



In 2020-21 OFSI welcomed Giles Thomson as its new Director. Giles has brought with him a wealth of expertise on sanctions and economic crime and is broadening OFSI's strategic objectives to enhance the contribution of financial sanctions to wider UK economic crime objectives. In the 5 previous years, Giles has been responsible for anti-money laundering (AML), counter-terrorism financing (CTF) and sanctions policy in HM Treasury (HMT) and was head of the UK Delegation to the Financial Action Task Force (FATF), all of which he continues to oversee alongside his leadership of OFSI.

This development brings HMT's sanctions policy and operational implementation roles together in one place and integrates them into the government's broader economic crime agenda, as they are in most businesses' financial crime compliance functions.

OFSI has had a stretching year, working across government and with both private sector and international partners as it transitioned out of the EU and into a UK autonomous sanctions framework. This made it the UK's busiest year for changes to sanctions designations. From January to March 2021, the number of new designations made rose by 224% compared with the same period the year before. This landmark year affected each of OFSI's functions as it balanced its responsibilities for the existing and developing frameworks.

Delivering UK autonomous sanctions

OFSI's operations had to adjust and adapt to the changing landscape of sanctions that occurred over the last financial year. Processes evolved from implementing an EU sanctions framework into a system fit for new UK autonomous regulations, while at the same time preparing sanctions implementers across UK industry for the changes.

The preparation for this began in 2016 after the UK voted to leave the EU with the consultation on the Sanctions and Anti-Money Laundering Bill. OFSI worked closely with the Foreign, Commonwealth and Development Office (FCDO) on designing the primary legislation,

which passed into law in 2018 as the Sanctions and Anti-Money Laundering Act (2018) ("the Sanctions Act"). Since then, OFSI has worked with other government departments to

develop and assist with the design of UK autonomous sanctions regimes, including reviewing processes, ensuring policies were fit for purpose and could be implemented by stakeholders. OFSI also helped to bring about this change for industry by contributing to statutory guidance on each regime made under the Sanctions Act. OFSI produced regime specific guidance for Russia and Libya, based on stakeholder feedback that these regimes needed more guidance to understand.

At 11:00pm on Thursday 31 December 2020 the Transition Period ended and EU sanctions were replaced with UK sanctions regulations made under the Sanctions Act.

The biggest initial consideration for industry, as well as for OFSI, was ensuring that our consolidated list of asset freeze targets rapidly and accurately reflected the full scale of

changes made as part of EU transition. The move to implementing UK sanctions regulations made under the Sanctions Act resulted in the biggest change ever to have occurred to the consolidated list. Industry's reliance upon the list for their sanctions implementation and its functionality made this a crucial piece of work.

The consolidated list was updated with identifying information from FCDO's UK Sanctions List.

34 UK sanctions regimes came into force at the end of the transition period of which 32 were financial sanctions regimes. This was in addition to the Global Human Rights regime

which had already come into force under the Sanctions Act in July 2020. The freezing orders made under the Anti-terrorism, Crime and Security Act 2001 remained in place.

OFSI continues to publish the list of persons named in

relation to financial and investment restrictions under the Russia (Sanctions) (EU Exit) Regulations 2019 in a separate list, which reflects those entities in Schedule 2.

During regular and extensive engagement with industry, concerns were raised about the impact which extensive changes to the consolidated list could have, particularly on the operations of financial institutions. This led OFSI to develop the 'bridging document'. This document, which OFSI created in close consultation with the financial sector, assisted screening providers and banks alike in conducting due diligence and ensured that there were no gaps in implementation during the changeover from EU to UK sanctions measures. Subscribers were kept informed of changes to the list through our e-alert service.

As part of the transition to a UK autonomous framework, legislation for counter-terrorism financing was reviewed. The Terrorist Asset-

The entire consolidated list, consisting of over 2000 entries, was updated to reflect the cessation of EU designations and all designations made under the new UK legal framework.

Freezing etc. Act 2010 (TAFE) was repealed on 31 December 2020 and replaced with the Counter-Terrorism (Sanctions) (EU Exit) Regulations 2019. Under this regime, HMT can designate individuals, groups or entities with the policy intention being to designate those with a clear UK nexus. The regime aims to further the prevention of terrorism in the UK or elsewhere and protect UK national security interests.

The transition to an autonomous sanctions framework meant there were also changes to licensing including new licensing grounds (derogations) in respect of non-UN designated persons and adjustments to existing licensing grounds.

These changes included adding a requirement for 'reasonableness' to the licensing ground for 'maintenance of frozen funds and economic resources' (also referred to as 'routine holding and maintenance') as well as to the licensing ground for the payment of legal fees and expenses to clarify that disbursements must also be reasonable. Also included was a new licensing ground for extraordinary situations, and the basic needs ground now explicitly refers to entities as well as individuals. Licensing grounds still vary according to different regimes, including some restrictions on UN regimes, so it is important to check the regulations of the relevant regime before applying for a licence¹.

OFSI revised its licence application form on GOV.UK to reflect these changes. Transitional arrangements were written into each set of Sanctions Act regulations to allow the majority of existing licences to be carried over without the need to apply for a new licence.

Under the Sanctions Act, OFSI was also granted new powers to provide for issuing General Licences under all regimes – previously it could only issue these under

TAFE. On 1 January 2021, OFSI issued its first Sanctions Act general licence under the Russia (Sanctions) (EU Exit) Regulations 2019. The general licence permits persons to pay designated ports/authorities in the Kerch Strait under certain conditions and ensures continuity with the previous regulations. HM Treasury also issued a general licence that applies to the Counter-Terrorism sanctions regimes – ISIL (Da'esh) and Al-Qaida (United Nations Sanctions) (EU Exit) Regulations 2019, the Counter-Terrorism (International Sanctions) (EU Exit) Regulations 2019 and the Counter-Terrorism (Sanctions) (EU Exit) Regulations 2019. This licence permits certain payments from the Legal Aid Agency, Legal Services Agency Northern Ireland or Scottish Legal Aid Board to solicitors representing a designated person, in respect of legal services provided. An equivalent legal aid general licence existed under the previous TAFE regime.

On the engagement front, OFSI ran extensive bespoke webinars with FCDO and other government departments ahead of the end of the transition period, giving stakeholders the chance to ask questions and clarify any issues. It also published a blog giving additional information on the key changes that were happening to financial sanctions.

On 1 January 2021, OFSI also updated its guidance documents, including its General Guidance, to ensure stakeholders had the most current information to reflect the changes.

Engagement

With the UK's new autonomous sanctions in place, it became more important than ever for the UK to engage with its counterparts and continue to provide leadership on the global stage. In the private sector, OFSI has prioritised ensuring companies understand

¹HM Treasury licensing grounds can be found in a schedule to the regulations.

the UK's new sanctions framework by running webinars and blogs.

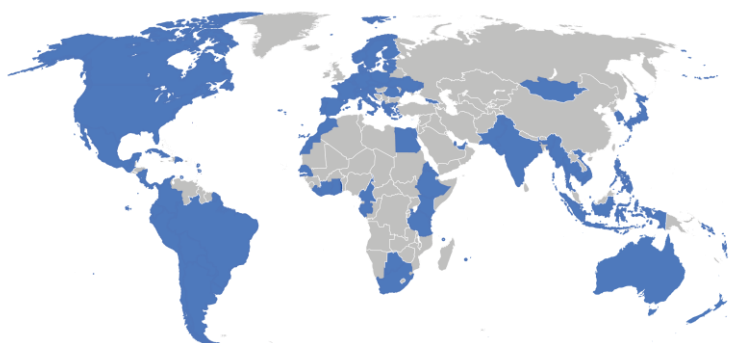
As a result of the global pandemic, OFSI successfully adapted its approach to both domestic and international engagement.

Internationally, thanks to virtual working over the course of the year, OFSI has still been able to engage with 99 jurisdictions to various degrees, as well as representatives from several multilateral bodies, such as the UN, G7, EU and FATF-Style Regional Bodies. Building on last year's ambition, we've started to expand the breadth of our network into Asia and the Pacific.

OFSI has doubled the number of multilateral events it has participated in over the past 12 months compared with last year. However, where possible, we've also deepened engagement bilaterally on specific issues of mutual interest, and we've continued to provide technical assistance remotely, helping other jurisdictions meet aspects of the FATF's standards which relate to financial sanctions.

Raising awareness and understanding of the UK's new autonomous sanctions powers internationally has been a key objective for OFSI this year, including running a bespoke webinar for the Crown Dependencies and Overseas Territories to help facilitate ongoing and future cooperation. In addition to the multi-jurisdictional casework we undertake, collaboration with partners has included exchanging experiences from across all our

International engagement



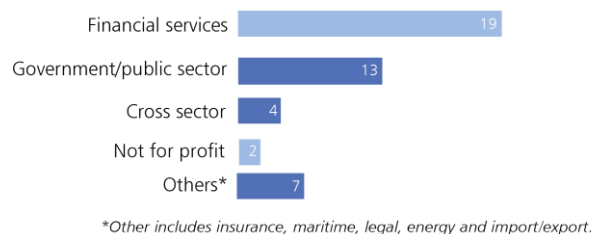
OFSI's engagement spanned 99 jurisdictions, over 6 continents.

core functions, promoting and sharing our financial sanctions guidance for the maritime sector and communicating counter-terrorism financial sanctions best practice.

Domestically, OFSI has continued to engage extensively with the private sector. Events were initially curtailed by the pandemic as the government worked to factor in a suitable response to Coronavirus (COVID-19) and put measures in place so we could continue our engagement and outreach safely. There was a short hiatus while we prepared and put new mechanisms in place such as online events. OFSI participated in 45 events over the year, around half of which were targeted at our biggest stakeholders – financial services and insurance. These stakeholders were key to ensuring that the UK's exit from the EU was implemented smoothly.

45

The number of events OFSI participated in from April 2020 to March 2021 across various sectors.



Alongside these larger scale events, OFSI interacts with industry through regular meetings and smaller roundtables to provide more bespoke interaction when necessary.

OFSI continues to communicate targeted messaging to relevant stakeholders as part of a strategic approach to increase compliance. We have undertaken activity through multiple channels (including the Tri-Sector Working Group) to ensure that both industry and NGOs are aware of their compliance responsibilities as set out in OFSI guidance.

We expanded our reach by producing guidance for the maritime sector on how to manage its sanctions risk. As well as this, we ended the year updating our monetary penalty guidance.

Acknowledging the importance and the complexities of the Libya financial sanctions regime, OFSI produced its second regime specific guidance at the end of the transition period, when it published financial sanctions guidance for the Libya (Sanctions) (EU Exit) Regulations 2020. This guidance outlines the unique and more complex aspects of the sanctions regime, including the partial asset freeze and the interest and other earnings freezing requirement in the context of the partial asset freeze. It also details nuances around the Libyan Investment Authority (LIA) and the Libya African Investment Portfolio (LAIP).

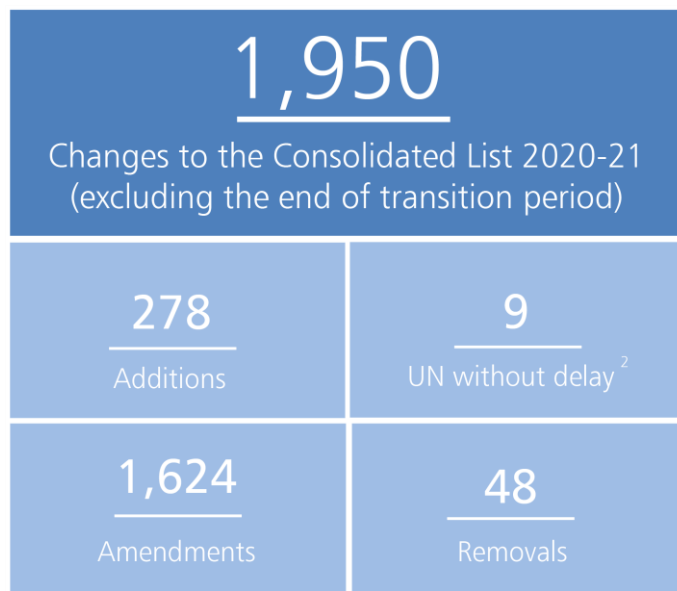
OFSI's blog is a key part of our engagement with industry. Over the period, we have published blogs on the new Global Human Rights regime, transport sanctions, charity sector compliance as well as blogs from our current and previous directors.

Changes to the Consolidated List

As of 25 March 2021, the consolidated list of asset freeze targets contained a total of 2213 designated persons (1638 individuals and 575 entities) across 33 regimes

Outside of the changes that occurred at the end of the Transition Period at 11:00pm on 31 December 2020, OFSI added 278 new designated persons to the consolidated list in the financial year 2020 to 2021, 159 of which implemented EU and UN legislation, with 119 designations under the new Sanctions Act).

Using provisions from the Policing and Crime Act 2017 before the end of the Transition Period, 9 UN listings were implemented without delay. Implementing listings without delay helps reduce the risk of asset flight, ensures the UK meets its international obligations and provides industry with time critical information.



Since the end of the transition period, provisions under the Sanctions Act allow for all listings to take place without delay.

As of 25 March 2021, there were a total of 990 UN designated persons (697 individuals and 293 entities) across 14 financial sanctions regimes subject to an asset freeze, on the consolidated list.

OFSI continues to implement new asset freeze targets (including new UN sanctions targets), under the financial sanctions regimes made under the Sanctions Act, reflecting the FCDO's UK Sanctions List. As of 25 March 2021, OFSI had implemented 55 new listings under UK sanctions regulations since the end of the Transition Period. The initial 74 listings made under the Global Human Rights (GHR) regime were implemented before the end of the Transition Period.

² The total 1,950 changes to the consolidated list include the 9 'UN without delay' listings, which are also already included within the total additions.

With additions, amendments and removals there were just under 2000 changes to the OFSI consolidated list in the financial year 2020 to 2021. This does not include changes that occurred at the end of the Transition Period at 11:00pm on 31 December 2020, when the entire list was updated to reflect the ceasing of EU designations under UK law and new designations made under UK sanctions regulations.

Frozen Assets

Each year OFSI carries out a review of frozen assets held by UK institutions. Relevant firms who hold frozen assets (including funds and economic resources) are required to report them to OFSI. OFSI strives for continuous improvement of its processes and has continued to work with stakeholders to ensure that reports submitted for the Frozen Asset Review are accurate. Additional fields were added to the 2020 Frozen Asset Review reporting template to ensure that the data submitted to OFSI was as accurate as possible.

As of September 2020, approximately £12.2 billion of frozen funds and economic resources were reported as being held by UK relevant firms. This figure includes the value of funds or economic resources frozen in the UK, as well as those overseas where those funds or economic resources are subject to UK financial sanctions legislation (these frozen assets will largely have been caught by sanctions enacted under EU regulations on 30 September 2020).³ Libya is the largest UK regime in terms of the value of frozen assets held by UK businesses. Under the Frozen Asset Review, £11.53 billion of Libyan assets were reported as being frozen in September 2020.

The quantifiable amount of frozen assets in the UK can fluctuate for numerous reasons. These include new sanctions regimes coming into force, regimes being lifted, or certain financial activity being licensed. The above figure does not provide a complete picture of assets held in the UK by persons or entities sanctioned under specific regimes. Sanctions can also be applied on the same individual or entity by several jurisdictions simultaneously.

Frozen Asset Review – September 2020	
Financial sanctions regime	Frozen funds (£)*
Libya	11,527,500,000
Iran (nuclear proliferation)	461,300,000
Syria	158,600,000
Ukraine (Sovereignty)	44,500,000
North Korea (DPRK)	3,100,000
Others	5,200,000
Total	12,200,100,000

**Figures are rounded to the nearest £100,000, and provided in aggregate so as not to disclose the value of any funds held by particular individuals. Regimes where the value of total frozen assets is below £3 million have been grouped as 'others'. Regime names reflect the regimes in place as of September 2020.*

³These figures do not include the value of any properties that are subject to an asset freeze.

Licensing

In the financial year 2020 to 2021, OFSI issued 43 new licences and made 75 amendments across 11 regimes. 2 authorisations⁴ and 2 general licences were also issued⁵.

Data Trends

The volume of licence applications received is affected by a number of factors, including the listing and delisting of designated persons and the expiration of licences.

The majority of new and amended licences issued by OFSI during this review period were issued under the Libya regime.

In terms of derogations, the majority of licences were issued under two licensing grounds: 18 for basic needs and 19 for legal fees. The number of licences issued under these grounds has remained largely consistent with those issued in the previous review year.

When compared to the financial year 2019 to 2020, there has been a small increase in the number of licences and amendments granted by OFSI. In this review period, OFSI have issued 43 licences, an increase of 7.5% when compared with the previous review period. This includes 2 licences which were issued

under the former Ukraine regimes and now have effect under the Russia (Sanctions) (EU Exit) Regulations 2019.

Amendments to licences issued in 2019-2020 to 2020-2021



There were 3 more amendments to licences issued under multiple grounds than in the previous year. These licences were issued under a combination of the basic needs and routine holding and maintenance derogations. This further illustrates OFSI's work to consolidate licences and ensure that licensed activity is captured in as few new licences and amendments as possible.

General Licences

- A General Licence (GL) allows multiple parties to undertake specified activities that would otherwise be prohibited without the need for a specific licence
- GLs may be issued where other licensing derogations are not suitable
- OFSI does not accept applications for GLs. There are specific conditions for use and reporting requirements
- OFSI issued 2 GLs in April 2020-March 2021:
 - A GL under the Russia sanctions regime to allow payments out of non-frozen funds to designated ports/authorities in the Kerch Strait under certain circumstances
 - A GL that applies to the Counter-Terrorism sanctions regimes (see page 3)

⁴ Authorisations may only be issued under certain regimes and permit activity while not necessarily specifying a designated person. Under the UK sanctions regulations, what were previously called "authorisations", permissions that could relate to types of financial sanctions restrictions other than the asset freeze, are now termed as "licences" and as such will be incorporated into the total licensing figures.

⁵ A General Licence allows multiple parties to undertake specified activities which would otherwise be prohibited by UK sanctions regulations without the need for a specific licence. General Licences are not a substitute for specific licences which should still be sought where appropriate. OFSI does not accept applications for General Licences.

In addition, OFSI has issued 75 licence amendments during the financial year 2020 to 2021. This is an increase of 8.69% on the previous review year. 64 out of the 75 amendments to licences issued were issued under the Libya regime, representing a 52% increase from the total amendments issued in the financial year 2019 to 2020.

The majority of amendments were made under 3 licensing grounds, which correspond to the most frequently used grounds from the previous annual review period.

As a part of the work to further enhance its efficiency, OFSI will also be looking to review the reporting procedure for applicants in order to ensure efficient implementation and enforcement of licences.

Compliance and enforcement

Financial sanctions compliance and enforcement helps to maintain the integrity of, and confidence in, the UK financial sector. OFSI continues to develop its approach to financial sanctions enforcement, adapting to changing risks, the introduction of new autonomous sanctions regimes and lessons it has learnt through its previous compliance work.

OFSI investigates every reported suspected breach of UK sanctions regulations. These investigations can result in a range of actions depending on whether a breach has occurred and if so, the nature of the breach. In most cases, OFSI finds that a breach has not occurred, and no further action is taken. Individuals, NGOs and companies are frequently directed to our published guidance to promote greater awareness and understanding of financial sanctions compliance measures. Where a breach has occurred, proportionate action is taken. This may mean the issuance of a warning letter or additional measures through the imposition of a civil monetary penalty or escalation to law enforcement partners.

In the financial year 2020 to 2021, OFSI updated its monetary penalty guidance. This was the first update to the monetary penalty guidance since May 2018 and incorporated some of the lessons learned through previous cases where OFSI imposed monetary penalties. It also clarified OFSI's position to maximise transparency and provide clarity to stakeholders. This guidance will be relevant and referred to for all compliance cases reported to OFSI after 1 April 2021.

In the financial year 2020 to 2021 OFSI considered 132 reports of potential financial sanctions breaches. This is a slight decrease from 2019 to 2020 where 140 instances were considered but generally the number of cases considered remains on an upwards trajectory from the 99 potential financial sanctions breaches that considered in the financial year 2018 to 2019. OFSI's statistics are based on the year in which a report is received (or OFSI becomes aware of a potential breach through other means), rather than the year in which the potential breach activity occurred.

Breaches of financial sanctions are a criminal offence. Where OFSI determines that a breach has occurred it can impose a civil monetary penalty in respect of the offence, or it can refer the case on to, and support, law enforcement agencies in considering whether a criminal prosecution is appropriate. Although none of these enforcement options, apart from monetary penalties, are publicised, all of this work helps support compliance with financial sanctions across the UK and (in the case of UK-based companies with a wider presence) internationally.

Many of the potential breaches reported to OFSI are deemed not to be breaches of financial sanctions after investigation. Additionally, the total value of potential breaches reported during the financial year can be disproportionately affected by a small number of transactions with a large value, which can also end up being deemed not to be financial sanctions breaches.

For these reasons, we are not publishing a total value in respect of potential breaches reported during the financial year 2020 to 2021.

Compliance trends

Suspected breaches reported under the Iran (nuclear proliferation) regime continue to make up a significant proportion of those reports received, although many of these breaches are historic in nature and relate to restrictions that were in force prior to the Joint Comprehensive Plan of Action (JCPOA) in 2016.

During the financial year 2020 to 2021, OFSI has seen an increase in the diversity of organisations and companies reporting suspected breaches. This could be due to our increased engagement, within the UK and internationally, and our increased profile. The majority of breaches continue to be reported by the banking and financial services sector. However, in addition to these, a significant number of reports have also been seen from the legal, charity, insurance, media, professional services, real estate, telecommunications and travel sectors.

OFSI has seen a notable increase in receipt of suspected breach reports and referrals from national and international governmental and regulatory bodies demonstrating the importance of transnational enforcement collaboration for effective implementation. We continue to work with other parts of government and international partners in many of our investigations.

Since the first UK sanctions regulations were implemented under the Sanctions Act on 6 July 2020, OFSI has received suspected breach reports in respect of these regulations in this annual review period.

These reports relate to the UK autonomous Global Human Rights regime, demonstrating the immediate real-world impact of the regime and the responsiveness of stakeholders.

Given that many of our investigations are complex and may take years to conclude, OFSI continues to investigate potential breaches under the previous EU regimes and the previous monetary penalty guidance in parallel with suspected breaches under the Sanctions Act.

Counter-Terrorism Sanctions following the end of the Transition Period

In the financial year 2020 to 2021, prior to the end of the Transition Period, HMT renewed the designations of 10 individuals and entities under TAFE, before it was repealed. In the same period, HMT designated one individual under the new domestic Counter-Terrorism (Sanctions) (EU Exit) Regulations 2019.



Under TAFE, HM Treasury through OFSI, was required to prepare and lay before Parliament a quarterly report regarding the exercise of the powers conferred on them under Part 1. The final quarterly report to Parliament under that regime has been published, which satisfies that requirement for the period 1 October 2020 to 31 December 2020.

The reports also covered the UK's implementation of the UN's ISIL (Da'esh) and Al-Qaida asset freezing regime (ISIL-AQ) and the operation of the EU's asset freezing regimes under EU regulation (EC) 2580/2001 and 1686/2016.

On 11 January 2021, the Treasury revoked 3 general licences which related to the provision of insurance and the payment of legal fees by

third parties. These may no longer be used, and future applications relating to insurance policies and the payment of legal fees by third parties will be assessed on a case-by-case basis.

As mentioned on page 3, one general licence was introduced and is in operation under the counter-terrorism financial sanctions regimes, and this is published on the OFSI website. This general licence can be used without making a specific application to OFSI.

Looking ahead

In the year ahead, OFSI plans to consolidate the work undertaken so far and ensure UK autonomous sanctions are thoroughly understood, implemented and enforced to support the UK's targeted and strategic work to fight illicit financial activity. OFSI will continue to contribute to wider economic crime work, ensuring sanctions has a place alongside other financial crime measures such as anti-money laundering measures.

As part of this work, we will seek to work through our bilateral and multilateral partnerships across the globe to understand further where and how the UK, through OFSI, can assist with holistic capacity building within an illicit finance and economic crime context.

We remain committed to helping industry better understand financial sanctions and become more effective at implementing them.

With this in mind, we will continue to maximise our technological capabilities, reaching out via webinars and blogs to give tips and practical assistance on how to interact with OFSI, its various functions and best practice. In order to improve compliance, OFSI will continue to use lessons learnt from investigations into suspected breaches to carry out targeted outreach and engagement across various sectors so that individuals, businesses and NGOs can develop and improve their compliance.

We will also consider issuing a general licence where it may be appropriate to help ease any unintended consequences on stakeholders.

On counter-terrorism, HMT has commissioned Jonathan Hall QC (the Independent Reviewer of Terrorism Legislation or "IRTL") under Section 31 of the Sanctions Act to write a report reviewing the operation of asset-freeze provisions under the Counter-Terrorism (Sanctions)(EU Exit) Regulations 2019.



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