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Circular No. ( 01 ) of 2022 regarding the results of the United Arab Emirates Money Laundering & Terrorist Financing Risk Assessment.

تعميم رقم ( 01 ) لسنة 2022 بشأن نتائج تقييم مخاطر غسل الأموال وتمويل الإرهاب بدولة الامارات العربية المتحدة.

To:

- Real estate brokers & agents
- Dealers of precious metals & stones
- Corporate Services Providers
- Accountants & Auditor
- Legal Consultants

إلى:

- الوسطاء والوكلاء العقاريين
- تجار المعادن الثمينة والأحجار الكريمة
- المدققين والمحاسبين المستقلين
- مزودو خدمات الشركات
- الاستشارات القانونية

The Ministry of Economy is pleased to share with you the United Arab Emirates ML/TF Risk Assessment Outreach Program (Outreach Program). The Outreach Program sets-out the results of the National Risk Assessment, which supports DNFBPs in deepening their understanding of national risks and vulnerable sectors.

يسر وزارة الاقتصاد أن تشارككم ببرنامج التوعية لتقييم مخاطر غسل الأموال وتمويل الإرهاب في الإمارات العربية المتحدة (برنامج التوعية). يضم برنامج التوعية نتائج التقييم الوطني للمخاطر ويساهم في رفع مستوى الوعي لدى الأعمال والمهنة غير المالية المحددة للمخاطر الوطنية والقطاعات الأكثر عرضة لمخاطر غسل الأموال وتمويل.

The results of the National Risk Assessment must be considered by all DNFBPs in mitigating the identified money laundering and terrorism finance risks within their business, as required by Article (4) of Cabinet Decision No (10) of 2019 concerning the Implementing Regulations of Federal Decree-Law No. (20) of 2018 regarding countering money laundering and combating the financing of terrorism and illegal organizations (the Implementing Regulations).

يجب مراعاة نتائج التقييم الوطني للمخاطر من قبل جميع الأعمال والمهنة غير المالية المحددة وذلك خلال العمل على خفض مخاطر غسل الأموال وتمويل الإرهاب المحددة في أعمالهم، كما هو مطلوب بموجب المادة (4) من قرار مجلس الوزراء رقم (10) لسنة 2019 بشأن اللوائح التنفيذية للمرسوم الاتحادي. - قانون رقم (20) لسنة 2018 بشأن مكافحة غسل الأموال وتمويل الإرهاب والتنظيمات غير المشروعة (اللائحة التنفيذية).

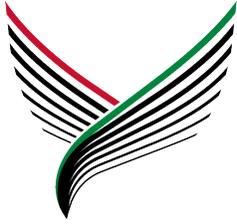
The Ministry of Economy will conduct a workshop to provide an overview of the Outreach Program in due course, targeting all DNFBP sectors.

ستعقد وزارة الاقتصاد في الوقت المناسب ورشة عمل تستهدف جميع قطاعات الأعمال والمهنة غير المالية المحددة حيث سيتم عرض لمحة عامة عن برنامج التوعية.



صفية هاشم الصافي  
مدير إدارة مواجهة غسل الأموال  
قطاع الرقابة والمتابعة

Safeya Hashim Al Safi  
Director of Anti-Money Laundering Department  
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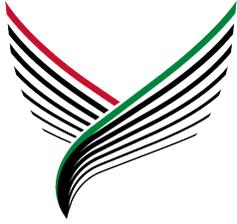


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# UAE RISK ASSESSMENT OUTREACH PROGRAM



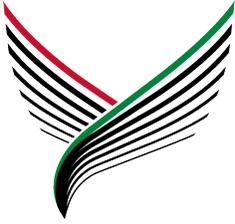
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# **UAE Risk Assessment Outreach Program**

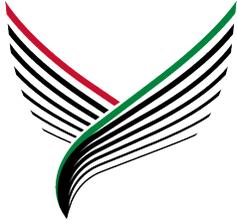
## **Introduction**

As a committed member, the United Arab Emirates (UAE) contributes to global anti money laundering efforts and combating financing of terrorism (AML/CFT), and strives to implement fully the standards set by the International Financial Action Task Force (FATF). In 2018, the UAE, with the extensive participation of all concerned authorities, conducted its first national risk assessment on money laundering (ML) and terrorist financing (TF). The assessment identified a number of areas in which the risks of money laundering and terrorist financing are high. In 2019, FATF also evaluated the UAE in accordance with international requirements and found a number of areas that will benefit from a national framework for combating ML and TF to develop further.

Federal Decree-Law No. (20) Of 2018 on Money Laundering and Combating the Financing of Terrorism and Financing of Illegal Organizations, and its Implementation Regulation was issued on September 23<sup>rd</sup>, 2018. The basic legislative framework criminalizes ML and TF operations, and capitalizes on the effectiveness of the legal and institutional framework to implement procedures and measures that contribute to AML and CTF efforts.

ML is defined as “any financial or banking transaction aimed at concealing or changing the identity of illegally-obtained funds by passing them through the financial and banking system in order to make them appear as originating from legitimate sources, and then investing them in a legal manner contrary to their real nature”.

Private sector and Financial Institutions (FI) are considered key partners in delivering the UAE’s AML/CFT program. The UAE designed an outreach program to provide the private sector and FI with an understanding of its National Risk Assessment (NRA) and the most vulnerable sectors thus identified.



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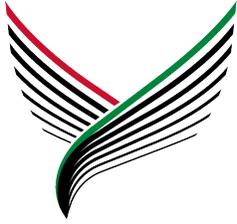


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## **Goals and Objectives**

The outreach program goals are:

1. Public and Private Sectors Partnership (PPP) (including FI) in AML/CFT.
2. Growing private sector and FI awareness of ML/FT risks.
3. Increase the number of private sector and FI Suspicious Transaction Reports (STR) based on risk assessment.
4. Increase private sector and FI compliance in ML/FT.



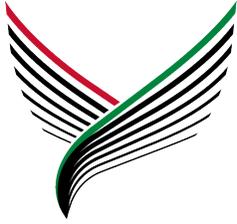
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## **Competent Authorities:**

- The Higher Committee for Anti-Money Laundering and Competing Terrorist Financing
- The National Committee of Anti-Money Laundering and Competing Terrorist Financing (Committee and Executive Office)
- The National Risk Assessment Sub-Committee
- The Money Laundering Investigation Sub-Committee
- The Terrorist Financing Sub-Committee
- The Supervisor Sub-Committee
- The Registrar Sub-Committee
- International Co-operation Sub-Committee



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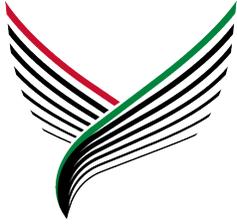
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## Audience

The Outreach Program is designed for General, and Designated Non-Financial Business and Professions (DNFBP) in the private sector, and specifically for FI.

FATF defines DNFBP as:

- Real estate agents;
- Dealers in precious metals;
- Dealers in precious stones;
- Lawyers, notaries, other independent legal professionals and accountants. This refers to sole practitioners, partners or employed professionals within professional firms. It is not meant to refer to internal professionals that are employees of other types of businesses, nor to professionals working for government agencies, who may already be subject to AML/CFT measures;
- Trust and Company Service Providers. This refers to all persons or businesses that are not covered elsewhere under these recommendations, and which as a business, provide any of the following services to third parties:
  - acting as a formation agent of legal persons;
  - acting as (or arranging for another person to act as) a director or secretary of a company, a partner of a partnership, or a similar position in relation to other legal persons;
  - providing a registered office, business address or accommodation, correspondence or administrative address for a company, a partnership or any other legal person or arrangement;
  - acting as (or arranging for another person to act as) a trustee of an express trust or performing the equivalent function for another form of legal arrangement; or
  - acting as (or arranging for another person to act as) a nominee shareholder for another person.



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## **Risk Assessment: National (NRA)**

A decision taken by the UAE National Committee for Anti-Money Laundering and Combating the Financing of Terrorism No. (214) of 2017 issued on 29/05/2017 (update to Resolution No. 149 of 2016 issued on 12/06/2016) regarding the formation of the Sub-Committee for the National Risk Assessment for Money Laundering and Financing of Terrorism Risks in the United Arab Emirates (hereinafter referred to as the NRA Sub-committee) started the process of developing the NRA for ML and TF risks in the UAE, which had not been conducted previously.

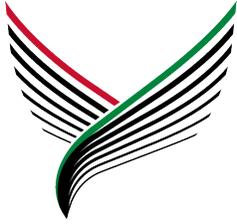
This initial NRA assessment is a FATF requirement, and a first step in the Mutual Evaluation process to implement FATF and MENAFATF<sup>1</sup> recommendations after their assessment of the UAE in 2019-2020.

The NRA has helped the UAE and its public and private sector partners to have a more comprehensive and shared understanding of the inherent ML/TF risks facing the nation as a whole (i.e., risks prior to the application of numerous mitigations and controls). The NRA also provides a basis on which to formulate appropriate policies and activities to mitigate the impact of the inherent risks identified. The FATF assessment of effectiveness of the UAE's AML/CFT efforts will always refer back to the threats, vulnerabilities and risks identified in the NRA.

The first task before the NRA Sub-committee was to raise awareness amongst stakeholders on the need to conduct a NRA, and to get them involved in the AML-CFT control regime.

The NRA Sub-committee organized multiple workshops involving international experts on regulating the financial and DNFBP sectors and law enforcement. It held focused meetings for each sector, with the experts conducting interactive sessions with the regulators and licensing and supervisory authorities. The NRA Sub-committee also obtained stakeholder feedback on their processes, to assess how they

<sup>1</sup> MENAFATF: Middle East and North Africa Financial Action Task Force



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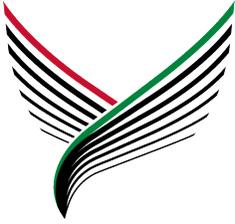
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could be exploited for ML/TF purposes potentially, thus revealing underlying risk factors.

The UAE authorities assessed the ML threats for 21 predicate crimes specified by the FATF, and for the crime of Professional Third-Party ML, including:

- participation in an organized criminal group and racketeering;
- terrorism, including terrorist financing;
- trafficking in human beings and migrant smuggling;
- sexual exploitation, including sexual exploitation of children;
- illicit trafficking in narcotic drugs and psychotropic substances;
- illicit arms trafficking;
- illicit trafficking in stolen and other goods;
- corruption and bribery;
- fraud;
- counterfeiting currency;
- counterfeiting and piracy of products;
- environmental crime;
- murder, grievous bodily injury;
- kidnapping, illegal restraint and hostage-taking;
- robbery or theft;
- smuggling; (including in relation to customs and excise duties and taxes);
- tax crimes (related to direct taxes and indirect taxes);
- extortion;
- forgery;
- piracy; and
- insider trading and market manipulation.

The consensual assessment with relevant competent authorities was based on comprehensive qualitative and quantitative information, using the following pre-defined rating criteria:



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- 1) **Actor Capacity:** the extent to which threat actors have the resources and network to launder criminal proceeds (e.g., access to facilitators, links to organized crime).
- 2) **Scope of ML activity:** the extent to which threat actors are using financial institutions, DNFBPs and other sectors to launder criminal proceeds.
- 3) **Proceeds of Crime:** the magnitude of the estimated Dirham value of the proceeds of crime being generated annually from the profit-oriented crime.

The UAE authorities identified the most likely ML crimes and threats in the UAE to be:

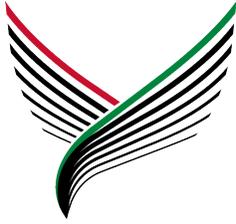
- fraud;
- counterfeiting and piracy of products;
- illicit trafficking in narcotics, and
- professional third-party ML.

They also assessed insider trading and market manipulation, robbery and theft, illicit arms, forgery, smuggling and tax crimes as ML threats.

The NRA review of TF in the UAE, considering the available and classified information and discussions with the concerned authorities, identified eight terrorist groups as posing a threat to the UAE's internal and external security, law and order.

The UAE authorities also identified inherent ML/TF sectorial vulnerabilities based on five pre-defined rating criteria:

- 1) **Inherent Characteristics:** the extent of the sector's economic significance, complexity of operating structure, integration with other sectors and scope and accessibility of operations.
- 2) **Nature of Products and Services:** the nature and extent of the vulnerable products and services and the volume, velocity and frequency of client transactions associated with these products and services.
- 3) **Nature of clientele:** the inherent vulnerabilities associated with the sector's clientele profile; nature of business relationship (with clients); customer status; client's occupation/businesses; facility to identify the beneficial owner



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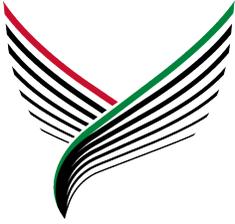
for most of the customers (i.e. complex business structure vs. individual business activity).

- 4) **Geographic Reach:** the exposure to high-risk jurisdictions and locations of concern.
- 5) **Nature of the Delivery Channels:** the extent to which the delivery of products and services can be conducted with anonymity (face-to-face, non-face-to-face, use of third parties) and complexity (e.g., multiple intermediaries with few immediate controls or no accountability in identifying the originator of the transaction)

Notably, the profiling of ML/TF inherent risks was conducted separately for the UAE’s jurisdictions on-shore and off-shore (the Financial Free Zones - FFZ), due to the different nature of ML/TF risks in the latter. FFZ often have a different legislative and regulatory framework for the application of commercial and civil laws, and different services and products to their on-shore counterparts.

**UAE on-shore sectoral vulnerabilities: overall risk**

<b>Highest</b>	<b>Medium-high</b>	<b>Medium</b>
Banking	Lawyers and notaries	Auditors,
Money service providers	Real estate agents	Custodians
Exchange houses	Company service providers	Life Insurance and Investment
Precious metal dealers	Financial advisers and consultants	Property and Casualty (General Insurance)
	Investment funds and Asset managers	
	Financial brokers and agents	
	Credit providers (finance companies)	



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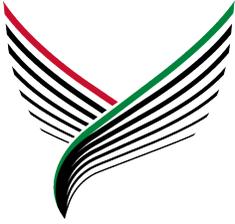
For FFZ ML vulnerabilities, the **highest** risk sector was exchange houses, with the following sectors assessed as **medium-high** risk:

- banking;
- brokers and agents;
- wealth management;
- custodians;
- investment fund management;
- financial advisors;
- some DNFBP sectors, including:
  - company service providers;
  - dealers in precious metals and stones;
  - real estate agents; and
  - lawyers, notary and other independent legal businesses.

The NRA identified registered auditors, accountants, and insolvency firms and life insurance as being at **medium** inherent risk, while general insurance represented a **low** risk.

The NRA process included an overview of the UAE's financial governance structure and the economic environment. It concluded that the large size and openness of the UAE's financial sector, its geography, the large proportion of foreign residents, the use of cash in transactions, and the highly-active trade in gold and precious metals and stones, were also inherently open to ML/TF abuse by criminals. The NRA process also identified the national, political, social and economic ML/TF consequences in the UAE.

Overall, the NRA provides a sound basis on which the UAE authorities and the private sector can implement effective measures, commensurate with the identified risks that they face.



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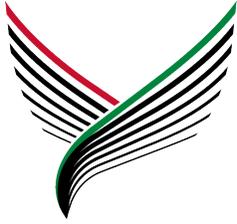
## **Risk Assessment: Terrorist Financing (TF)**

The 2020 TF Risk Assessment is based on the analysis of a much wider set of data and information sources, compared to the previous version. The assessment scope is not limited to any given number of terrorist organizations; it focuses on TF risks in general, and considers the specific factors that characterize TF threats and vulnerabilities in the UAE context through different risk scenarios.

The TF assessment looked at the UAE's domestic risks and its status as an international financial center (IFC), and identified the following risk scenarios:

- Fundraising through social media;
- Collecting Funds through crowdfunding<sup>2</sup> Techniques;
- Fundraising through Virtual Currencies;
- Donations/Non-Profit Organization (NPOs);
- Trade activities in the UAE - terrorists or terrorist networks:
  - selling or purchasing goods;
  - using UAE legal entities;
- Fund transfers to/from high – risk jurisdictions;
- Ownership or control over UAE FIs or money or value transfer service (MVTs)
- Smuggling or transportation of cash, including through Foreign TF;
- Investment, or financial management, of terrorism-related funds in the UAE.

<sup>2</sup> Crowdfunding is the practice of funding a project or venture by raising small amounts of money from a large number of people, typically via the Internet. Crowdfunding is a form of crowdsourcing and alternative finance



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## **Risk Assessment: Targeted Financial Sanction (TFS)**

The United Nations Security Council (UNSC) can act to maintain or restore international peace and security under Chapter VII of the United Nations (UN) Charter by imposing sanctions measures under Article 41, encompassing a broad range of enforcement options that do not involve the use of armed force.

UNSC sanction regimes focus mainly on supporting the settlement of political conflicts, nuclear non-proliferation, and counter-terrorism. These regimes include measures ranging from comprehensive economic and trade sanctions to more targeted measures, such as arms embargoes, travel bans, and restrictions on dealing with certain financial or commodity transactions.

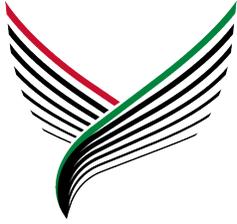
The UAE, as a UN member (and a UNSC member in 2022-23), is mandated to implement UNSCRs, including those related to UN sanctions regimes. Consequently, through the Cabinet Resolution No. 74 of 2020, the UAE implements UNSCRs on the suppression and CTF, and countering the financing of proliferation of weapons of mass destruction (CFP), including targeted financial sanctions (TFS).

The term ‘targeted sanctions’ means that such sanctions are against certain individuals, entities, groups, or undertakings.

The term ‘TFS’ includes both asset-freezing and prohibitions to prevent funds or other assets from being made available, directly or indirectly, for the benefit of sanctioned individuals, entities, groups, or organizations.

The list of UN sanction regime measures include freezing of funds and prohibition of fund and service provision, in accordance with UNSC resolutions. The sanctioned (listed) individuals, groups, or entities include:

<p>1. Islamic State in Iraq and the Levant (Da'esh), Al-Qaida, and associated individuals, groups, undertakings and entities.</p>	<p>Listed by the UNSC.</p>
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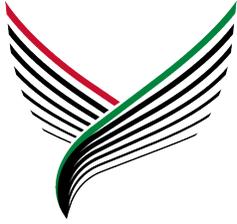
2. The Taliban, and associated individuals, groups, undertakings and entities.	
3. Any individual or entity included in the Local Terrorist List, according to UNSCR 1373 (2001)	Listed by the Cabinet of the UAE.

The proliferation of weapons of mass destruction (WMD):

1. Democratic People's Republic of Korea (DPRK): nuclear-related, other weapons of mass destruction-related and ballistic missile-related programs.	Listed by the UNSC.
2. Islamic Republic of Iran: nuclear programs.	

Other UN sanctions regimes with TFS

1. Somalia	Listed by the UNSC.
2. Iraq	
3. Democratic Republic of Congo (DRC)	
4. Related to the involvement of terrorist bombing in Beirut (2005) plus restrictive measures in relation to UNSCR 1701 (2006) on Lebanon	
5. Libya	
6. Central African Republic (CAR)	
7. South Sudan	
8. Mali	
9. Yemen	



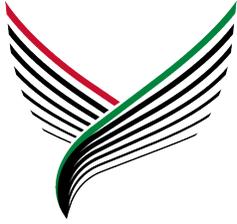
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The following are relevant Laws/Executive Regulations, Resolutions, Guidelines and Notices issued to implement UNSC targeted financial sanctions in the UAE:

<b>Title</b>	<b>Articles/Text</b>	<b>Issued</b>	<b>Type</b>
Decree Federal Law No. 20 of 2018 on Anti-Money Laundering and Combating the Financing of Terrorism and Illegal Organizations	16.1, 28	2018	Federal Law
Cabinet Decision No. 10 of 2019 Concerning the Implementing Regulation of Decree Federal Law No. 20 of 2018 on Anti-Money Laundering and Combating the Financing of Terrorism and Illegal Organizations	11, 12, 44.7, 60	2019	Executive Regulation
Cabinet Resolution No. 74 of 2020 concerning the Local Terrorist List of terrorists and implementation of UN Security Council decisions relating to preventing and countering financing terrorism and leveraging non-proliferation of weapons of mass destruction, and the relevant resolutions.	The whole text	2020	Executive Resolution
Guidelines on Anti-Money Laundering and Combating the Financing of Terrorism and Illegal Organizations for Financial Institutions	10. International Financial Sanctions, pages 88-96	23-Jun-19	Guidelines



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## **Risk Assessment: Legal Entities**

Legal persons and entities are an important part of every economy and a mechanism to develop business. However, they can be misused to manage, produce or transfer the products of crime, or act as an instrument for it.

Anonymity enables many illegal activities to be hidden from law enforcement authorities, such as tax evasion, corruption, money laundering, and financing of terrorism. Money laundering can involve complex operations and transactions to make money from illicit sources (such as drug trafficking or tax evasion) appear legal. A criminal could set up a nightclub with apparently legal sources of income from the sale of tickets and alcohol, whilst in reality, they are earning money from the sale of drugs. In a business setting, it is important therefore to know the beneficial owner of legal entities, and arrangements to prevent its misuse. Determining whether countries know the true beneficial owners of legal entities and business arrangements is important in combating tax evasion, corruption, ML and FT.<sup>3</sup>

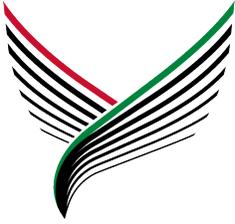
From the ML/TF perspective, legal persons and arrangements are most vulnerable when their characteristics or structure create obstacles to identify the beneficial owner. As identified by the World Bank in its report on the misuse of legal persons in corruption cases, entitled “the Puppet Masters”, corporate vehicles - including companies, trusts, foundations, and fictitious entities - are misused to conceal the identities of corrupt people<sup>4</sup>. This is also true for other ML/TF crimes.

The beneficial owner is the person(s) who ultimately owns or controls a customer and/or the natural person on whose behalf a transaction is being conducted. It also includes persons who exercise ultimate effective control over a legal person or arrangement<sup>5</sup>.

<sup>3</sup> OECD – IDB. *A beneficial Ownership Implementation Toolkit*. 2019. Pg. 4

<sup>4</sup> StAR Initiative of the World Bank and the UNODC, 2011. *The Puppet Masters – How the Corrupt Use Legal Structures to hide Stolen Assets and What to Do About it*. Pg. 33

<sup>5</sup> FATF. *International Standards on Combating Money Laundering and Terrorism Financing & Proliferation*. 2012-2020. Pg. 175



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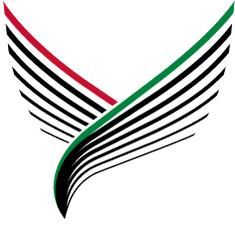
Important studies by the FATF and the World Bank and United Nations Office of Drugs and Crime's (UNODC) Stolen Asset Recovery Initiative (StAR) have explored the misuse of corporate vehicles for illicit purposes, including ML/TF. In general, the lack of adequate, accurate and timely transparency of the beneficial ownership information facilitates (ML/TF) by disguising:

- the identity of known or suspected criminals,
- the true purpose of an account or property held by a corporate vehicle, and/or
- the source or use of funds or property associated with a corporate vehicle<sup>6</sup>.

Consequently, a legal person or entity can have a higher risk of misuse when it is more challenging for authorities (including law enforcement and investigative agencies) to access information about the beneficial owner. These vulnerabilities can be identified in the structure of the legal person or entity that promotes opaqueness, or in the contextual framework where the legal entity is registered.

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<sup>6</sup> FATF. *Guidance on Transparency and Beneficial Ownership*. 2014. Pg.6



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## **Risk Assessment: Gold and Precious Metals Sector**

Gold has been used since antiquity as a medium for exchange or payment in various cultures. Historically, governments minted coins from a physical commodity, such as gold, or would print paper money that could be redeemed for a set amount of physical commodity ('the Gold standard'). Most modern paper currencies are referred to as 'fiat currencies'. They have no intrinsic value, and are used solely as a means of payment. Even with the modern use of fiat money, precious metals remain an alternative means of payment, due to their high intrinsic value and ease of exchangeability internationally.

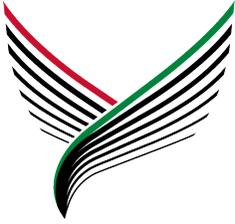
Recent shifts in the global economy have resulted in an increased demand for stable-value investments and commodities. Gold is a universally-accepted currency that has remained stable, in spite of fluctuations in global financial markets. Internationally-enforced AML measures are influencing a shift in criminal behavior towards methodologies with lower law enforcement visibility, which makes gold very attractive. Gold is also an integral part of the cultural heritage of many countries, such as China and India, where it features heavily in religious and social exchanges.

The UAE's NRA identified the gold and precious metals sectors as high-risk. The private sector and FI have to maintain a robust, internal, risk-based approach for all transactions.

### **ML/TF: Red Flags**<sup>7</sup>

- Customer Behavior:
  - Established customer (including bullion dealers) dramatically increasing their purchase of gold bullion for no apparent reason.
  - Foreign nationals purchasing gold bullion through multiple transactions over a short time period.

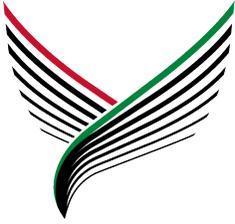
<sup>7</sup> <https://www.fatf-gafi.org/media/fatf/documents/reports/ML-TF-risks-vulnerabilities-associated-with-gold.pdf>



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- Bullion transferred among associates using bullion accounts (including family members) for no apparent commercial purpose.
- Occupation inconsistent with customer's financial profile. For example, the customer may list their occupation as 'student' or 'truck driver' yet transfer large values of funds to bullion accounts.
- Customer buying gold bullion and using a General Post Office or private service mailbox as their address, without listing a corresponding box number.
- Unusual pattern and nature of bullion transactions inconsistent with the customer profile.
- A previously unknown customer requesting a refiner to turn gold into bullion.
- **Company Behavior:**
  - Gold industry organizations not reporting suspicious transactions to the UAE Financial Intelligence Unit (FIU), where there is an obligation to report.
  - Changes to the business name of entities registered to deal in gold.
  - Trading company registration in a tax haven, even though its business relates to another jurisdiction.
  - Movement of abnormally large sums of money in individuals' and companies' accounts, unrelated to the nature of their business.
  - Unusual deposits, i.e. use of cash or negotiable instruments (such as traveler's cheques, cashier's cheques and money orders) in round denominations (to keep below reporting threshold limit) to fund bank accounts and to pay for gold. The negotiable instruments may be sequentially numbered or purchased at multiple locations, and may frequently lack payee information.
  - Numerous sole proprietorship businesses/private limited companies set up by seemingly unrelated people (proxies), but controlled by the same group of people. False addresses are used to register such businesses.
  - Use of a corporate structure of shell companies located across different jurisdictions.

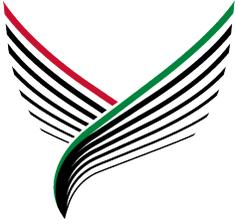


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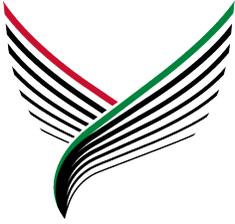
- Significant number of companies registered to one natural person.
- Commercial activities are not easy to track, as the companies are registered elsewhere.
- No clarity on how the company transports its merchandise.
- Trade-Based behavior (also related to Trade-Based ML):
  - Cash payments for high-value orders are an indication of trade-based ML (TBML) activity.
  - Misclassification of gold purity, weight, origin and value on customs declaration forms.
  - Gold is shipped to or from a jurisdiction designated as ‘high risk’ for money laundering activities or sensitive/non co-operative jurisdictions.
  - Gold is transshipped through one or more such high-risk/sensitive jurisdictions for no apparent economic reason.
  - Consignment size or type of commodity being shipped appears inconsistent with the exporter or importer’s scale or capacity in their regular business activities, or the shipment does not make economic sense, i.e. there is no reasonable explanation for the client’s financial investment in the shipment.
  - The transaction involves the use of front or shell companies. Both shell and front companies can be used to facilitate TBML, but in different ways. A shell company has no real operating activity, and is used to hide ML activity and the identities of individuals involved, to obscure the money trail. If activity is traced to the company, it is literally an empty shell.
- Product Differentiation:
  - The bullion has physical characteristics that are inconsistent with industry standards.
  - Gold prices are higher than those of the local gold market.
- Payment Behavior:
  - A number of affiliated entities in the payments chain.
  - Transit movement of funds and changes in purposes of payments.
  - Payments to shell companies with further withdrawals.



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- Granting of loans (with zero interest rates) to foreign companies or persons.
- Natural person or business sells gold saying that it comes from a place with no extraction license or from places with no gold mines.
- Large amount of funds transferred internationally, then withdrawn quickly.
- International transfers to countries where the company is not registered.
- Significant cash withdrawals from bank accounts by participants within the gold trading industry.
- Division of funds in cheques and smaller cash transactions to pay for merchandise.
- Purchase of gold bullion with bank cheques may be an attempt to conceal the source of the funds and underlying ownership.
- The use of cash to purchase bullion, especially when there are multiple purchases in a short timeframe, or when large amounts are purchased at once, or when there are structured cash deposits into an account to finance a single gold bullion purchase.
- Original source of funds to buy gold bullion cannot be established. The transaction involves the receipt of cash (or by other payment methods, including cheques or credit cards) from third party entities that have no apparent connection with the transaction or front or shell companies or wire instructions / payment from parties which were not identified in the original letter of credit or other documentation. Transactions that involve payments for goods through cheques, bank drafts, or money orders not drawn on the account of the entity that purchased the items also need further verification.
- Transactions between domestic buyers and sellers with sales proceeds sent to unknown third parties overseas.
- Predicated Crime Activity - Gold Mining Behavior:
  - Gold production and commercialization by a person or business without a license.

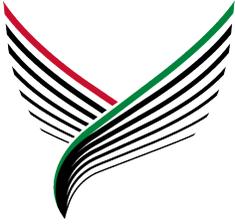


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- An ethnic community hiring a third party for the entire operation of a mine.
- Licensed mines, where the production has decreased with no apparent explanation.
- The development of mining activities using machinery and equipment that is not in accordance with the characteristics of the licensed small or artisanal mining.
- The development of mining activities without compliance with the administrative, technical, social and environmental regulation.
- The development of mining activities in prohibited areas.



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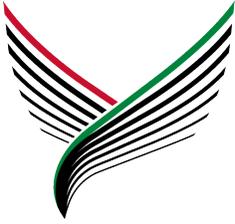
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## **Risk Assessment: Real Estate**

The UAE's real estate sector is considered one of the biggest in the Middle East. Dubai's real estate market continues to achieve record numbers and value of real estate sales transactions, enhancing the emirate's global position as the preferred, most attractive and flexible real estate investment destination.

To implement a reasonable risk-based approach, real estate agents should identify criteria to assess potential ML/TF risks – customers, or categories of customers, and transactions – to allow real estate agents to determine and implement proportionate measures and controls to mitigate those risks.

- Country/geographic risk:
  - Location of property(s) in relation to the buyer. Different countries pose different levels and types of risks for cross-border, non face-to-face transactions, e.g. different countries have different levels of criminality and/or regulation.
  - Buyer and seller location.
  - Countries subject to sanctions, embargoes or similar measures issued by, for example, the UN. In addition, in some circumstances, countries subject to similar sanctions or measures to the UN, but which may not be universally recognized, may be given credence by a real estate agent because of the issuer's standing and the nature of the measures.
  - Countries identified by credible sources as:
    - lacking appropriate AML/CFT laws, regulations and other measures;
    - providing funding or support for terrorist activities that have designated terrorist organizations operating within them;
    - having significant levels of corruption, or other criminal activity.
  - Countries where there is no mandatory registration of real property.
- Customer Risk:

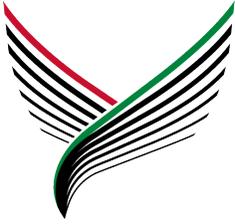


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- Significant and unexplained geographic distance between the agent and customer location.
- Customers where the structure or nature of the entity or relationship makes it difficult to identify the true owner or controlling interest.
- Cash-intensive businesses.
- Charities and other non-profit organizations that are not subject to monitoring or supervision.
- The use of intermediaries who are not subject to adequate AML/CFT laws and measures, and who are not adequately supervised.
- Politically-exposed persons (PEPs).
- Transaction risk
  - Transaction speed (transactions that are unduly expedited without a reasonable explanation may be higher risk).
  - Type of properties (residential or commercial, vacant land, investment, high-turnover properties, multi-unit properties for lettings/leases).
  - Successive transactions, especially of same property in a short period with unexplained changes in value.
  - Conversion of properties into smaller units.
  - Introduction of unknown parties at a late stage of transactions, e.g. arrangements made between purchasers.
  - Third-party vehicles (i.e. trusts) used to obscure a buyer's true ownership.
  - Under- or over-valued transactions.
  - Sale of properties immediately before restraint or insolvency.
  - Property value not in the customer's profile.
  - Location of client's and/or customer's source of funds.
  - Unusual sources, e.g. funds obtained from unknown individuals or unusual organizations.
  - Purchase with large amounts of cash.
  - Cash deposits or money orders from unusual sources or countries identified under country/geographic risks.



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- Use of complex loans, or other obscure means of finance, versus loans from regulated financial institutions.
- Unexplained changes in financing arrangements.
- Variables that impact upon risk:
  - Involvement of other parties, e.g. financial institutions, lawyers or notaries, and whether they are subject to AML/CFT requirements.
  - How the client was introduced to the agent.
  - Method of communication between client and agent, e.g. e-mail or personal contact.
  - Whether the client is a PEP.
  - Whether there is a beneficial owner different from the direct customer.
  - The products/services used by the client or the purchaser.
  - The person with whom the real estate agent has the relationship. For example, legal entities or arrangements with no clear structure might pose a higher risk than a natural person.
- Controls for higher-risk situations:
  - Increased awareness by the real estate agent of higher risk customers and transactions within business lines across the institution.
  - Increased levels of know your customer (KYC) or enhanced due diligence.
  - Escalation of establishment approval for an account or relationship.
  - Increased transaction monitoring .
  - Increased levels of ongoing controls and frequency of reviews of relationships.
  - The same measures and controls may often address more than one of the risk criteria identified. It is not necessarily expected that real estate agents establish specific controls targeting each and every risk criterion.