POLICY ALERT // SEPTEMBER 17, 2019

United States Expands Terrorist Financing Sanctions

The President on September 10, 2019, authorized the Treasury Secretary to impose sanctions on non-U.S. financial institutions that have knowingly conducted or facilitated a "significant" transaction with anyone sanctioned by the United States as a specially designated global terrorist (SDGT).[1] The new executive order amended Executive Order 13224, which has been the cornerstone of U.S. counter-terrorist financing efforts since 2001.[2] The new executive order increases direct and indirect sanctions risk for non-U.S. financial institutions at the same time that the geographic reach of the U.S. counterterrorism sanctions program is expanding.

- The new executive order authorizes the Treasury Secretary to prohibit U.S. financial institutions from establishing or maintaining correspondent accounts for non-U.S. financial institutions determined to have "knowingly conducted or facilitated any significant transaction" on behalf of anyone whose property is blocked under Executive Order 13224.[3] Alternatively, the Treasury Secretary may impose strict conditions on such relationships.[4]
- The Treasury Department retains the authority to block the property of non-U.S. financial institutions that have provided services to anyone sanctioned under Executive Order 13224.[5] On September 10, 2019, the Treasury Department imposed blocking sanctions on five money transmitters and one jeweler for providing financial services to groups sanctioned under Executive Order 13224.[6]
- The new executive order gives the U.S. government more flexibility in targeting financial institutions that have knowingly conducted transactions involving terrorists, with a menu of three sanctions options: blocking, prohibiting correspondent accounts, or imposing strict conditions on relationships.[7] Having the ability to calibrate sanctions may make targeting larger financial institutions more attractive to Treasury officials.

The geographic scope of targeting under Executive Order 13224 has reached beyond conflict zones, meaning that financial institutions are increasingly likely to encounter sanctioned individuals and entities even if they do not have branches or relationships in conflict zones. The United States has added approximately 200 individuals and entities to its list of SDGTs since January 2018.

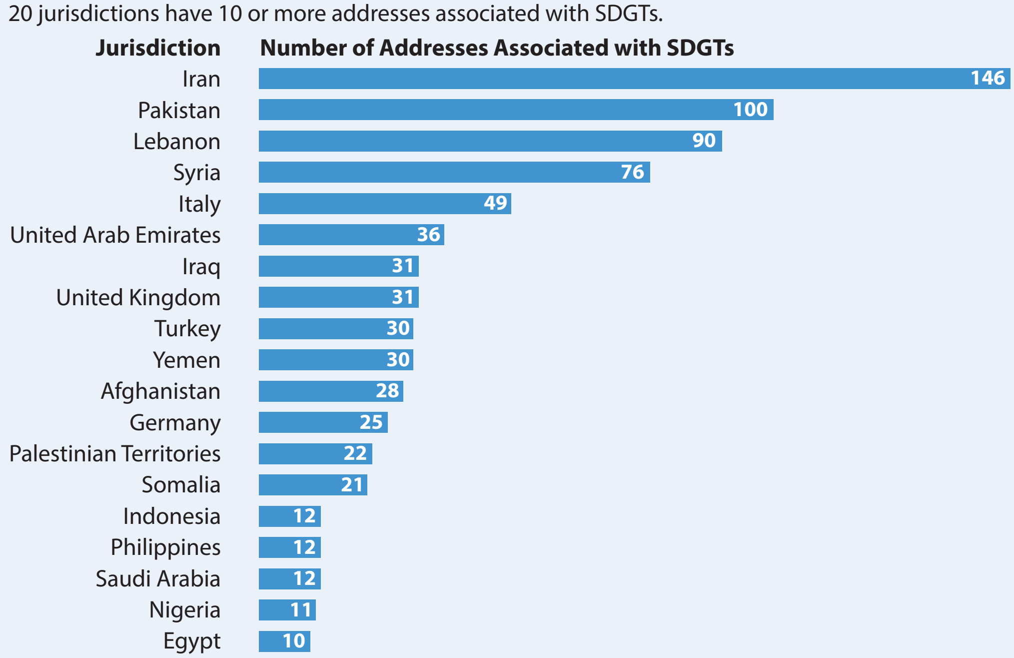
- So far in 2019, the Treasury Department has designated people and entities as SDGTs in 18 jurisdictions.[8] Four jurisdictions – Iran, Lebanon, Turkey, and the United Arab Emirates – have been identified as primary jurisdictions for more than 10 SDGTs each.[9] In 2018, two jurisdictions – Pakistan and Lebanon – were identified as primary jurisdictions for more than 10 SDGTs each, and 21 jurisdictions had at least one SDGT each.[10]

- Targeting of Hizballah and Iran's Islamic Revolutionary Guard Corps (IRGC) has driven the geographic expansion of the counter-terrorist financing program,[11] with IRGC-related targets accounting for more than half of the counterterrorism sanctions in 2019.[12] Although the majority of those targets have been in Lebanon and Iran, they also have included targets in Turkey, the United Arab Emirates, India, and Armenia.[13]

- Financial institutions have been frequent counterterrorism targets for the Treasury Department. So far this year, the Treasury Department has sanctioned an Islamic State of Iraq and Syria (ISIS) money transmission network that was operating in the Middle East, Europe, and Africa,[14] a bank in Lebanon,[15] and money transmitters in Turkey, Syria, and Lebanon.[16]

Jurisdictions Associated with Specially Designated Global Terrorists (SDGTs)

SDGTs have addresses in more than 80 jurisdictions, according to the Treasury Department. Nearly 20 jurisdictions have 10 or more addresses associated with SDGTs.



Effectively identifying terrorist financing requires financial institutions to implement sound sanctions list management and screening practices and to draw on their anti-money laundering programs to detect terrorist financing.

- Sanctions white lists are useful in reducing false positives, but white lists should be drawn narrowly. Entries to the white list should include more than one identifier, such as name and account number, rather than just a subject's name.
- Anti-money laundering programs should be sensitive to terrorist financing risks, especially in jurisdictions adjacent to conflict zones and jurisdictions adjacent to those in which terrorist organizations are based. The Treasury Department has been very active in targeting ISIS operatives in Turkey and Taliban operatives in Pakistan.[17]
- Banks should pay special attention to relationships that introduce intermediated risk, especially in corridors or jurisdictions that carry an elevated risk for terrorist financing, such as state sponsors or terror, conflict zones and jurisdictions in which terrorist organizations maintain safe havens.

Endnotes

1 White House, Executive Order on Modernizing Sanctions to Combat Terrorism," Sept. 10, 2019, https://www.whitehouse.gov/presidential-actions/executive-order-modernizing-sanctions-combat-terrorism/.

2 White House, Executive Order on Modernizing Sanctions to Combat Terrorism," Sept. 10, 2019, https://www.whitehouse.gov/presidential-actions/executive-order-modernizing-sanctions-combat-terrorism/.

3 White House, Executive Order on Modernizing Sanctions to Combat Terrorism," Sept. 10, 2019, https://www.whitehouse.gov/presidential-actions/executive-order-modernizing-sanctions-combat-terrorism/.

4 White House, Executive Order on Modernizing Sanctions to Combat Terrorism," Sept. 10, 2019, https://www.whitehouse.gov/presidential-actions/executive-order-modernizing-sanctions-combat-terrorism/.

5 White House, Executive Order on Modernizing Sanctions to Combat Terrorism," Sept. 10, 2019, https://www.whitehouse.gov/presidential-actions/executive-order-modernizing-sanctions-combat-terrorism/.

6 Treasury Department, "Treasury Targets Wide Range of Terrorists and Their Supporters Using Enhanced Counterterrorism Sanctions Authorities," Sept. 10, 2019, https://home.treasury.gov/news/press-releases/sm772.

7 White House, Executive Order on Modernizing Sanctions to Combat Terrorism," Sept. 10, 2019, https://www.whitehouse.gov/presidential-actions/executive-order-modernizing-sanctions-combat-terrorism/.

8 Treasury Department, "OFAC Recent Actions," undated, https://www.treasury.gov/resource-center/sanctions/ofac-enforcement/pages/ofac-recent-actions.aspx.

9 Treasury Department, "OFAC Recent Actions," undated, https://www.treasury.gov/resource-center/sanctions/ofac-enforcement/pages/ofac-recent-actions.aspx.

10 Treasury Department, "OFAC Recent Actions," undated, https://www.treasury.gov/resource-center/sanctions/ofac-enforcement/pages/ofac-recent-actions.aspx.

11 Treasury Department, "OFAC Recent Actions," undated, https://www.treasury.gov/resource-center/sanctions/ofac-enforcement/pages/ofac-recent-actions.aspx.

12 Treasury Department, "OFAC Recent Actions," undated, https://www.treasury.gov/resource-center/sanctions/ofac-enforcement/pages/ofac-recent-actions.aspx.

13 Treasury Department, "OFAC Recent Actions," undated, https://www.treasury.gov/resource-center/sanctions/ofac-enforcement/pages/ofac-recent-actions.aspx.

14 Treasury Department, "Treasury Designates Key Nodes of ISIS's Financial Network Stretching Across the Middle East, Europe, and East Africa," April 15, 2019, https://home.treasury.gov/index.php/news/press-releases/sm657.

15 Treasury Department, "Treasury Labels Bank Providing Financial Services to Hizballah as Specially Designated Global Terrorist," Aug. 29, 2019, https://home.treasury.gov/news/press-releases/sm760.

16 White House, Executive Order on Modernizing Sanctions to Combat Terrorism," Sept. 10, 2019, https://www.whitehouse.gov/presidential-actions/executive-order-modernizing-sanctions-combat-terrorism/.

17 Treasury Department, "OFAC Recent Actions," undated, https://www.treasury.gov/resource-center/sanctions/ofac-enforcement/pages/ofac-recent-actions.aspx.