



ISLE OF MAN
FINANCIAL SERVICES AUTHORITY

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AUGUST 2024

PROLIFERATION FINANCING QUESTIONNAIRE REPORT

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Content

- 1 Glossary of Terms.....p3**
- 2 Background.....p4**
 - 2.1 Executive Summary.....p4
 - 2.2 Questionnaire Scope.....p6
 - 2.3 Good and Poor Practice / Areas for Improvement.....p6
 - 2.4 Next Steps.....p7
- 3 PF Questionnaire Results, Key Findings and Observations.....p7**



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1 Glossary of Terms

<u>TERM</u>	<u>MEANING IN THIS REPORT</u>
AML/CFT	Anti-Money Laundering/Countering the Financing of Terrorism
Authority	The Isle of Man Financial Services Authority
BRA	Business Risk Assessment
Code	Anti-Money Laundering/Countering the Financing of Terrorism Code 2019
CRA	Customer Risk Assessment
DNFBP	Designated Non-Financial Businesses and Professions
Customs	Isle of Man Customs and Immigration Division
FATF	Financial Action Task Force
FIU	Isle of Man Financial Intelligence Unit
GSC	Isle of Man Gambling Supervision Commission
Handbook	Anti-Money Laundering and Countering the Financing of Terrorism Handbook
ML/FT	Money Laundering/Financing of Terrorism
NRA	National Risk Assessment
PF	Proliferation Financing
Relevant Person	Means a person carrying on business in the regulated sector included in paragraphs 2(6)(a) to (t) of Schedule 4 to the Proceeds of Crime Act 2008
Registered Person	Means a person registered under section 9 of the Designated Businesses (Registration and Oversight) Act 2015
Regulated	Refers to firms regulated under the Financial Services Act 2008, the Insurance Act 2008, and the Retirement Benefits Schemes Act 2000
RUSI	Royal United Services Institute
TF	Terrorist Financing
WMD	Weapons of Mass Destruction

2 Background

2.1 Executive Summary

The Authority is currently undertaking a thematic project involving all registered and regulated businesses on the Island. The project is aimed at supporting the conduct of a National PF Risk Assessment for the Isle of Man in collaboration with other competent authorities, including the AML/CFT Policy Office of the Cabinet Office, Customs, FIU and GSC.

The Authority initially gathered data and information from registered and regulated businesses by way of a PF questionnaire sent out via STRIX in January 2024¹. The objective of the PF questionnaire was to determine the relevant persons' understanding of PF and the training provided to the relevant person's staff.

As defined within the AML/CFT Code 2019, the financing of proliferation is included within the definition of the financing of terrorism and is to

be construed in accordance with the definitions of "financing", "terrorism" and "proliferation" in section 3 of the Terrorism and Other Crime (Financial Restrictions) Act 2014. The Handbook further elaborates that where the term "financing of terrorism" or its abbreviation "FT" are used within the Code, they also include "the financing of proliferation" ("FP"), and accordingly where "countering the financing of terrorism" or "CFT" are used within the Code, they also include "countering the financing of proliferation" ("CFP").

Additionally, section 2.1 of the Handbook states that the Code's requirements apply in respect of countering the financing of proliferation as well as in respect of countering money laundering and the financing of terrorism, this also applies in the Handbook. For the purposes of this report, we will be using "PF" in reference to proliferation financing.

The FATF defines PF as –

*"the act of providing funds or financial services which are used, in whole or in part, for the manufacture, acquisition, possession, development, export, trans-shipment, brokering, transport, transfer, stock-piling or use of nuclear, chemical or biological weapons and their means of delivery and related materials (including both technologies and dual-use goods used for non-legitimate purposes), in contravention of national laws or, where applicable, international obligations."*²



Countering the financing of proliferation

The objective of the questionnaire was to determine understanding of PF and the training provided to staff

¹ The GSC also issued the same questionnaire to its licence holders to obtain an understanding of its supervised firms' level of awareness on matters relating to PF.

² Financial Action Task Force, Combating Proliferation Financing: A Status Report on Policy Development and Consultation, February 2010 <https://www.fatf-gafi.org/content/dam/fatf-gafi/reports/Status-report-proliferation-financing.pdf>

PF can be –

- terrorism financing - the provision of financial support to terrorist organisations that would want to acquire and/or use weapons of mass destruction;
- financing from a state, or a state-controlled or state-sponsored entity with the aim of providing a state with a WMD, or to enhance, improve or replace an existing one; or
- trading of dual-use goods such as triggered spark gaps and thermostats for non-legitimate purposes.

In complex structures PF may not necessarily be directly connected to the physical flow of goods. PF can include, although not be limited to, the following -

- financial transfers;
- provision of loans;
- ship mortgages and registration fees;
- insurance and re-insurance services;
- credit lines for shipment of illicit sensitive goods;
- trust and corporate services;
- acting as an agent for, to, or on behalf of someone else; and
- facilitation of any of the aforementioned activities.

Definition of PF from RUSI's Model Law on Proliferation Finance:

(1) Proliferation financing is when a person:

- (a) makes available an asset; or
- (b) provides a financial service; or
- (c) conducts a financial transaction; and

the person [knows that, or is reckless as to whether,] the asset, financial service or financial transaction is intended to, in whole or in part, facilitate an activity specified in Subsection 2 regardless of whether the specified activity occurs or is attempted.

(2) The specified activities are:

(a) the manufacture, production, possession, acquisition, stockpiling, storage, development, transportation, sale, supply, transfer, export, transshipment or use of:

- (i) nuclear weapons; or
- (ii) chemical weapons; or
- (iii) biological weapons; or

(iv) materials related to nuclear weapons, chemical weapons or biological weapons that are prescribed by Regulations; or

(b) the provision of technical training, advice, service, brokering or assistance related to any of the activities in Paragraph (a).

Nuclear, chemical, and biological weapons are all defined terms in RUSI's model law and include their means of delivery. Financial transactions are defined in the model law and include the physical transfer of an asset. Note that when the definition is applied in the context of domestic legislation, it should exclude lawful proliferation activity, for example, the activities of current nuclear states as defined under the Treaty on the Non-Proliferation of Nuclear Weapons. Note also that the mental elements of knowledge and recklessness are included in square brackets in the event that jurisdictions wish to convert the definition into a PF offence provision.³

The financial services industry and designated business sector have an integral role in countering PF, as the services provided on the Island may be exploited for PF activities. Businesses must be aware and vigilant that their services may be abused by proliferators and may be used to provide funding for proliferation activity. It is important for businesses to know their customers, understand their customers' activities along with the

connected parties linked to them.

The data and information gathered from industry in respect of PF awareness and staff training are presented in this report and will form part of the National PF Risk Assessment for the Isle of Man.

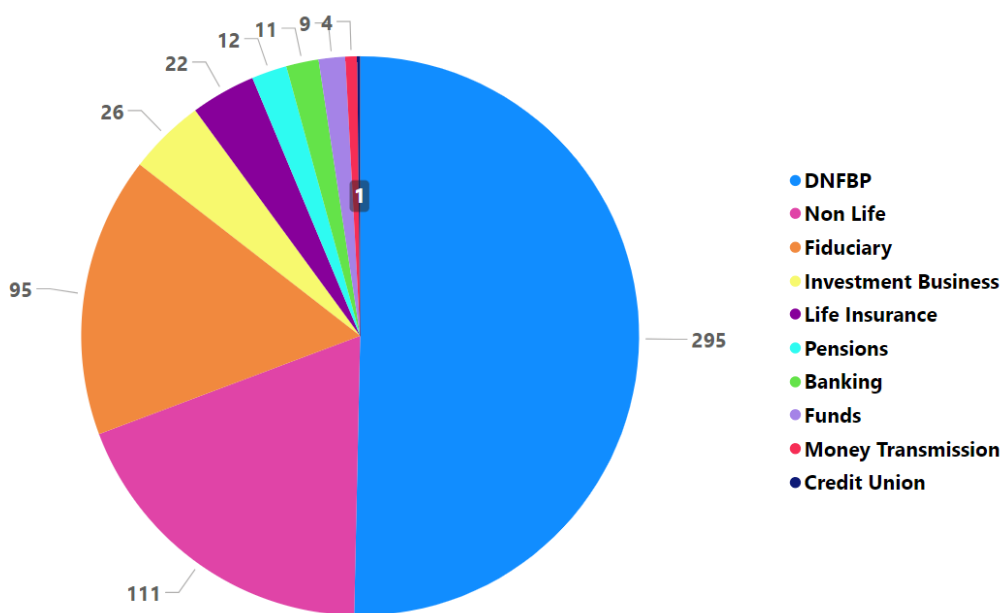
The findings of the National PF Risk Assessment will be communicated to industry once finalised.

³ Royal United Services Institute for Defence and Security Studies, Guide to Conducting a National Proliferation Financing Risk Assessment, Aagha Joshi, Emil Dall and Darya Dolzikova, May 2019 <https://static.rusi.org/20190513_guide_to_conducting_a_national_proliferation_financing_risk_assessment_web.pdf>

2.2 Questionnaire Scope

The Authority's PF questionnaire was issued to all of the Authority's licence holders and registered entities, covering a wide range of sectors and business sizes.

A total of 586 firms, which equates to a response rate of 98%, submitted a response to the Authority's PF questionnaire, and the pie chart (right) illustrates the sectoral breakdown of these firms. The analysis of the questionnaire findings can be found in Section 3 of this report.



2.3 Good and Poor Practice / Areas for Improvement

Throughout the firm's responses to the questions which made up the PF questionnaire, the Authority noted many examples of good practice conducted by firms as part of their AML/CFT compliance regime.

Some examples of good practice in ensuring that firms remain up to date with developments regarding PF include:

- Subscribing to RSS feeds from Customs and the Authority's website.
- Regular horizon scanning for any new guidance or typologies regarding PF published by the Authority, Isle of Man Government, Customs, Isle of Man Department of Home Affairs, the

FIU, relevant professional bodies and wider global organisations including the FATF and RUSI.

- The MLRO and other relevant staff attending industry training sessions provided by the Authority and IOM Government.
- Use of third-party providers for screening purposes, including PF, who have a global reach and provide relevant updates to the business such as World-Check and KYC 360.
- Engaging in relevant continuous learning and training to develop knowledge and understanding of financial crime, including PF, current or emerging trends, the associated PF risks and ways to

mitigate these risks.

- Utilising professional networks and forums to engage in discussions, share insights and learn from the experiences of other industry professionals.

Some examples of good practice on how businesses communicate developments regarding PF to staff include:

- Circulation of relevant news, developments and updates regarding financial crime to all staff on a regular basis (e.g. at meetings, via email, via a staff intranet page).
- Developments are communicated directly to staff in a timely manner when the compliance function or senior management become aware of any relevant changes or following attendance at relevant courses or seminars.
- Covering PF as a separate topic within a firm's regular staff AML/CFT training and within the firm's AML/CFT Manual.

There were also a few examples of poor practice in relation to the above questions. These included:

- Not keeping up to date with developments regarding PF.
- Not circulating information regarding PF to staff.
- Not explicitly referring to PF within a firm's staff training and the firm's AML/CFT Manual.

2.4 Next Steps

The Authority would like to thank firms for their participation in the PF questionnaire. This questionnaire is vital in enabling the Authority to understand the vulnerabilities of Isle of Man businesses to Proliferation Financing. It builds on the existing project being conducted by the AML/CFT Policy Office within the Cabinet Office to raise awareness of this particularly dangerous topic and to develop a PF risk assessment for the Island.

The findings from this survey will allow the Authority, in conjunction with other Government agencies, to determine what additional outreach and guidance is needed in this area to assist firms in enhancing their



understanding and meeting their obligations in this area.

As an international finance centre and business centre with a global

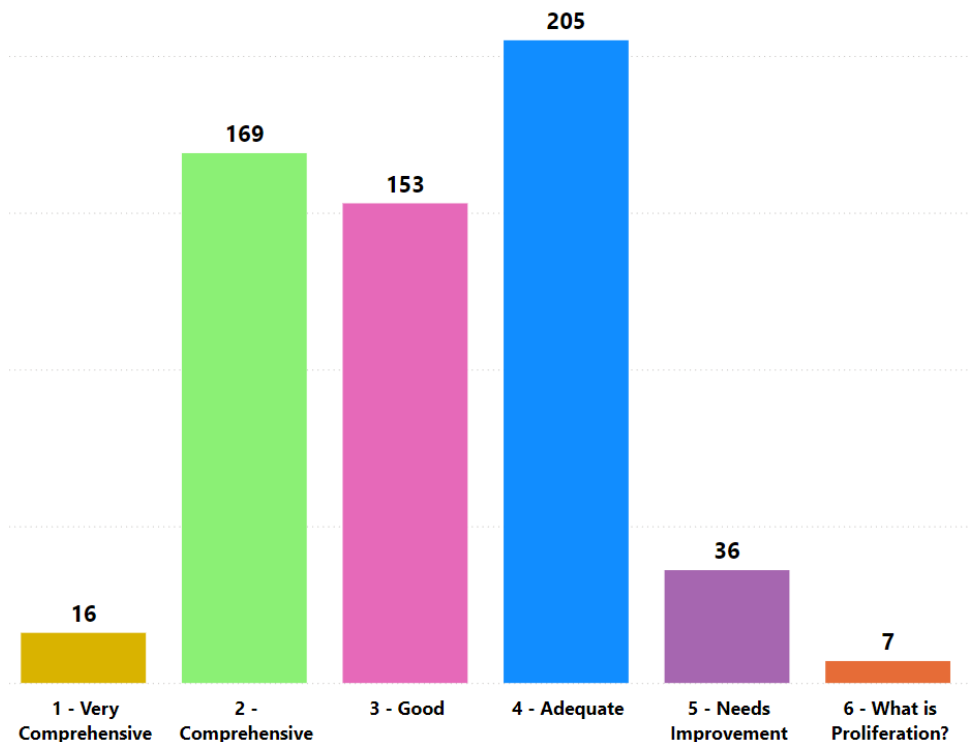
reach, the Island must remain alert and ready to respond to emerging threats in all areas of international financial crime.

3 PF Questionnaire Results, Key Findings and Observations

Question 1

What would you say the general awareness of proliferation and PF is within your organisation?

Of the 586 firms, 338 (57.7%) responded in the positive with “Very Comprehensive,” “Comprehensive” and “Good,” confirming they have satisfactory general awareness of proliferation and PF. On the other hand, 43 firms (7.3%) admitted that their PF awareness needs enhancement. The Authority would expect relevant persons to improve their general awareness on PF matters. The Authority aims to conduct more outreach and engagement with industry to raise awareness of PF. This has started with the publication of a [PF factsheet](#) on the Authority’s website which provides a summary of the basics of PF. The publication of the Island’s PF risk assessment will also aid understanding in this area.



Question 2

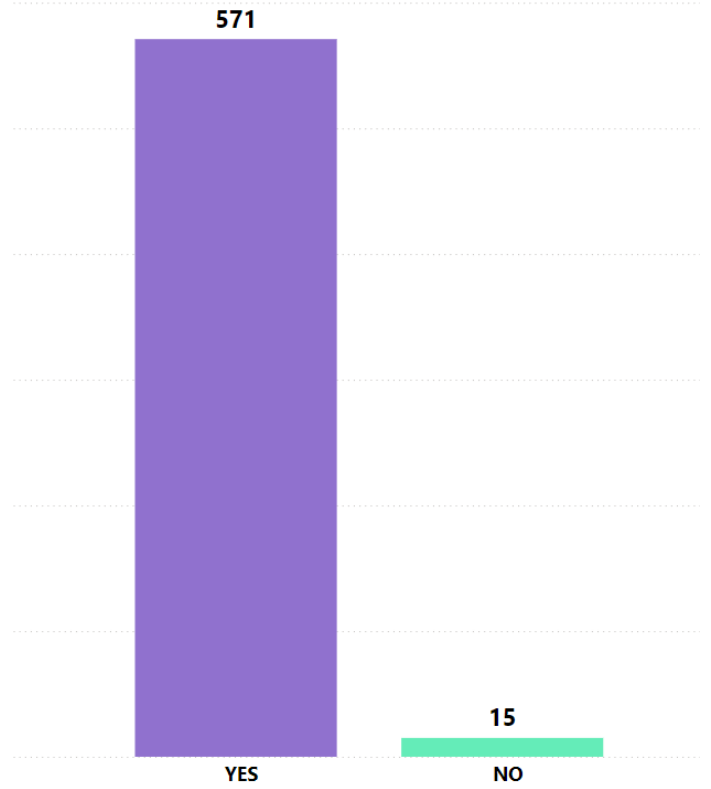
Do you know what is meant by the term 'dual use' goods?

Of the 586 firms, 571 firms (97.4%) responded with "Yes", stating their understanding of the meaning of the term 'dual use' goods. Only 15 firms (2.6%) are lacking awareness of the term's meaning.

'Dual use' goods are items, material and equipment, that have both a civilian and potential military or weapon of mass destruction use.⁴

An example of this is a triggered spark gap, a precision switch that send short, large burst of electricity, used by a machine called a lithotripter to break up kidney stones. The same item may be used to ignite a nuclear explosion.

A full list of dual use goods can be found in the [UK Strategic Export Control List](#).



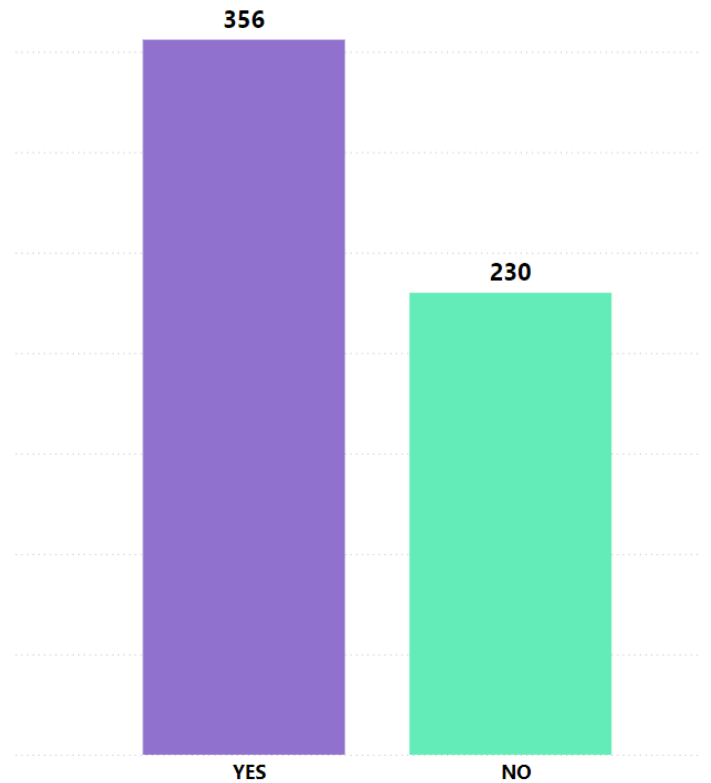
Question 3

Is PF included as part of (or alternatively) in general financial crime compliance communication and messaging from senior leadership?

In total, 356 of the 586 firms (60.8%) who took part in the questionnaire responded with "Yes", confirming PF is included as part of (or alternatively) in general financial crime communication and messaging from senior leadership.

230 firms (39.2%) responded with "No", stating that PF is not included as part of their general financial crime compliance communication and messaging from senior leadership.

All relevant persons should consider PF in general financial crime compliance discussions with senior management. It is vital that senior leadership is aware of PF risks and adequate escalation of PF issues should be in place for each firm.



All relevant persons should consider PF in general financial crime compliance discussions with senior management

⁴ Isle of Man Government, Proliferation Financing Risks Guidance, May 2024 https://www.gov.im/media/1383565/proliferation-financing-risks-guidance-may-2024_compressed.pdf

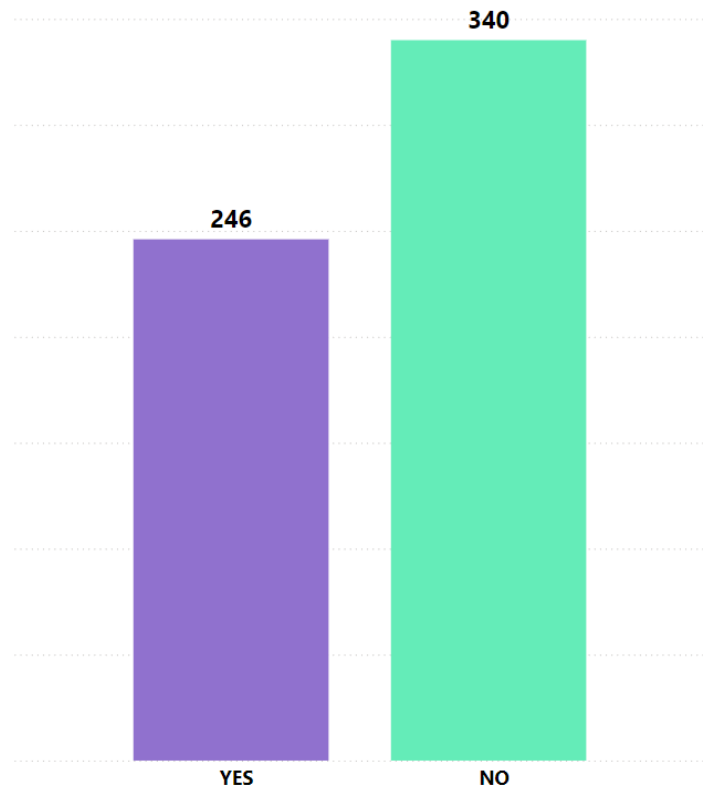
Question 4

Does your Business Risk Assessment documentation refer specifically to PF (as opposed to combining PF with Terrorist Financing and/or other sanctions measures)?

Of the 586 firms, 340 firms (58.0%) that took part in the PF questionnaire responded “No”, while 246 firms (42.0%) confirmed their BRA documentation refers specifically to PF, as opposed to combining PF with terrorist financing and/or other sanctions measures.

The Authority would like to highlight that all firms must refer to PF separately within their BRA. Introducing PF within the current BRA will evaluate the overall PF risk associated with the activities undertaken by the firm. The firm’s PF risk must be assessed in addition to terrorist financing or other sanctions measures, as PF presents and involves different elements of risks for consideration.

The Authority would like to emphasise that a separate PF BRA is not required for firms to maintain. Consideration of PF matters can be incorporated into the firm’s existing BRA.



Question 5

Does your AML/CFT Manual make specific reference to PF?

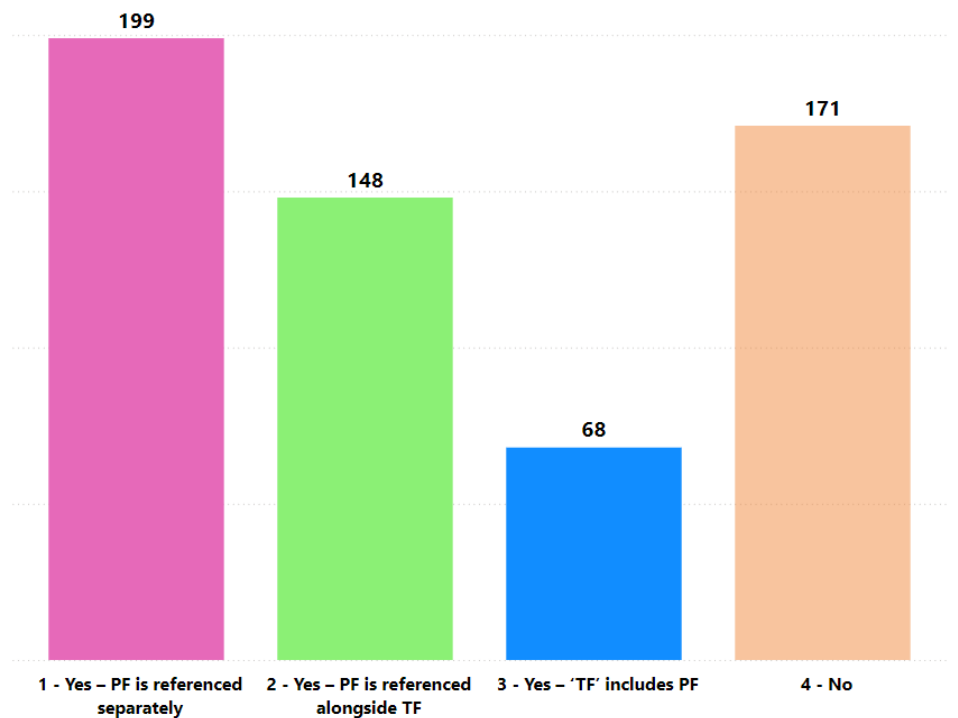
A total of 199 firms (34.0%) confirmed that their AML/CFT manual separately refers to PF, while 171 firms (29.2%) make no reference to PF in their AML/CFT manual.

The rest of the firms (216 firms / 37.6%) either reference PF alongside TF or includes PF in TF.

To enhance awareness of matters relating to PF, firms should refer to PF explicitly within their AML/CFT manual.

As global awareness of PF heightens, the Island, as an international financial centre should enhance our understanding and knowledge on threats and risks presented by PF.

Additionally, in line with section 2.1.2



of the Handbook, having appropriate procedures and controls in place is vital for the effective prevention

of ML/FT and the harm that crime, terrorism and the proliferation of WMD present for wider society.

Having appropriate procedures and controls in place is vital for the effective prevention of ML/FT

Question C1

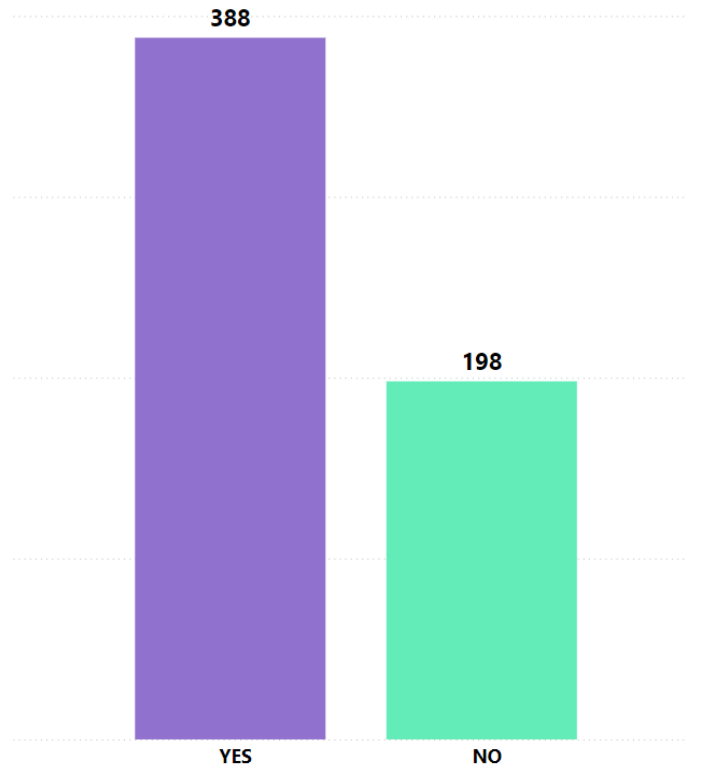
Do you provide training to your staff on proliferation and PF?

Of the 586 responses, 388 firms (66.21%) declared that proliferation and PF training is provided to their staff, while 198 (33.79%) did not include PF as part of staff training.

Paragraph 32(1) of the Code requires relevant persons to provide or arrange education and training, including refresher training, at least annually for all officers, any other persons involved in its senior management, and appropriate employees and workers.

Knowledge around proliferation and PF amongst staff is essential to understanding the stages of PF funding and recognising potential PF activities.

The delivery of PF training as part of the relevant person's training programme will be integral in mitigating PF risks posed to the firm. The lack of staff training may result in ineffective risk management mitigation and general lack of compliance with the Code.



Question C2

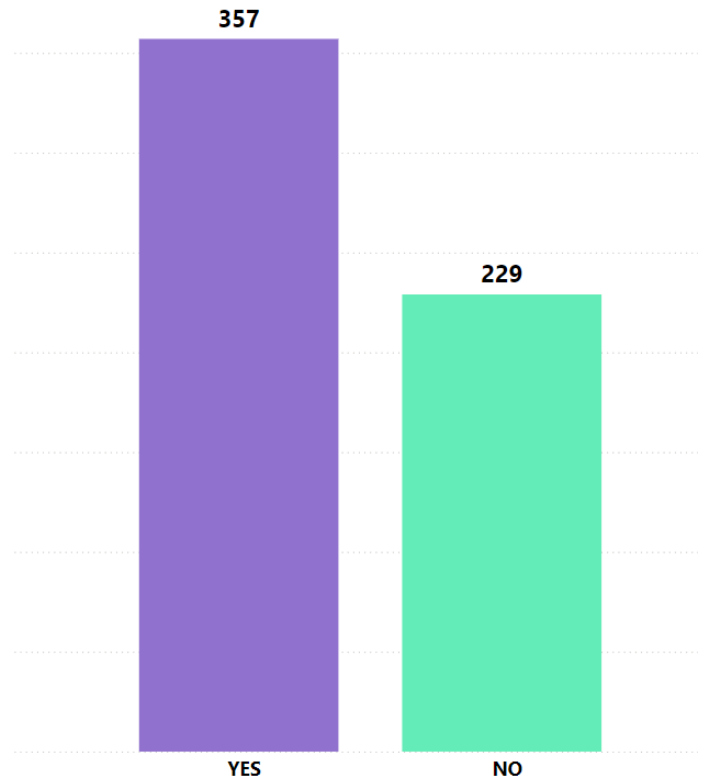
Do all staff receive PF training?

357 of 586 firms (60.9%), confirmed that all staff receive PF training, whilst 229 of 586 firms (39.1%) stated that they do not provide PF training to all staff.

As mentioned previously, paragraph 32(1) of the Code lists the people within a firm who must receive education and training on proliferation and PF. This includes officers, other persons involved in a relevant person's senior management and appropriate employees and workers.

Section 6.3 of the Handbook provides further guidance around this, stating that relevant persons should consider the risks posed by different roles to determine who are appropriate employees and workers for the purposes of paragraph 32(1)(c) of the Code.

It further states that relevant persons should also consider that a member of staff may require training as a result of being part of senior management, as per paragraph 32(1) (b) of the Code, regardless of their specific day to day role.



Question C3

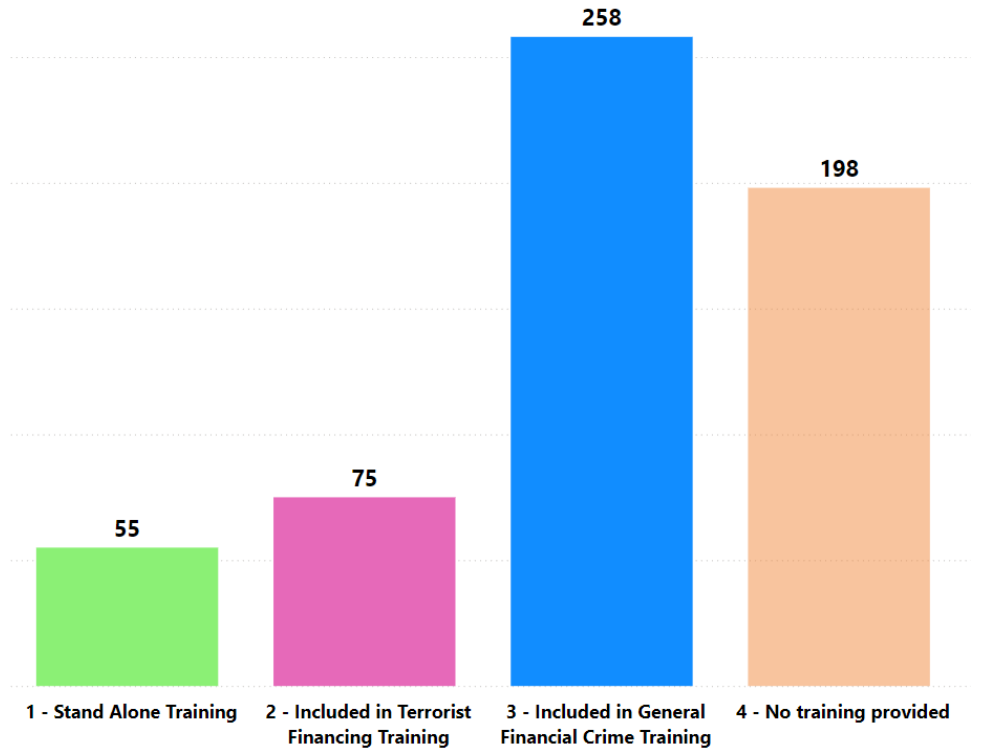
What kind of training is provided?

In total, 198 of 596 firms (33.8%) do not provide any PF training.

The Authority would like to highlight that all firms are obliged under paragraph 32 of the Code to provide regular training to all appropriate employees and workers. Proportionate resources should be allocated to enhance their employees' competency in identifying and mitigating emerging PF risks and threats relevant to the firm's business activities.

It is at the discretion of the relevant person to decide how PF training is included within their training program in a way most suitable for their business. However, it might be that a firm uses a combination of ways to provide PF training depending on the staff receiving the training and the risk-sensitive approach that should be applied to training.

For example, it may be more suitable



for at least a firm's MLRO and DMLRO (if appointed) to receive stand-alone training that is more in depth due to the expectation that these role

holders should receive more detailed training commensurate with the requirements, responsibilities, and AML/CFT risks of their roles.

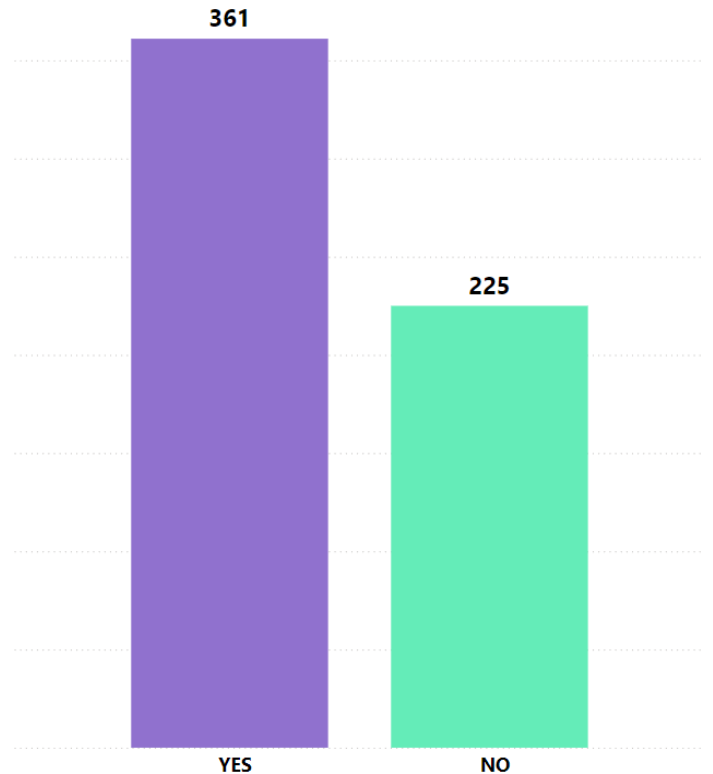
Question C6

Does the training cover sanctions?

361 of 586 (38.4%) firms' PF training covers financial sanctions related to PF.

Training related to PF should be integrated into the firm's staff training plan, to raise awareness on evolving PF threats and risks. It is vital for employees to learn the relevant sanctions regimes in place to combat proliferation and PF. As an International Finance Centre, the Island must remain alert to emerging threats in all areas of international financial crime.

Customs publish [Financial Sanctions Guidance in relation to proliferation financing](#), which the Authority recommends firms familiarise themselves with.



Staff training should raise awareness of evolving PF threats

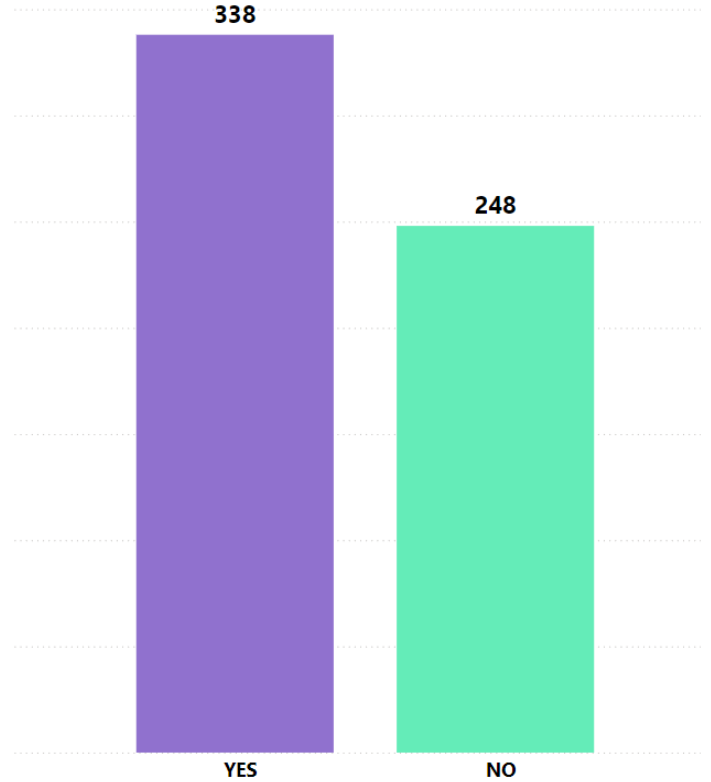
Question C7

Does the training cover potential risks for regulated and registered business arising from PF?

338 of 586 firms' (42.3%) PF training covers the potential risks for regulated businesses arising from PF. Certain factors may indicate a higher risk of proliferation or PF, including country or geographical risk, customer risk and products and services risk.

As per Section 6.3 of the Handbook, relevant persons should ensure that employees and staff have an appropriate level of knowledge regarding the relevant person's products and services, what their 'normal use' is and how they may be abused for the purposes of ML/FT. The PF risks that a relevant person is exposed to will vary depending on the nature of their business and therefore a clear understanding of the vulnerabilities of the business, and potential risk indicators is required. It is essential for PF training delivered to staff to be tailored to the relevant person's business in order to be most effective in assisting in the combating of ML/FT.

Customs have published [guidance](#) on the potential risks to businesses in the Isle of Man from proliferation and PF, which firms may find useful, and the Authority recommends that firms are familiar with its contents.



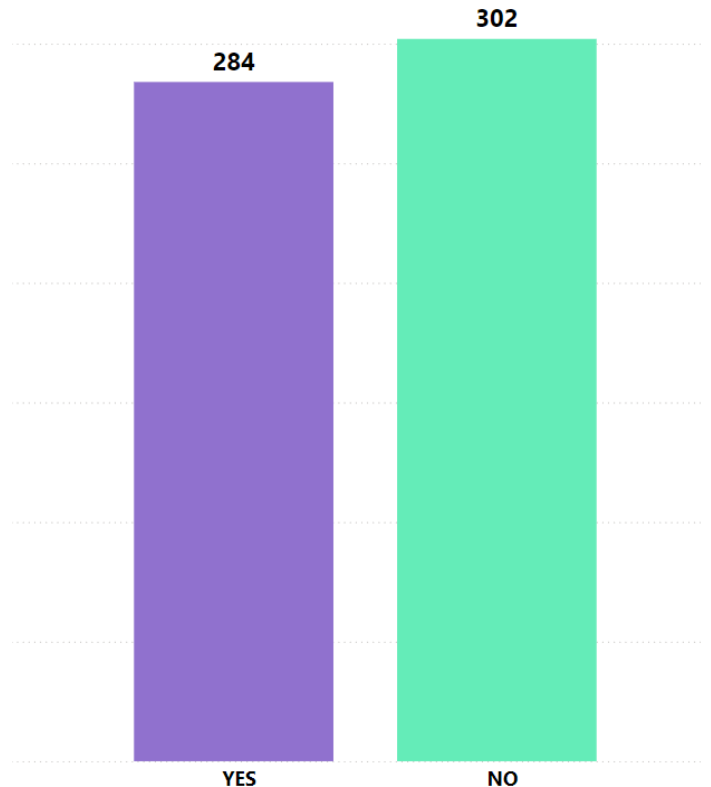
Question C8

Does the training cover mitigations for PF?

Of the 586 firms, 284 firms (48.5%) cover mitigations for PF within their training delivered to staff. Examples of measures that could be taken to mitigate a firm's PF risk include:

- Improved onboarding processes for customers (including beneficial owners).
- Enhanced customer due diligence procedures.
- Effective maintenance of customer data.
- Regular controls to ensure effectiveness of procedures for sanctions screening.
- Leveraging the existing compliance programmes (including internal controls) to identify potential sanctions evasion⁵.

The [guidance](#) issued by Customs on potential risks to businesses in the Island from proliferation and PF also includes examples of ways to mitigate these risks. Firms may find this useful in understanding the level of mitigation required within their business, which should be in line with the level of risk associated with the business.



⁵ Isle of Man Government, Proliferation Financing Risks Guidance, May 2024 <https://www.gov.im/media/1383565/proliferation-financing-risks-guidance-may-2024_compressed.pdf>

Question C9

What is the primary method of training?

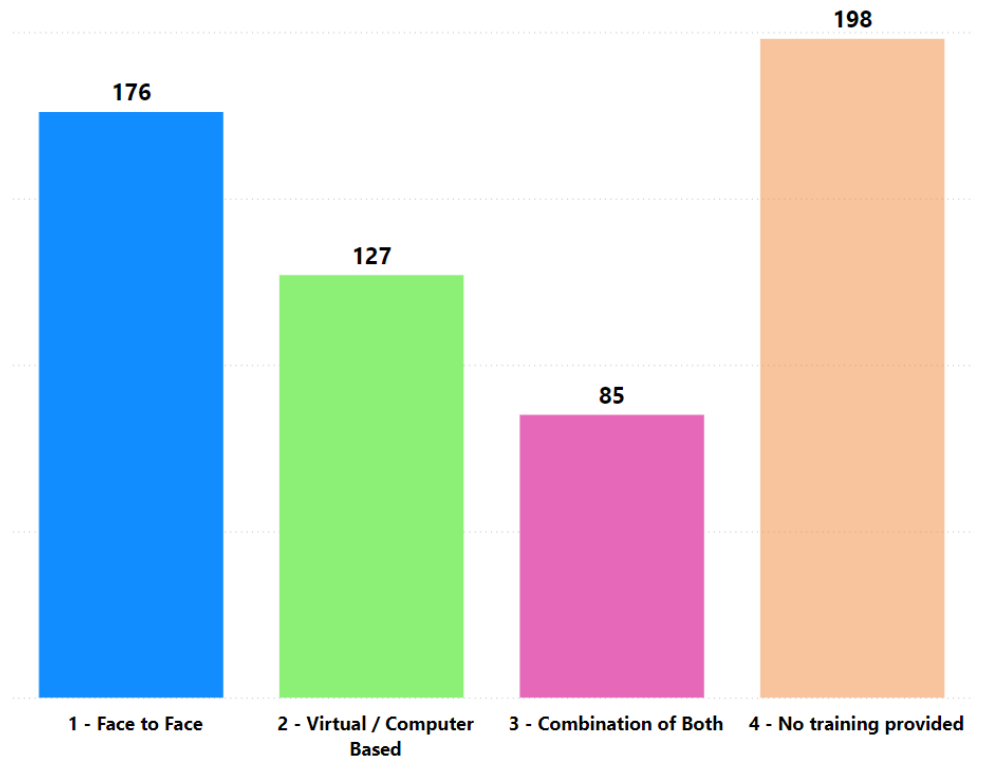
176 of 586 firms (30.0%) deliver their PF training face-to-face.

127 of 586 firms (21.7%) deliver their PF training virtually/computer based.

85 of 586 firms (14.5%) deliver their PF training via a combination of both face-to-face training and virtual/computer-based training.

198 of 586 firms (33.8%) do not deliver any PF training.

It is at the discretion of relevant persons to determine how training is provided to staff based on what is most suitable for their organisation; however, the Authority would like to highlight that all entities should ensure that a level of training utilising methods appropriate to the nature and size of the entity is undertaken.



Question C10

How often do you deliver PF training?

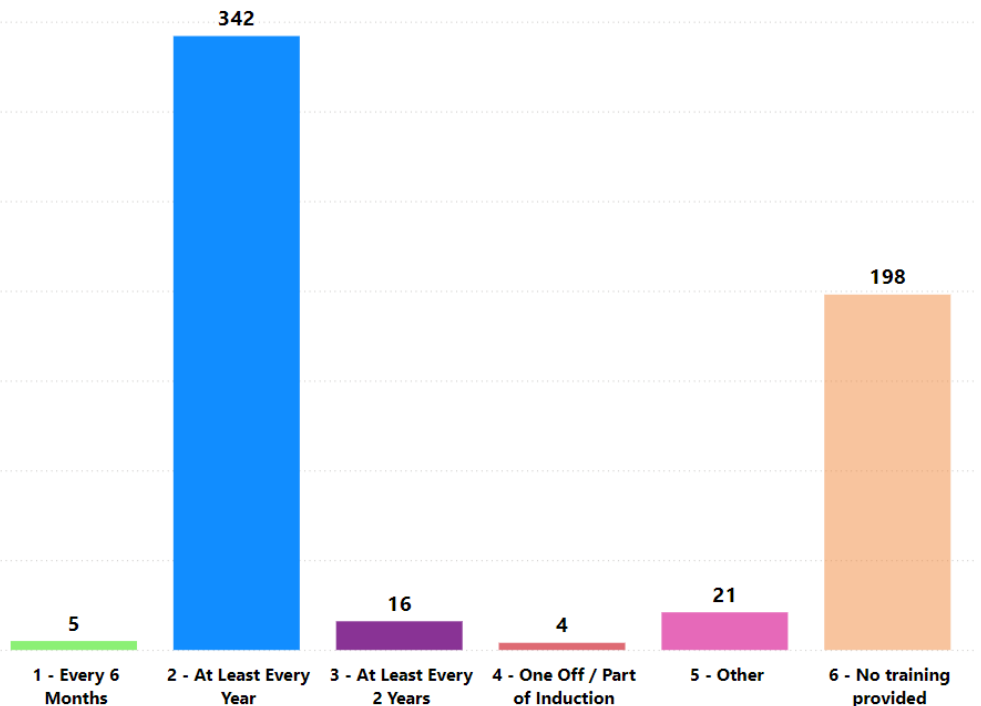
347 of 586 firms (59.2%) deliver PF training to staff at least every year, including every six months.

16 of 586 firms (2.7%) deliver PF training to staff at least every two years.

4 of 586 firms (0.7%) deliver PF training to staff as a one off/as part of an employee's induction.

21 of 586 firms (3.6%) deliver PF training to staff on a frequency not listed within the potential answer options.

198 of 586 firms (33.8%) do not deliver PF training to staff.



In accordance with paragraph 32(1) of the Code, relevant persons must provide or arrange education and training, including refresher training, at least annually for all officers, any other persons involved in its senior management, and appropriate

employees and workers. As per the Handbook, this is to ensure employees are kept up-to-date and aware of AML/CFR developments in order that the relevant person is able to manage and mitigate their ML/FT risks.

Regular training is also essential to

ensure that relevant persons comply with paragraph 32(2)(g) of the Code, which requires a relevant person's education and training to make its staff aware of new methods and developments, including information on current techniques, methods, and trends in ML/FT.



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