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New Office of Financial Sanctions Implementation Financial Services Threat Assessment

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On 13 February 2025, the Office of Financial Sanctions Implementation (OFSI) published its assessment of suspected sanctions breaches involving financial services firms since February 2022 (the Assessment). The Assessment forms part of a series of sector-specific assessments by OFSI that address threats to UK financial sanctions compliance by UK financial or credit institutions.

The Assessment highlights three areas of main concern:

1. Compliance;
2. Russian-Designated Persons (DPs) and enablers; and
3. Intermediary Countries.

This alert provides a summary of these concerns and suggests action financial services firms can take to combat these threats when developing their risk-based approach to compliance.

Compliance

OFSI has identified several compliance issues and advised steps that firms can take to improve and strengthen their compliance. These include:

Improper Maintenance of Frozen Assets

All DPs accounts and associated cards, including those held by entities owned or controlled by DPs, must be operated in accordance with asset freeze prohibitions and OFSI licence permissions. Financial institutions should review existing policies or contracts as these can often automatically renew, resulting in debits from DP accounts.

Breaches of Specific and General OFSI Licence Conditions

Firms need to carefully review permissions when assisting with transactions they believe are permitted under OFSI licences. Firms must ensure that OFSI licenses are in date, bank accounts are specified in OFSI licences and licence reporting requirements are adhered to.

Inaccurate Ownership Assessments

Firms must be able to identify entities that are directly owned by Russian DPs, and subsidiaries owned by Russian conglomerates that are themselves designated or majority owned by a Russian DP. Firms should conduct increased due diligence where necessary and regularly update due diligence software.

Inaccurate UK Nexus Assessments

Firms should take extra care to understand the involvement of UK nationals or entities in transaction chains when assessing the application of a UK nexus. They must also ensure they understand the difference between United Kingdom, European Union and United States sanctions regimes to make correct assessments of how UK sanctions might be engaged.

Russian DPs and Enablers

OFSI defines an enabler as “any individual or entity providing services or assistance on behalf of or for the benefit of DPs to breach UK financial sanctions prohibitions.” Broadly, there are two types of enablers:

- professional enablers that provide professional services “that enable criminality. Their behaviour is deliberate, reckless, improper, dishonest and/or negligent through a failure to meet their professional and regulatory obligations”; and
- non-professional enablers, such as family members, ex-spouses or associates.

Maintaining Lifestyles and Assets

Most identified enabler activity has been in relation to maintaining the lifestyles of Russian DPs and assets as they face growing liquidity pressures from UK sanctions.

OFSI urges firms to scrutinise the following red flags:

- New individuals or entities making payments to satisfy obligations formerly met by a DP;
- Individuals connected to Russian DPs receiving funds of substantial value;
- Regular payments between companies owned or controlled by a DP;
- Crypto-asset to fiat transactions involving close associates of a Russian DP;
- Family member of a DP that is an additional cardholder on a purchasing card that uses the card for personal expenses and overseas travel; and
- Deposits of large sums of cash without sufficient explanation;

Fronting

With a significant value of the assets of DPs having been frozen in the United Kingdom, an increasing amount of enablers are attempting to front on behalf of DPs and claim ownership of frozen assets. The links between enablers fronting on behalf of DPs are not always clear, and so OFSI has outlined

several red flags for firms to be aware of:

- Individuals with limited profiles in the public domain, for instance, those with limited related professional experience;
- Inconsistent name spellings or transliterations;
- Recently obtained non-Russian citizenships; and
- Repeated or unexplained name changes or declared location of operation.

Utilising Alternative Payment Methods to Breach Prohibitions

Financial services firms need to remain diligent when assessing the threat posed by the increasingly sophisticated methods employed by DPs and enablers to evade UK financial sanctions prohibitions. Particular attention should be paid to attempts at money laundering on behalf of Russian DPs, including any indications of high value crypto-asset to cash transfers.

Intermediary Countries

Emphasis is placed on the use of intermediary jurisdictions in suspected breaches of UK financial sanctions prohibitions. The following jurisdictions are utilised most often: British Virgin Islands, Guernsey, Cyprus, Switzerland, Austria, Luxembourg, United Arab Emirates and Turkey. These jurisdictions offer secrecy or particular commercial interests.

There has also been a change in the third countries referenced in suspected breach reports, with increased activity in the Isle of Man, Guernsey, United Arab Emirates and Turkey. Indeed, the United Arab Emirates accounted for the largest section of suspected breaches reported to OFSI in the first quarter of 2024. This shift has likely been caused by various factors, including capital flight by Russians to jurisdictions that do not have sanctions on Russia.

The Assessment helpfully outlines a non-exhaustive list of specific activities in various countries that could be indicative of UK financial sanctions breaches. Financial institutions are encouraged to review and familiarise themselves with this list so that they can identify potential threats to sanctions compliance. Businesses should then consider the involvement of these jurisdictions when conducting due diligence, and evaluate the risks associated with various transactions.

Conclusion

The recent expansion of the United Kingdom’s financial sanctions regime, particularly in relation to Russia’s invasion of Ukraine, has resulted in sanctions evasion becoming increasingly sophisticated and widespread. Considering the scale of evasion being conducted, financial institutions need to remain proactive and vigilant in identifying transaction activity that may be indicative of attempts to circumvent UK sanctions regimes.

When designing sanctions compliance programmes, financial institutions should refer to the Assessment to account for methodologies of evasion and recognise specific behaviours that might present warning signs. By taking a proactive approach to prevent their services from being exploited as instruments of circumvention, financial institutions will contribute to efforts to combat sanctions evasion, whilst avoiding the financial and reputational repercussions of non-compliance.

If you have any questions on the Assessment or want further advice on developing your policies for UK sanctions compliance, please do not hesitate to contact our Policy and Regulatory practice.

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