by national law.
- 1.21 The Payer's PSP must retain records of transactions and supporting evidence of the Payer's identity in accordance with Part I, Chapter 8.

## Checking Incoming Payments

1.22 Payee PSPs should have effective procedures for checking that incoming wire transfers are compliant with the relevant information requirement. In order not to disrupt straight-through processing, it is not expected that monitoring should ordinarily be undertaken at the time of processing the transfer. Firms should however consider the need for real time monitoring in higher risk cases, for example where the firm has previously filed a SAR with the NCA. The Regulation specifies that PSPs should have procedures to detect whether relevant information is missing. (It is our understanding that this requirement is satisfied by the validation rules of whichever messaging or payment system is being utilised). Additionally, the Regulation requires PSPs to take remedial action when they become aware that an incoming payment is not compliant. Hence, in practical terms it is expected that this requirement will be met by a combination of the following:

- (i) SWIFT payments on which mandatory Payer and Payee information fields are not completed will fail anyway and the payment will not be received by the Payee PSP. Current SWIFT validation prevents payments being received where the mandatory information is not present at all. However, it is accepted that where the Payer and Payee information fields are completed with incorrect or meaningless information, or where there is no account number, the payment will pass through the system. Similar considerations apply to non-SWIFT messaging systems which also validate that a field is populated in accordance with the standards applicable to that system, e.g., BACS.
- (ii) SWIFT has reviewed how its validation standards might be improved to facilitate inward monitoring, as a result of which Option F has been introduced as one of the three available formatting options. Option F structures information systematically by means of specified identifier codes and formatting conventions. However, use of this Option is not mandatory.
- (iii) PSPs should therefore subject incoming payment traffic to an appropriate level of post event random sampling to detect non-compliant payments. This sampling should be risk based, e.g.
  - the sampling could normally be restricted to payments emanating from PSPs outside the EU where the complete information requirement applies;
  - the sampling could be weighted towards non FATF member jurisdictions, particularly those deemed high risk under a PSP's own country risk assessment, or by reference to external sources such as Transparency International, or FATF or IMF country reviews);
  - focused more heavily on transfers from those Payer PSPs who are identified by such sampling as having previously failed to comply with the relevant information requirement;

- Other specific measures might be considered, e.g., checking, at the point of payment delivery, that Payer and Payee information is compliant and meaningful on all transfers that are collected in cash by Payees on a “Pay on application and identification” basis.

Firms should give consideration to the requirement for real time monitoring in situations where they deem the ML/TF risk to be high. An example of this may be where a firm has previously filed a SAR with the NCA for non-compliance with the Regulations.

NB. Whenever these measures reveal potentially suspicious transactions, the normal reporting obligations apply (see Part I, Chapter 6).

1.23 Payee PSPs and Intermediary PSPs should have in place policies and procedures to detect transfers of funds that appear to be linked.<sup>1</sup> Payee PSPs should treat transfers of funds as linked if these fund transfers are being sent:

a) from the same payment account to the same payment account, or, where the transfer is not made to or from a payment account, from the same payer to the same payee; and

b) within a reasonable, short timeframe, which should be set by the PSP in a way that is commensurate with the ML/TF risk to which their business is exposed.

Payee PSPs should define what they determine to be a reasonable, short timeframe and ensure this is documented within policies and procedures.

1.24 If a Payee PSP becomes aware in the course of processing a payment that it contains meaningless or incomplete information, under the terms of Article 9 (1) of the Regulation it should either reject the transfer or ask for complete information on the Payer or Payee. In addition, in such cases, the Payee PSP is required to take any necessary action to comply with any applicable law or administrative provisions relating to money laundering and terrorist financing. Dependent on the circumstances such action could include making the payment or holding the funds and advising the Payee PSP's Nominated Officer.

1.25 Where the Payee PSP becomes aware subsequent to processing the payment that it contains meaningless or incomplete information either as a result of random checking or other monitoring mechanisms under the PSP's risk-based approach, it must:

(i) seek the necessary information on the Payer or Payee

and/or

(ii) take any necessary action under any applicable law, regulation or administrative provisions relating to money laundering or terrorist financing.

1.26 PSPs will be mindful of the risk of incurring civil claims for breach of contract and possible liability if competing requirements arise under national legislation, including in the UK the Proceeds of Crime Act and other anti-money laundering and anti-terrorism legislation.

1.27 Where a PSP is identified as having regularly failed to comply with the information requirements, under Article 8(2) the Payee PSP should take steps, which may initially include issuing warnings and setting deadlines, prior to either refusing to accept further transfers from that PSP or deciding whether to terminate its relationship with that PSP either completely or in respect of funds transfers.

- 1.28 Under Article 9 a Payee PSP should consider whether incomplete or meaningless information of which it becomes aware on a funds transfer constitutes grounds for suspicion which would be reportable to its Nominated Officer for possible disclosure to the Authorities.
- 1.29 With regard to transfers from PSPs located in countries that are not members of either the EU or FATF, firms should endeavour to transact only with those PSPs with whom they have a relationship that has been subject to a satisfactory risk-based assessment of their anti-money laundering policies and procedures and who accept the standards set out in the Interpretative Note to FATF Special Recommendation 16.
- 1.30 It should be borne in mind when querying incomplete payments that some FATF member countries outside the EU may have framed their own regulations to incorporate a threshold of €/US\$ 1000 below which the provision of complete information on outgoing payments is not required. This is permitted by the Interpretative Note to FATF Special Recommendation 16. The USA is a case in point. This does not preclude European PSPs from calling for the complete information where it has not been provided, but it is reasonable for a risk-based view to be taken on whether or how far to press the point.
- 1.31 As indicated in paragraph 1.5, the inward monitoring requirements of the Regulation were elaborated on in the *Common Understanding* (CU) published in October 2008 by the AML Task Force of three European regulatory bodies. The CU positioned itself as a “clarification” of the Regulation’s requirements, not an “extension” of them. Whilst the final document was less prescriptive than the Task Force’s starting position the expectations set out are fairly detailed, covering the various elements within the Regulation, viz
- Sampling and filtering of incoming payments
  - Deadlines for remediating deficient transfers
  - Identifying regularly failing Payment Service Providers

all of which should be enshrined by firms within a clearly articulated set of policy and processes approved at an appropriately senior level defining the approach to be adopted to discharge these requirements Annex 1-I sets out a broad summary of the requirements, but firms should refer directly to the CU for the detail. See:

<http://www.c-eps.org/getdoc/d399f8d4-c2e4-4cce-8141-1aff447bb189/The-three-Level-3-Committees-publish-today-their-c.aspx>

## **PART B – COVER PAYMENTS**

### **Background**

- 1.32 A customer funds transfer usually involves the ordering customer (originator) instructing its bank (the originator's bank) to make a payment to the account of a payee (the beneficiary) with the beneficiary's bank. In the context of international funds transfers in third party currencies, the originator's bank will not usually maintain an account with the beneficiary bank in the currency of the payment that enables them to settle the payment directly. Typically, intermediary (or covering) bank(s) are used for this purpose, usually (but not always) located in the country where the currency of the payment is the national currency. The alternative but less efficient method of making such payments is by serial MT103.
- 1.33 Cover payments are usually effected via SWIFT and involve two distinct message streams:
- A customer payment order (usually a SWIFT Message Type (MT)103) which is sent by the originator's bank direct to the beneficiary's bank and carries payment details, including originator and beneficiary information;
  - A covering bank-to-bank transfer (the cover payment - historically, a SWIFT MT202) which is sent by the originator's bank to an intermediary bank (usually its own correspondent) asking the intermediary bank to 'cover' the originator bank's obligation to pay the beneficiary bank. The intermediary bank debits the originator bank's account and either credits the beneficiary bank's account under advice, or if no account is held, sends the funds to the beneficiary bank's correspondent with settlement usually being effected through the local Real Time Gross Settlement System (RTGS). The beneficiary bank is then able to reconcile the funds that it receives on its correspondent account with the MT103 received direct from the originator's bank.
- 1.34 Payments are sent using the 'cover method' primarily to avoid delays associated with differing time zones and to reduce the costs associated with commercial transactions.

### **Transparency Issues:**

- 1.35 Historically, the MT202 has been used either to effect cover for an underlying customer transfer (MT103) or for inter-bank payments that are unconnected to customer transfers, such as wholesale money market or foreign exchange transactions. Consequently, an intermediary bank would not necessarily know that it was dealing with a cover payment when processing an MT202 message. Additionally, as there is no provision within the MT202 message format for it to carry the originator and beneficiary information that is contained in an underlying MT103 customer transfer, an intermediary bank has not, hitherto, been in a position to screen or monitor underlying customer information in relation to cover payments, from a sanctions or ML/FT perspective.
- 1.36 To improve transparency in respect of cover payments, and in order to assist financial institutions with their sanctions and AML/CFT obligations, SWIFT created a variant of the MT202, being the MT202COV<sup>1</sup>, which has, since the 21<sup>st</sup> November 2009 go-live date, enabled originator and beneficiary information contained in the MT103 customer transfer to be replicated in certain fields of the MT202COV (further details can be found at [www.swift.com](http://www.swift.com)):

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<sup>1</sup> For cover payments effected between originator and beneficiary banks located in the same jurisdiction using a third party currency, an MT205COV can be used instead of an MT202COV and references in this guidance to MT202COV also relate to MT205COV.

- 1.37 The MT 202COV should be used for all outgoing cover payment transactions for which there is an associated MT103 and must replicate the originator/beneficiary information contained in the MT 103. The existing MT 202 should in future be used only for bank to bank transactions. As soon as technically feasible after the 21<sup>st</sup> November 2009 go-live date, firms should have the capability to receive MT202COV messages from other banks and, as a minimum, screen them against mandatory lists of individuals and entities whose assets must be blocked, rejected or frozen.
- 1.38 As an alternative to sending customer payments using the 'cover method', banks can choose to send their payments by the 'serial method' in which an MT103 is sent by the originator's bank to its correspondent asking for payment (and the corresponding covering funds) to be made available to the beneficiary bank for account of the beneficiary.

### **Further Guidance**

- 1.39 After consulting with industry and regulators, in May 2009 the Basel Committee on Banking Supervision (BCBS) issued a paper entitled 'Due diligence and transparency regarding cover payment messages related to cross-border wire transfers', which is available at [www.bis.org](http://www.bis.org) and provides further guidance for banks processing cover payments. This guidance is not mandatory and currently has no formal legal or regulatory force in the UK.,

### **Other Useful Sources of Information:**

1. SWIFT Press release. 'New Standards for Cover Payments' (May 19 2009), available at <http://www.swift.com/>.
2. 'Guidelines for use of the MT202COV' issued by the Payments Market Practice Group, available at <http://pmpg.webex.one.com/default.asp?link>
3. 'Cover Payments: Background Information and implications of the new SWIFT Message Format' and 'The Introduction of the MT202COV in the International Payment Systems,' issued jointly in May 2009 by the Bankers' Association for Finance and Trade, the Clearing House Association LLC, the European Banking Federation, the International Banking Federation, the International Chamber of Commerce, the International Council of Securities Associations, the International Financial Services Association, SWIFT and the Wolfsberg Group, available at the respective web sites of these organisations.

## ANNEX 1-I

### Summary of the ‘Common Understanding’

For background, refer to paragraphs 1.5 and 1.31.

The following is a summary only – firms should refer directly to the Common Understanding for the detail. See: <http://www.c-eps.org/getdoc/d399f8d4-c2e4-4cce-8141-1aff447bb189/The-three-Level-3-Committees-publish-today-their-c.aspx>

#### 1. Sampling / Filtering:

The CU accepted the basic premise of system validation as the first line of defence, which in the absence currently of a standard filter will inevitably allow some deficient payments to be accepted. Hence, PSPs should deploy two types of control

- **Post event sampling:** unless PSPs can detect incomplete or meaningless payments at the time of processing a transfer the CU supports the position that there should be risk based, post event sampling to detect non-compliant payments. To fulfil the risk based criterion, sampling could focus on transfers from higher risk sending PSPs, especially those previously identified as having failed to comply with the relevant information requirements.
- **Filtering for ‘obvious meaningless information’** defined as ‘information clearly intended to circumvent the intention of the Regulation’: this is not a mandatory control, rather PSPs are ‘encouraged’ to apply such filters. What is in mind here are formulations such as ‘one of our customers’ or any form of words which on the face of it is not providing genuine sender information.
- PSPs are expected to take action on all incomplete or meaningless transfers that they become aware of. Depending on whether they become aware at the time of processing or subsequently they should take action on all such defective transfers so identified in the form of one of the three response options: (1) reject the transfer, (2) hold it and ask for missing information, (3) process the payment and ask for missing information.
- Subject to any overriding legal restraints in their own jurisdiction PSPs are urged not to rely only on the No 3 post event follow-up option but to deploy the other options when appropriate. (N.B. The BBA took the position in their response to the consultation that other than in exceptional circumstances rejection of payment or delay in processing was quite unacceptable from a customer service perspective).

#### 2. Deadlines for remediating deficient transfers:

When requesting missing information PSPs should work to appropriate and self-imposed deadlines. The CU suggested what it considered to be reasonable timeframes for this purpose. In the absence of a satisfactory response the sending PSP should be warned that it may in future be subject to high risk monitoring (under which all or most of its future payments would be subject to scrutiny). Consideration should also be given as to whether the deficient payment is ‘suspicious’ and should be reported.

#### 3. Identifying regularly failing PSPs

Mutual policing of PSPs is intended to go beyond the remediation of individual deficient payments to a systematic assessment of those PSPs who persistently fail to provide the information required under the Regulation. A receiving PSPs is therefore expected to establish criteria for determining

when a PSP who is sending payments is 'regularly failing' such that some form of disciplinary reaction is called for. Five examples are given of the criteria that might be adopted for this sort of data analysis. Thereafter it is expected firstly to notify the failing PSP that it has been so identified in accordance with the common understanding. Secondly, it must notify its regulator of the identity of the failing PSP. The CU acknowledges that whilst the Regulation states that a receiving PSP should decide whether in these circumstances to restrict or terminate its business relationship with a failing PSP, in practice such decisions must weigh up other factors and business considerations – implicitly it accepts that hasty action is not appropriate and should so far as possible be consensual with peer PSPs and have the benefit of supervisors' input before draconian disciplinary action is taken.

#### **4. Articulation of internal policy, processes and procedures**

A PSP is expected to have in place a clearly articulated policy approved at an appropriately senior level defining the approach to be adopted to discharge the obligations outlined under 1-3 above, e.g., covering inter alia.

- when to reject, execute and query, hold and query
- its risk criteria
- how soon after receipt of transfer it will raise the query (i.e., if batching up queries the CU recommends it should be no more than seven days)
- the deadlines it will impose for responses and further follow up
- how it will assess whether incomplete or meaningless transfers are 'suspicious'
- the criteria it will apply based on the guidelines in paragraph 43 to identify 'regularly failing' payer PSPs, who must then be notified as such and reported to the relevant authority.



### 3: Equivalent markets

*This material is issued to assist firms by setting out how they might approach their assessment of regulated markets, to determine whether they are 'equivalent' for the purposes of the money laundering directive. Although it is not formal guidance that has been given Ministerial approval, it has been discussed with HM Treasury and reflects their input.*

*The material discusses markets where there may be a presumption of equivalence and those where such a presumption may not be appropriate without further investigation. It then discusses issues that a firm should consider in all cases when coming to a judgement on whether a particular market is, in its view, equivalent.*

#### 3.1 What is an "equivalent market" and why does it matter?

The Fourth European Council Directive on prevention of the use of the financial system for the purpose of money laundering and terrorist financing (the money laundering directive) allows firms (article 15) to carry out simplified customer due diligence (SDD) in respect of customers which are assessed as posing a low risk of money laundering or terrorist financing.

The Money Laundering Regulations 2017 (the 2017 Regulations) implement the provisions of the money laundering directive into UK law, and accordingly provide (Regulation 37) that firms may take into account customers' securities being listed on an EEA regulated market (defined in Regulation 3) or a market outside the EEA that is subject to equivalent disclosure obligations [See section 3.2 and Annex 3-II] as a lower risk factor when determining whether it is appropriate to apply SDD.

Under the 2017 Regulations (and the money laundering directive), a "regulated market"

- within the EEA has the meaning given by point 14 of Article 4(1) of the markets in financial instruments directive (MiFID). [This definition is reproduced in Annex 3-I].
- outside the EEA, means a regulated financial market which subjects companies whose securities are admitted to trading to disclosure obligations which are equivalent to the specified disclosure obligations [see section 3.2 and Annex 3-II]

EEA and non-EEA markets that meet the definition in the 2017 Regulations are described in the JMLSG Guidance as 'equivalent markets'. UK firms therefore need to determine whether a particular market is 'equivalent', in order to apply the lower risk factor as contained within Regulation 37 so that they may take advantage of the SDD derogation. If a market does not qualify as 'equivalent', firms may have regard to the listing conditions that apply and the level of transparency and accountability to which the company is subject in determining customer risk, and whether it is appropriate to apply SDD.

'Equivalence' may also be considered under Regulation 28.5 which permits certain CDD derogations for customers whose securities are listed on equivalent markets. However, 'equivalence' does not exempt the firm from carrying out ongoing monitoring of the business relationship with the customer, nor from the need for such other procedures (such as monitoring) as may be necessary to enable a firm to fulfil its responsibilities under the Proceeds of Crime Act 2002.

Although the judgment on equivalence of regulated markets is one to be made by each firm in the light of the particular circumstances of the market, senior management is accountable for this judgment – either to its regulator, or, if necessary, to a court. It is therefore important that the

reasons for concluding that a particular market is equivalent (other than those in respect of which a presumption of equivalence may be made) are documented at the time the decision is made, and that it is made on relevant and up to date data or information.

### 3.2 What are the specified disclosure obligations?

The disclosure obligations that the 2017 Regulations require regulated markets to impose are those consistent with

- Articles 17 and 19 of Regulation 2014/596 [the Market Abuse Regulation];
- Articles 3, 5, 7, 8, 10, 14 and 16 of Directive 2003/71/EC [the Prospectus Directive];
- Articles 4 to 6, 14, 16 to 19 and 30 of Directive 2004/109/EC [the Transparency Directive];  
and
- Community legislation made under the above provisions.

These obligations are reproduced at Annex 3-II.

### 3.3 Categories of market

#### *Markets in EU/EEA member states*

All Member States of the EU (which, for this purpose, includes Gibraltar as part of the UK, and Aruba as part of the Kingdom of the Netherlands) are required to enact legislation and regulations in accordance with the specified disclosure obligations. All EEA countries have undertaken to implement the directives from which the specified disclosure obligations flow.

ESMA maintains a database of regulated markets within the EU (this is not, of course, a formal list of “equivalent” markets). The list is published for the purpose of identification of the counterparty to the transaction in relation to transaction reporting. Publication of the identifiers ensures the compliance of ESMA members with Article 13 (2) of the MiFID Level 2 regulation. ESMA has collected this information from its members and will update the list on a regular basis. Some ESMA members will, in addition, publish their own information separately on their websites. Further information is available on the ESMA website at <http://mifiddatabase.esma.eu/>.

Generally, the *principal* markets in EU/EEA member states are likely to be able to be presumed to be ‘equivalent’ for the purposes of the 2017 Regulations. In the 2017 Regulations, however, it was chosen to link the derogation to the admission to listing in a regulated market within the meaning of MiFID. So listing in other markets (such as AIM<sup>2</sup>) would not be enough qualification for the application of the derogation.

#### *Markets in some third countries*

Outside the EEA, a regulated financial market is ‘equivalent’ for the purposes of the 2007 Regulations if it subjects companies whose securities are admitted to trading to disclosure obligations which are contained in international standards and are equivalent to the specified disclosure obligations. Article 19(6) of MiFID [see Annex 3-I] requires the Commission to publish a list of third country markets that are ‘equivalent’ under MiFID.

A firm might reasonably conclude that a regulated market that is equivalent for MiFID purposes will be equivalent for the purposes of the 2017 Regulations. Some other third country markets might still meet the requirements of the money laundering directive, however, even although they do not meet all those required by MiFID.

The Commission has not yet published a list of equivalent third country markets for MiFID purposes; when it does, these may reasonably be regarded as equivalent for the purposes of the 2017 Regulations, whilst leaving it open for other individual markets also to be recognised for the purposes of the 2017 Regulations.

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<sup>2</sup> But see paragraph 5.3.161 in Part I of the Guidance, which suggests that the due process for admission to AIM may give equivalent comfort.

*Caveat... ..*

Although firms may rely on the presumption of equivalence, in respect of certain markets significant variations may exist in the precise measures (and in the timing of their introduction) that have been taken to transpose the obligations under the various directives into national laws and market regulations. Moreover, the standards of compliance monitoring in respect of particular markets will also vary. Where firms have substantive information which indicates that a presumption of equivalence cannot be sustained, either in general or for particular markets, they will need to apply full CDD measures to customers listed on these markets.

The status of implementation of the relevant directives across the EU is available at [http://ec.europa.eu/internal\\_market/securities/transposition/index\\_en.htm](http://ec.europa.eu/internal_market/securities/transposition/index_en.htm).

*Other markets*

Although markets in other countries and territories cannot be presumed to be “equivalent”, this does not necessarily mean that the legislation and disclosure obligations in those countries are lower than those in “equivalent markets”. However, standards vary significantly, and firms will need to carry out their own assessment of the transparency and disclosure obligations in these particular markets. In addition to a firm's own knowledge and experience of the market concerned, particular attention should be paid to any evaluations or analyses of disclosure obligations that have been undertaken.

### **3.4 Factors to be taken into account when assessing other markets**

The primary consideration that firms should address initially as part of their assessment is whether the disclosure and other obligations in a particular market meet the disclosure obligations specified in the directive.

*Do the obligations in the particular market meet the specified disclosure obligations?*

The money laundering directive is open on the extent to which disclosures in third countries must be sufficiently consistent with Community legislation to enable them to be regarded as ‘equivalent’. On one interpretation, a firm could require that *all* provisions in the relevant directives must be faithfully reflected in the third country market obligations. However, a more workable interpretation is that it is enough to satisfy the major provisions in the relevant directives.

Commission Directive 2007/14/EC (the MiFID Implementing Directive) contains some provisions (Articles 13 to 23) on how to judge the equivalence of third country rules regarding some obligations of the Transparency Directive. Recital 18 of this directive provides a helpful definition of equivalence:

*(18) Equivalence should be able to be declared when general disclosure rules of third countries provide users with understandable and broadly equivalent assessment of issuers’ position that enable them to make similar decisions as if they were provided with the information according to requirements under Directive 2004/109/EC, even if the requirements are not identical. ... ..*

It is important to note that the country of incorporation of the company is of little relevance. What counts is that it is subject to appropriate disclosure requirements in an equivalent market, which may well be in a different jurisdiction.

*Other relevant matters to consider*

Other relevant factors in making an assessment of ‘equivalence’ include:

- Membership of groups that only admit those meeting certain criteria
- Contextual factors – political stability; level of (endemic) corruption etc
- Evidence of relevant (public) criticism of a market
- Independent and public assessment of the market’s overall disclosure and transparency standards
- Need for any assessment to be recent

- Implementation standards (including quality and effectiveness of supervision)

Membership of an international or regional 'group'

There are a number of international and regional 'groups' of markets that admit to membership only those markets that have demonstrated a commitment to high standards of disclosure and transparency, and which have an appropriate legal and regulatory regime to back up this commitment. Where a market is a member of such a group, there may be a presumption that the market is likely to be 'equivalent'.

Contextual factors

Such factors as the political stability of the jurisdiction within which a market is located, and where it stands in tables of corruption are relevant to whether it is likely that a market will be 'equivalent'. It will, however, seldom be easy for firms to make their own assessments of such matters, and it is likely that they will have to rely on external agencies for such evidence – whether prepared for general consumption, or specifically for the firm.

Evidence of relevant (public) criticism

Commercial agencies and the media also produce reports and lists of markets, entities and individuals that are involved, or that are alleged to be involved, in activities that cast doubt on their integrity. Such reports lists can provide some useful and relevant evidence – which may or may not be conclusive – on whether or not a particular market is likely to be equivalent.

Independent reports on disclosure and transparency standards

Particular attention should be paid to assessments of particular markets, including their disclosure and transparency standards, which have been undertaken by respected third party agencies. Where the firm looks to publicly available evidence, it will be important that it has some knowledge of the criteria that were used in making the assessment; the firm cannot rely solely on the fact that such an assessment has been independently prepared.

It should be noted that, under the Transparency Directive framework (notably Article 23(1)), declaring equivalence of third country regimes is a task for the national financial services supervisors: i.e., FCA in the UK.

Implementation standards (including effectiveness of supervision)

Information on the extent and quality of supervision of markets may be published by the competent authorities – whether in annual reports or otherwise.

**RELEVANT PROVISIONS OF MiFID****Definition of ‘regulated market’*****Point 14 of Article 4(1):***

“Regulated market” means a multilateral system operated and/or managed by a market operator, which brings together or facilitates the bringing together of multiple third-party buying and selling interests in financial instruments – in the system and in accordance with its non-discretionary rules – in a way that results in a contract, in respect of the financial instruments admitted to trading under its rules and/or systems, and which is authorised and functions regularly and in accordance with the provisions of Title III [of MiFID]

***Title III includes the following (Article 40):***

*Markets must have clear and transparent rules*

1. Member States shall require that regulated markets have clear and transparent rules regarding the admission of financial instruments to trading. Those rules shall ensure that any financial instruments admitted to trading in a regulated market are capable of being traded in a fair, orderly and efficient manner and, in the case of transferable securities, are freely negotiable.

*Design of contracts must allow for orderly pricing*

2. In the case of derivatives, the rules shall ensure in particular that the design of the derivative contract allows for its orderly pricing as well as for the existence of effective settlement conditions.

*Markets must establish arrangements to verify issuers’ compliance with disclosure obligations*

3. In addition to the obligations set out in paragraphs 1 and 2, Member States shall require the regulated market to establish and maintain effective arrangements to verify that issuers of transferable securities that are admitted to trading on the regulated market comply with their obligations under Community law in respect of initial, ongoing or ad hoc disclosure obligations. Member States shall ensure that the regulated market establishes arrangements which facilitate its members or participants in obtaining access to information which has been made public under Community law.

*Markets must be subject to regulatory oversight*

4. Member States shall ensure that regulated markets have established the necessary arrangements to review regularly the compliance with the admission requirements of the financial instruments which they admit to trading.

**Commission obligation to publish a list of third country markets considered as equivalent**

**Article 19:**

...

(6) Member States shall allow investment firms when providing investment services that only consist of execution [ ..... ] to provide those investment services to their clients without the need to obtain the information or make the determination provided for in paragraph 5 [*appropriateness test*] where all the following conditions are met:

- the above services relate to shares admitted to trading on a regulated market or in an equivalent third country market, [ ..... ]. A third country market shall be considered as equivalent to a regulated market if it complies with equivalent requirements to those established under Title III. **The Commission shall publish a list of those markets that are to be considered as equivalent.** This list shall be updated periodically.

**DETAILS OF THE “SPECIFIED DISCLOSURE OBLIGATIONS” REFERRED TO IN  
20017 REGULATIONS**

***REGULATION 2014/596 OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL  
of 16 April 2014 on insider dealing and market manipulation (Market Abuse Regulation)***

*Article 17 - Public disclosure of inside information*

1. An issuer shall inform the public as soon as possible of inside information which directly concerns that issuer.

The issuer shall ensure that the inside information is made public in a manner which enables fast access and complete, correct and timely assessment of the information by the public and, where applicable, in the officially appointed mechanism referred to in Article 21 of Directive 2004/109/EC of the European Parliament and the Council. The issuer shall not combine the disclosure of inside information to the public with the marketing of its activities. The issuer shall post and maintain on its website for a period of at least five years, all inside information it is required to disclose publicly.

This Article shall apply to issuers who have requested or approved admission of their financial instruments to trading on a regulated market in a Member State or, in the case of instruments only traded on an MTF or on an OTF, issuers who have approved trading of their financial instruments on an MTF or an OTF or have requested admission to trading of their financial instruments on an MTF in a Member State.

2. An emission allowance market participant shall publicly, effectively and in a timely manner disclose inside information concerning emission allowances which it holds in respect of its business, including aviation activities as specified in Annex I to Directive 2003/87/EC or installations within the meaning of Article 3(e) of that Directive which the participant concerned, or its parent undertaking or related undertaking, owns or controls or for the operational matters of which the participant, or its parent undertaking or related undertaking, is responsible, in whole or in part. With regard to installations, such disclosure shall include information relevant to the capacity and utilisation of installations, including planned or unplanned unavailability of such installations.

The first subparagraph shall not apply to a participant in the emission allowance market where the installations or aviation activities that it owns, controls or is responsible for, in the preceding year have had emissions not exceeding a minimum threshold of carbon dioxide equivalent and, where they carry out combustion activities, have had a rated thermal input not exceeding a minimum threshold.

The Commission shall be empowered to adopt delegated acts in accordance with Article 35 establishing a minimum threshold of carbon dioxide equivalent and a minimum threshold of rated thermal input for the purposes of the application of the exemption provided for in the second subparagraph of this paragraph.

3. The Commission shall be empowered to adopt delegated acts in accordance with Article 35 specifying the competent authority for the notifications of paragraphs 4 and 5 of this Article.

4. An issuer or an emission allowance market participant, may, on its own responsibility, delay disclosure to the public of inside information provided that all of the following conditions are met:

- (a) immediate disclosure is likely to prejudice the legitimate interests of the issuer or emission allowance market participant;
- (b) delay of disclosure is not likely to mislead the public;
- (c) the issuer or emission allowance market participant is able to ensure the confidentiality of that information.

In the case of a protracted process that occurs in stages and that is intended to bring about, or that results in, a particular circumstance or a particular event, an issuer or an emission allowance market participant may on its own responsibility delay the public disclosure of inside information relating to this process, subject to points (a), (b) and (c) of the first subparagraph.

Where an issuer or emission allowance market participant has delayed the disclosure of inside information under this paragraph, it shall inform the competent authority specified under paragraph 3 that disclosure of the information was delayed and shall provide a written explanation of how the conditions set out in this paragraph were met, immediately after the information is disclosed to the public. Alternatively, Member States may provide that a record of such an explanation is to be provided only upon the request of the competent authority specified under paragraph 3.

5. In order to preserve the stability of the financial system, an issuer that is a credit institution or a financial institution, may, on its own responsibility, delay the public disclosure of inside information, including information which is related to a temporary liquidity problem and, in particular, the need to receive temporary liquidity assistance from a central bank or lender of last resort, provided that all of the following conditions are met:

- (a) the disclosure of the inside information entails a risk of undermining the financial stability of the issuer and of the financial system;
- (b) it is in the public interest to delay the disclosure;
- (c) the confidentiality of that information can be ensured; and



(d) the competent authority specified under paragraph 3 has consented to the delay on the basis that the conditions in points (a), (b) and (c) are met.

6. For the purposes of points (a) to (d) of paragraph 5, an issuer shall notify the competent authority specified under paragraph 3 of its intention to delay the disclosure of the inside information and provide evidence that the conditions set out in points (a), (b) and (c) of paragraph 5 are met. The competent authority specified under paragraph 3 shall consult, as appropriate, the national central bank or the macro-prudential authority, where instituted, or, alternatively, the following authorities:

(a) where the issuer is a credit institution or an investment firm the authority designated in accordance with Article 133(1) of Directive 2013/36/EU of the European Parliament and of the Council;

(b) in cases other than those referred to in point (a), any other national authority responsible for the supervision of the issuer.

The competent authority specified under paragraph 3 shall ensure that disclosure of the inside information is delayed only for a period as is necessary in the public interest. The competent authority specified under paragraph 3 shall evaluate at least on a weekly basis whether the conditions set out in points (a), (b) and (c) of paragraph 5 are still met.

If the competent authority specified under paragraph 3 does not consent to the delay of disclosure of the inside information, the issuer shall disclose the inside information immediately.

This paragraph shall apply to cases where the issuer does not decide to delay the disclosure of inside information in accordance with paragraph 4.

Reference in this paragraph to the competent authority specified under paragraph 3 is without prejudice to the ability of the competent authority to exercise its functions in any of the ways referred to in Article 23(1).

7. Where disclosure of inside information has been delayed in accordance with paragraph 4 or 5 and the confidentiality of that inside information is no longer ensured, the issuer or the emission allowance market participant shall disclose that inside information to the public as soon as possible.

This paragraph includes situations where a rumour explicitly relates to inside information the disclosure of which has been delayed in accordance with paragraph 4 or 5, where that rumour is sufficiently accurate to indicate that the confidentiality of that information is no longer ensured.

8. Where an issuer or an emission allowance market participant, or a person acting on their behalf or for their account, discloses any inside information to any third party in the normal course of the exercise of an employment, profession or duties as referred to in Article 10(1), they must make complete and effective public disclosure of that information, simultaneously in the case of an intentional disclosure, and promptly in the case of a non-intentional disclosure. This paragraph shall not apply if the person receiving the

information owes a duty of confidentiality, regardless of whether such duty is based on a law, on regulations, on articles of association, or on a contract.

9. Inside information relating to issuers whose financial instruments are admitted to trading on an SME growth market, may be posted on the trading venue's website instead of on the website of the issuer where the trading venue chooses to provide this facility for issuers on that market.

10. In order to ensure uniform conditions of application of this Article, ESMA shall develop draft implementing technical standards to determine:

- (a) the technical means for appropriate public disclosure of inside information as referred to in paragraphs 1, 2, 8 and 9; and
- (b) the technical means for delaying the public disclosure of inside information as referred to in paragraphs 4 and 5.

ESMA shall submit those draft implementing technical standards to the Commission by 3 July 2016.

Power is conferred on the Commission to adopt the implementing technical standards referred to in the first subparagraph in accordance with Article 15 of Regulation (EU) No 1095/2010.

11. ESMA shall issue guidelines to establish a non-exhaustive indicative list of the legitimate interests of issuers, as referred to in point (a) of paragraph 4, and of situations in which delay of disclosure of inside information is likely to mislead the public as referred to in point (b) of paragraph 4.

#### *Article 19 - Managers' transactions*

1. Persons discharging managerial responsibilities, as well as persons closely associated with them, shall notify the issuer or the emission allowance market participant and the competent authority referred to in the second subparagraph of paragraph 2:

- (a) in respect of issuers, of every transaction conducted on their own account relating to the shares or debt instruments of that issuer or to derivatives or other financial instruments linked thereto;
- (b) in respect of emission allowance market participants, of every transaction conducted on their own account relating to emission allowances, to auction products based thereon or to derivatives relating thereto.

Such notifications shall be made promptly and no later than three business days after the date of the transaction.

The first subparagraph applies once the total amount of transactions has reached the threshold set out in paragraph 8 or 9, as applicable, within a calendar year.

2. For the purposes of paragraph 1, and without prejudice to the right of Member States to provide for notification obligations other than those referred to in this Article, all transactions conducted on the own account of the persons referred to in paragraph 1, shall be notified by those persons to the competent authorities.

The rules applicable to notifications, with which persons referred to in paragraph 1 must comply, shall be those of the Member State where the issuer or emission allowance market participant is registered. Notifications shall be made within three working days of the transaction date to the competent authority of that Member State. Where the issuer is not registered in a Member State, the notification shall be made to the competent authority of the home Member State in accordance with point (i) of Article 2(1) of Directive 2004/109/EC or, in the absence thereof, to the competent authority of the trading venue.

3. The issuer or emission allowance market participant shall ensure that the information that is notified in accordance with paragraph 1 is made public promptly and no later than three business days after the transaction in a manner which enables fast access to this information on a non-discriminatory basis in accordance with the implementing technical standards referred to in point (a) of Article 17(10).

The issuer or emission allowance market participant shall use such media as may reasonably be relied upon for the effective dissemination of information to the public throughout the Union, and, where applicable, it shall use the officially appointed mechanism referred to in Article 21 of Directive 2004/109/EC.

Alternatively, national law may provide that a competent authority may itself make public the information.

4. This Article shall apply to issuers who:

- (a) have requested or approved admission of their financial instruments to trading on a regulated market; or
- (b) in the case of an instrument only traded on an MTF or an OTF, have approved trading of their financial instruments on an MTF or an OTF or have requested admission to trading of their financial instruments on an MTF.

5. Issuers and emission allowance market participants shall notify the person discharging managerial responsibilities of their obligations under this Article in writing. Issuers and emission allowance market participants shall draw up a

list of all persons discharging managerial responsibilities and persons closely associated with them.

Persons discharging managerial responsibilities shall notify the persons closely associated with them of their obligations under this Article in writing and shall keep a copy of this notification.

6. A notification of transactions referred to in paragraph 1 shall contain the following information:

- (a) the name of the person;
- (b) the reason for the notification;
- (c) the name of the relevant issuer or emission allowance market participant;
- (d) a description and the identifier of the financial instrument;
- (e) the nature of the transaction(s) (e.g. acquisition or disposal), indicating whether it is linked to the exercise of share option programmes or to the specific examples set out in paragraph 7;
- (f) the date and place of the transaction(s); and
- (g) the price and volume of the transaction(s). In the case of a pledge whose terms provide for its value to change, this should be disclosed together with its value at the date of the pledge.

7. For the purposes of paragraph 1, transactions that must be notified shall also include:

- (a) the pledging or lending of financial instruments by or on behalf of a person discharging managerial responsibilities or a person closely associated with such a person, as referred to in paragraph 1;
- (b) transactions undertaken by persons professionally arranging or executing transactions or by another person on behalf of a person discharging managerial responsibilities or a person closely associated with such a person, as referred to in paragraph 1, including where discretion is exercised;
- (c) transactions made under a life insurance policy, defined in accordance with Directive 2009/138/EC of the European Parliament and of the Council, where:
  - (i) the policyholder is a person discharging managerial responsibilities or a person closely associated with such a person, as referred to in paragraph 1,
  - (ii) the investment risk is borne by the policyholder, and
  - (iii) the policyholder has the power or discretion to make investment decisions regarding specific instruments in that life insurance policy or to execute transactions regarding specific instruments for that life insurance policy.

For the purposes of point (a), a pledge, or a similar security interest, of financial instruments in connection with the depositing of the financial instruments in a custody account does not need to be notified, unless and until such time that such pledge or other security interest is designated to secure a specific credit facility.

Insofar as a policyholder of an insurance contract is required to notify transactions according to this paragraph, an obligation to notify is not incumbent on the insurance company.

8. Paragraph 1 shall apply to any subsequent transaction once a total amount of EUR 5 000 has been reached within a calendar year. The threshold of EUR 5 000 shall be calculated by adding without netting all transactions referred to in paragraph 1.

9. A competent authority may decide to increase the threshold set out in paragraph 8 to EUR 20 000 and shall inform ESMA of its decision and the justification for its decision, with specific reference to market conditions, to adopt the higher threshold prior to its application. ESMA shall publish on its website the list of thresholds that apply in accordance with this Article and the justifications provided by competent authorities for such thresholds.

10. This Article shall also apply to transactions by persons discharging managerial responsibilities within any auction platform, auctioneer and auction monitor involved in the auctions held under Regulation (EU) No 1031/2010 and to persons closely associated with such persons in so far as their transactions involve emission allowances, derivatives thereof or auctioned products based thereon. Those persons shall notify their transactions to the auction platforms, auctioneers and auction monitor, as applicable, and to the competent authority where the auction platform, auctioneer or auction monitor, as applicable, is registered. The information that is so notified shall be made public by the auction platforms, auctioneers, auction monitor or competent authority in accordance with paragraph 3.

11. Without prejudice to Articles 14 and 15, a person discharging managerial responsibilities within an issuer shall not conduct any transactions on its own account or for the account of a third party, directly or indirectly, relating to the shares or debt instruments of the issuer or to derivatives or other financial instruments linked to them during a closed period of 30 calendar days before the announcement of an interim financial report or a year-end report which the issuer is obliged to make public according to:

- (a) the rules of the trading venue where the issuer's shares are admitted to trading; or
- (b) national law.

12. Without prejudice to Articles 14 and 15, an issuer may allow a person discharging managerial responsibilities within it to trade on its own account or for the account of a third party during a closed period as referred to in paragraph 11 either:

- (a) on a case-by-case basis due to the existence of exceptional circumstances, such as severe financial difficulty, which require the immediate sale of shares; or
- (b) due to the characteristics of the trading involved for transactions made under, or related to, an employee share or saving scheme, qualification or entitlement of shares, or transactions where the beneficial interest in the relevant security does not change.

13. The Commission shall be empowered to adopt delegated acts in accordance with Article 35 specifying the circumstances under which trading during a closed period may be permitted by the issuer, as referred to in paragraph 12, including the circumstances that would be considered as exceptional and the types of transaction that would justify the permission for trading.

14. The Commission shall be empowered to adopt delegated acts in accordance with Article 35, specifying types of transactions that would trigger the requirement referred to in paragraph 1.

15. In order to ensure uniform application of paragraph 1, ESMA shall develop draft implementing technical standards concerning the format and template in which the information referred to in paragraph 1 is to be notified and made public.

ESMA shall submit those draft implementing technical standards to the Commission by 3 July 2015.

Power is conferred on the Commission to adopt the implementing technical standards referred to in the first subparagraph in accordance with Article 15 of Regulation (EU) No 1095/2010.

**DIRECTIVE 2003/71/EC OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL  
of 4 November 2003 on the prospectus to be published when securities are offered to the public or  
admitted to trading and amending Directive 2001/34/EC (Prospectus Directive)**

**Article 3 - Obligation to publish a prospectus**

*Public offerings of a security must not be allowed without prior publication of a prospectus*

1. Member States shall not allow any offer of securities to be made to the public within their territories without prior publication of a prospectus.

*Types of offer that do not need to be accompanied by a prospectus*

2. The obligation to publish a prospectus shall not apply to the following types of offer:  
(a) an offer of securities addressed solely to qualified investors; and/or  
(b) an offer of securities addressed to fewer than 100 natural or legal persons per Member State, other than qualified investors; and/or  
(c) an offer of securities addressed to investors who acquire securities for a total consideration of at least EUR 50000 per investor, for each separate offer; and/or  
(d) an offer of securities whose denomination per unit amounts to at least EUR 50000; and/or  
(e) an offer of securities with a total consideration of less than EUR 100000, which limit shall be calculated over a period of 12 months.

However, any subsequent resale of securities which were previously the subject of one or more of the types of offer mentioned in this paragraph shall be regarded as a separate offer and the definition set out in Article 2(1)(d) shall apply for the purpose of deciding whether that resale is an offer of securities to the public. The placement of securities through financial intermediaries shall be subject to publication of a prospectus if none of the conditions (a) to (e) are met for the final placement.

*Admission of securities to trading on a regulated market must be subject to publication of a prospectus*

3. Member States shall ensure that any admission of securities to trading on a regulated market situated or operating within their territories is subject to the publication of a prospectus.

**Article 5 - The prospectus**

*Prospectuses shall contain all the information necessary to enable investors to make informed decisions*

1. Without prejudice to Article 8(2), the prospectus shall contain all information which, according to the particular nature of the issuer and of the securities offered to the public or admitted to trading on a regulated market, is necessary to enable investors to make an informed assessment of the assets and liabilities, financial position, profit and losses, and prospects of the issuer and of any guarantor, and of the rights attaching to such securities. This information shall be presented in an easily analysable and comprehensible form.

*Prospectuses must contain a summary*

2. The prospectus shall contain information concerning the issuer and the securities to be offered to the public or to be admitted to trading on a regulated

*in brief and non-technical language...*

market. It shall also include a summary. The summary shall, in a brief manner and in non-technical language, convey the essential characteristics and risks associated with the issuer, any guarantor and the securities, in the language in which the prospectus was originally drawn up. The summary shall also contain a warning that:

*with appropriate warnings...*

(a) it should be read as an introduction to the prospectus;  
(b) any decision to invest in the securities should be based on consideration of the prospectus as a whole by the investor;  
(c) where a claim relating to the information contained in a prospectus is brought before a court, the plaintiff investor might, under the national legislation of the Member States, have to bear the costs of translating the prospectus before the legal proceedings are initiated; and  
(d) civil liability attaches to those persons who have tabled the summary including any translation thereof, and applied for its notification, but only if the summary is misleading, inaccurate or inconsistent when read together with the other parts of the prospectus. Where the prospectus relates to the admission to trading on a regulated market of non-equity securities having a denomination of at least EUR 50000, there shall be no requirement to provide a summary except when requested by a Member State as provided for in Article 19(4).

*A prospectus may be a single document or three separate documents*

3. Subject to paragraph 4, the issuer, offeror or person asking for the admission to trading on a regulated market may draw up the prospectus as a single document or separate documents. A prospectus composed of separate documents shall divide the required information into a registration document, a securities note and a summary note. The registration document shall contain the information relating to the issuer. The securities note shall contain the information concerning the securities offered to the public or to be admitted to trading on a regulated market.

*In certain cases, a prospectus can be a 'base prospectus'*

4. For the following types of securities, the prospectus can, at the choice of the issuer, offeror or person asking for the admission to trading on a regulated market consist of a base prospectus containing all relevant information concerning the issuer and the securities offered to the public or to be admitted to trading on a regulated market:

(a) non-equity securities, including warrants in any form, issued under an offering programme;

(b) non-equity securities issued in a continuous or repeated manner by credit institutions,

(i) where the sums deriving from the issue of the said securities, under national legislation, are placed in assets which provide sufficient coverage for the liability deriving from securities until their maturity date;

(ii) where, in the event of the insolvency of the related credit institution, the said sums are intended, as a priority, to repay the capital and interest falling due, without prejudice to the provisions of Directive 2001/24/EC of the European Parliament and of the Council of 4 April 2001 on the reorganisation and winding up of credit institutions (14). The information given in the base prospectus shall be supplemented, if necessary, in accordance with Article 16, with updated information on the issuer and on the securities to be offered to the public or to be admitted to trading on a regulated market. If the final terms of the offer are not included in either the base prospectus or a supplement, the final terms shall be provided to investors and filed with the competent authority when each public offer is made as soon as practicable and if possible in advance of the beginning of the offer. The provisions of Article 8(1)(a) shall be applicable in any such case.



*The Commission shall adopt implementing measures concerning the format of a prospectus*

5. In order to take account of technical developments on financial markets and to ensure uniform application of this Directive, the Commission shall, in accordance with the procedure referred to in Article 24(2), adopt implementing measures concerning the format of the prospectus or base prospectus and supplements.

#### ***Article 7 - Minimum information***

*The Commission shall adopt implementing measures regarding the specific information to be included in a prospectus*

1. Detailed implementing measures regarding the specific information which must be included in a prospectus, avoiding duplication of information when a prospectus is composed of separate documents, shall be adopted by the Commission in accordance with the procedure referred to in Article 24(2). The first set of implementing measures shall be adopted by 1 July 2004.

*Specific matters to be taken account of in various models of prospectus.....*

2. In particular, for the elaboration of the various models of prospectuses, account shall be taken of the following:

(a) the various types of information needed by investors relating to equity securities as compared with non-equity securities; a consistent approach shall be taken with regard to information required in a prospectus for securities which have a similar economic rationale, notably derivative securities;

(b) the various types and characteristics of offers and admissions to trading on a regulated market of non-equity securities. The information required in a prospectus shall be appropriate from the point of view of the investors concerned for non-equity securities having a denomination per unit of at least EUR 50000;

(c) the format used and the information required in prospectuses relating to non-equity securities, including warrants in any form, issued under an offering programme;

(d) the format used and the information required in prospectuses relating to non-equity securities, in so far as these securities are not subordinated, convertible, exchangeable, subject to subscription or acquisition rights or linked to derivative instruments, issued in a continuous or repeated manner by entities authorised or regulated to operate in the financial markets within the European Economic Area;

(e) the various activities and size of the issuer, in particular SMEs. For such companies the information shall be adapted to their size and, where appropriate, to their shorter track record;

(f) if applicable, the public nature of the issuer.

*The Commission's implementing measures shall be based on IOSCO standards....*

3. The implementing measures referred to in paragraph 1 shall be based on the standards in the field of financial and non-financial information set out by international securities commission organisations, and in particular by IOSCO and on the indicative Annexes to this Directive.

## **Article 8 - Omission of information**

*Conditions under which certain information may be omitted.....*

1. Member States shall ensure that where the final offer price and amount of securities which will be offered to the public cannot be included in the prospectus:

(a) the criteria, and/or the conditions in accordance with which the above elements will be determined or, in the case of price, the maximum price, are disclosed in the prospectus; or

(b) the acceptances of the purchase or subscription of securities may be withdrawn for not less than two working days after the final offer price and amount of securities which will be offered to the public have been filed. The final offer price and amount of securities shall be filed with the competent authority of the home Member State and published in accordance with the arrangements provided for in Article 14(2).

*Circumstances under which the competent authority may authorize omission of certain information.....*

2. The competent authority of the home Member State may authorise the omission from the prospectus of certain information provided for in this Directive or in the implementing measures referred to in Article 7(1), if it considers that: (a) disclosure of such information would be contrary to the public interest; or

(b) disclosure of such information would be seriously detrimental to the issuer, provided that the omission would not be likely to mislead the public with regard to facts and circumstances essential for an informed assessment of the issuer, offeror or guarantor, if any, and of the rights attached to the securities to which the prospectus relates; or

(c) such information is of minor importance only for a specific offer or admission to trading on a regulated market and is not such as will influence the assessment of the financial position and prospects of the issuer, offeror or guarantor, if any.

*Conditions to be met where certain information required by implementing measures is inappropriate....*

3. Without prejudice to the adequate information of investors, where, exceptionally, certain information required by implementing measures referred to in Article 7(1) to be included in a prospectus is inappropriate to the issuer's sphere of activity or to the legal form of the issuer or to the securities to which the prospectus relates, the prospectus shall contain information equivalent to the required information. If there is no such information, this requirement shall not apply.

*The Commission shall adopt implementing measures concerning circumstances where omissions may be authorized...*

4. In order to take account of technical developments on financial markets and to ensure uniform application of this Directive, the Commission shall, in accordance with the procedure referred to in Article 24(2), adopt implementing measures concerning paragraph 2.

## **Article 10 - Information**

*Issuers must provide an annual document referring to all information published in compliance with their obligations.....*

1. Issuers whose securities are admitted to trading on a regulated market shall at least annually provide a document that contains or refers to all information that they have published or made available to the public over the preceding 12 months in one or more Member States and in third countries in compliance with their obligations under Community and national laws and rules dealing with the regulation of securities, issuers of securities and securities markets. Issuers shall refer at least to the information required pursuant to company law

directives, Directive 2001/34/EC and Regulation (EC) No 1606/2002 of the European Parliament and of the Council of 19 July 2002 on the application of international accounting standards (15).

*such document to be filed with the competent authority....*

2. The document shall be filed with the competent authority of the home Member State after the publication of the financial statement. Where the document refers to information, it shall be stated where the information can be obtained.

*circumstances where such a document is not required...*

3. The obligation set out in paragraph 1 shall not apply to issuers of non-equity securities whose denomination per unit amounts to at least EUR 50000.

*The Commission may adopt implementing measures relating to the method of publication of the document.....*

4. In order to take account of technical developments on financial markets and to ensure uniform application of this Directive, the Commission may, in accordance with the procedure referred to in Article 24(2), adopt implementing measures concerning paragraph 1. These measures will relate only to the method of publication of the disclosure requirements mentioned in paragraph 1 and will not entail new disclosure requirements. The first set of implementing measures shall be adopted by 1 July 2004.

#### **Article 14 - Publication of the prospectus**

*Prospectus shall be filed with the competent authority and made available to the public....*

1. Once approved, the prospectus shall be filed with the competent authority of the home Member State and shall be made available to the public by the issuer, offeror or person asking for admission to trading on a regulated market as soon as practicable and in any case, at a reasonable time in advance of, and at the latest at the beginning of, the offer to the public or the admission to trading of the securities involved. In addition, in the case of an initial public offer of a class of shares not already admitted to trading on a regulated market that is to be admitted to trading for the first time, the prospectus shall be available at least six working days before the end of the offer.

*Meaning of 'available to the public'....*

2. The prospectus shall be deemed available to the public when published either:

- (a) by insertion in one or more newspapers circulated throughout, or widely circulated in, the Member States in which the offer to the public is made or the admission to trading is sought; or
- (b) in a printed form to be made available, free of charge, to the public at the offices of the market on which the securities are being admitted to trading, or at the registered office of the issuer and at the offices of the financial intermediaries placing or selling the securities, including paying agents; or
- (c) in an electronic form on the issuer's website and, if applicable, on the website of the financial intermediaries placing or selling the securities, including paying agents; or
- (d) in an electronic form on the website of the regulated market where the admission to trading is sought; or
- (e) in electronic form on the website of the competent authority of the home Member State if the said authority has decided to offer this service. A home Member State may require issuers which publish their prospectus in accordance with (a) or (b) also to publish their prospectus in an electronic form in accordance with (c).

*Member states may require publication of a notice stating where a prospectus may be obtained*

3. In addition, a home Member State may require publication of a notice stating how the prospectus has been made available and where it can be obtained by the public.

*Competent authority must publish all prospectuses approved, or a list with hyperlinks....*

4. The competent authority of the home Member State shall publish on its website over a period of 12 months, at its choice, all the prospectuses approved, or at least the list of prospectuses approved in accordance with Article 13, including, if applicable, a hyperlink to the prospectus published on the website of the issuer, or on the website of the regulated market.

*Each document making up a prospectus may be published separately...*

5. In the case of a prospectus comprising several documents and/or incorporating information by reference, the documents and information making up the prospectus may be published and circulated separately provided that the said documents are made available, free of charge, to the public, in accordance with the arrangements established in paragraph 2. Each document shall indicate where the other constituent documents of the full prospectus may be obtained.

*The text and format of the prospectus made available to the public must be the same as that filed...*

6. The text and the format of the prospectus, and/or the supplements to the prospectus, published or made available to the public, shall at all times be identical to the original version approved by the competent authority of the home Member State.

*If published electronically, paper copies must also be available...*

7. Where the prospectus is made available by publication in electronic form, a paper copy must nevertheless be delivered to the investor, upon his request and free of charge, by the issuer, the offeror, the person asking for admission to trading or the financial intermediaries placing or selling the securities.

*The Commission shall adopt implementing measures concerning the publication of a prospectus*

8. In order to take account of technical developments on financial markets and to ensure uniform application of the Directive, the Commission shall, in accordance with the procedure referred to in Article 24(2), adopt implementing measures concerning paragraphs 1, 2, 3 and 4. The first set of implementing measures shall be adopted by 1 July 2004.

### ***Article 16 - Supplements to the prospectus***

*Certain events taking place between publication of the prospectus and final closing of the offer must be mentioned in a supplement to the prospectus.....*

1. Every significant new factor, material mistake or inaccuracy relating to the information included in the prospectus which is capable of affecting the assessment of the securities and which arises or is noted between the time when the prospectus is approved and the final closing of the offer to the public or, as the case may be, the time when trading on a regulated market begins, shall be mentioned in a supplement to the prospectus. Such a supplement shall be approved in the same way in a maximum of seven working days and published in accordance with at least the same arrangements as were applied when the original prospectus was published. The summary, and any translations thereof, shall also be supplemented, if necessary to take into account the new information included in the supplement.

*Investors may withdraw their agreement to*

2. Investors who have already agreed to purchase or subscribe for the securities before the supplement is published shall have the right, exercisable within a

*purchase if a  
supplement is  
published....*

time limit which shall not be shorter than two working days after the publication of the supplement, to withdraw their acceptances.

***DIRECTIVE 2004/109/EC OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL of 15 December 2004 on the harmonisation of transparency requirements in relation to information about issuers whose securities are admitted to trading on a regulated market and amending Directive 2001/34/EC (Transparency Directive)***

***Article 4 - Annual financial reports***

- Publication deadline for annual financial reports* 1. The issuer shall make public its annual financial report at the latest four months after the end of each financial year and shall ensure that it remains publicly available for at least five years.
- Documents that shall comprise the annual financial report* 2. The annual financial report shall comprise:  
(a) the audited financial statements;  
(b) the management report; and  
(c) statements made by the persons responsible within the issuer, whose names and functions shall be clearly indicated, to the effect that, to the best of their knowledge, the financial statements prepared in accordance with the applicable set of accounting standards give a true and fair view of the assets, liabilities, financial position and profit or loss of the issuer and the undertakings included in the consolidation taken as a whole and that the management report includes a fair review of the development and performance of the business and the position of the issuer and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.
- Where consolidated accounts are required.....* 3. Where the issuer is required to prepare consolidated accounts according to the Seventh Council Directive 83/349/EEC of 13 June 1983 on consolidated accounts [15], the audited financial statements shall comprise such consolidated accounts drawn up in accordance with Regulation (EC) No 1606/2002 and the annual accounts of the parent company drawn up in accordance with the national law of the Member State in which the parent company is incorporated. Where the issuer is not required to prepare consolidated accounts, the audited financial statements shall comprise the accounts prepared in accordance with the national law of the Member State in which the company is incorporated.
- Requirement for financial statements to be audited....* 4. The financial statements shall be audited in accordance with Articles 51 and 51a of the Fourth Council Directive 78/660/EEC of 25 July 1978 on the annual accounts of certain types of companies [16] and, if the issuer is required to prepare consolidated accounts, in accordance with Article 37 of Directive 83/349/EEC. The audit report, signed by the person or persons responsible for auditing the financial statements, shall be disclosed in full to the public together with the annual financial report.
- Requirement for a management report...* 5. The management report shall be drawn up in accordance with Article 46 of Directive 78/660/EEC and, if the issuer is required to prepare consolidated accounts, in accordance with Article 36 of Directive 83/349/EEC.
- The Commission shall adopt implementing measures concerning the publication of* 6. The Commission shall, in accordance with the procedure referred to in Article 27(2), adopt implementing measures in order to take account of technical developments in financial markets and to ensure the uniform application of paragraph 1. The Commission shall in particular specify the technical conditions under which a published annual financial report, including

*annual financial reports*

the audit report, is to remain available to the public. Where appropriate, the Commission may also adapt the five-year period referred to in paragraph 1.

### ***Article 5 - Half-yearly financial reports***

*Requirement for half-yearly financial reports....*

1. The issuer of shares or debt securities shall make public a half-yearly financial report covering the first six months of the financial year as soon as possible after the end of the relevant period, but at the latest two months thereafter. The issuer shall ensure that the half-yearly financial report remains available to the public for at least five years.

*Documents that shall comprise the half-yearly financial report.....*

2. The half-yearly financial report shall comprise:  
(a) the condensed set of financial statements;  
(b) an interim management report; and  
(c) statements made by the persons responsible within the issuer, whose names and functions shall be clearly indicated, to the effect that, to the best of their knowledge, the condensed set of financial statements which has been prepared in accordance with the applicable set of accounting standards gives a true and fair view of the assets, liabilities, financial position and profit or loss of the issuer, or the undertakings included in the consolidation as a whole as required under paragraph 3, and that the interim management report includes a fair review of the information required under paragraph 4.

*Where consolidated accounts are required....*

3. Where the issuer is required to prepare consolidated accounts, the condensed set of financial statements shall be prepared in accordance with the international accounting standard applicable to the interim financial reporting adopted pursuant to the procedure provided for under Article 6 of Regulation (EC) No 1606/2002. Where the issuer is not required to prepare consolidated accounts, the condensed set of financial statements shall at least contain a condensed balance sheet, a condensed profit and loss account and explanatory notes on these accounts. In preparing the condensed balance sheet and the condensed profit and loss account, the issuer shall follow the same principles for recognising and measuring as when preparing annual financial reports.

*Minimum contents of interim management reports...*

4. The interim management report shall include at least an indication of important events that have occurred during the first six months of the financial year, and their impact on the condensed set of financial statements, together with a description of the principal risks and uncertainties for the remaining six months of the financial year. For issuers of shares, the interim management report shall also include major related parties transactions.

*Requirements where half-yearly report is, or is not, audited...*

5. If the half-yearly financial report has been audited, the audit report shall be reproduced in full. The same shall apply in the case of an auditors' review. If the half-yearly financial report has not been audited or reviewed by auditors, the issuer shall make a statement to that effect in its report.

*The Commission shall adopt implementing measures concerning half-yearly reports*

6. The Commission shall, in accordance with the procedure referred to in Article 27(2), adopt implementing measures in order to take account of technical developments on financial markets and to ensure the uniform application of paragraphs 1 to 5 of this Article. The Commission shall, in particular:  
(a) specify the technical conditions under which a published half-yearly financial report, including the auditors' review, is to remain available to the public;  
(b) clarify the nature of the auditors' review;

(c) specify the minimum content of the condensed balance sheet and profit and loss accounts and explanatory notes on these accounts, where they are not prepared in accordance with the international accounting standards adopted pursuant to the procedure provided for under Article 6 of Regulation (EC) No 1606/2002. Where appropriate, the Commission may also adapt the five-year period referred to in paragraph 1.

#### **Article 6 - Interim management statements**

*Requirements for interim management statements: timing and content....*

1. Without prejudice to Article 6 of Directive 2003/6/EC, an issuer whose shares are admitted to trading on a regulated market shall make public a statement by its management during the first six-month period of the financial year and another statement by its management during the second six-month period of the financial year. Such statement shall be made in a period between ten weeks after the beginning and six weeks before the end of the relevant six-month period. It shall contain information covering the period between the beginning of the relevant six-month period and the date of publication of the statement. Such a statement shall provide:

- an explanation of material events and transactions that have taken place during the relevant period and their impact on the financial position of the issuer and its controlled undertakings, and
- a general description of the financial position and performance of the issuer and its controlled undertakings during the relevant period.

*Interim management statements not required where quarterly financial reports published...*

2. Issuers which, under either national legislation or the rules of the regulated market or of their own initiative, publish quarterly financial reports in accordance with such legislation or rules shall not be required to make public statements by the management provided for in paragraph 1.

*Commission to report to the European Parliament and to the Council by 2010 on the transparency of quarterly financial reporting....*

3. The Commission shall provide a report to the European Parliament and the Council by 20 January 2010 on the transparency of quarterly financial reporting and statements by the management of issuers to examine whether the information provided meets the objective of allowing investors to make an informed assessment of the financial position of the issuer. Such a report shall include an impact assessment on areas where the Commission considers proposing amendments to this Article.

#### **Article 14**

*Publication requirements where an issuer acquires or disposes of its own shares...*

1. Where an issuer of shares admitted to trading on a regulated market acquires or disposes of its own shares, either itself or through a person acting in his own name but on the issuer's behalf, the home Member State shall ensure that the issuer makes public the proportion of its own shares as soon as possible, but not later than four trading days following such acquisition or disposal where that proportion reaches, exceeds or falls below the thresholds of 5 % or 10 % of the voting rights. The proportion shall be calculated on the basis of the total number of shares to which voting rights are attached.

*The Commission shall adopt implementing measures concerning the publication of this information*

2. The Commission shall, in accordance with the procedure referred to in Article 27(2), adopt implementing measures in order to take account of technical developments in financial markets and to ensure the uniform application of paragraph 1.



### **Article 16 - Additional information**

*Issuers' obligation to make public any changes in rights attaching to various classes of shares .....*

1. The issuer of shares admitted to trading on a regulated market shall make public without delay any change in the rights attaching to the various classes of shares, including changes in the rights attaching to derivative securities issued by the issuer itself and giving access to the shares of that issuer.

*Issuers' obligation to make public any changes in rights attaching to holders of securities other than shares .....*

2. The issuer of securities, other than shares admitted to trading on a regulated market, shall make public without delay any changes in the rights of holders of securities other than shares, including changes in the terms and conditions of these securities which could indirectly affect those rights, resulting in particular from a change in loan terms or in interest rates.

*Issuers' obligation to make public any new loan issues .....*

3. The issuer of securities admitted to trading on a regulated market shall make public without delay of new loan issues and in particular of any guarantee or security in respect thereof. Without prejudice to Directive 2003/6/EC, this paragraph shall not apply to a public international body of which at least one Member State is member.

### **Article 17 - Information requirements for issuers whose shares are admitted to trading on a regulated market**

*Issuers to ensure equal treatment of all holders of shares .....*

1. The issuer of shares admitted to trading on a regulated market shall ensure equal treatment for all holders of shares who are in the same position.

*Issuers' obligations to make available to shareholders information regarding annual meetings, proxy arrangements, etc...*

2. The issuer shall ensure that all the facilities and information necessary to enable holders of shares to exercise their rights are available in the home Member State and that the integrity of data is preserved. Shareholders shall not be prevented from exercising their rights by proxy, subject to the law of the country in which the issuer is incorporated. In particular, the issuer shall:

(a) provide information on the place, time and agenda of meetings, the total number of shares and voting rights and the rights of holders to participate in meetings;

(b) make available a proxy form, on paper or, where applicable, by electronic means, to each person entitled to vote at a shareholders' meeting, together with the notice concerning the meeting or, on request, after an announcement of the meeting;

(c) designate as its agent a financial institution through which shareholders may exercise their financial rights; and

(d) publish notices or distribute circulars concerning the allocation and payment of dividends and the issue of new shares, including information on any arrangements for allotment, subscription, cancellation or conversion.

*Member states to allow issuers to use electronic means of conveying information to shareholders .....*

3. For the purposes of conveying information to shareholders, the home Member State shall allow issuers the use of electronic means, provided such a decision is taken in a general meeting and meets at least the following conditions:

(a) the use of electronic means shall in no way depend upon the location of the seat or residence of the shareholder or, in the cases referred to in Article 10(a) to (h), of the natural persons or legal entities;

(b) identification arrangements shall be put in place so that the shareholders, or the natural persons or legal entities entitled to exercise or to direct the exercise of voting rights, are effectively informed;

(c) shareholders, or in the cases referred to in Article 10(a) to (e) the natural persons or legal entities entitled to acquire, dispose of or exercise voting rights, shall be contacted in writing to request their consent for the use of electronic means for conveying information and, if they do not object within a reasonable period of time, their consent shall be deemed to be given. They shall be able to request, at any time in the future, that information be conveyed in writing, and (d) any apportionment of the costs entailed in the conveyance of such information by electronic means shall be determined by the issuer in compliance with the principle of equal treatment laid down in paragraph 1.

*The Commission shall adopt implementing measures concerning the above....*

4. The Commission shall, in accordance with the procedure provided for in Article 27(2), adopt implementing measures in order to take account of technical developments in financial markets, to take account of developments in information and communication technology and to ensure the uniform application of paragraphs 1, 2 and 3. It shall, in particular, specify the types of financial institution through which a shareholder may exercise the financial rights provided for in paragraph 2(c).

***Article 18 - Information requirements for issuers whose debt securities are admitted to trading on a regulated market***

*Issuers to ensure equal treatment of all holders of debt securities....*

Information requirements for issuers whose debt securities are admitted to trading on a regulated market

1. The issuer of debt securities admitted to trading on a regulated market shall ensure that all holders of debt securities ranking *pari passu* are given equal treatment in respect of all the rights attaching to those debt securities.

*Issuers' obligations to make available to holders of debt securities information regarding annual meetings, proxy arrangements, etc....*

2. The issuer shall ensure that all the facilities and information necessary to enable debt securities holders to exercise their rights are publicly available in the home Member State and that the integrity of data is preserved. Debt securities holders shall not be prevented from exercising their rights by proxy, subject to the law of country in which the issuer is incorporated. In particular, the issuer shall:

(a) publish notices, or distribute circulars, concerning the place, time and agenda of meetings of debt securities holders, the payment of interest, the exercise of any conversion, exchange, subscription or cancellation rights, and repayment, as well as the right of those holders to participate therein;

(b) make available a proxy form on paper or, where applicable, by electronic means, to each person entitled to vote at a meeting of debt securities holders, together with the notice concerning the meeting or, on request, after an announcement of the meeting; and

(c) designate as its agent a financial institution through which debt securities holders may exercise their financial rights.

*In certain circumstances, issuers may hold an annual meeting in another member state...*

3. If only holders of debt securities whose denomination per unit amounts to at least EUR 50000 or, in the case of debt securities denominated in a currency other than Euro whose denomination per unit is, at the date of the issue, equivalent to at least EUR 50000, are to be invited to a meeting, the issuer may choose as venue any Member State, provided that all the facilities and information necessary to enable such holders to exercise their rights are made available in that Member State.

*Member states to allow issuers to use electronic means of conveying information to holders of debt securities.....*

4. For the purposes of conveying information to debt securities holders, the home Member State, or the Member State chosen by the issuer pursuant to paragraph 3, shall allow issuers the use of electronic means, provided such a decision is taken in a general meeting and meets at least the following conditions:

(a) the use of electronic means shall in no way depend upon the location of the seat or residence of the debt security holder or of a proxy representing that holder;

(b) identification arrangements shall be put in place so that debt securities holders are effectively informed;

(c) debt securities holders shall be contacted in writing to request their consent for the use of electronic means for conveying information and if they do not object within a reasonable period of time, their consent shall be deemed to be given. They shall be able to request, at any time in the future, that information be conveyed in writing; and

(d) any apportionment of the costs entailed in the conveyance of information by electronic means shall be determined by the issuer in compliance with the principle of equal treatment laid down in paragraph 1.

*The Commission shall adopt implementing measures concerning the above.....*

5. The Commission shall, in accordance with the procedure provided for in Article 27(2), adopt implementing measures in order to take account of technical developments in financial markets, to take account of developments in information and communication technology and to ensure the uniform application of paragraphs 1 to 4. It shall, in particular, specify the types of financial institution through which a debt security holder may exercise the financial rights provided for in paragraph 2(c).

#### ***Article 19 - Home Member State control***

*Any information disclosed publicly must also be filed with the competent authority*

1. Whenever the issuer, or any person having requested, without the issuer's consent, the admission of its securities to trading on a regulated market, discloses regulated information, it shall at the same time file that information with the competent authority of its home Member State. That competent authority may decide to publish such filed information on its Internet site. Where an issuer proposes to amend its instrument of incorporation or statutes, it shall communicate the draft amendment to the competent authority of the home Member State and to the regulated market to which its securities have been admitted to trading. Such communication shall be effected without delay, but at the latest on the date of calling the general meeting which is to vote on, or be informed of, the amendment.

*Exemptions from above.....*

2. The home Member State may exempt an issuer from the requirement under paragraph 1 in respect of information disclosed in accordance with Article 6 of Directive 2003/6/EC or Article 12(6) of this Directive.

3. Information to be notified to the issuer in accordance with Articles 9, 10, 12 and 13 shall at the same time be filed with the competent authority of the home Member State.

*The Commission shall adopt implementing measures concerning the above.....*

4. In order to ensure the uniform application of paragraphs 1, 2 and 3, the Commission shall, in accordance with the procedure referred to in Article 27(2), adopt implementing measures. The Commission shall, in particular, specify the procedure in accordance with which an issuer, a holder of shares or other financial instruments, or a person or entity referred to in Article 10, is to

file information with the competent authority of the home Member State under paragraphs 1 or 3, respectively, in order to:

- (a) enable filing by electronic means in the home Member State;
- (b) coordinate the filing of the annual financial report referred to in Article 4 of this Directive with the filing of the annual information referred to in Article 10 of Directive 2003/71/EC.

### *Article 30 - Transitional provisions*

*Transitional provisions:  
exemptions from  
disclosing financial  
statements....*

1. By way of derogation from Article 5(3) of this Directive, the home Member State may exempt from disclosing financial statements in accordance with Regulation (EC) No 1606/2002 issuers referred to in Article 9 of that Regulation for the financial year starting on or after 1 January 2006.

*Transitional provisions:*

2. Notwithstanding Article 12(2), a shareholder shall notify the issuer at the latest two months after the date in Article 31(1) of the proportion of voting rights and capital it holds, in accordance with Articles 9, 10 and 13, with issuers at that date, unless it has already made a notification containing equivalent information before that date. Notwithstanding Article 12(6), an issuer shall in turn disclose the information received in those notifications no later than three months after the date in Article 31(1).

*Transitional provisions:*

3. Where an issuer is incorporated in a third country, the home Member State may exempt such issuer only in respect of those debt securities which have already been admitted to trading on a regulated market in the Community prior to 1 January 2005 from drawing up its financial statements in accordance with Article 4(3) and its management report in accordance with Article 4(5) as long as

(a) the competent authority of the home Member State acknowledges that annual financial statements prepared by issuers from such a third country give a true and fair view of the issuer's assets and liabilities, financial position and results;

(b) the third country where the issuer is incorporated has not made mandatory the application of international accounting standards referred to in Article 2 of Regulation (EC) No 1606/2002; and

(c) the Commission has not taken any decision in accordance with Article 23(4)(ii) as to whether there is an equivalence between the abovementioned accounting standards and

- the accounting standards laid down in the law, regulations or administrative provisions of the third country where the issuer is incorporated, or

- the accounting standards of a third country such an issuer has elected to comply with.

*Transitional provisions:*

4. The home Member State may exempt issuers only in respect of those debt securities which have already been admitted to trading on a regulated market in the Community prior to 1 January 2005 from disclosing half-yearly financial report in accordance with Article 5 for 10 years following 1 January 2005, provided that the home Member State had decided to allow such issuers to benefit from the provisions of Article 27 of Directive 2001/34/EC at the point of admission of those debt securities.

## 4: Compliance with the UK financial sanctions regime

*The international and UK legislative frameworks for financial sanctions do not prescribe the processes which firms have to adopt to achieve compliance with their legal obligations. This guidance is intended to provide an indication of the types of controls and processes that firms might adopt in order to enable them to comply with sanctions obligations in an effective and proportionate manner. It is not intended to prescribe the manner in which firms must comply with the regime, as much will depend on the nature of the customer base and the business profile of each individual firm. Rather, the guidance is intended to assist firms in designing their own processes.*

*If you are unsure about your obligations under financial sanctions you should seek independent legal advice.*

*This guidance should be read alongside the Office of Financial Sanctions Implementation's (OFSI) guide to financial sanctions, available at:*

<https://www.gov.uk/government/publications/financial-sanctions-faqs>.

### *Introduction*

#### *General*

- 4.1 Sanctions can take the form of any of a range of restrictive/coercive measures. They can include arms embargoes, travel or investment bans, financial sanctions (primarily asset freezes), reduced diplomatic links, reductions/cessation of any military relationship, flight bans, suspension from international organisations, withdrawal of aid, trade embargoes, restriction on cultural /sporting links and other.
- 4.2 This guidance focuses on financial sanctions and asset freezes, although firms must also be aware of the nature and requirements of other sanctions, especially trade embargoes.
- 4.3 Although financial sanctions have been in force for many years, their scope and application, and how they are followed, has changed considerably over time. Exceptions and exclusions have always formed part of the regime, but in recent years it has become increasingly important to distinguish relationships which are unambiguously prohibited from those which are permitted. The latter category has always extended to humanitarian transactions, but the decision whether the relationships are permitted or prohibited has over the years become a more complex process of assessing the involvement of types of goods, geographical destinations and specially designated persons and entities and the resulting risk exposure. Increasingly, too, sanctions have been extended to certain terrorist groups or geographical areas, without individual members being listed. This adds to the complexity for firms of ensuring compliance with financial sanctions, whilst at the same time not obstructing the carrying out of transactions permitted under the sanctions regime.
- 4.4 The UK regime also incorporates licensing provisions, under which permission can be given to allow Designated Person/Entities to carry out particular transactions (pay for necessities, legal fees etc.). It is important for firms to be fully conversant with the licence arrangements that apply to their business and/or customers.

- 4.5 The sanctions regime requires absolute compliance and any person in breach of an obligation under a relevant Statutory Instrument or Act of Parliament will be guilty of an offence, unless a defence is successfully made out. The nature of the legislation means that firms risk breaching a sanctions obligation as soon as they are in possession, control or otherwise dealing with funds relating to an individual or entity that is listed in an EU Regulation or falls within the remit of a UK Statutory Instrument. The timing of this is outside their control (in contrast to AML approaches, which generally allow firms to set their own timetables on checking and updating customer due diligence details). The Terrorist Asset-Freezing etc. Act 2010 (TAFZA 2010) provides a primary legislative basis for the UK's domestic terrorist asset-freezing regime. The penalties for committing an offence are covered in each individual Statutory Instrument or Act, and through powers granted to HM Treasury in s146 of the Policing and Crime Act 2017.
- 4.6 Notwithstanding the absolute nature of the regime, firms are likely to focus on implementing appropriate systems and controls to identify persons who are subject to financial sanctions, given their assessment of the likelihood of dealing with such persons and associated risk of breaching their obligations. This may involve less immediate or frequent screening and/or being more selective with regard to those who are screened. Firms should note, however, that any provision of funds or, in some cases, financial services etc. directly or indirectly to, or failure to freeze the assets of, a sanctioned person will expose the firm to the risk of prosecution or a monetary penalty.
- 4.7 The fact that the sanctions regime is absolute presents a challenge for compliance. Some firms, for example large firms with millions of customers or which process many millions of transactions every day, will use automated screening systems. Other firms with smaller numbers of customers and transactions may achieve compliance through other processes. Firms must use sanctions checking processes that are proportionate to the nature and size of the firm's business and that in their view are likely to identify all true matches.

#### *Code for Crown Prosecutors*

- 4.8 If an individual or a firm breaches a financial sanctions prohibition, it will have committed a criminal offence unless a defence is successfully made out. However, in line with the principles set out in the Code for Crown Prosecutors (see Annex 4-IV), prosecution of a firm or individual would only be likely where the prosecuting authorities consider this to be in the public interest, and where they believe that there is enough evidence to provide a realistic prospect of conviction.

#### ***What is the financial sanctions regime?***

- 4.9 The UN has called for all member states to act to prevent and suppress the financing of terrorist acts. United Nations Security Council Resolutions are not directly applicable in UK law. However, the EU implements the 28 Member States' UN obligations by adopting an EU Regulation, which gives effect to the UN measures in UK law. A set of UK Regulations is required to introduce criminal penalties for breaches of the EU Regulation. However, see para 4.18 on the UK's 'Linking regulations' which can give direct effect to new UN listings as soon as they are made.

### *The UK regime<sup>3</sup>*

- 4.10 EU Regulations imposing and/or implementing sanctions are part of European Union law and have direct effect in the Member States. EU Regulations either implement UN sanctions regimes or implement autonomous EU regimes. A set of UK Regulations made under section 2(2) of the European Communities Act 1972 is required to introduce criminal penalties for breaches of EU Regulations into UK law, although penalties for breach of EU Regulation 2580/2001 are imposed under TFA 2010.
- 4.11 There is no single over-arching piece of financial sanctions legislation in the UK. With the exception of the domestic Terrorism and Terrorist Financing regime, which is implemented by primary domestic legislation, for every individual financial sanctions regime there are two types of legislative instruments:
- (1) an EU Regulation which imposes obligations on UK persons to freeze the assets of designated persons, to refrain from making funds and economic resources available to them and any other financial prohibitions or restrictions; and
  - (2) a set of UK regulations made under section 2(2) of the European Communities Act 1972, which enforces the EU Regulation by making it a criminal offence in the UK to breach the EU Regulation's measures.
- 4.12 Under the 'Terrorism and Terrorist Financing' regime there is:
- (1) an EU Regulation, 2580/2001, which gives effect to UN Security Council Resolution 1373(2001), and which imposes specific financial sanctions against certain listed targets; and
  - (2) The Terrorist Asset-Freezing etc. Act 2010 (TFA 2010) which (a) enforces the asset freezes in respect of the EU-listed targets and (b) provides HM Treasury with powers unilaterally to freeze the funds and economic resources of those suspected or believed to be involved in terrorist activities, and restricts the making available, directly or indirectly, of funds, financial services, and economic resources to, or for the benefit of such persons.

The Anti-terrorism Crime and Security Act also empowers HM Treasury to designate targets. For current listings see: <https://www.gov.uk/government/publications/financial-sanctions-uk-freezing-orders>

- 4.13 A number of organisations have been proscribed under UK anti-terrorism legislation. Where such organisations are also subject to financial sanctions (e.g. an asset-freeze), they are included on the Consolidated List maintained by OFSI. The primary source of information on proscribed organisations, however, including up-to-date information on aliases, is the Home Office. Firms can find the list of proscribed organisations at: <https://www.gov.uk/government/publications/proscribed-terror-groups-or-organisations--2>

### *Country-specific*

- 4.14 The UN Security Council also maintains a range of country-based financial sanctions that target specific individuals and entities connected with the political leadership of targeted countries.

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<sup>3</sup> The text describes the present UK regime, which will change post-Brexit. The UK government issued a White Paper in April 2017 inviting responses to questions posed on the possible scope and application of a post-Brexit regime.

Each UN sanctions regime has a relevant Security Council Committee that maintains general guidance on the implementation of financial sanctions and current lists of targeted persons and entities. The list of currently applicable Security Council Resolutions can be found at [www.un.org/Docs/sc/committees/INTRO.htm](http://www.un.org/Docs/sc/committees/INTRO.htm).

- 4.15 The EU directly implements all UN financial sanctions against countries/regimes; it can also initiate autonomous measures under the auspices of its Common Foreign and Security Policy. Detail on UN-derived and EU autonomous financial sanctions regimes (including targets) is available on the EC sanctions website, [http://ec.europa.eu/external\\_relations/cfsp/sanctions/docs/measures\\_en.pdf](http://ec.europa.eu/external_relations/cfsp/sanctions/docs/measures_en.pdf).
- 4.16 The EU has published FAQs on the implementation of its sanctions regime against Russia. The FAQs cover several topics, including the meaning of providing financial assistance in the context of the arms embargo, when financing restrictions apply generally, how banks should ensure their compliance, the extent of the restrictions on access to capital markets, and the status of pre-existing loans. The FAQs are available at [http://europa.eu/newsroom/files/pdf/1\\_act\\_part1\\_v2\\_en.pdf](http://europa.eu/newsroom/files/pdf/1_act_part1_v2_en.pdf)
- 4.17 Unlike the arrangements under the terrorism measures, the UK would not normally make autonomous additions to the target lists for country-specific sanctions. The prohibition in these sanctions regimes apply in respect of funds and economic resources in the same manner as those in the terrorism sanctions. Where relevant, any specific individuals and entities subject to such targeted countries/regimes will be included on OFSI's consolidated list.
- 4.18 OFSI will now add new sanctions listings made by a UN Security Council committee to the consolidated list for 30 days, or until the EU adds the new listings to an existing sanctions regulation, whichever is sooner. Where listings have been made under a new UN Security Council Resolution, OFSI's intention is that the Linking Regulations will be amended to include the new Resolution within 48 hours.
- 4.19 The number of regimes can change from time to time. A full list of the financial sanctions regimes in force is available at: <https://www.gov.uk/government/organisations/hmtreasury/series/financial-sanctions-regime-specific-consolidated-lists-and-releases>. Each entry on the list of current regimes gives access to full details of that regime, including the relevant UN and EU decisions, UK legislation, and Treasury information.
- 4.20 Annex 4-I summarises the relevant legislation in the UK.

#### *What is a financial sanction?*

- 4.21 A key element of many financial sanctions is an asset freezing regime. Asset freezes comprise two elements:
- A prohibition on dealing with the funds or economic resources belonging to or owned, held or controlled by a designated person, and
  - A prohibition on making funds or economic resources available, directly or indirectly, to, or for the benefit of, a designated person.
- 4.22 An asset freeze prevents anyone “dealing” with funds or economic resources which belong to, or which are owned, held or controlled by, a designated person. “Deal with”, in relation to funds, includes to move, transfer, alter, use, allow access to, or deal with in any way that would result in any change in the funds’ volume, amount, location, ownership, possession, character, destination, or any other change that would enable the funds to be used. This also includes the management of securities (shares, bonds, etc.) and other assets.



- 4.23 “Deal with”, in relation to economic resources, generally means using the economic resources to obtain funds, goods, or services in any way, including, but not limited to, by selling, hiring or mortgaging them. The everyday use by a designated person of their own economic resources for personal consumption is not prohibited (e.g., using their car to do the shopping) but a designated person could not sell or use the resource to generate funds (e.g. by selling the car or using it for a taxi or courier business) without a licence from OFSI.
- 4.24 As well as placing a direct prohibition on dealing with a Designated Person, some sectoral sanctions prohibit the supply of certain financial products (especially around the capital market). Thus firms need not just to flag a customer who is on a prohibited list, but to look through to the nature of the service involved.

### *Insurance*

- 4.25 Generally, sanctions do not ban the provision of insurance. However it is prohibited to provide insurance to:

- persons designated under TAFSA 2010, and
- certain state entities and persons:
  - in Syria (EU regulation 36/2012)
  - In DPRK (EU regulation 1509/2017)

The Russian sanctions include prohibitions on export credit insurance.

- 4.26 There are special provisions for the insurance supplied to Designated Persons. There is more about the financial restrictions in force:

- in respect of Syria, at: <https://www.gov.uk/sanctions-on-syria>
- in respect of Russia, at <https://www.gov.uk/government/news/doing-business-in-russia-and-ukraine-sanctions-latest>
- in respect of financial sanctions at: <https://www.gov.uk/government/publications/financial-sanctions-ukraine-sovereignty-and-territorial-integrity>

- 4.27 Additionally, financial sanctions prohibit the payment of funds to or for the benefit of Designated Persons, which would impact on the payment by the Designated Person and others of insurance premiums and the payment of claims to a Designated Person, which could not take place unless licensed. This prohibition would, without a licence, prevent the payment of benefits due under a policy to a beneficiary who is a Designated Person.
- 4.28 When someone is listed by the UN or EU under a country sanctions regime, the fact of their designation does not make any insurance cover that they enjoy at the time of their designation, or any cover that might be taken out after that date, illegal. However, if they are listed under the Syrian regime, it may be illegal to provide them with cover regardless of their designation, because of the broad insurance bans referred to above.
- 4.29 Except as already described, there is no legal requirement to discontinue cover to listed persons. Insurers making an assessment of whether they wish to discontinue cover to a Designated Person will wish to take into account the potential social harm that might be caused if they terminate a contract that is either not subject to any restriction or is permitted under a general licence.
- 4.30 When delegating any underwriting or claims authority to a third party an underwriting insurer may not have direct knowledge of the identities of the underlying clients /customers and so be

unable themselves to identify any potential sanctioned party exposure, the underwriting insurer should satisfy themselves that the third party's systems and controls are commensurate with the UK financial sanctions obligations as they apply to the delegated activity. Insurers should consider measures such as making specific reference to sanctions compliance within their Terms of Business and/or from time to time requiring positive affirmation from their third parties of their financial sanctions systems and controls.

Firms should consider their reporting obligation to OFSI if they discover that a customer is a designated person. See Chapter 5 of OFSI's guide to financial sanctions.

- 4.31 In respect of each prohibition, it is a defence for the provider of the funds, economic resources, or where applicable financial services, not to have known or have had reasonable cause to suspect that the prohibition was being breached.

#### *Exemptions*

- 4.32 There are exemptions to regimes which permit some activities which would otherwise amount to a breach of the asset freezing requirements are automatically exempted under the legislation. For example, funds due to Designated Persons in relation to contractual or other obligations entered into prior to the designated person's listing can be credited to the Designated Person's frozen account. Regard should always be had to the latest version of the relevant legislation.

#### *Licence regime*

- 4.33 A licence is a written authorisation from OFSI to allow an activity which would otherwise be prohibited. A licence may include associated reporting requirements or other conditions. Generally there are two sorts of licence:
1. General licences. These are available to every potential beneficiary subject to whatever terms or conditions apply under the sanctions regime concerned; so a general licence allows every transaction, or category of transaction, that is described in the licence to be lawful, whoever the persons who are engaging in them. General licences are available in a limited number of circumstances, and are published on the gov.uk web pages.
  2. Individual or specific licences. These are granted to specific parties, and may permit specific transactions or types of spending for example. They are not usually published.
- 4.34 Sanctions regimes generally provide carve-outs for humanitarian payments, although some offer specific licensing provisions for these.
- 4.35 If a person is designated under the Terrorism and Terrorist Financing regime, two general licences are currently in place which cover insurance. General licences allow:
- the provision of insurance to Designated Persons, and
  - the immediate and temporary provision of goods and services in respect of an insurance claim such as courtesy cars or emergency hotel accommodation to Designated Persons.
- 4.36 Licences can be granted for a range of purposes. The permitted purposes are typically set out by the UN or EU, and may include allowing the release of frozen funds to pay obligations due by the Designated Person under a contract entered into prior to their listing, to meet bank charges, to cover basic household or business expenses and reasonable legal costs.

- 4.37 Licences can also allow other arrangements to permit transactions and protect third parties who are not sanctions targets – for example to allow staff salaries to be paid, to allow humanitarian transactions, and to allow the assets of Designated Persons to be safeguarded and managed.
- 4.38 The terms of the relevant EU Regulation typically prescribe the circumstances in which licences can be issued and the conditions that need to be satisfied in order for OFSI to issue a licence.
- 4.39 OFSI licences do not cover activities in other jurisdictions, nor trade imports or exports subject to trade sanctions. If the firm, or the activity it is seeking to have licensed, is subject to more than one sanctions regime (because of overseas ownership, for example) the firm may need to apply to the overseas authorities for a separate licence from them.

#### *Penalties*

- 4.40 The penalties for a breach of UK financial sanctions (including breach of EU Regulations containing sanctions, which are applicable in the UK) are set out in the relevant statutory instrument, and in s146 of the Policing and Crime Act 2017. Any person guilty of an offence is liable on conviction to imprisonment and/or a fine.

#### *OFSI website*

- 4.41 OFSI's website includes the sanctions legislation applicable in the UK, regime-specific information, Notices, and guidance. See <https://www.gov.uk/government/organisations/office-of-financial-sanctions-implementation>

#### *The Consolidated List*

- 4.42 The obligations under the UK financial sanctions regime apply as follows:
- EU financial sanctions (including where they implement UN sanctions) apply within the territory of the EU and to all EU persons, wherever they are in the world.
  - UK financial sanctions apply within the territory of the UK and to all UK persons, wherever they are in the world.
  - All individuals and legal entities who are within or undertake activities within the UK's territory must comply with the EU and UK financial sanctions that are in force.
  - All UK nationals and UK legal entities established under UK law, including their branches, must also comply with UK financial sanctions that are in force, irrespective of where their activities take place.
  - All EU nationals and legal entities established under EU law must comply with the EU financial sanctions that are in force, irrespective of where their activities take place.

In order to assist compliance with the UK regime, OFSI maintains a 'consolidated list' of individuals and entities that are subject to financial sanctions. The Consolidated List is available at <https://www.gov.uk/government/publications/financial-sanctions-consolidated-list-of-targets>.

## *Responsibilities*

4.43 Responsibilities for the UK sanctions regime primarily lies with four Government departments:

- (i) Office of Financial Sanctions Implementation, HM Treasury
- (ii) The Foreign and Commonwealth Office (“FCO”), and
- (iii) The UK Department for International Trade, through the Export Control Organisation,
- (iii) The Home Office

The Financial Conduct Authority also has a role in relation to firms’ systems and controls. Under its objective of enhancing the integrity of the UK financial system, it requires firms, under Principle 3, to have in place appropriate policies and procedures to counter the risk that they might be used to further financial crime. These include adequate systems and controls to comply with the asset freezing regime. Annex 4-II provides a summary of the responsibilities of the UK authorities.

## *Overseas jurisdictions*

4.44 Where a firm is active in jurisdictions outside the UK, it may be required to comply with the requirements of the sanctions regimes in other jurisdictions. Some jurisdictions’ requirements may also apply without a firm having an actual presence in that jurisdiction.

4.45 Firms will need to understand which sanctions regimes impact on which parts of their business and ensure they correctly comply with applicable sanctions while not incorrectly applying regimes of other jurisdictions to UK business. Annex 4-IV contains links to some useful websites.

## ***Approach, procedures and training***

### *Approach – what does an asset freeze do?*

4.46 An asset freeze prohibits dealings with the funds or economic resources of a sanctions target. It also prohibits making funds or economic resources (and in relation to those designated under the terrorism regime, financial services) available, directly or indirectly, to or (in the case of those designated under the terrorism regime) for the benefit of sanctions targets. Firms should therefore implement appropriate means of control to prevent breaches of prohibitions. It is a criminal offence for a firm to breach a sanctions prohibition.

4.47 In order to reduce the likelihood of breaching obligations under financial sanctions regimes, firms are likely to focus their resources on areas of their business that carry a greater likelihood of involvement with sanctions targets and where meaningful information on their clients, counterparties and transactions is held. Within this approach, firms are likely to focus their prevention and detection procedures on direct customer relationships, and on transactions, having appropriate regard to other parties involved. However, firms cannot ignore “low risk” areas and must ensure that systems and controls also pay attention to areas where dealings with a sanctions target are unlikely, but possible.

### *Policy and senior management responsibilities*

4.48 Firms should have a sanctions policy that is informed by a thorough understanding of legal requirements applied to an assessment of the risks in their firm. Senior management and/or the Board of a firm should understand the firm’s obligations and take responsibility for the firm’s sanctions compliance policies and procedures.

### *Approach tailored to business model*

- 4.49 Firms should take an approach which is appropriate for their business model, when assessing where and how their business is most likely to encounter sanctioned parties, and to focus resources and tailor systems and controls accordingly.
- 4.50 Firms, particularly those with many different client types, product types and/or geographical markets, should consider carrying out an assessment in order to be able to understand which parts of their business may carry a greater likelihood of breaching the requirements of economic or terrorist-related sanctions. Any assessment may usefully include a high level assessment of the firm's view of its business profile in specific business areas, and information on periodic CDD and other checks relating to those areas.
- 4.51 An assessment should start with identification and assessment of the issues that have to be managed. A firm should develop its approach in the context of how it might most likely be involved in breaching economic and country-related sanctions. A firm may take into account a range of factors when conducting its assessment, including:
- Its customer, product and activity profiles
  - Its distribution channels
  - The complexity and volume of its transactions
  - Its processes and systems
  - Its operating environment
  - The screening processes of other parties
  - The geographic risk of where it does business
  - The sanctions regulations of relevant countries.

### *Documenting the assessment*

- 4.52 Firms should document the assessment and approach adopted on the basis of that assessment. Firms should also identify where a decision is taken to adopt a different approach where this may go beyond a particular requirement.

### *Firms' activities outside the UK*

- 4.53 UK sanctions legislation typically applies to UK persons and persons in the UK, including bodies incorporated or constituted under UK law. Where firms operate in a number of countries or territories, a consistent group wide 'umbrella' policy should be established, which can assist local business units in ensuring that their local procedures meet minimum group standards. Firms will also need to take account of any particular local, legal requirements. Foreign subsidiaries of UK firms that have a separate legal personality outside the UK (as distinct from branches) would not be covered by UK sanctions law, but by the law of the jurisdiction in which they are based.
- 4.54 Firms should ensure that appropriate policies and procedures are in place across the organisation. A firm's procedures should be appropriate to its business, and readily accessible and well understood by all relevant staff. Senior management must understand and stress the importance of understanding and complying with the firm's policies and procedures.
- 4.55 Firms should ensure that their procedures remain up to date and fit for purpose in a changing environment. Firms may use internal review, other appropriate functions or external review to achieve this.

4.56 Firms should ensure that they communicate in a timely manner to relevant staff changes to the sanctions requirements, including any internal changes to systems, procedures and controls.

4.57 Firms should adequately monitor their systems processes and controls to support full compliance with sanctions requirements.

#### *Staff training*

4.58 A firm should have staff training programmes commensurate with its business and risk profile. Firms should consider implementing arrangements for:

- providing material containing the firm's financial sanctions policies and procedures which is readily available and simple to understand;
- providing training that is appropriately tailored for different groups of staff to reflect the likelihood of different degrees of staff involvement with sanctions issues, including what to do in the event of a reportable match;
- providing refresher training, delivered at appropriate intervals.

#### *Circumvention*

4.59 Firms' policies and procedures should include provisions to prohibit and detect attempts to circumvent sanctions, by, for example:

- omitting, deleting or altering information in payment messages for the purpose of avoiding detection of that information by other firms in the payment process, or
- structuring transactions with the purpose of concealing the involvement of a sanctioned party.

Employment contracts should make any such attempt a serious disciplinary offence.

4.60 Generally, financial sanctions apply to specifically designated persons. It is important to note that an asset freeze and some financial services restrictions also apply to businesses and other organisations owned or controlled by a designated person. More information is available in OFSI's Guide to Financial Sanctions<sup>4</sup>. This will be a matter of case-by-case analysis and if in doubt, firms should consider taking independent legal advice on the matter.

4.61 It can be unclear whether an unlisted person and its assets are owned or controlled by a designated person. There is no absolute legal rule as to when an entity is owned or controlled by another. The matter must be subject to a case-by-case evaluation, taking into account the *degree* to which the entity concerned is owned or controlled. The EU's best practices guide<sup>5</sup> says the following:

- o The criterion to be taken into account when assessing whether a legal person or entity is owned by another person or entity is the possession of more than 50% of the proprietary rights of an entity or having majority interest in it. If this criterion is satisfied, it is considered that the legal person or entity is owned by another person or entity.

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<sup>4</sup> <https://www.gov.uk/government/publications/financial-sanctions-faqs>

<sup>5</sup> <http://data.consilium.europa.eu/doc/document/ST-10254-2015-INIT/en/pdf>

### *Screening of customers and transactions*

- 4.62 Firms should have processes to manage the risk of conducting business with or on behalf of individuals and entities on the Consolidated List<sup>6</sup> (which includes all the names of sanctioned persons and entities under UN and EU sanctions regimes which have effect in the UK).
- 4.63 A firm's internal policy and procedures should determine the frequency of screening. It is each firm's responsibility to comply with the relevant legislation. However, if a firm fails to identify and block a target account, this may lead to a breach of the legislation. It should be noted that a critical aspect of the listing of a target is that the target's assets must be frozen immediately.
- 4.64 Where a prohibition is against business with certain geographical areas, for example, Crimea, there are additional practical challenges in picking up transactions for screening. It may be helpful, at least in part, to screen against specific locations – such as known towns, cities or ports within such a geographical area. This however should be considered on a firm by firm basis within the context of business activities and profile.

### *Taking a tailored approach*

- 4.65 As already noted, it is for individual firms to assess how best to comply with the financial sanctions legislation within the context of their business activities and profile. The prohibitions in the legislation extend beyond payments made directly to sanctions targets, i.e., payments which are made indirectly to, or which are made to others for the benefit of, sanctions targets are within the scope of the legislation.
- 4.66 An "indirect payment" is one that is made to someone acting on behalf of the sanctions target. In contrast, the prohibition on making payments to others for the benefit of a sanctions target is intended to prevent payments being made to third parties to satisfy an obligation of that person.
- 4.67 As explained in paragraphs 4.46ff, firms should adopt an approach informed by the profile of their business model and client base. Firms are likely to focus their screening processes on areas of their business that carry a greater likelihood of involvement with sanctions targets, or their agents, although as outlined earlier, low risk areas cannot be ignored.

### *Record of screening policy*

- 4.68 Firms should keep a written record of their screening policy and be able to justify the timescales and frequency of screening, resolution of screening matches and regulatory reporting if required.

### *Review of processes*

- 4.69 Firms should review, and update their processes periodically, so that they remain appropriate for their needs and ensure that any internal guidance is updated to reflect major changes to the sanctions regime, such as the addition of a new jurisdiction or regime.

### *Elements of screening process*

- 4.70 The scope and complexity of the screening process will be influenced by the firm's business activities, and according to the profile of the firm. An effective screening process should include the following elements:

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<sup>6</sup> The Consolidated List is available at <https://www.gov.uk/government/publications/financial-sanctions-consolidated-list-of-targets>.

- it should flag up potential name matches against the Consolidated List and names against which measures have been issued under the Counter-Terrorism Act
- potential matches should be reviewed by appropriately trained staff
- where matches are confirmed as true, appropriate action should be taken to freeze the account
- true matches should be reported as soon as is practicable to OFSI (see paragraphs 4.62ff for the reporting of matches) and
- it should maintain an audit trail of actions around potential and true matches.

#### *Screening software*

- 4.71 Many firms use automated customer screening software provided by a commercial provider; other firms rely on manual screening. Firms may consider whether and what type of screening software to use in line with the nature, size and risk profile of their business. A key element of a screening system is that it will flag potential matches clearly and prominently. Firms should document the reasons for choosing whichever screening method they decide to use.
- 4.72 Where commercially available automated screening software is implemented, firms should understand its capabilities and limits, and make sure it is tailored to their business requirements, data requirements and risk profile. Firms should also monitor the ongoing effectiveness of automated systems. Where automated screening software is used, firms should be satisfied that they have adequate contingency arrangements should the software fail and should periodically check the software is working as they expect it to.

#### *Legacy systems*

- 4.73 Firms should be alert to any operational issues which may arise from having the risk of customer or transaction data in legacy systems.

#### *'Fuzzy matching'*

- 4.74 It is important to consider "fuzzy matching", as names might be missed if only exact matches are screened. "Fuzzy matching" describes any process that identifies non-exact matches. Fuzzy matching software solutions identify possible matches where data - whether in official lists or in firms' internal records - is misspelled, incomplete, or missing. They are often tolerant of multinational and linguistic differences in spelling, formats for dates of birth, and similar data. A sophisticated system will have a variety of settings, enabling greater or less fuzziness in the matching process.
- 4.75 Where a firm uses a screening system which has a fuzzy matching capability, it should ensure that the fuzzy matching process is calibrated as appropriate in line with the risk profile of their business.
- 4.76 Application of a fuzzy matching process to a screening system will result in the generation of an increased number of apparent matches which have to be checked. The generation and resolution of an undue number of false positives may have a negative impact on the efficacy of the resolution process. Firms should therefore consider the level of appropriate human intervention to assess which results may be false positives.

#### *Use of false personal information*

- 4.77 Sanctioned parties are known to use false personal information to try and evade detection of their illicit activities. Typical approaches are to use name variations, e.g., name reversal and



removing numbers from the names of entities, etc. For this reason, many firms use screening tools which screen using several protocols – e.g., name reversal, number removal, number replaced by word, etc.

#### *Outsourcing and reliance*

- 4.78 A firm may outsource screening and/or other financial sanctions compliance processes to a contractor, but will remain fully responsible for discharging all of its regulatory obligations. Firms may therefore consider putting in place an appropriate Service Level Agreement with contractors and should satisfy themselves that the outsourced party is providing an effective service.
- 4.79 There is no “reliance” provision in the UK financial sanctions regime. When screening customers and related parties that are new to the firm but who are or were already clients of another FCA-authorized firm, firms might choose to consider this in their assessment when determining their screening policy. However, it should not be assumed that such clients have already been screened.

#### *Timing of screening*

- 4.80 All customers should be screened during the establishment of a business relationship or as soon as possible after the business relationship has commenced. Firms should be aware of the risks associated with screening customers after a business relationship has been established and/or services have been provided i.e., that they may transact with a sanctioned party in breach of sanctions prohibitions. Firms must be aware of the absolute restrictions embedded in the financial sanctions regime. Where there is any delay in screening, firms face a risk of breaching the legislation.
- 4.81 For low-risk business a firm might choose post-event screening, provided the nature of the business allows the firm to prevent movement or withdrawal of the asset(s) concerned until the sanction check has been completed.
- 4.82 In accordance with a firm’s business profile, consideration should be given to how often customer re-screening should be carried out. Some firms carry out regular periodic systems-based screening of their entire customer data. Others develop a programme to re-screen for changes to their customer list and changes to the Consolidated List. Firms should ensure that they have adequate arrangements to screen when changes are made to the Consolidated List.

#### *Screening of associated parties*

- 4.83 The sanctions prohibitions also apply to both indirect payments to and payments for the benefit of sanctions targets. Where practicable, screening should cover any other related parties, for example beneficial owners (including trustees, or company directors), that are identified by the firm in question as requiring verification under its risk-based approach to customer due diligence. A firm's judgement in these matters will need to be consistent with its approach for AML purposes, and whether or not full identity details are collected.
- 4.84 Firms may choose not to undertake financial sanctions checks in respect of particular related parties associated with an investment if its assessment considers such checks would be disproportionate in particular cases. Firms should be aware, however, that this will increase the risk of sanctions legislation being breached. Firms may be liable to prosecution in respect of any such breaches.
- 4.85 Particular challenges arise in respect of entities which, whilst not explicitly listed, may still be subject to financial sanctions by virtue of their ownership/control structure.

### *Dormant accounts*

- 4.86 Firms may wish to consider whether dormant accounts should be screened, and if so how and when they should be screened. This decision is likely to reflect the firm's risk policy, and the availability or otherwise of dormant account data on a system that is able to be screened.

### *Transaction screening*

- 4.87 Firms should monitor higher-risk payment instructions to assist in preventing a breach of the prohibitions. Transaction screening involves screening of payment information to identify potential sanction targets.
- 4.88 Transaction screening should take place on a real-time payment basis, i.e., the screening or filtering of relevant payment instructions should be carried out before the transaction is executed.
- 4.89 Firms will approach transaction screening in line with their assessment of their business risks. Firms are likely to focus on screening international transactions where there is adequate information on third parties, and parties to trade finance deals plus walk-in customers wishing to send payments both within and outside the UK. Firms that operate client money accounts or provide safe custody services are likely to focus on third party payments and asset transfers.
- 4.90 Banks will wish to consider screening both data in the payment and relevant advice messages (e.g., MT103, MT910, MT202 etc) and for intermediary banks data in the cover payments e.g., MT202COV.
- 4.91 Factors that firms may consider when determining which transactions should be screened include:
- whether automated screening is possible
  - industry best practice
  - international / domestic connections
  - adequate information to ascertain whether it is a potential match
  - materiality of transaction
  - the nature of the client's business
  - analysis of historical sanction matches
- 4.92 When funds are received electronically by a financial firm as payee (i.e., not a Payment Service Provider in the transaction – see Part I, paragraph 5.2.11), the name of the payer will typically not be passed on by the PSP to the payee. The payee firm is not expected to screen the payer nor to screen the incoming payment, unless there is reason to believe the payer is not their customer.
- 4.93 When funds are received electronically by a Payee Payment Services Provider from within the EU, the payer's name and address may not be included in the transfer (as it is not required in the relevant legislation – see section 1: *Transparency in electronic payments (wire transfers)*, paragraph 1.15). The PSP may need to consider whether to request additional information in order to meet its sanctions obligations.

### *Audit trail and record keeping*

- 4.94 Whether firms screen using automated systems or manually, an audit trail should be maintained for a period of no less than five years. This should record all relevant information to a likely

match, how it was resolved and the rationale applied. Firms should ensure that their processes are kept under review, and remain up to date, and appropriate for the needs of the institution.

### ***Reporting matches and breaches of the regime***

#### *Assessing possible matches*

- 4.95 A **target match** is where a firm is satisfied that the transaction or account held is that of a specific person who is a target of financial sanctions. A **name match** is where a firm has matched the name of an account holder with the name of a target included on HM Treasury's Consolidated List. This does not necessarily mean that the account holder is one and the same as the target. If a firm has a name match it needs to decide, using the information it has about the account holder, whether they are a sanctions target or not.
- 4.96 Firms may often find it difficult to determine if there are true matches i.e., they involve a sanctioned party. Potential matches should be investigated and reviewed as appropriate to confirm if they are true matches. The majority of matches are likely to be “false positives” and after this is confirmed there will be no need for further review. Sophisticated screening software permits adjustment of screening rules, so as to prevent repetition of specific false matches.
- 4.97 True matches are where a firm has no doubt that the account held is that of a target of the financial sanctions regime. It is also possible to have a potential match where a name of a customer may appear to match the name of a target included on HM Treasury’s Consolidated List. Firms should seek to obtain sufficient information to enable them to confirm or eliminate a partial match. This process should be documented in writing.
- 4.98 Firms are required to inform OFSI of all funds and economic resources that they have frozen in accordance with the relevant legislation and provide all relevant information necessary for ensuring compliance with the legislation, subject to the obligations of legal professional privilege. Under existing financial sanctions legislation applicable in the UK, a firm is guilty of an offence if it knows or has reasonable cause to suspect that a person is a listed person or has committed an offence under the legislation, and the institution does not disclose the information to OFSI as soon as is reasonably practicable after that information comes to its attention.
- 4.99 OFSI have published a template for reporting breaches, which is available at [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/512772/ofsi\\_br\\_each\\_form\\_template\\_march\\_2016.docx](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/512772/ofsi_br_each_form_template_march_2016.docx). OFSI strongly encourage firms to use it. OFSI would expect to see it used for all new suspected breach disclosures going forward, but do not expect to see previous disclosures resubmitted. All emails to OFSI upon receipt receive an automatic acknowledgement. All disclosures will be considered internally by OFSI and then shared with law enforcement. The firm can expect to be contacted by either OFSI or a law enforcement agencies at an appropriate juncture in the consideration of the information provided.

#### *What is a false positive?*

- 4.100 A “false positive” is the identification of an apparent match to a record on the Consolidated List (or a party against which measures have been issued under the Counter-Terrorism Act) which is assessed on investigation not to relate to a sanctions target or entity.
- 4.101 Time constraints are also particularly relevant in the context of payments. Firms may make further enquiry either from the counter-party bank or from their client or both, so as to assist in determining whether the match is a true match. Firms should seek sufficient information to enable them to confirm or eliminate an potential match. This process should be documented

in writing. For cases that are assessed to be not a true match, firms should ensure that there is a clear rationale for deciding that an apparent match is a false positive and that this rationale can be demonstrated.

- 4.102 Every potential match of a customer account should be checked, and if appropriate investigated. This process should be documented in writing. Firms are advised to keep an appropriate audit trail about every likely match. This is likely to include a record of who made the decision and on what grounds.

#### *Reporting to OFSI*

- 4.103 Firms are required to provide OFSI with information where they know, or have reasonable cause to suspect, that a person is a designated person or that someone has committed an offence under specific sections. Those offence provisions include both an actual breach and participation in activities where the purpose of those activities is to directly or indirectly circumvent the prohibitions. The EU Regulations also generally contain a requirement that individuals and entities should supply all information which would facilitate compliance with the regulations. While an example of information on the initial freezing of the account is provided, this is non-exhaustive. As such, HM Treasury have advised it is their view that attempted breaches, which the financial institution stops, could well be the appropriate subject of a suspected breach disclosure.

Chapter 5 of OFSI's guide to financial sanctions describes firms' reporting obligations under financial sanctions: see <https://www.gov.uk/government/publications/financial-sanctions-faqs>

- 4.104 OFSI have specifically requested that the words "suspected breach disclosure" be put in the title, so that these can be allocated to the correct case worker and dealt with promptly.
- 4.105 Where financial institutions believe that they hold funds or assets for a sanctioned party, this must be reported to OFSI as soon as practicable – see Annex 4-II. Firms must ensure that they have clear internal and external reporting processes for reporting matches to OFSI as soon as practicable and that individuals within the firm dealing with matters in relation to which a report has been made to OFSI understand their obligations.

#### *What information to report?*

- 4.106 Firms are generally required to report the following information:
- the information or other matter on which the knowledge or belief is based;
  - any information held by the financial institution about the sanctions target by which the person can be identified; and
  - the nature and amount or quantity of any funds or economic resources held by the financial institution for the sanctions target.

#### *Legislative reporting requirements*

- 4.107 Firms should comply with the specific requirements of the applicable legislation, which may be contained in a UK Statutory Instrument or in an EU Regulation (available from OFSI's website) as regards their obligations in dealing with sanctioned parties. As legislation relating to different sanctioned parties may vary, the detail of the relevant legislation covering the asset freeze should be examined. Firms may also seek advice from OFSI on the action required, including where serious practical difficulties arise with regard to compliance.

- 4.108 In the case of sanctions contained in UK Statutory Instruments, OFSI may (depending on the applicable Statutory Instrument) in addition ask any UK person (as defined in the relevant Statutory Instrument) to provide information that they may reasonably require for the purpose of monitoring compliance and detecting evasion of the sanctions regime

*Contacting customer's branch*

- 4.109 Where a customer's account has been frozen, firms may need to contact the customer's local branch or appropriate business area informing them of the asset freeze.

*Notifying customer of asset freeze - does "tipping off" apply?*

- 4.110 Firms are not legally required to advise customers that their account has been frozen. The listing authority will have made efforts to inform the designated person that they have been designated and what that means for them. The Consolidated List is a public document and there is no prohibition on discussing a customer's listing with them (as compared to the prohibitions relating to 'tipping off' under the wider anti-money laundering regime).
- 4.111 It will, however, generally be good practice to tell the customers involved that they are subject to financial sanctions such as an asset freeze, and to explain the effect of any restrictions to them, and how to contact OFSI. When discussing matters with the customer a firm should still be aware that it is a criminal offence to circumvent, or enable or facilitate circumvention of sanctions.

*Does a SAR have to be filed?*

- 4.112 Holding an account for a sanctioned party or rejecting or processing a transaction (whether or not in breach of financial sanctions prohibitions) which involves a sanctioned party, is not in itself grounds for filing a SAR under either POCA or the Terrorism Act.
- 4.113 However, should a suspicion of crime or terrorism arise, firms should consider their obligations under the legislation and whether they should submit a SAR.

Firms should note that filing a SAR does not meet their reporting obligations under financial sanctions. These reports must always be sent to OFSI. See their guide to financial sanctions for more information.

*Reporting to the FCA*

- 4.114 There is no formal legal requirement to report a true match other than to OFSI.
- 4.115 Both the FCA and the PRA have indicated that they regard breaches (not true matches) of financial sanctions to be a matter that would be appropriate for firms to report to the FCA via their usual points of contact. This disclosure should be consistent with the FCA's Principle 11 which requires a firm to "deal with its regulators in an open and co-operative way" and to "disclose to the FCA anything relating to the firm of which the FCA would reasonably expect notice". Firms with a dedicated FCA and/or PRA relationship manager may wish to discuss the practicalities of this as part of their usual supervisory dialogue.

*Review customer relationship*

- 4.116 Firms may wish to review their relationship with a customer confirmed as a true sanctions match.

*Breaches of Statutory Instruments*

- 4.117 OFSI must be informed as soon as practicable where a firm knows or suspects that an offence under any one of the various sanctions has been committed either by itself or by a sanctions target. Failure to do so constitutes an offence.

## Summary of relevant legislation

*Note: This summary focuses on legislation relating to terrorism and terrorist financing. Not all country-based regimes are, however, in place for this purpose; some are more human rights based.*

*A list of the financial sanctions regimes currently in place can be found on the OFSI website at: <https://www.gov.uk/government/organisations/hm-treasury/series/financial-sanctions-regime-specific-consolidated-lists-and-releases>.*

### ***United Nations***

UNSCR 1373 (2001)      The UN Security Council has passed UNSCR 1373 (2001) which calls on all member states to act to prevent and suppress the financing of terrorist acts. Guidance issued by the UN Counter Terrorism Committee in relation to the implementation of UN Security Council Resolutions regarding terrorism can be found at [www.un.org/Docs/sc/committees/1373/](http://www.un.org/Docs/sc/committees/1373/)

UNSCR 1267 (1999)      The UN has published the names of individuals and organisations subject to UN financial sanctions in relation to involvement with Usama Bin Laden, Al-Qa'ida, and the Taliban under UNSCR 1267 (1999), 1390 (2002) and 1617 (2005). All UN member states are required under international law to freeze the funds and economic resources of any legal person(s) named in this list and to report any suspected name matches to the relevant authorities.

### ***European Union***

EC Regulation  
2580/2001 as amended  
2580/2001 (as amended)      The EU directly implements all UN financial sanctions, including financial sanctions against terrorists, through binding and directly applicable EU Regulations. The EU implemented UNSCR 1373 through the adoption of Regulation EC 2580/2001 (as amended). This Regulation introduces an obligation in Community law to freeze all funds and economic resources belonging to named persons and entities, and not to make any funds, economic resources or financial services available, directly or indirectly, to those listed.

EC Regulation 881/2002 (as amended)      UNSCR 1267 and its successor resolutions are implemented at EU level by Regulation EC 881/2002 (as amended).

The texts of EC Regulations referred to and the lists of persons targeted, are available at [http://ec.europa.eu/external\\_relations/cfsp/sanctions/docs/measures\\_en.pdf](http://ec.europa.eu/external_relations/cfsp/sanctions/docs/measures_en.pdf)

### ***UK legislation***

The UK has implemented its obligations under UNSCR 1373 under the Terrorist Asset-Freezing Act 2010 (TAFAs 2010) (which replaced the Terrorism (United Nations Measures) Orders of 2001, 2006 and 2009). The 2001 and 2006 Orders had been replaced and revoked by the 2009 Order save that directions designating persons under article 4 of the 2001 and 2006 Orders which remained in force on the date of the 2009 Order came into force

continued to apply and the provisions of the 2001 and 2006 Orders continued to apply to such directions.

UNSCR 1267 and its successor resolutions are implemented in the UK by EC Regulation 881/2002 (as amended). The Al-Qa'ida and Taliban (Asset-Freezing) Regulations 2010 provide for penalties of Regulation 881/2002 and, amongst other things, reporting obligations on financial institutions.

In order to make a designation under TAFAs, HM Treasury has to meet a two-part legal test that requires them to establish that (1) they reasonably believe that the person is or has been involved in terrorist activity and (2) that the freeze is necessary for the purposes connected with protecting the public from terrorism.

A designation under TAFAs 2010 will result in the addition of a name to OFSI's consolidated list that might not appear on the equivalent UN or EU lists.

A number of organisations have been proscribed under UK anti-terrorism legislation. Where such organisations are also subject to financial sanctions (an asset freeze), they are included on the Consolidated List maintained by OFSI.

### *Other regimes*

The Department for International Trade is the UK department responsible for trade sanctions.

Certain trade sanctions regimes, such as those involving an arms embargo, also include measures that place restrictions on the provision of financial assistance related to specific activities, such as military activities.

Below are details of those trade sanctions regimes in effect in the UK, which include restrictions on the provision of finance directly to the prohibited trade activities:

#### Lebanon

The Counter Terrorism Act 2008

Schedule 7 to the CTA gives power to HM Treasury to issue directions to firms in the financial sector. The kinds of requirement that may be imposed by a direction under these powers relate to

- customer due diligence;
- ongoing monitoring;
- systematic reporting ;
- limiting or ceasing business.

The requirements to carry out CDD measures and ongoing monitoring build on the similar obligation under the Money Laundering Regulations. The requirements for systematic reporting and limiting or ceasing business are new.

HM Treasury may give a direction **if one or more** of the following conditions is met in relation to a non-EEA country:



- that the Financial Action Task Force has advised that measures should be taken in relation to the country because of the risk of terrorist financing or money laundering activities being carried on
  1. (a) in the country,
  - (b) by the government of the country, or
  - (c) by persons resident or incorporated in the country.
- that the Treasury reasonably believe that there is a risk that terrorist financing or money laundering activities are being carried on
  - (a) in the country,
  - (b) by the government of the country, or
  - (c) by persons resident or incorporated in the country,
  2. **and** that this poses a significant risk to the national interests of the UK.
- that the Treasury reasonably believe that
  - (a) the development or production of nuclear, radiological, biological or chemical weapons in the country, or
  - (b) the doing in the country of anything that facilitates the development or production of any such weapons, poses a significant risk to the national interests of the UK.

### Summary of responsibilities for the UK regime

Responsibilities lie with four Government departments, and the Financial Conduct Authority also has a role:

1. The Foreign and Commonwealth Office (“FCO”) has responsibility for negotiating in the UN and in the EU on sanctions
2. The Department for International Trade (“DIT”) has responsibility for trade sanctions.
3. HM Treasury, through OFSI, has responsibility for administering sanctions in the UK, compliance and issuing exemptions to prohibitions by way of licence.
4. The Home Office has responsibility for implementing travel bans.

The Financial Conduct Authority (“FCA”) has responsibility for ensuring that financial services firms have adequate systems and controls for compliance with the UK financial sanctions requirements.

#### **The FCO**

The FCO has overall responsibility for UK policy in relation to the scope and content of the sanctions regime. The FCO also has responsibility for representing and negotiating the UK’s position with respect to the terms of financial sanctions related United Nations Security Council resolutions and European Union Regulations. UNSCRs provide the basis on which the legal sanctions framework is constructed, and EC Regulations give effect to UN obligations in the EU, including in the UK.

The EU can also impose autonomous sanctions within the framework of the Common Foreign and Security Policy.

The FCO maintains a list of current restrictions and information on the countries that are under export controls and sanctions: see <https://www.gov.uk/guidance/sanctions-embargoes-and-restrictions>

#### **DIT**

DIT has responsibility for trade sanctions, setting export controls and administering the FCO list of about 50 countries subject to trade measures. Trade sanctions, such as embargoes on making military hardware or know-how available to certain named countries of jurisdictions, can be imposed by governments or other international authorities, and these can have financial implications. Firms which operate internationally should be aware of such sanctions, and should consider whether these affect their operations; if so, they should decide whether they have any implications for the firm’s procedures.

DIT also has specific responsibility for implementing United Nations Security Council Resolutions on weapons of mass destruction. Within DIT the Export Control Organisation (“ECO”) has responsibility for legislating, assessing and issuing export licences for specific categories of “controlled” goods. This encompasses a wide range of items including so-called dual-use goods, torture goods, radioactive sources, as well as military items. A licence may be required depending on various factors including the nature of the items exported and any sanctions in force on the export destination.

## **HM Treasury**

HM Treasury is the lead UK Government department on administering the financial sanctions regime, which it does through OFSI. OFSI's aim is to help ensure that financial sanctions are properly understood, implemented and enforced in the United Kingdom.

## **FCA**

The FCA Handbook, in particular Principle 3 and SYSC 6.1.1, places specific responsibilities on firms regarding financial crime prevention. Authorised firms are therefore subject to regulatory requirements relating to the UK's financial sanctions regime.

The following are the specific requirements:

### **Principle 3: Management and control**

“A firm must take reasonable care to establish and control its affairs responsibly and effectively with adequate risk management systems” and

### **SYSC 6.1.1**

“A firm must establish, implement and maintain adequate policies and procedures sufficient to ensure compliance of the firm including its managers, employees and appointed representatives (or where applicable, tied agents) with its obligations under the regulatory system and for countering the risk that the firm might be used to further financial crime. [Note: article 13(2) of MiFID.]”

## **Application in law**

Sanctions apply in UK law through both EU Regulations and Statutory Instruments (which together have been used as the UK's enabling legislation for the application of UN financial sanctions). With regard to EU Regulations, there is direct applicability in EU Member States, so that entities incorporated or constituted under EU law, and persons and entities doing business in the EU (including non-EU nationals) are subject to their provisions. Statutory Instruments apply to any person in the UK and any British citizen, and any body incorporated or constituted under law of any part of the UK (but not subsidiaries operating outside the UK with no UK legal personality). Annex 4-I provides details of international, EU and UK legislation relevant to financial sanctions and asset freezing.

Each Statutory Instrument is unique in terms of detail, restrictions, exceptions, prohibitions the penalties for non-compliance and information requirements.

## **Who must comply with financial sanctions in the UK?**

The relevant Statutory Instruments generally apply to any person in the UK, to any person elsewhere who is a British citizen or subject, and to any body incorporated or constituted under the law of any part of the UK, although the exact wording may differ from one Statutory Instrument to another. UK Statutory Instruments do not apply to subsidiaries operating wholly outside the UK and which do not have legal personality under UK law.

EU Regulations imposing and/or implementing sanctions are part of Community law, are directly applicable and have direct effect in the Member States. The measures apply to nationals of Member States, as well as persons and entities doing business in the EU, including nationals of non-EU countries.

### **Is it an offence to make funds available to a target of financial sanctions legislation?**

This is covered specifically in each relevant Statutory Instrument and EU Regulation. In general terms, any person to whom the relevant legislation applies who, except under the authority of a licence granted by OFSI under the relevant legislation makes any funds, economic resources or, in some circumstances, financial (or related) services available directly or indirectly to or for the benefit of persons listed under the relevant Statutory Instrument or EU Regulation is guilty of an offence.

### **What are the penalties for committing an offence under the legislation?**

These are covered specifically in each relevant Statutory Instrument, and in s146 of the Policing and Crime Act 2017. However, in general terms, any person guilty of an offence under the relevant Statutory Instrument is liable on conviction to imprisonment and/or a fine. The maximum term of imprisonment is currently seven years or two years in the case Statutory Instruments providing penalties for breaches of EU Regulations.

Where any body corporate is guilty of an offence under the relevant Statutory Instrument, and that offence is proved to have been committed with the consent or connivance of, or to be attributable to any neglect on the part of, any director, manager, secretary or other similar officer of the body corporate, or any person who was purporting to act in any such capacity, that person as well as the body corporate is guilty of that offence and is liable to be proceeded against and punished accordingly.

HM Treasury, through OFSI, may impose a monetary penalty on a person if it is satisfied, on the balance of probabilities, that

- (a) the person has breached a prohibition, or failed to comply with an obligation, that is imposed by or under financial sanctions legislation, and
- (b) the person knew, or had reasonable cause to suspect, that the person was in breach of the prohibition or (as the case may be) had failed to comply with the obligation.

OFSI's monetary penalties guidance is available at:

<https://www.gov.uk/government/publications/monetary-penalties-for-breaches-of-financial-sanctions>

### **Subscribing to OFSI's e-alerts service**

OFSI offers a free subscription service for notification by e-mail when a Financial Sanctions-related release is published on this website and the consolidated list of targets is updated. Those wishing to subscribe can do so at: <https://public.govdelivery.com/accounts/UKHMTREAS/subscriber/new>

### **The UKF alert service**

UKF provides an additional alert service by notifying its members and drawing their attention to amendments published by HM Treasury. The alert service is provided to all UKF member banks and principal contacts.

### **International requirements**

Firms active in non-UK jurisdictions will wish to be aware of the sanctions requirements in each and every country where they operate.

## Summary of Licensing Regime

**Firms should consult OFSI's guide to financial sanctions for information on licensing.**

### **What is a licence?**

A licence is a written authorisation from OFSI to allow an activity which would otherwise be prohibited by financial sanctions legislation. The obligations and responsibilities attached to a licence are generally imposed on a sanctions target, but a licence may be issued to a relevant financial institution in order to allow such institution to engage in an activity, such as dealing with funds belonging to a sanctions target, which would otherwise be prohibited. A licence may include associated reporting requirements or other conditions on a financial institution, and these will be made clear in the terms of an individual licence.

Applications for a licence should be made using the application form on the OFSI website<sup>7</sup> and either emailed or posted to OFSI.

Applications to release funds from frozen accounts, or to make funds, economic resources or financial services available to or for the benefit of a sanctions target must be made in writing to the Office of Financial Sanctions Implementation, 1 Horse Guards Road, London SW1A 2HQ, or emailed to [ofsi@hmtreasury.gsi.gov.uk](mailto:ofsi@hmtreasury.gsi.gov.uk).

OFSI will normally provide guidance letters when issuing licences to banks. Such guidance will specify the purpose for which the licence is being issued, together with any specific obligations on financial institutions including any monitoring requirements.

### **Operation of frozen accounts under a licence**

OFSI does not instruct financial institutions on how they should operate frozen accounts that are licensed to permit specific transactions to take place. Some financial institutions operated such accounts by blocking all electronic functionality, or permitting only specified standing orders/direct debits. Other financial institutions allow the accounts to be operated without restrictions, but apply specific monitoring. Where accounts are operated openly, financial institutions must ensure that there is sufficient monitoring to satisfy them that any breaches by a sanctions target, for example withdrawals in excess of a cash limit stated in the licence, are identified as soon as possible and reported to OFSI.

There are primarily four different models by which frozen accounts are operated:

- i. frozen accounts of sanctions targets subject to a licence are run as standard accounts with cash cards and full electronic functionality. Monitoring is in place on such accounts to ensure any unauthorised activity by the sanctions target is detected and communicated to OFSI without delay.
- ii. the original account is frozen and a new account is opened that benefits or other licensed income can be paid into. The sanctions target has no access to funds in the original frozen account. Again, monitoring is in place on such account to detect any unauthorised activity.
- iii. access to a cash card is withdrawn. However, the sanctions target is permitted to set up payments, e.g., for rent and utilities, by standing order or direct debit. Remaining funds

<sup>7</sup> <https://www.gov.uk/government/organisations/office-of-financial-sanctions-implementation>

required (up to a limit specified in the licence) must be withdrawn in person at the branch counter.

iv. the account is blocked to remove all electronic functionality, and the sanctions target must withdraw cash over the branch counter – there may be a limit on the amount of cash that can be withdrawn, depending on the terms of the licence.

Depending on the model of account operation adopted, there is a balance between ensuring that sufficient controls are in place on such accounts and ensuring that the impact of the asset freezing regime on the individual is not disproportionate.

In respect of the insurance industry, especially general insurance, there may be instances where legitimate third party claims may arise. In such circumstances any payments or services provided may require a licence or amending the current licence. In all instances the advice of OFSI should be obtained before any payment is made.

Even where no obligations on a bank are specified in a licence, there are relevant obligations contained in the legislation itself. Where a financial institution is aware of breaches of the asset freeze by a sanctions target, there is a requirement to inform OFSI as soon as it is practicable to do so. One example is that in a circumstance where a bank is aware, through monitoring of an account, that a sanctions target is in breach of their licence conditions, e.g., through withdrawing more cash than they are permitted, the bank is required by the legislation to inform HM Treasury of the sanctions target's breach as soon as is practicable.

Guidance on the licensing process can be found in OFSI's guide to financial sanctions, available at: <https://www.gov.uk/government/publications/financial-sanctions-faqs>.

**Useful sources of information**

UN Security Council: [www.un.org/Docs/sc/committees/INTRO.htm](http://www.un.org/Docs/sc/committees/INTRO.htm).

OFSI: <https://www.gov.uk/government/organisations/office-of-financial-sanctions-implementation>

FCO: <http://www.fco.gov.uk/en/global-issues/counter-terrorism/>

Code for Crown Prosecutors: [www.cps.gov.uk/publications/docs/code2004english.pdf](http://www.cps.gov.uk/publications/docs/code2004english.pdf)

Home Office: <https://www.gov.uk/government/organisations/home-office>

NCA: [www.soca.gov.uk](http://www.soca.gov.uk)

European Commission: [http://ec.europa.eu/external\\_relations/cfsp/sanctions/list/consol-list.htm](http://ec.europa.eu/external_relations/cfsp/sanctions/list/consol-list.htm)

FCA report on firms' compliance with UK sanctions requirements:  
[www.fsa.gov.uk/pubs/other/Sanctions%20Final%20Report.pdf](http://www.fsa.gov.uk/pubs/other/Sanctions%20Final%20Report.pdf)

Department for International Trade  
<https://www.gov.uk/government/organisations/department-for-international-trade>

US Treasury: <http://www.ustreas.gov/offices/enforcement/ofac/programs/>

OFAC: <http://www.treas.gov/offices/enforcement/ofac/>

FATF: [www.fatf-gafi.org/](http://www.fatf-gafi.org/)

Wolfsberg Group: <http://www.wolfsberg-principles.com/>

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## 5: Directions under the Counter-Terrorism Act 2008, Schedule 7

### *HM Treasury power to issue directions*

- CTA 2008 c 28            5.1            The CTA gained royal assent on 26 November 2008 and came into force on that date. The UK Government has deemed it a necessary further tool in the range of legislation to address the risks from money laundering, terrorist financing and the proliferation of nuclear, radiological, biological or chemical weapons.
- CTA Sch 7, para 9(4)    5.2            Schedule 7 to the CTA gave new powers to HM Treasury to issue directions to firms in the financial sector. The kinds of requirement that may be imposed by a direction under these powers relate to
- customer due diligence (see paragraph 5.21);
  - ongoing monitoring (see paragraph 5.31);
  - systematic reporting (see paragraph 5.36);
  - limiting or ceasing business (see paragraph 5.39).
- 5.3            The requirements to carry out CDD measures and ongoing monitoring build on the similar obligation under the ML Regulations. The requirements for systematic reporting and limiting or ceasing business are new.
- 5.4            Orders under POCA and Terrorism Act cannot be issued by HM Treasury; they are issued by judges in connection with law enforcement investigations into money laundering. Such orders are, therefore, very specific. It is possible that a direction by HM Treasury could impose requirements which overlap with the effect of an order under POCA or Terrorism Act although HM Treasury are working with SOCA to avoid this.

### *What grounds must HM Treasury have for issuing directions?*

- CTA Sch 7, para 1        5.5            The Treasury may give a direction **if one or more** of the following conditions is met in relation to a non-EEA country:
- that the Financial Action Task Force has advised that measures should be taken in relation to the country because of the risk of terrorist financing or money laundering activities being carried on
    - (a) in the country,
    - (b) by the government of the country, or
    - (c) by persons resident or incorporated in the country.
  - that the Treasury reasonably believe that there is a risk that terrorist financing or money laundering activities are being carried on
    - (a) in the country,
    - (b) by the government of the country, or
    - (c) by persons resident or incorporated in the country,



**and** that this poses a significant risk to the national interests of the UK.

- that the Treasury reasonably believe that
  - (a) the development or production of nuclear, radiological, biological or chemical weapons in the country, or
  - (b) the doing in the country of anything that facilitates the development or production of any such weapons,poses a significant risk to the national interests of the UK.

5.6 There are therefore a number of restrictions on the use of the powers by HM Treasury:

- They can only be issued in relation to activities believed to be being carried on in a particular non-EEA jurisdiction;
- Unless the FATF have advised that additional measures should be taken, HM Treasury must ‘reasonably believe’ that
  - relevant activities (see paragraph 5.24) are being carried on **and**
  - that this poses a significant risk to UK national interests.

5.7 The powers to issue directions under the CTA are broad, reflecting the range of counter measure options identified by the FATF.

CTA, Sch 7, para 2

5.8 Money laundering is defined in CTA Sch 7 by cross reference to s340(11) of POCA. Terrorist financing, however, is specifically defined in CTA Sch 7, but in different terms from that in the Terrorism Act.

5.9 HM Treasury are to issue specific guidance on the requirements of any directions made. These will be available on HM Treasury’s website [http://www.hm-treasury.gov.uk/fin\\_crime\\_policy.htm](http://www.hm-treasury.gov.uk/fin_crime_policy.htm).

*What firms may be subject to these directions?*

CTA, Sch 7, paras 3, 4

5.10 Directions under the CTA Sch 7 may only be given to persons (i.e., firms) operating in the financial sector. A person operating in the financial sector is defined as one that is a credit or financial institution that is either a UK person or is acting in the course of a business carried on by it in the UK.

CTA Sch 7, para 5(2)(g)  
Regulation 10(1),(2)

5.11 The definition of credit institution is the same as that in the ML Regulations, but the definition of financial institution contains an additional category of firm – an insurance company as defined by section 1165(3) of the Companies Act 2006. This extends the scope to include all insurance companies authorised under Part IV of FSMA, as well as Lloyd’s underwriters and companies offering vehicle accident or breakdown cover. However, firms brought into the scope of CTA Sch 7 only through this definition are only subject to two of the four categories of direction. Life assurance companies are therefore subject to all four categories of direction, as they are within the definition of financial institution in the ML Regulations.

5.12 These firms are excluded from the scope of the first two direction powers because those brought in are not currently required to carry out CDD

measures or ongoing monitoring under the ML Regulations – in proposing the new powers, HM Treasury were seeking to be consistent with what firms were already required to do, and so had systems for. But the additional firms were included in the other two direction powers as these do not directly flow from the ML Regulations, and HM Treasury would expect all firms in the industry to have to implement them to address the potentially substantial risks against which they might be used.

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| CTA Sch 7, para 3(1) | 5.13 | <p>HM Treasury may issue directions to</p> <ul style="list-style-type: none"> <li>○ A particular person operating in the financial sector; <b>or</b></li> <li>○ Any description of persons in that sector; <b>or</b></li> <li>○ All persons operating in that sector</li> </ul>  |
| CTA Sch 7, para 14   | 5.14 | <p>Where directions are given to firms of a given type or to all firms, generally an Order must be laid before parliament by HM Treasury under the negative resolution procedure. The exception is a direction to limit or cease business, which requires an Order laid under the affirmative resolution procedure.</p>  |
| SI 2009/2725         | 5.15 | <p>As an example, the first Order under CTA Sch 7 was laid on 12 October 2009. The order was in respect of two Iranian entities, Bank Mellat and Islamic Republic of Iran Shipping Lines, and was accompanied by an interpretive note issued by HM Treasury – the interpretive note is at <a href="http://www.hm-treasury.gov.uk/d/fin_crime_interpretive_note.pdf">http://www.hm-treasury.gov.uk/d/fin_crime_interpretive_note.pdf</a>.</p> |
|                      | 5.16 | <p>Firms may obtain direct electronic notification of any such orders, interpretive notes and other HM Treasury-originated publications or announcements relating to the exercise of powers under CTA Sch 7 by subscribing to the HM Treasury AML/CTF mailing list – see <a href="http://www.hm-treasury.gov.uk/fin_crime_mailinglist.htm">http://www.hm-treasury.gov.uk/fin_crime_mailinglist.htm</a>.</p>                                  |

*What directions may be imposed?*

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|----------------------|------|---|
| CTA Sch 7, para 9(1) | 5.17 | <p>Requirements may be imposed in relation to transactions or business relationships with</p> <ul style="list-style-type: none"> <li>○ A person carrying on business in a particular country</li> <li>○ The government of that country</li> <li>○ A person resident or incorporated in that country</li> </ul>  |
| CTA Sch 7, para 9(2) | 5.18 | <p>A direction may impose requirements in relation to</p> <ul style="list-style-type: none"> <li>○ a particular person described in paragraph 5.17,</li> <li>○ any description of persons detailed in that paragraph, or</li> <li>○ all persons detailed in that paragraph.</li> </ul> <p>Any person in relation to whom a direction is given is a ‘designated person’ for the purposes of a direction.</p> |
| CTA Sch 7, para 9(4) | 5.19 | <p>As mentioned in paragraph 5.2, the kinds of requirement that may be imposed by a direction relate to</p> <ul style="list-style-type: none"> <li>○ customer due diligence (see paragraphs 5.21ff);</li> <li>○ ongoing monitoring (see paragraphs 5.31ff);</li> <li>○ systematic reporting (see paragraphs 5.36ff);</li> </ul>   |

- limiting or ceasing business (see paragraphs 5.39ff).

CTA Sch 7, para 15(3)      5.20      Any direction (if not previously revoked and whether or not varied) ceases to have effect after one year from the day it is given (although a further direction may be given).

*Customer due diligence*

CTA Sch 7, para 10      5.21      The requirements in relation to customer due diligence that may be imposed relate to

- timing of carrying out enhanced due diligence
- obligation to carry out enhanced due diligence
- content of CDD measures

Regulations 27-30  
Regulation 33      5.22      The general obligation to carry out CDD measures, and the timing and content of such measures, are already set out in the ML Regulations (although expressed in slightly different language from CTA Sch 7). EDD measures are also already required under the ML Regulations, but only in relation to the types of customer/product situation that are specified in the Regulation. Guidance on meeting the obligation to carry out EDD is given in Part I, section 5.5.

5.23      The specified requirements that may be imposed under a direction may differ in detail from the general requirements for CDD measures under the ML Regulations, although HM Treasury intend to direct similar requirements unless there are specific reasons to apply different requirements. As mentioned in paragraph 5.11, insurance companies (as defined there) may not be made subject to a direction under this paragraph of Schedule 7.

*Timing*

Regulation 27 (c)  
CTA Sch 7, para 10 (3),  
(4)      5.24      Under the ML Regulations a firm must carry out CDD measures when, inter alia, it suspects money laundering or terrorist financing. The powers under the CTA permit HM Treasury to direct that firms must carry out enhanced CDD of specified entities where it reasonably believes that there is a risk of money laundering or terrorist financing in a country, or that the development or production of nuclear, radiological, biological or chemical weapons, or the facilitation of such development or production in a country (the latter are collectively referred to as ‘relevant activities’), poses a significant risk to the national interests of the UK.

CTA Sch 7, para 10(1)      5.25      A direction may require a firm to undertake enhanced customer due diligence measures—

- (a) before entering into a transaction or business relationship with a designated person, and
- (b) during a business relationship with such a person.

5.26      In practical terms, if such requirements are imposed under a direction from HM Treasury, a firm would not be expected to apply CDD measures at a point that was different from that in respect of which guidance is given in Part I, section 5.2, unless specifically directed to (although the exceptions referred to in paragraphs 5.2.3 - 5.2.5 would not apply, as the firm would be under a specific direction, thus indicating a high risk of money

laundering or terrorist financing that requires checks before any access to the financial system is facilitated).

#### Enhanced due diligence

- CTA Sch 7, para 10(2) 5.27 The direction may
- (a) impose a general obligation to undertake enhanced customer due diligence measures; and/or
  - (b) require a firm to undertake specific measures identified or described in the direction.
- 5.28 In practical terms, if such requirements are imposed under a direction from HM Treasury, a firm would not be expected to apply different EDD measures from those carried out in accordance with the guidance given in Part I, section 5.5, unless specifically directed to. The discretion in the risk-assessment as to whether EDD should be applied is removed through a direction having been given; within this, however, there will still be discretion to determine the extent of EDD measures appropriate in each case (unless these are specified in the direction).

#### Content of CDD measures

- CTA Sch 7, para 10(3) 5.29 “Customer due diligence measures” is defined in CTA Sch 7 as measures
- (a) to establish the identity of the designated person (see paragraph 5.18),
  - (b) to obtain information about—
    - (i) the designated person and their business, and
    - (ii) the source of their funds, and
  - (c) to assess the risk of the designated person being involved in relevant activities.
- 5.30 In practical terms, if such requirements are imposed under a direction from HM Treasury, a firm would not be expected to apply different CDD measures from those carried out in accordance with the guidance given in Part I, section 5.3, unless specifically directed to.

#### *Ongoing monitoring*

- CTA Sch 7, para 11(1), (2) 5.31 A direction may require a firm to undertake enhanced ongoing monitoring of any business relationship with a designated person. The direction may
- (a) impose a general obligation to undertake enhanced ongoing monitoring; and/or
  - (b) require a firm to undertake specific measures identified or described in the direction.
- Regulation 28(11)  
Regulation 33 (1)(a), (d) 5.32 The general obligation to carry out ongoing monitoring is already set out in the ML Regulations (although expressed in slightly different language from CTA Sch 7). Enhanced ongoing monitoring is required generally in relation to higher risk situations, and specifically where the customer is a

PEP. Guidance on carrying out ongoing monitoring is set out in Part I, section 5.7.

- 5.33 As mentioned in paragraph 5.11, insurance companies (as defined there) may not be made subject to a direction under this paragraph of Schedule 7.
- CTA Sch 7, para 11(3) 5.34 “Ongoing monitoring” of a business relationship is defined in CTA Sch 7 as
- (a) keeping up to date information and documents obtained for the purposes of customer due diligence measures, and
  - (b) scrutinising transactions undertaken during the course of the relationship (and, where appropriate, the source of funds for those transactions) to ascertain whether the transactions are consistent with the firm’s knowledge of the designated person and their business.
- 5.35 In practical terms, if such requirements are imposed under a direction from HM Treasury, a firm would not be expected to apply different enhanced ongoing monitoring from that carried out in accordance with the guidance given in Part I, section 5.7, unless specifically directed to.

*Systematic reporting*

- CTA Sch 7, para 12(1) 5.36 A direction may require a firm to provide such information and documents as may be specified in the direction relating to transactions and business relationships with designated persons.
- CTA Sch 7, para 12(2) 5.37 A direction imposing such a requirement must specify how the direction is to be complied with, including
- (a) the person to whom the information and documents are to be provided, and
  - (b) the period within which, or intervals at which, information and documents are to be provided.
- 5.38 Transactions that are subject to a direction imposing systematic reporting are very likely to be prospective. Although it is possible that historic data may be requested, this would likely only result from a follow up to a previous systematic reporting order.

*Limiting or ceasing business*

- CTA Sch 7, para 13 5.39 A direction may require a firm not to enter into or continue to participate in
- (a) a specified transaction or business relationship with a designated person, or
  - (b) a specified description of transactions or business relationships with a designated person, or
  - (c) any transaction or business relationship with a designated person.
- 5.40 The obligation to limit or cease business with a designated person is different from the obligation not to do business with a name on a sanctions

list. The CTA direction is more flexible, and can be applied more broadly; it also does not involve freezing a customer's assets.

- 5.41 There may be situations where a firm itself prefers to close a relationship with a designated person. In such circumstances it might be important to consult with HM Treasury before taking that action.
- CTA Sch 7, para 17 (1) – (4) 5.42 HM Treasury may grant a licence to exempt acts specified in the licence from requirements in a direction to limit or cease business. A licence may be
- (a) general or granted to a description of persons or to a particular person;
  - (b) subject to conditions;
  - (c) of indefinite duration or subject to an expiry date.
- HM Treasury may vary or revoke a licence at any time.
- CTA Sch 7, para 17 (5) 5.43 On the grant, variation or revocation of a licence, HM Treasury must
- (a) in the case of a licence granted to a particular person, give notice of the grant, variation or revocation to that person;
  - (b) in the case of a general licence or a licence granted to a description of persons, take such steps as HM Treasury consider appropriate to publicise the grant, variation or revocation of the licence.

#### *Enforcement and penalties for non-compliance*

- CTA Sch 7, paras 25, 30 5.44 A firm may be penalized for a failure to comply with a requirement under a direction in one of two ways:
- A civil penalty by the supervisory and enforcement authority (the FCA); or
  - Criminal prosecution for the failure
- CTA Sch 7, para 25(5), 30(6) 5.45 A firm cannot be made liable to a civil penalty and be prosecuted for the same failure.
- CTA Sch 7, para 25(3), 30(3) 5.46 In deciding whether to impose a penalty, or whether a firm has committed an offence, in relation to a failure to comply with a requirement, an enforcement authority or a court must consider whether the firm followed any relevant guidance which was at the time
- (a) issued by a supervisory authority or any other appropriate body,
  - (b) approved by the Treasury, and
  - (c) published in a manner approved by the Treasury as suitable in their opinion to bring the guidance to the attention of persons likely to be affected by it.

#### *Civil penalty*

- CTA Sch 7, para 25(1) 5.47 An enforcement authority may impose a penalty of such amount as it considers appropriate on a person who fails to comply with a requirement imposed
- (a) by a direction under Sch 7, or

(b) by a condition of a licence under such a direction.

CTA Sch 7, para 25(2)	5.48	No such penalty is to be imposed if the authority is satisfied that the person took all reasonable steps and exercised all due diligence to ensure that the requirement would be complied with.
SYSC 6.1.1 R	5.49	Firms should note that the regulatory requirement to have in place adequate policies and procedures for countering the risk that a firm might be used to further financial crime - which includes terrorist financing - also applies. This means that the FCA can take regulatory action against a firm relating to its systems and controls, even where no breach of a direction under Schedule 7 of the CTA has occurred.

*Offence: failure to comply with requirement imposed by a direction*

CTA Sch 7, paras 30(1), 32(1)	5.50	Where a firm fails to comply with a requirement imposed by a direction under CTA Sch 7 it is open to criminal prosecution, subject to paragraph 5.51. An offence may be committed by a UK person by conduct wholly or partly outside the UK.
CTA Sch 7, para 30(2),	5.51	No offence is committed if the person took all reasonable steps and exercised all due diligence to ensure that the requirement would be complied with.
CTA Sch 7, para 30(5)	5.52	The criminal sanction under CTA Sch 7 is a prison term of up to two years, and/or a fine.

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Articles 5, 6 and 7 of Regulation (EU) 2015/847