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இலங்கை மத்திய வங்கி  
CENTRAL BANK OF SRI LANKA

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நிதியியல் உளவறிதற் பிரிவு

Financial Intelligence Unit

Ref No: 037/04/010/0003/017

September 10, 2018

To: CEOs / General Managers of All Financial Institutions and  
Designated Non- Finance Businesses and Professions

Dear Madam / Sir,

**Guidelines, No. 7 of 2018 on Implementing  
United Nations (Sanctions in relation to Iran) Regulations No. 1 of 2018**

The above Guidelines, will come into force with immediate effect and shall be read together with the United Nations (Sanctions in relation to Iran) Regulations, No. 1 of 2018 published in the Gazette Extraordinary No. 2080/34 dated July 17, 2018 and its amendments published in the Gazette Extraordinary No. 2085/11 dated August 21, 2018, Financial Institutions (Customer Due Diligence) Rules, No. 1 of 2016 and Designated Non-Finance Business (Customer Due Diligence) Rules, No. 1 of 2018 issued under the Section 2(3) of the Financial Transactions Reporting Act, No. 6 of 2006.

Yours faithfully,

**E. Mohotty**  
Actg. Director  
Financial Intelligence Unit

Cc; Compliance Officers

**Guidelines, No. 7 of 2018 on  
Implementing United Nations (Sanctions in relation to Iran) Regulations, No. 1 of 2018**

**Introduction**

- (1) The Minister of Foreign Affairs, acting within the powers vested with him under the United Nations Act, No. 45 of 1968, has issued United Nations (Sanctions in relation to Iran) Regulations, No. 1 of 2018 published by the Gazette Extraordinary No. 2080/34 dated July 17, 2018 and its amendments published by the Gazette Extraordinary No. 2085/11 dated August 21, 2018 (hereinafter referred to as Iran Regulations) for the implementation of UNSCR 2231 (2015) in Sri Lanka.
- (2) These guidelines are issued by the Financial Intelligence Unit (FIU) to be adhered by Institutions as defined under Section 33 of the Financial Transactions Reporting Act, No. 6 of 2006 (hereinafter referred to as Institutions), in accordance with the provisions of the Iran Regulations, to facilitate their compliance with the provisions of the Iran Regulations, and the effective implementation of the same in Sri Lanka.
- (3) For Iran Regulations, the Minister of Foreign Affairs has appointed the Secretary to the Ministry of Defence as the Competent Authority, who is responsible for the overall implementation of the said Regulations in Sri Lanka.
- (4) These guidelines will come into force with immediate effect and are required to be read together with the Iran Regulations, Financial Institutions (Customer Due Diligence) Rules, No. 1 of 2016 and Designated Non-Finance Business (Customer Due Diligence) Rules, No. 1 of 2018 issued under the Section 2(3) of the Financial Transactions Reporting Act, No. 6 of 2006.
- (5) Iran Regulations restrict any individual or entity located in Sri Lanka, or Sri Lankan individuals and entities located outside the jurisdiction of Sri Lanka, from carrying out financial transactions and providing financial services for a list of ‘designated individuals and entities’ in Iran, as well as for any individuals or entities who may be acting on behalf or at the direction of designated individuals and entities (hereinafter referred to as designated persons and associates).
- (6) The requirement to apply targeted financial sanctions in accordance with Iran Regulations is not risk-based, but rule-based, which means Institutions should carry out sanction screening regardless of the risk associated with a particular customer or a product.

- (7) Sanction screening refers to the process of screening of the customer identities against the most recent list of designated persons by attempting to match key identification data, and screening of customers who may be owned or controlled by, or who may hold assets or conduct transactions on behalf of a designated person.

### **Targeted Financial Sanctions (TFS)**

- (8) Targeted Financial Sanctions (TFS) means both asset freezing and prohibitions to prevent funds or other assets from being made available, directly or indirectly, for the benefit of designated persons and entities, except as authorized by the Competent Authority under conditions described in the Regulations.
- (9) Targeted financial sanctions relating to proliferation financing are applicable to persons and/or entities designated by the UN Security Council or the relevant committees set up by the Security Council. Designation/listing criteria are:
- a. persons or entities engaging in or providing support for, including through illicit means, proliferation-sensitive activities and programmes;
  - b. acting on behalf of or at the direction of designated persons or entities;
  - c. owned or controlled by designated persons or entities; and
  - d. persons or entities assisting designated persons or entities in evading sanctions, or violating resolution provisions.
- (10) Institutions are required to freeze immediately the funds, other financial assets and economic resources which are on their possession at the date of Iran Regulations or at any time thereafter that are owned or controlled, directly or indirectly by the persons/entities mentioned in guideline 5 above; and further ensure that no funds or other assets and economic resources are made available to such persons and entities, except in specific situations as authorized by the Competent Authority, and under conditions specified in the UNSC Resolutions.

### **Implementation Mechanism**

- (11) Institutions are required to follow a two-stage approach to comply with the Iran Regulations.
- (i) First stage is the screening of new customers (at the time of customer onboarding) against the consolidated list of designated persons and associates, to make sure no such persons are becoming customers of the Institutions.
  - (ii) Second stage is the screening of the entire customer database as and when update notifications are issued by the FIU.

- (12) As per Regulation 8 of the Iran Regulations, the freezing actions mentioned in the regulation 9 have immediate effect on Iranian individuals and entities who are designated by the United Nations Security Council. This means there will be no separate freezing orders or publishing of designated lists by the Competent Authority. Therefore, it is the responsibility of Institutions to make sure that no designated persons and associates are their customers, and the Institutions do not provide any financial services to such designated persons and associates.
- (13) Screening of names, addresses and other details against the consolidated list of designated persons and entities (including entities owned or controlled by them) published by the UN Security Council or its Committee is necessary in ensuring compliance with certain elements of targeted financial sanctions. However, the above screening would not be sufficient on its own, as targeted financial sanctions are also applicable to persons / entities acting on behalf of or at the direction of designated persons/entities. Therefore, the institutions are also required to identify the beneficial owners and other connected parties of their customers to the extent reasonably possible, and apply the screening measures to such associates as well.

#### **Screening of New Customers at the time of Onboarding**

- (14) Whenever there is a new account opening for a new customer, the details of that customer are required to be screened against the designated list, and the Institutions are required to ensure that the customer is not a designated person or entity, before entering into a relationship with the customer.
- (15) Institutions are required to identify the beneficiaries and/or beneficial owners of their accounts/transactions, and apply the same procedure described in these guidelines 8 to 10, to ensure that no designated persons and associates are beneficiaries and/or beneficial owners of the funds, accounts or other assets. Such processes are required to be developed so as to identify and verify beneficiaries and/or beneficial owners, and the Institutions are required to be able to demonstrate reasonable efforts have been made to verify the beneficiaries of the funds, accounts or other assets.

#### **Screening of the Customer Database upon Update Notification by the FIU**

- (16) As soon as the FIU receives a notice from the UN regarding updates to the UNSCR 2231 list, the FIU will circulate a notification email among the Institutions who are registered with the FIU as reporting entities. Whenever there is such notification by the FIU, Institutions are required to obtain the updated list from the United Nations Security Council's UNSCR 2231 (2015) website (<http://www.un.org/en/sc/2231/list.shtml>), and

perform a full screening of their customer base against the list. Institutions are advised to utilize a combinations of search criteria that include name, date of birth, nationality, passport/NIC number and addresses of designated persons. The list is available in PDF, XML and HTML formats, therefore the Institutions can develop computer applications to process the contents in those lists, in order to be fed into their screening databases. As there could be subtle differences between the list contents and customer data in Institutions' databases, a multiple search techniques including phonetic search are recommended for an effective search.

### **Other Measures**

- (17) Institutions should report to the Competent Authority and the FIU information on any assets frozen or actions taken in compliance with the prohibition requirements of the relevant Regulations, including attempted transactions, after freezing of such assets.
- (18) When the Competent Authority issues an authorization to use the frozen funds for exemption conditions, Institutions should have mechanisms to release such frozen funds without delay. Where the funds or other assets are owned or held by a designated non-financial institution, institutions should undertake a number of additional measures and safeguards to ensure that only permitted payments are made.
- (19) For transactions involving non-account holders / walk-in customers and third-party customers (such as cheque encashment, pay orders and currency exchanges), Institutions should perform screening before conducting the transaction. For that, adequate mechanisms should be set up to obtain information from such customers. If the Institution identifies a possible match due to such screening, then it should collect funds from the payer and then freeze the transaction/funds.