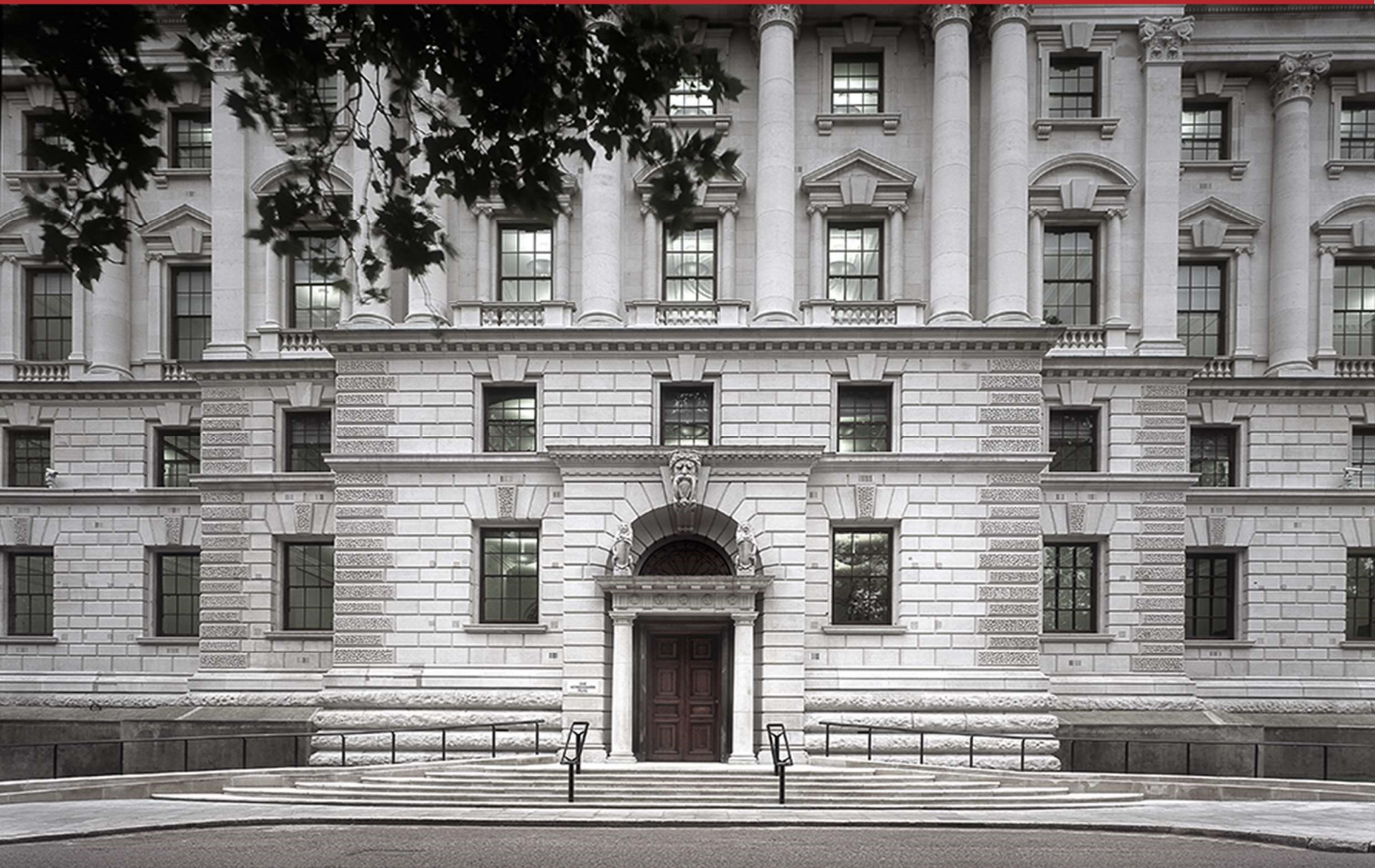


Annual review

April 2018 to March 2019



Office of Financial
Sanctions Implementation
HM Treasury



In 2018 to 2019, OFSI has continued to develop as a world leader in financial sanctions implementation and enforcement. This was reinforced by the UK's positive evaluation from the Financial Action Task Force (FATF), which gave the UK the highest rating for financial sanctions implementation.

Last year, the Chancellor granted OFSI increased funding which allowed the team to grow by 20%, in particular to prepare for Brexit, but also establishing two new teams to cover growing priority areas. Our newly established litigation branch focuses on managing OFSI's legal risk, while our international engagement branch works towards improving the effectiveness of financial sanctions by

promoting robust implementation across the globe.

In addition, OFSI established a governance board in 2018, which serves in an advisory capacity.

OFSI imposed its first monetary penalties for breaches of financial sanctions this year. OFSI has shown that it views non-compliance with financial sanctions as a serious offence, and will take proportionate action in every instance of a breach of the regulations.

As with all of government, a key focus for OFSI this year has been to deliver on Brexit preparations. We have developed statutory and non-statutory guidance to

assist industry in preparing for Brexit and have contributed to creating new legislation under the Sanctions and Anti-Money Laundering Act 2018 (SAMLA). The government has laid the majority of sanctions legislation before Parliament.

FATF evaluation

On 1 December 2018, FATF (an independent inter-governmental body), concluded that the UK has the strongest anti-money laundering and counter-terrorist financing regime of the more than 60 countries assessed to date. In its Mutual Evaluation Report, FATF awarded the UK the highest possible rating for its regimes relating to terrorist financing (including sanctions) and on counter-proliferation sanctions.

The UK was praised for promoting effective global implementation of proliferation-related targeted financial sanctions, as well as achieving a high level of effectiveness in implementing targeted financial sanctions domestically.

FATF acknowledged the importance of establishing OFSI and the work that we have undertaken since 2016 – bringing in new enforcement powers, creating a framework to use them and undertaking a great deal of communication with industry to increase awareness of financial sanctions compliance obligations. FATF also praised OFSI's guidance and found it to have led to improvements in industry understanding and compliance.

On counter-terrorism financing, we demonstrated to FATF how financial sanctions are a key part of the UK's counter-terrorism tool kit. Implementing the UN's sanctions for ISIL (Da'esh) and Al-Qaida (UNSCR 1267) contributes to the international effort to disrupt these groups, by constraining their access to resources.

FATF tested the robustness and

effectiveness of the UK's financial sanctions implementation, which included reviewing how we implement UN asset freeze targets "without delay". OFSI has been able to do this through the Policing and Crime Act 2017 (PACA).

With the adoption of a strong enforcement framework under PACA, the assessors recognised the UK's commitment to treating any breaches of financial sanctions regimes seriously. PACA increased the powers the UK has to address breaches of all financial sanctions regimes in UK law, and for the first time gave OFSI powers to impose monetary penalties for suspected breaches. FATF found that the introduction of these penalties has had a "substantial deterrent effect".

The high ratings that FATF gave the UK, particularly for its work in the sanctions space, is a testament to OFSI's contribution to the UK's response to financial crime. The FATF report is a significant staging post but not the end. We will use it as a catalyst to build on our achievements.

Financial sanctions regimes

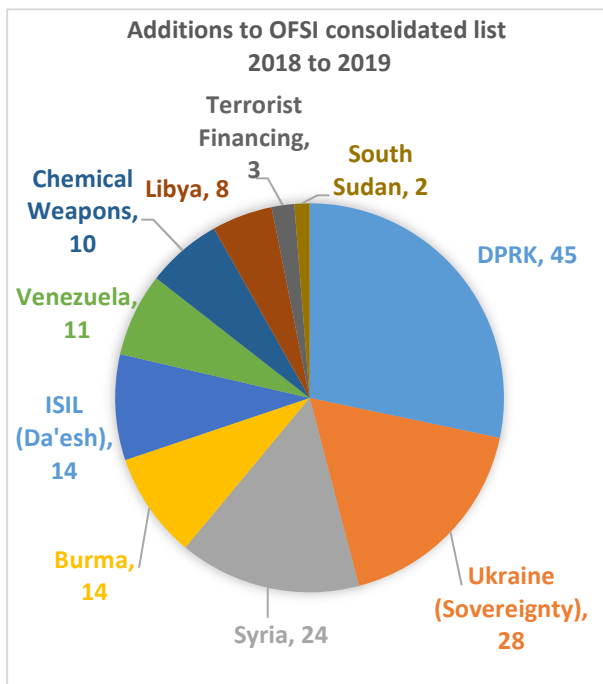
In 2018 to 2019, the UK implemented 32 financial sanctions regimes, 3 more than the previous year. Burma was introduced in April 2018, the Republic of Maldives came into force in August, and the Chemical Weapons regime was introduced in October. In December 2018 the UN terminated restrictive measures against Eritrea.

2,183 people and entities were subject to an asset freeze across 28 regimes as of 28 March 2019 and appeared on OFSI's consolidated list. We added 162 targets to the list over financial year 2018 to 2019, up from 122 the previous year.

The additions were spread over more regimes this year reflecting the diverse objectives of sanctions. Around a quarter

of this figure were in DPRK, followed by just under a fifth for those targeted for undermining the sovereignty and territorial integrity in Ukraine.

country, but rather to a specific threat. Following on from the establishment of the Chemical Weapons regime, a Cyber-Attacks regime came into force in June 2019, targeting those responsible for cyber-attacks on EU member states, third states or international organisations. The Maldives regime, created in 2018, was revoked in June 2019, following the improving political situation.

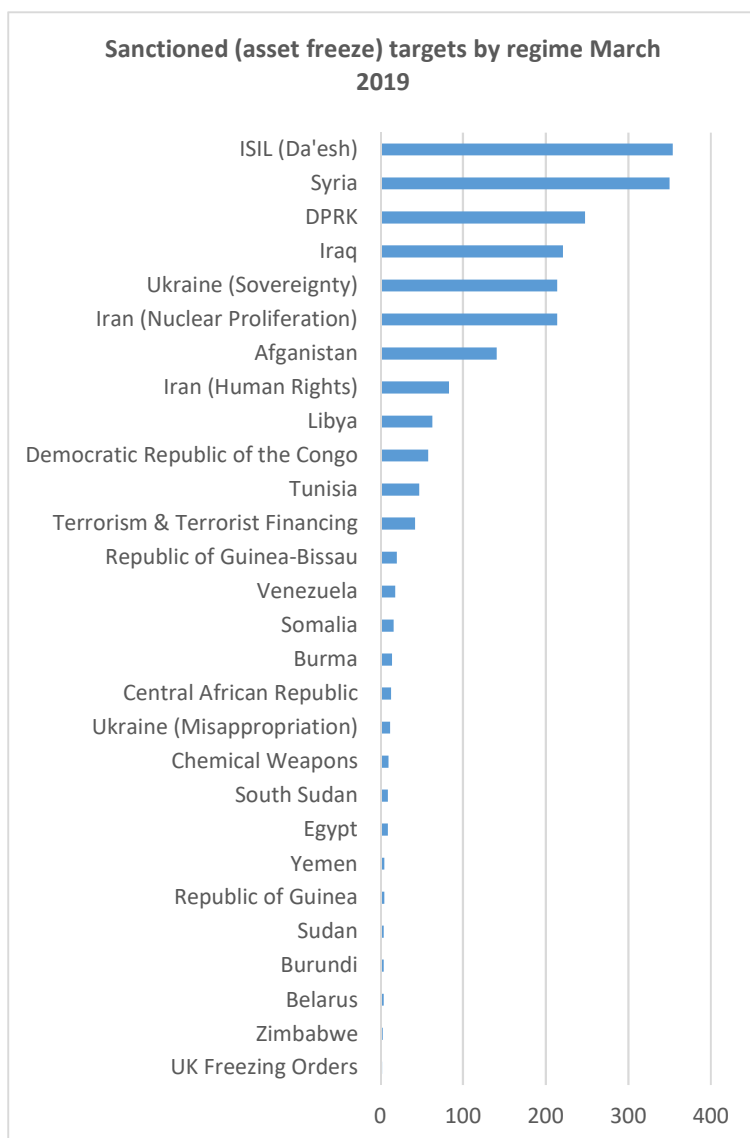


Under PACA, 62 UN listings were implemented without delay and the consolidated list was updated within one working day. Implementing listings without delay helps reduce the risk of asset flight, ensures the UK meets its international security obligations and provides industry and implementing partners with time critical information. Taking into account additions, amendments and removals, there were over 450 changes in total to the OFSI consolidated list in 2018 to 2019.

Looking ahead

Keeping businesses informed and updated about financial sanctions legislation and regimes continues to be a priority for OFSI. Post Brexit, the consolidated list will continue to operate as usual. Subscribers will be kept informed of changes to the list through our e-alert service.

In recent months, we have seen the creation of a new type of sanctions regime which is not tied to a specific



Counter-terrorism financial sanctions

OFSI reports quarterly to Parliament on its operation of the UK's asset freezing regime under the Terrorist Asset Freezing etc. Act 2010 (TAFE). This report covers 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.

Each report provides a breakdown of funds frozen under the 4 counter-terrorism regimes including new listings, delistings and the number of licences issued.¹

UK domestic asset freezes

Terrorist Asset Freezing etc. Act 2010

TAFAs are the UK's main domestic counter-terror asset-freezing legislation and HM Treasury (HMT) has responsibility for final designations. Between 1 April 2018 and 31 March 2019, HMT renewed the designations of 19 individuals and entities, and delisted 1 individual. [Information about these listings can be found on GOV.UK.](#)²

Anti-Terrorism, Crime and Security Act 2001

Asset freezes against Andrey Lugovoy and Dmitri Kovtun (who were accused of murdering Alexander Litvinenko) were in place throughout 2018 to 2019 under this legislation. [Details can be found on GOV.UK.](#)³

Counter Terrorism Act 2008

There are currently no directions made under this Act.

Looking ahead

Post Brexit, some of the current counter-terrorism financial sanctions legislation will change. FCO have published new legislation under SAMLA for the ISIL-AQ

regime, and a Counter-Terrorism (International) regime. HMT has laid UK autonomous Counter-Terrorism Regulations. This last regime will replace Part 1 of TAFAs, which will be repealed after the UK leaves the EU. The [new legislation and accompanying guidance can be found on GOV.UK.](#)

When the UK leaves the EU, information on GOV.UK will be updated to reflect any changes.

Asset freezing

Each year OFSI carries out an annual review of frozen assets held by UK institutions. Anyone who holds frozen assets (including funds, properties, and other assets) is required to report them to OFSI.⁴

Financial sanctions regime	Frozen funds in the UK, £*
Libya	11,222,300,000 ⁵
Iran (nuclear proliferation)	504,200,000
Syria	154,900,000
Ukraine (Sovereignty)	21,700,000
Yemen	3,500,000
Others**	8,000,000
Total	11,914,600,000

*Figures are rounded to the nearest £100,000
** Regimes where the value of total frozen assets is below £3.5 million, or for which OFSI received no returns, have been grouped as 'Others'

As of September 2018, £11.9 billion of frozen funds were reported to be held by UK businesses. This figure excludes the value of other frozen assets (including assets held outside of the UK) or properties. There were 16 properties held

¹<https://www.gov.uk/government/collections/operation-of-the-uks-counter-terrorist-asset-freezing-regime-quarterly-report-to-parliament>
²https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/797939/Terrorism_and_Terrorist.pdf
³<https://www.gov.uk/government/publications/financial-sanctions-uk-freezing-orders>
⁴OFSI does not freeze assets itself; it is the responsibility of the person or institution holding the assets to ensure compliance with the law. An asset freeze does not result in a change of legal ownership, and the assets are not seized. They remain frozen until the sanctions are lifted.
⁵After receiving what appears to be an incorrect submission in September 2017, OFSI is examining the difference between the September 2018 and 2017 figures.

in the UK in September 2018 which are subject to an asset freeze according to Land Registry records.

The value of funds reported under each regime reflects the frozen funds held by UK institutions in September 2018.

The quantifiable amount of frozen funds in the UK can fluctuate with new sanctions regimes coming in to force or by regimes being lifted. This does not provide a complete picture of assets held by persons or entities sanctioned under specific regimes. Sanctions can be applied on the same individual or entity by several jurisdictions simultaneously.

Compliance & enforcement

Improving compliance is at the heart of everything we do. That includes robust enforcement. We take some form of action in every instance of non-compliance proportionate to the facts of the case. That is why OFSI has introduced a new compliance form that facilitates more comprehensive reporting of suspected breaches.

We publish the details of all cases when a monetary penalty is imposed. This includes compliance lessons OFSI wishes to highlight in each case to help others avoid committing a similar breach.

Monetary penalties

Two monetary penalties were imposed in the last financial year, both of which related to the EU Egypt financial sanctions regime. The breach involved dealing with funds belonging to a designated person. [A full report of OFSI's monetary penalties can be found on GOV.UK.](#)⁶ A number of live monetary penalty cases are currently under consideration.

OFSI does not aim to issue penalties to a certain value each year. Rather, we seek

to assess each instance of non-compliance on a case-by-case basis, taking appropriate action based on the facts available to us at the time and to deter future non-compliance.

Statistics

In 2018 to 2019 OFSI received 99 reports of suspected breaches with a reported value of around £262 million.

OFSI's compliance statistics are based on the number of breaches reported to OFSI in the financial year 2018 to 2019. OFSI uses "reports of suspected breaches" as a benchmark for comparison over a given period. Not all breaches are discovered in the year they occur. Some of the breaches reported in 2018 to 2019 may have occurred in previous years.

OFSI has observed certain factors in cases reported in the financial year 2018 to 2019:

- increase in breaches reported under the Libya sanctions regime
- increase in breaches reported under the Iran (Human Rights) regime
- increase in the value of breaches reported under the DPRK and Iran regimes
- decrease in reported breaches under the Iran (Nuclear Proliferation) regime
- this reporting year has seen an increase in the value of the breaches reported for sanctions regimes targeting Russia, but the number of breaches reported has decreased

All reported breaches are investigated, and the investigation may lead to a revision of the transaction values, either up or down, as further facts come to light. In a small number of cases the transaction may not have been in breach of the regulations.

The number of reports are lower than last year, but is generally within the range of

⁶<https://www.gov.uk/government/collections/enforcement-of-financial-sanctions>

reporting levels that OFSI and predecessor teams have seen in previous years. Financial sanctions breaches are transactional, and OFSI has not observed any obvious trends which might indicate a suppression in reporting compared to previous years.

The value of reported breaches in 2018 to 2019 is significantly lower than the previous year. This is in part because a small number of cases reported in 2017 to 2018 had very high estimated transactional values. OFSI records and reports the value of every suspected breach reported to us, but treats each instance of a sanctions breach on a case-by-case basis. In those cases, which involved transaction licencing in multiple jurisdictions, after investigating OFSI decided the correct approach on the facts was to deal with the cases administratively. Our compliance message from this is that it is important for companies to check whether licences are required in every jurisdiction in which they operate, in advance of activity taking place.

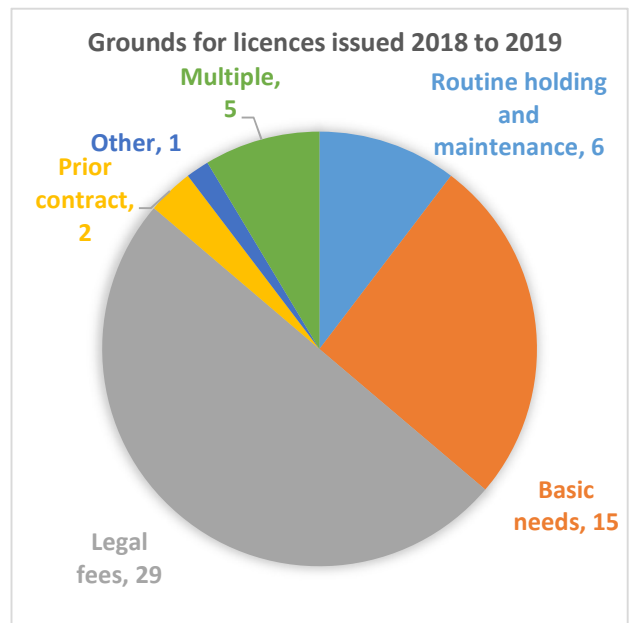
Looking ahead

The UK’s financial system, by virtue of its global impact, will remain a target for malign actors including those with sanctions exposure. While many businesses behave in a positive manner, instances where institutions have overlooked their obligations, despite being aware of the risks posed to their business from sanctioned entities, are still observed. We will continue to treat these cases on their own merits and take the most appropriate and proportionate compliance action. OFSI carries out extensive outreach and engagement to help businesses both develop and improve their compliance.

Licensing

OFSI issues licences and authorisations which permit actions or activity by individuals and businesses that would otherwise be prohibited or required by financial sanctions legislation. The consistency of OFSI’s licensing work is essential in maintaining the integrity and stability of the UK’s financial system and contributes to the UK’s foreign policy and national security goals.

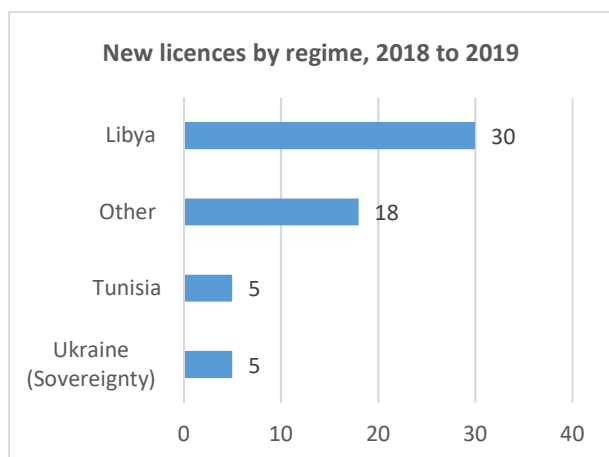
In the financial year 2018 to 2019, OFSI issued 58 new licences and made 84 licence amendments across 10 financial sanctions regimes.



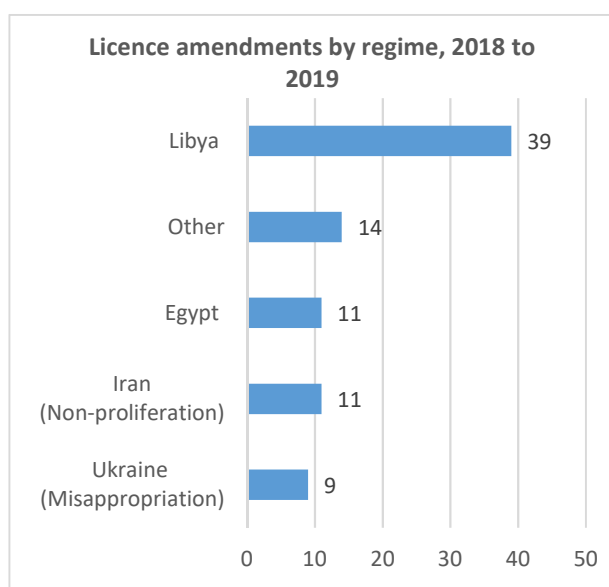
50% of new licences issued were for legal fees, which are subject to strict reasonableness conditions. OFSI also issued 4 new authorisations and 2 amendments to authorisations over the same period.⁷ Two of the new authorisations issued during 2018 to 2019 were for humanitarian purposes. OFSI recognises the importance and time-sensitive nature of the work of Non-Governmental Organisations (NGOs) and prioritises urgent humanitarian licence applications. OFSI’s approach to NGOs is

⁷OFSI distinguishes between licences, which are issued with respect to a designated person and typically relate to an asset freeze, and authorisations, which relate to other forms of financial restriction

addressed further in the Outreach and Engagement section of this review.



The volume of licence applications received varies each year and is affected by a number of factors, including new designations, delisting of designated persons and entities, increased awareness of the legal requirement for a licence to ensure compliance with sanctions legislation, and the expiration of existing licences.



When compared to last year's Annual Review, certain regimes have seen significant changes relating to the number of OFSI licences issued, notably the Libya and Egypt regimes. The number of licences issued under the Libya regime during this review period increased from 15 in 2017 to 2018, to 30 in 2018 to 2019. This is due to several factors,

including an increase in applications for reasonable legal fees, the review and replacement of existing licences to enhance oversight of licensed activities, and OFSI's engagement with stakeholders to increase awareness of their obligations and understanding of the licensing process.

The Libya regime imposes asset freeze financial sanctions on those involved or complicit in serious human rights abuses against Libyan civilians and facilities. Abuses include planning, commanding, ordering or conducting attacks that violate international laws. Asset freezing activity helps protect Libyan state funds (misappropriated during the former regime of Muammar Qadhafi) which could be used to threaten the peace, stability or political transition of Libya. OFSI carefully considers this context when looking at all applications under this regime. Licensed activities do not always involve the release of frozen funds to a designated person: an OFSI licence may be required for a range of activities, including the payment of funds into a frozen account, or the payment of tax.

A number of individuals were delisted from the Egypt regime in March 2018, which has led to a significant reduction in the number of licenses issued under this regime.

OFSI scrutinises relevant evidence on a case-by-case basis before deciding whether to grant a licence. Each financial sanctions regime has a different set of licensing grounds which often include basic needs, humanitarian aid and payment of reasonable legal fees. OFSI licences are routinely specific, time-limited and contain strict reporting conditions, which ensure that we can monitor licensed activity.

Looking ahead

As the UK has been preparing to leave the EU, OFSI has worked to retain the

current robust licensing framework, while seeking opportunities to enhance its efficiency. We have provided greater clarity around the licensing grounds under SAMLA in our post-Brexit general guidance.

SAMLA gave the government greater power and flexibility regarding licensing including the ability to grant general licences. These would permit multiple individuals or entities to undertake certain financial activity which would otherwise be prohibited by sanctions legislation. For example, a general licence could be used to respond to unforeseeable circumstances such as a humanitarian crisis, where it may be necessary to undertake otherwise prohibited financial activity to facilitate the provision of aid. General licences will be considered on a case by case basis.

Existing licences issued by OFSI will continue to be valid following the introduction of sanctions regimes under SAMLA, until such a time as they expire or are revoked.

Brexit

Since SAMLA gained Royal Assent last year, we have been working with FCO and other government departments, including the Department for International Trade, Department for Transport, Department for Business, Energy and Industrial Strategy and the Home Office, to ensure the UK is ready to run an autonomous UK sanctions system when we leave the EU. A great deal of effort has gone into helping FCO prepare legislation to be ready in case of a no-deal exit in 2019. This effort has included input into regime design to ensure financial sanctions continue to be effective and implementable, and contributing to the guidance and criminal offences reports required for each UK regime made under SAMLA. The new

legislation will come into force when the UK leaves the EU.

The FCO have already laid much of this legislation before Parliament while HMT has laid UK autonomous Counter-Terrorism Regulations. Any EU sanctions regime that is not addressed through regulations made under SAMLA before EU exit will continue as retained EU law under the EU (Withdrawal) Act 2018.

[Details of the regulations and guidance for each UK sanctions regime are on GOV.UK.](#)

As well as our published guidance, OFSI has contributed to cross-government stakeholder engagement to ensure that key sanctions implementers are aware of the forthcoming changes. OFSI is working closely with the FCO on its production of an administrative list (the "UK Sanctions List") of persons and entities who would be subject to UK financial, trade, immigration and transport sanctions, with OFSI's consolidated list of financial sanctions targets.

OFSI has reviewed internal processes and procedures, including those for licensing grounds, and is developing its relationships with EU Member States to ensure we are ready for Brexit.

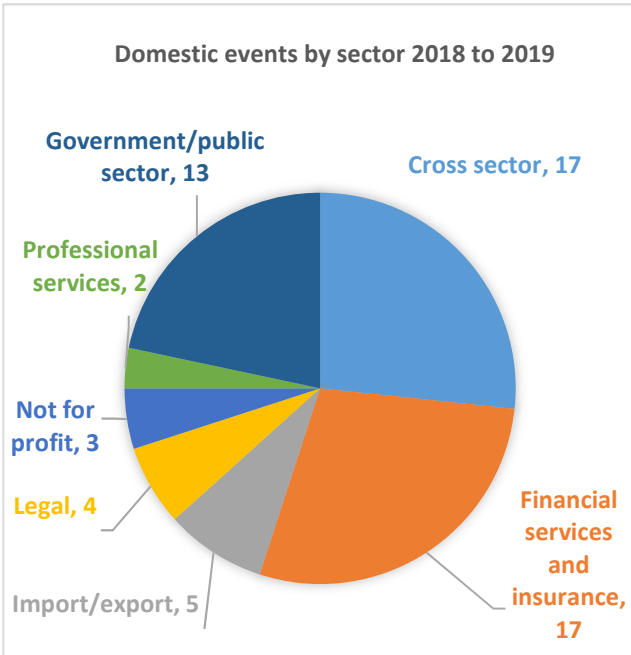
Outreach and Engagement

OFSI engages widely with stakeholders, attending conferences and events and publishing guidance to raise awareness and ensure people understand their financial sanctions obligations. While OFSI does not assume industry risk, it does provide support through guidance, a help line and licensing provisions. To this end, we work closely with industry groups to ensure we have open dialogue with key stakeholders, listening closely to feedback and addressing concerns.

Engagement 2018 to 2019

	Domestic	International
Public sector	13	37
Private sector	47	5

In 2018 to 2019 OFSI's stakeholder engagement both domestically and internationally increased by 20%. We attended nearly 50 events and meetings with UK-based stakeholders over the period.



Our public engagement is extensive, appropriate and targeted. It ranges from speaking at events for audiences with minimal knowledge of sanctions, to round tables on specific, sophisticated and technical issues where we speak in greater detail to more knowledgeable stakeholders. In addition to this, we attend regular round table meetings with the financial sector and not-for-profit working groups.

Charities and NGO engagement

OFSI recognises that many UK charities and NGOs deliver important humanitarian assistance and often operate in complex or challenging

environments. As such, OFSI prioritises urgent humanitarian licence applications and aims to ensure that NGOs and charities can carry out their important activities, while complying with their obligations under the EU Regulations. OFSI engages with the charity and NGO sector through outreach, working groups, presentations and offering tailored guidance.

Digital engagement

We continued to update our subscribers through our e-alert service. We sent out 132 notifications in 2018 to 2019, informing our subscribers every time a listing was amended as well as highlighting reminders such as reporting frozen assets. [You can subscribe to our notifications on GOV.UK.](#)

We average around 90,000 website visitors a month to our webpages. Our most popular page is the consolidated list of assets freeze targets, which was also the most viewed page on the whole of the HMT website over 2018 to 2019.

Guidance

We are committed to producing guidance to help stakeholders understand their compliance obligations. In May 2018, we released sector-specific [FAQs for the import and export sector.](#)⁸

Our focus then moved to helping stakeholders prepare for Brexit. The government has committed itself to providing high quality guidance on the content and implementation of sanctions, by including a duty in SAMLA to issue supporting guidance.

To this end, we have worked with other government departments to publish [regime-specific guidance in the event of a](#)

⁸https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/706182/FAQ_guidance_for_the_import_and_export_sector.pdf

[no-deal](#).⁹ We have also published our [Post EU Exit: Financial sanctions general guidance](#)¹⁰, highlighting areas of change such as ownership and control.

Looking ahead

We will be updating the rest of our guidance ahead of Brexit. This will include our monetary penalty guidance and sector-specific guidance. We have published [a further guidance piece on the Russia financial sanctions regime](#)¹¹ to help companies understand their compliance obligations.

We will continue to meet with and listen to our stakeholders, and will prioritise our resources based on their feedback to maximise impact.

International Engagement

OFSI has increased its presence and impact on the world stage this year with an enhanced focus on its international engagement as the UK prepares to exit the EU. Both through day-to-day collaborative working across jurisdictions and through 42 international events and meetings, OFSI continues to develop its role as a centre for excellence. We promote UK leadership in financial sanctions implementation with a commitment to help improve the impact of sanctions globally.

To help increase understanding and improve implementation of financial sanctions beyond our borders, OFSI has engaged partners, allies and industry across 42 countries spanning 4 continents. We have done this through bilateral meetings and multilateral groupings such as the EU, UN, G7, as well as private-sector conferences.

Prior to the UK's high FATF rating for its implementation of financial sanctions, OFSI embarked on its first technical assistance initiatives, sharing best practice with partners amongst the British Overseas Territories. We also hosted, with Bermuda's assistance, a multilateral UK-Overseas Territories Financial Sanctions forum in spring 2019 which included representatives from the governments of Anguilla, Bermuda, the British Virgin Islands, the Cayman Islands, the Turks and Caicos Islands, and the UK.

Looking ahead, OFSI intends to strengthen its existing relationships through joint work on common priorities and expand its engagement and assistance even further afield to Africa and Asia.

⁹<https://www.gov.uk/government/collections/uk-sanctions-regimes-if-theres-no-brexit-deal>

¹⁰<https://www.gov.uk/government/publications/post-eu-exit-financial-sanctions-general-guidance>

¹¹https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/815675/Post_Brexit_-_Russia_guidance.pdf