



# HOW TO MITIGATE THE RISK OF TERRORIST FINANCING, TARGETED FINANCIAL SANCTIONS AND FINANCING PROLIFERATION

Registrar of NPO Best Practice Guidance

# AIMS

- What is Terrorist Financing (“TF”), Targeted Financial Sanctions (“TFS”) and Financing of Proliferation (“PF”)
- How should an NPO mitigate these risk
- Recommended internal controls and procedures
- Registrar of NPOs expectations



# WHAT IS TERRORIST FINANCING, TARGETED FINANCIAL SANCTIONS AND FINANCING OF PROLIFERATION

- Terrorist Financing: UNSR 1373: Nations should criminalize the wilful provision or collection, by any means, directly or indirectly, of funds by their nationals or in their territories with the intention that the funds should be used, or in the knowledge that they are to be used, in order to carry out terrorist acts;
- Targeted Financial Sanctions: Targeted financial sanctions entail the use of financial instruments and institutions to apply coercive pressure on transgressing parties—government officials, elites who support them, or members of non-governmental entities—in an effort to change or restrict their behavior. Sanctions are targeted in the sense that they apply only to a subset of the population—usually the leadership, responsible elites, or operationally responsible individuals; they are financial in that they involve the use of financial instruments, such as asset freezes, blocking of financial transactions, or financial services; and they are sanctions in that they are coercive measures applied to effect change or constrain action. *E g, UN, OFSI*
- Financing of Proliferation: Proliferation is the manufacture, acquisition, possession, development, export, transshipment, brokering, transport, transfer, stockpiling or use of nuclear, chemical or biological weapons and their means of delivery and related materials (including both technologies and dual-use goods used for non-legitimate purposes), in contravention of national laws or, where applicable, international obligations. *It includes technology, goods, software, services or expertise.*



## TYPE OF ACTIVITIES THAT ARE VULNERABLE TO TF, TFS AND PF RISK

- For TF and TFS Risk: NPOs that are involved in humanitarian work involving external third parties and jurisdictions. For example missionary work. E.g. sending funds to support a cause or workers in an effected jurisdiction.
- NPOs that provide educational grants to students based in another jurisdiction either through an third party introducer or referral.
- For PF Risk: NPOs that have an international connection to a parent entity whose located in another jurisdiction. This NPO has shipping and insurance related activities.
- NPOs with connection to entities, NPOs or individuals based in high risk jurisdiction



# RECOMMENDED INTERNAL CONTROLS THAT WOULD ASSIST IN MITIGATING THESE RISK

- These recommendation are not applicable to all NPOs, and require a case by case approach by the NPO sector.
- Establish policy and procedures for internal controls related to addressing Targeted Financial Sanctions and Terrorist Financing risk.
- Oversight and control related to raise, store, move and use of cash
- Record retention and documenting all relevant information related to addressing TFS and TF risk.
- Dual signature, impromptu reconciliation, threshold authorization from the BOD or management committee.
- Know your beneficiary or donor .
- Use the below link to the UNSC website and conduct due diligence searches on potential beneficiaries, third parties or donors.
- <https://scsanctions.un.org/search/>
- [UNITED NATIONS SECURITY COUNCIL](#)



## RECOMMENDED INTERNAL CONTROLS THAT WOULD ASSIST IN MITIGATING THESE RISK

- Be aware of the financial sanctions imposed by the UK and EU: <https://www.gov.uk/government/organisations/office-of-financial-sanctions-implementation>- can register for email alerts
- <https://www.gov.uk/government/collections/collections/financial-sanctions-regime-specific-consolidated-list-and-releases>
- Assess all aspects of your proposed project to identify if any partners contractor or financial institutions appear on the consolidated list
- Tailor your compliance to address the issue as to if there is a breach what action should be taken



## RECOMMENDED INTERNAL CONTROLS THAT WOULD ASSIST IN MITIGATING THESE RISK

- Utilize information associated with the Cayman Islands Targeted Financial Sanctions Regime
- The below links provide all useful information on what sanctions are and what actions should be taken if there is a sanction breach.
- <http://www.fra.gov.ky/contents/page/1>
- <http://fra.gov.ky/app/webroot/files/FRA%20-%20Quick%20Guide%20to%20Financial%20Sanctions%20in%20the%20Cayman%20Islands.pdf>



## RECOMMENDED INTERNAL CONTROLS THAT WOULD ASSIST IN MITIGATING THESE RISK

- If conducting an activity in a high risk jurisdiction, conduct thorough checks of who you're dealing with to include all points of in the payment chain and those involve in the project on the ground.



# REGISTRAR EXPECTATIONS

- During an onsite or desk base inspection the Registrar expects to see the following:
- Policy or procedure that address the risk of TF, TFS and PF. To include what action should be taken to address a suspected breach
- Record keeping – records related to all activity in keeping with purpose and activity- raise- store-move and use of cash or assets.
- In particular where there is a high risk activity- to include BOD or sub-committee minutes or resolutions related to such activities.



# QUESTIONS

