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Circular to all Banks and Other Financial Institutions

GUIDELINES ON TARGETED FINANCIAL SANCTIONS (TFS) RELATED TO PROLIFERATION FINANCING

The Central Bank of Nigeria (Anti-Money Laundering, Combating the Financing of Terrorism and Countering Proliferation Financing of Weapons of Mass Destruction in Financial Institutions) Regulations, 2022 requires Financial Institutions to undertake Targeted Financial Sanctions (TFS) in relation to terrorism financing and proliferation financing as provided under the Terrorism Prevention and Prohibition Act (TPPA), 2022.

In furtherance of the required measures, the CBN has developed a **GUIDELINES ON TARGETED FINANCIAL SANCTIONS RELATED TO PROLIFERATION FINANCING** to assist the financial institutions in implementation.

Consequently, the Guidelines is hereby released for immediate compliance by all Financial Institutions in Nigeria.

All banks and other financial institutions are required to render quarterly returns on actions taken relating to TFS to the Director, Financial Policy and Regulation Department within 10 days after the end of each quarter.

A handwritten signature in black ink, appearing to read 'Harry J. Audu', with a long horizontal line extending to the right.

HARRY J. AUDU

For: DIRECTOR, FINANCIAL POLICY AND REGULATION DEPARTMENT

CENTRAL BANK OF NIGERIA



**GUIDELINES ON TARGETED FINANCIAL SANCTIONS RELATING TO
PROLIFERATION FINANCING**

**FINANCIAL POLICY AND REGULATION DEPARTMENT
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1.0	FPRD	Initial publication	2022

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ACRONYMS

AML	Anti-Money Laundering
AML/CFT/CPF	Anti-Money Laundering / Combating the Financing of Terrorism/ Countering Proliferation Financing of Weapons of Mass Destruction
BOFIA	Banks and Other Financial Institutions Act
CBN	Central Bank of Nigeria
CDD	Customer Due Diligence
CPF	Countering Proliferation Financing
DPRK	Democratic People's Republic of Korea
FATF	Financial Action Task Force
FIs	Financial Institutions
ML/TF/PF	Money Laundering/Terrorist Financing/ Proliferation Financing
MLPPA	Money Laundering Prohibition & Prevention Act
NFIU	Nigerian Financial Intelligence Unit
NSC	Nigeria Sanctions Committee
PF	Proliferation Financing
RBA	Risk Based Approach
STR	Suspicious Transaction Report
TPPA	Terrorism Prevention and Prohibition Act
TFS	Targeted Financial Sanctions
UN	United Nations
UNSCR	United Nations Security Council Resolutions
WMD	Weapons of Mass Destruction

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1.0 INTRODUCTION

The United Nations Security Council Resolutions (UNSCRs) require all states, including Nigeria, to take and enforce effective measures to prevent the financing of proliferation of nuclear, chemical or biological weapons of mass destruction (WMD) and their means of delivery. The United Nations (UN) member states are required to enact laws prohibiting non-state actors (including terrorists) from manufacturing, acquiring, possessing, developing, transporting, transferring, or using WMD and controlling the provision of funds and financing for export and trans-shipment of WMD and related materials.

In conformity with the UNSCRs and FATF Recommendations, Nigeria has enacted the Terrorism (Prevention and Prohibition) Act (TPPA), 2022 and issued the Regulations for the Implementation of Targeted Financial Sanctions on Proliferation Financing, 2022. Furthermore, the CBN issued the Central Bank of Nigeria (Anti-Money Laundering, Combating the Financing of Terrorism and Countering Proliferation Financing of Weapons of Mass Destruction in Financial Institutions) Regulations, 2022 (CBN AML/CFT/CPF Regulations, 2022).

Pursuant to the provisions of the TPPA, 2022 and the Banks and Other Financial Institutions Act (BOFIA), 2020, the CBN in its determination to ensure implementation of TFS related to PF by financial institutions (FIs) under its regulatory purview, hereby issues this Guidelines.

This Guidelines shall apply to all FIs under the regulatory purview of the CBN and may be revised as necessary.

2.0 OBJECTIVES

The objectives of this Guidelines are to:

- i. Assist FIs in complying with the requirements of extant Laws and Regulations relating to Proliferation Financing (PF);
- ii. Provide directions to FIs on implementing Targeted Financial Sanction (TFS) to prevent and suppress proliferation financing (PF) in accordance with the relevant UNSCRs; and
- iii. Enable the CBN monitor compliance with TFS measures related to PF by FIs.

3.0 OVERVIEW OF PROLIFERATION FINANCING

3.1 Proliferation of WMD

This involves manufacturing, acquiring, possessing, stockpiling, storing, developing, transporting, selling, supplying, transferring, importing, exporting, shipping/trans-shipment, providing technical training, advice, service, brokering, or assistance related to or using any of the following:

- i. nuclear weapons;
- ii. chemical weapons;
- iii. biological weapons; or
- iv. materials related to nuclear, chemical or biological weapons that are proscribed by extant Laws and Regulations.

3.2 Proliferation Financing (PF)

PF involves the act of raising funds, moving, or making available funds, other assets or other economic resources, or financing, in whole or in part, to persons or entities for purposes of Proliferation of Weapons of Mass Destruction (WMD), including the proliferation of their means of delivery or related materials (including both dual-use technologies and dual-use goods used for non-legitimate purposes).

3.3 Stages of PF

Stage 1 – Funds Raising: at this stage, the proliferator raises funds for the programme through its domestic budget, perhaps supplemented with funds raised by networks overseas or by criminal activity.

Stage 2 – Disguising the funds: In this phase, the proliferator transfers these funds into the financial system. Proliferators may also rely on extensive networks of businesses (including shell/front companies) and middlemen to obscure any connection on paper to sanctioned countries.

Stage 3 – Procurement of materials and technology: At this stage, the proliferator uses these funds in the financial system to pay for goods, materials, technology, and logistics needed for its WMD programme. Throughout this third stage, financial institutions will be involved in processing the related transactions.

3.4 Targeted Financial Sanction

TFS is the act of asset freezing, blocking and rejection of transactions by persons to prevent, suppress, and disrupt the proliferation of WMD and its financing in line with sanctions imposed by the United Nations Security Council (UNSC) through its resolutions.

TFS relating to PF are applicable to persons and/or entities designated by the UN Security Council or the relevant Committees set up by the Security Council. The designation/listing criteria are:

- i. Any individual, persons or entities engaging in or providing support for, including through illicit means, proliferation sensitive activities and programmes;
- ii. Any entity acting on behalf of or at the direction of designated individual, persons or entities;
- iii. Any individual or entity owned or controlled by designated persons or entities; and
- iv. persons or entities assisting designated persons or entities in evading sanctions, or violating resolution provisions.

4.0 OBLIGATION OF FIs TO IMPLEMENT TFS ON PROLIFERATION FINANCING

FIs shall undertake TFS measures in relation to PF as provided for under the TPPA and extant Regulations.

4.1 Alert System

All FIs shall subscribe to the alert system for receiving automated email notifications of the sanction lists through the following links:

<https://www.un.org/securitycouncil/content/un-sc-consolidated-list>

<https://www.nigsac.gov.ng>

4.2 Institutional PF Risk Assessment

- (1) FIs are required to identify, assess, monitor and mitigate PF risks. FIs should document their understanding and analysis of PF risks in their risk assessment Framework taking cognizance of their size and complexity. The risk assessment

should at a minimum include country/geographic risks; customer/vendor risks and product and service risks.

- (2) Where there are higher risks, FIs should take commensurate measures to manage and mitigate the risks, including applying enhanced screening measures. Correspondingly, where the risks are lower, they should ensure that the screening measures are commensurate with the lower level of risk. **FIs shall ensure full implementation of TFS relating to PF in any risk scenario.**

4.3 Screening

- (1) FIs are required to carry out regular and ongoing screening against updated Sanctions Lists issued by the UN and the Nigeria Sanctions Committee (NSC) prior to conducting any transaction or undertaking any financial Services to ascertain whether the name of such a person or entity is on the Lists. Specifically, screening should be conducted during the following:
 - a) Onboarding a new customer;
 - b) Facilitating an occasional transaction;
 - c) Establishing any relationship with any person or entity;
 - d) Upon updates on the Nigeria Sanctions List, UN Consolidated List: and
 - e) Upon review of Know-Your-Customer (KYC) or changes to a customer's information.
- (2) Screening must be conducted immediately and without delay to ensure compliance with the requirement for implementing freezing measures immediately or within 24 hours. Furthermore, FIs are required to screen their entire customer database daily and whenever an update has been made to the UN Consolidated List or Nigerian List, to prevent dissipation of funds of the designated persons or entities.
- (3) FIs must establish group-wide screening and transaction monitoring systems (including those operating in free trade zones). Screening should be undertaken for existing customers, potential customers, beneficial owners, and transactions to identify possible matches.

(a) Confirmed Match

A confirmed match is when an individual, entity, or group matches all the key identifiers published on the Sanctions Lists. The range of information that constitute identifiers of designated individuals, entities, or groups are as follows:

(i) For natural person:

- ✓ Name
- ✓ Aliases/also known as/formerly known as
- ✓ Date of birth
- ✓ Nationality
- ✓ ID or passport information
- ✓ Last known address

(ii) For legal persons:

- ✓ Name(s)
- ✓ Aliases also known as/formerly known as
- ✓ Certificate of Registration (RC No.)
- ✓ Registered Address
- ✓ Address of branches
- ✓ Other information

Where the individual, entity, or group matches all the key identifiers published on the Sanctions Lists, the result is considered a 'confirmed match'. Where the confirmed match is an existing customer, FIs are required to immediately, identify and freeze, without delay and without prior notice, all funds and assets owned or controlled by the designated person or entity in their possession.

Where the confirmed match is a potential customer, the FIs are required to reject the transaction immediately and report to the Nigeria Sanctions Committee (NSC). However, before rejecting the transaction, FIs are required to search their records to confirm whether the potential customer is a Beneficial Ownership (BO). Where the search is positive, FIs are required to immediately identify and freeze, without delay and without prior notice, all funds and assets owned or controlled by the BO in their possession.

In cases of confirmed matches (for either existing or potential customer), FIs are required to report to the NSC, within 24 hours, any assets frozen or actions taken in compliance with the prohibition requirements of the relevant UNSCRs including attempted transactions.

In addition, FIs are required to immediately file STRs to the NFIU, including all cases of name matching in financial transactions prior to, or after publication or update of the lists for further analysis.

(b) False Positive

A false positive is a potential match to listed individuals, entities, or groups, either due to the common nature of the name or due to ambiguous identifying data, which on evaluation proves not to be a confirmed match.

FIs are required to obtain additional information and identification documents from the customer or a third party to ascertain whether a customer is a designated person or entity in the case of similar names.

FIs are required to forward queries to the NSC to ascertain whether the customer is a designated person or entity in the case of similar names. Any query submitted to the NSC is to be accompanied by additional information, copies of identification documents and the FIs assessments.

Where FIs are satisfied that the customer (potential or BO) is not a designated individual, entity, or group, that there is a 'False Positive Result', FIs do not need to implement any TFS measures. FIs may allow the transaction or business to continue its normal course, and maintain evidence of this process in their records.

Where FIs' customers feel that their accounts have been mistakenly frozen or transactions have been mistakenly rejected or blocked, the FIs may advise their **customers to contact** the NSC to verify the false positive match.

The contact details for the NSC in relation to TFS on PF is: info@nigsac.gov.ng

(c) Potential Match

A potential match is when there is a partial match between identifiers in the Sanctions Lists with any information in FIs databases, and the FIs are unable to conclude a false positive or a confirmed match.

Due to prevalence of some names, FIs may find various potential matches. However, it does not necessarily mean that the individual, entity, or group they are dealing with is subject to TFS. FIs are required to cross-check their customers' database with the identifiers published on the Sanctions Lists when identifying the potential match, by taking into consideration their knowledge of the customer (potential and BO) or transaction, through CDD and/or other sources of information.

Where FIs are unable to internally verify whether the 'potential match' is a false positive result or a confirmed match, the transaction should be suspended, and the case reported to NSC. The reported transaction should remain suspended, until a response is received on the status of the potential match.

4.3.1 Screening of Customers – Related and Third Parties

- (1) FIs are required to undertake further screening and analysis of designated persons or entities whose properties or accounts are jointly owned and/or indirectly controlled by the designated persons or entities.
- (2) FIs are required to conduct further Customer Due Diligence (CDD) on parties related to frozen accounts including checking on the control and conduct of the frozen accounts and other related or third parties accounts connected to designated persons or entities.
- (3) The requirements for CDD on legal persons and legal arrangements and beneficial owners in the respective provisions under the CBN AML/CFT/CPF Regulations, 2022 and extant laws should be applied in determining whether the funds are directly or indirectly owned or controlled.
- (4) FIs are required to screen the names of beneficiaries of wire transfers and assess whether such transaction should be blocked or rejected.

- (5) FIs are also required to search, examine and analyse past financial activities of designated persons or entities and related or third parties.

4.4 Application of targeted financial sanctions

FIs are required to immediately implement TFS by identifying and freezing, without delay and without prior notice, all funds and assets owned or controlled by the designated person or entity in their possession.

FIs may advise the customer or related party of the frozen accounts, blocked or rejected transactions to submit any query or appeal for variation to the frozen accounts, delisting or any other matters to the NSC for approval.

The following are the TFS measures that must be implemented if a match with the Sanctions Lists is identified.

- i. **Freeze all funds or other assets without delay:** freeze without delay (immediately or in any case within 24 hours) and without prior notice to the designated individual, entity, or group, all the funds or other assets:
 - a) Owned or controlled, wholly or jointly, directly, or indirectly, by an individual, entity, or group designated in the Sanctions Lists;
 - b) Derived or generated from funds or other assets under item (a); or
 - c) Of Any individual or entity acting on behalf of or at the direction of any designated individual, entity, or group.
- ii. **Prohibition from making funds or other assets or services available:** FIs are prohibited from providing funds or other assets or rendering financial services or other related services, whether in whole or in part, directly or indirectly, for the benefit of any designated individual, entity, or group on the Sanctions Lists.

4.5 Categories of Funds Subject to Freezing Obligations

All types of funds or other assets are subject to freezing measures. The funds or other assets can be categorized as follows:

- i. Cash, cheques, claims on money, drafts, money orders, bearer instruments, internet-based and other electronic or digital payment instruments, including virtual currencies.
- ii. Deposits with FIs or other entities and balances on accounts, including but not limited to: fixed or term deposit accounts, balances on share trading accounts with banks, or other investment trading accounts.
- iii. Debts and debt obligations, including trade debts.
- iv. Other accounts receivable, notes receivable, and other claims of money on others.
- v. Other financial interest in a sole trader or partnership.
- vi. Publicly and privately traded securities and debt instruments, including stocks and shares, certificates representing securities, bonds, notes, warrants, debentures, and derivatives contracts.
- vii. Interest, dividends, or other income on or value accruing from or generated by assets.
- viii. Credit, right of set-off, guarantees, performance bonds or other financial commitments.
- ix. Letters of credit, bills of lading, bills of sale; notes receivable and other documents evidencing an interest in funds or financial resources and any other instruments of export-financing.
- x. Insurance and reinsurance.
- xi. Any other funds so designated by the NSC

4.6 Target for Freezing Measures

The freezing measures, including the prohibition of making funds available, apply to:

- a) Any individual, group, or entity listed in the Consolidated Lists.
- b) Any entity directly or indirectly owned or controlled by an individual or entity listed under (a).
- c) Any individual or entity acting on behalf of or at the direction of any individual or Entity listed under (a) and (b).

4.7 Receipt of additional funds into frozen accounts

Where a frozen account is entitled to:

- i. interests or other earnings; or
- ii. payments due under contracts, agreements or obligations that were concluded or arose before the account became a frozen account shall be received and credited into the frozen account.

FIs are required to file a report of the receipt of such additional funds with the NFIU. Where there is no existing account for the receipt of additional funds, the FIs are required to create an Escrow account and inform the Attorney-General for appropriate action to be taken in this respect.

4.8 Condition for Approval for usage of frozen funds by designated persons and entities under the UN Consolidated List

An application to utilize monies from frozen funds shall be made to the NSC. FIs should not make any payment to a designated person or entity except with the approval of the NSC.

Upon receipt of written approval from the NSC to utilize frozen funds, FIs that are in custody of frozen funds are required to implement the approval and furnish a report of the action taken to the NSC.

4.9 Reporting Requirements

(6) Filing suspicious transaction with NFIU

Where a FI is required to file an STR to the NFIU, the report should state:

- a) the information or other matter on which knowledge or suspicion is based;
- b) any information it holds about the person by which the person can be identified; and
- c) the nature and amount or quantity of funds held by FIs for the person at any time up to 5 years prior to the designation being made.

(7) Attempted transaction

FIs are to report, as suspicious transaction, to NFIU any attempted transaction undertaken by designated persons or entities or related parties in the case of joint accounts. This may include any transaction that is subsequently rejected or blocked,

incomplete in the event of failure to satisfactorily complete CDD and attempt for redemption of assets where repayment has been made.

(8) Reporting to CBN

FIs are required to render quarterly reports to the CBN on the implementation status of TFS undertaken in a format advised by the CBN.

4.10 Additional Obligations for FIs

In addition to alerts of updates received from the NSC upon subscription by FIs, the CBN may also issue notifications of TFS to FIs.

FIs shall on receipt of the notification from the CBN:

- i. immediately take steps to identify any funds, assets or any economic resources in their possession belonging to designated persons or entities and carry out freezing obligations in respect of PF as contained in the TPPA, 2022, and report to the NSC.
- ii. immediately file STR to the NFIU for further analysis on the financial activities of such an individual or entity; and
- iii. report, as STR to the NFIU, all cases of name matching in financial transactions prior to or after receipt of the Sanctions List.

For the purposes of this section, “immediately” means not later than 24 hours.

In addition to the above, FIs are required to fulfill the following obligations:

- i. Cooperate with the NSC in verifying the accuracy of the submitted information.
- ii. Implement the freezing, cancellation, or lifting decision, when appropriate, without delay.
- iii. Cooperate with competent authorities to provide information on TFS timeously when required.
- iv. Set and implement policies, procedures, and internal controls to:
 - a) Ensure conduct of customer due diligence
 - b) Ensure trade finance is integrated into compliance procedure (including the identification of final destination of goods and services)

- c) Ensure compliance with the obligations imposed by the TPPA and TFS Regulations.
- d) Conduct ongoing TFS training and awareness sessions to Board, senior management and employees.
- e) Prohibit staff from, directly or indirectly, informing the customer or any third party that freezing actions or any other measures will be implemented.
- f) Ensure appropriate resources are allocated to meet the obligations of implementing TFS.

It shall be the responsibility of all FIs, to monitor their accounts and transactions against the UN Consolidated List and Nigeria List.

5.0 RECORD KEEPING

FIs are required to keep records of all actions taken in respect of TFS, which should be kept in an easily accessible and retrievable manner.

6.0 SANCTIONS FOR NON-COMPLIANCE WITH TFS OBLIGATIONS

The sanctions contained in the extant CBN AML, CFT and CPF (Administrative Sanctions) Regulations, Banks and Other Financial Institutions Act (BOFIA), MLPPA, TPPA, or any other relevant extant Law or Regulations shall be imposed by the CBN on any Financial Institution under its regulatory purview that fails to comply with the provision of the reporting requirements.

Annexure: Red Flag Indicators

To assist FIs with awareness of potential PF, a non-exhaustive list of red flag indicators is provided in **Annex 1**.

All enquires or requests relating to this Guidelines should be directed to:

**Director, Financial Policy & Regulation Department
Central Bank of Nigeria**

ANNEX 1

Red Flags Indicators

Customer

- Customer has ties to a foreign country of proliferation concern, or a neighboring or sympathetic country.
- The customer is involved in the supply, sale, delivery or purchase of dual-use, proliferation-sensitive or military goods, particularly to higher risk jurisdictions.
- The customer/beneficial owner, or its address or telephone number, is the same or similar to one of the parties found on publicly available lists, including sanctions lists.
- The customer is a military or intelligence body connected with a higher risk jurisdiction of proliferation concern.
- Customer activity does not match the business profile.
- Customer is vague, particularly about end user and end use, provides incomplete information or is resistant to providing additional information when sought.
- Complicated structures to conceal involvement – use of layered letters of credit, front companies, intermediaries and brokers.

Transactions/Orders

- The transaction involves an individual or entity in a foreign country of proliferation concern.
- Transaction demonstrates a link between representatives of companies exchanging goods e.g. same owners or management, in order to evade scrutiny of the goods exchanged.
- Transaction involves the shipment of goods inconsistent with normal geographic trade patterns i.e. where the country involved does not normally export or import the types of goods concerned.

Jurisdiction

- Countries with weak financial safeguards and which are actively engaged with a sanctioned country.
- A presence of an industry that produces dual-use goods, proliferation-sensitive items or military goods.
- Deliberate insertion of extra links into the supply chain e.g. diverting shipments through a third country.

Others

- Project financing and complex loans, where there is a presence of other objective factors such as an identified end-user.
- Inconsistencies in information contained in trade documents and financial flows, e.g. names, addresses, final destination.
- Wire instructions or payment from or due to entities not identified on the original letter of credit or other documentation.
- Pattern of wire transfer activity that shows unusual patterns or has no apparent purpose

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