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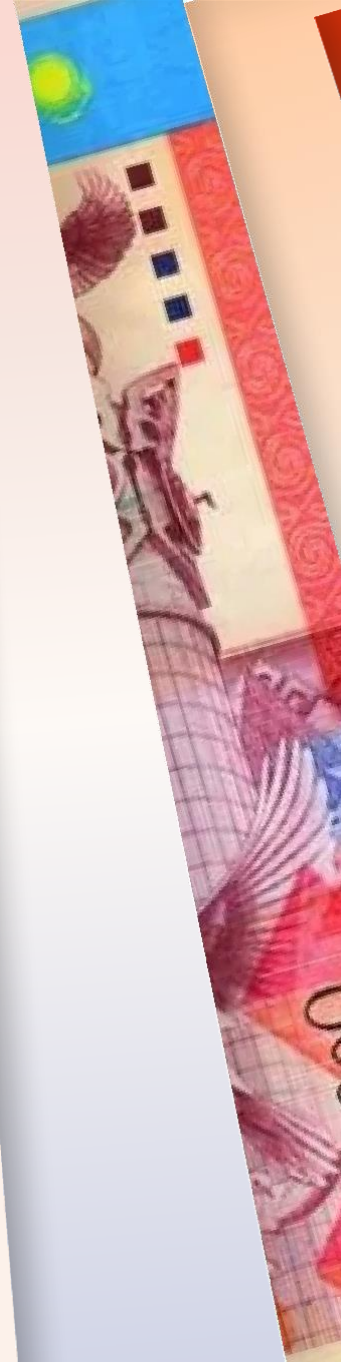


# Impact of sanctions regimes on Kazakhstani business

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# Agenda

## Introductions

- Sanctions regimes likely to impact Kazakh businesses
- Relevant sanctions evasion typologies
- The potential impact of non-compliance with international sanctions regimes
- UK public /private sector cooperation on financial crime matters – a case study

## Q&A



# Sanctions regimes likely to impact Kazakh businesses

# International and local sanctions regimes

Even though Kazakhstan may not have implemented certain individual sanctions regimes, such as against Russia, firms should be aware and comply with other international sanctions regimes where applicable:

## Sanctions may apply to firms, individuals or classes of goods

## Points to be aware of

**OFAC** Many firms need to adhere to US sanctions issued by the Office of Foreign Asset Control (OFAC), as these have 'extra-territorial reach' in a number of circumstances.

**EU** Doing business with EU firms/branches of EU firms may result in needing to comply with EU sanctions.

**Local** Kazakhstan has the power to impose its own sanctions regimes that local firms are required to comply with

- Ownership thresholds apply for multiple sanctions regimes
- Secondary sanctions may apply if a firm has dealings with a sanctioned party
- There has been an increase in the number of individuals designated under sanctions targeting Russia over the past year

***Transactions and counterparties that appear purely local may still be affected by international sanctions***

# Evolution of sanctions applicable to Russia

Sanctions applied to Russia are those most likely to have an impact on firms in Kazakhstan. Firms should be aware of the swiftly changing sanctions landscape - your lists for sanctions screening should be updated frequently and systems need to be operating effectively.:



**Lavrov's stepdaughter targeted as UK announces 65 new Russian sanctions**

**Billionaire oil tycoon, six banks and a defence company also included in list**

*The Guardian, 24 March 2022*

**UK imposes sanctions on Roman Abramovich over 'clear' links to Putin**

**Chelsea FC owner one of seven Russians to have assets frozen and be accused of 'having blood on their hands'**

*The Guardian, 10 March 2022*



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# Relevant sanctions evasion typologies



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# Learning from others: US and UK

Firms are encouraged to remain vigilant in identifying and promptly reporting suspected sanctions evasion by sanctioned entities, Russian elites and their proxies.

## Non-exhaustive list of sanctions evasion methods and red flags recently identified by the US and UK as particularly applicable to sanctioned Russian individuals and entities

### Ownership

- Use of holding companies, transfer of assets and funds to jurisdictions where sanctions are not in place
- Transfer of assets such as shareholdings in holding companies, to trusted proxies such as relatives or close associates
- Use of trusts or complex structures, including offshore vehicles

### Transaction

- Use of alternative payment methods, including crypto assets
- Transactions by holding companies linked to designated persons routed through Swiss bank accounts, as well as British Virgin Islands or Cypriot legal persons
- Opening of new accounts that attempt to send or receive funds from a sanctioned Russian bank or those removed from the SWIFT

### Real estate & other high-value assets

- Transactions involving precious metals, stones and jewelry trading companies, particularly in Asia, and firms with a nexus to sanctioned Russian elites and their proxies.
- High-value or frequent transactions involving mining operations with opaque and complex corporate structures, linked to sanctioned elites or proxies.
- Purchase, sale or transfer of real estate and other high value assets





# Learning from others: US and UK

There have been some high profile sanctions evasion attempts reported in the press, but this is likely the tip of the iceberg:

## Leak reveals Roman Abramovich's billion-dollar trusts transferred before Russia sanctions

**Exclusive: Files raise questions about whether oligarch's children were made beneficiaries to protect fortune from possible asset freezes**

*The Guardian, 6 Jan 2023*

Trusts holding billions of dollars of assets for Roman Abramovich were amended to transfer beneficial ownership to his children shortly before sanctions were imposed. Such reorganisation of the trusts could complicate efforts to enforce sanctions against the oligarch and potentially frustrate attempts to freeze assets.

## Briton arrested after 'hiding Russian yacht by changing its name from Tango to Fanta'

*Sky News, 25 Jan 2023*

A British man has been arrested after allegedly helping Viktor Vekselberg, a Russian oligarch, evade sanctions. The scheme was allegedly facilitated through Mr Vekselberg's 255ft yacht Tango, which was renamed Fanta. Mr Vekselberg's involvement with the yacht was masked through using shell companies to hide ownership.





# Sanctions evasion techniques relevant to Kazakhstan

Kazakhstan acts as a attractive destination for relocation of Russian or Belorussian businesses that wish to maintain access to international companies/markets and payment systems and we see a range of sanctions evasion techniques currently in use or that might be deployed in the future:

## Trade-based sanctions evasion

This may include falsified documents related to the price, quality or quantity of goods taken, or the route shipments have taken. Trade-based schemes may also include attempts to circumvent import/export restrictions applying to Russia by making Kazakhstan the official destination and or by using Kazakh or other third party country intermediaries.

## Ownership-based sanctions evasion

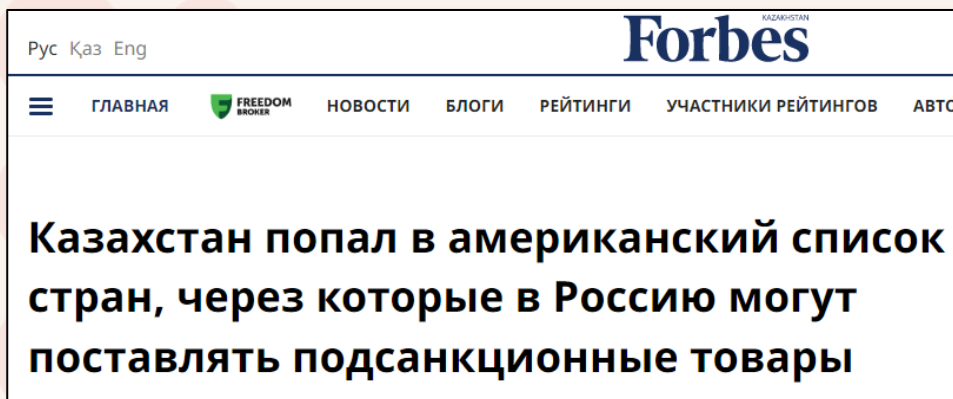
This may include transfer of assets to Kazakhstan-based holding companies, potentially with the holdings in the name of family or close associates of sanctioned individuals.

## Payments-based sanctions evasion

Kazakhstan's position as a pre-eminent location for crypto-mining and the current pilot project for licensed crypto exchanges may increase the volume of crypto transactions flowing through the country – some of these could be used to attempt to evade sanctions.

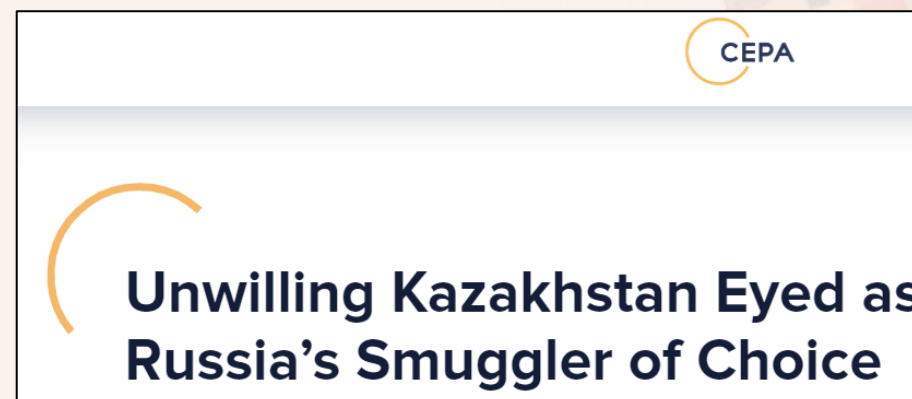


# Kazakhstan in the news on sanctions topics



Forbes, 11 July 2022

Kazakhstan appeared on the list published by FINCEN as a country through which sanctioned goods can enter Russia and Belarus. Such goods can include equipment that can be used for military purposes.



CEPA, 17 June 2022

As Russian defense firms are subject to sanctions which restrict their access to high-tech components, they may look to Kazakhstan as alternative access route to the required supply.



# Potential impact of non-compliance with international sanctions regimes

# Consequences of non-compliance

Violations of sanctions regimes can attract severe fines and cause significant reputational damage. Firms should be aware of their reporting obligations to the local regulator, OFAC and others as appropriate.

- Secondary sanctions
- Civil and criminal prosecution
- Punitive fines
- Regulatory sanctions including restriction or removal of licenses
- Reputational damage
- Loss of public confidence

The US Treasury fined British Arab Commercial Bank in 2019 for violating the Sudanese Sanctions Regulations.

In 2015 BNP Paribas was fined US\$8.8 billion for dealing with countries subject to US sanctions.

Standard Chartered Bank was fined £20.4 million by OFSI in 2020 for breaches of Russia related sanctions.

Union de Banques Arabes et Francaise has agreed to pay US\$8.5 billion to settle allegations of Syrian sanctions breaches



# How to avoid sanctions breaches

Regular sanctions **risk assessments** should identify 'hotspots' or areas of higher sanctions risk within businesses

'**Tone from the top**' is essential in ensuring that all employees take sanctions compliance seriously

**Clear policies and procedures** should be in place, to ensure that firms and their employees comply with sanctions obligations

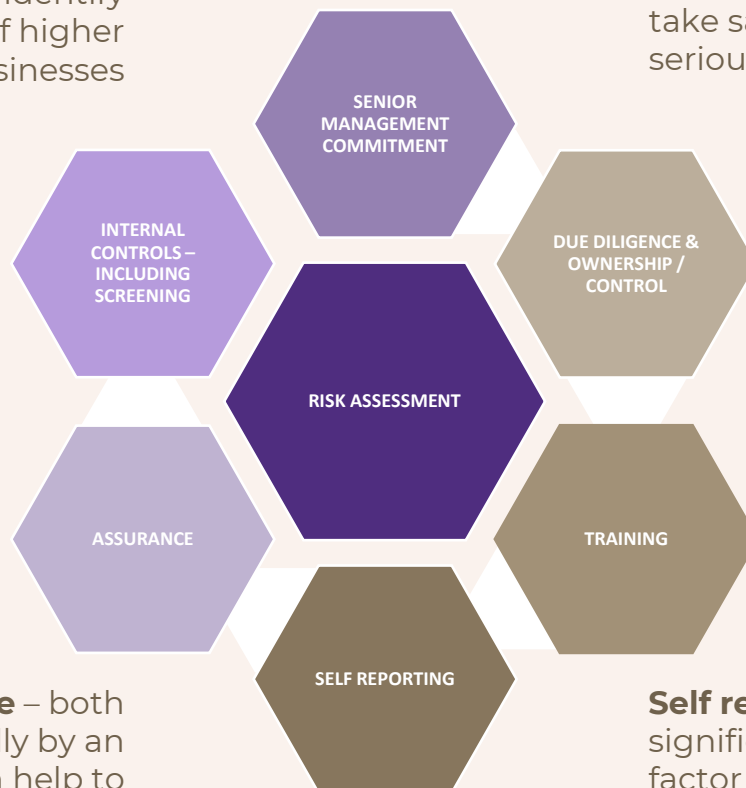
Robust and effective **screening** is critical to identifying and managing potential sanctions exposure on a day-to-day basis

**Ongoing assurance** – both internal and periodically by an expert third party – can help to avoid problems

Thorough **due diligence** at onboarding and on an ongoing basis is essential, including verification of identity, careful review of corporate structures and ownership, and robust documentary evidence of source of funds and source of wealth.

**Training front line staff and decision-makers** to recognise the 'red flags' and risk factors applicable to your business will help to minimise risk

**Self reporting** is a significant mitigating factor in the event of a breach





# UK public /private sector cooperation on financial crime matters

## - A case study





# The evolution of public / private cooperation in the UK



In the late 2000s the UK received a FATF report which was highly critical of its role as a centre of international money laundering.

The report highlighted the lack of a coordinated national response to this threat, including low levels of cooperation between private sector firms, between law enforcement agencies, and between the public and private sectors.

Since then, substantial progress has been made on implementing – and funding – structures to support cooperation within industry, between agencies and between the public and private sectors. This has had a material impact on the sharing of intelligence and on the UK's ability to prosecute crime and respond to threats.

**JMLIT** and the **NECC** are two key elements of this improved model of cooperation.



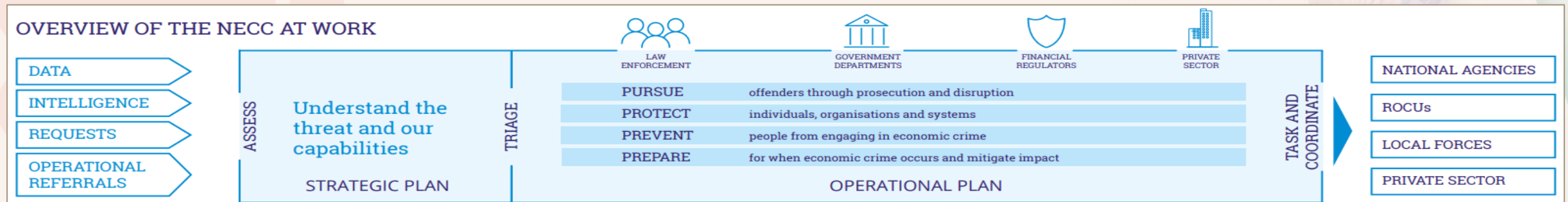
# UK National Economic Crime Centre

The NECC was set up in 2018 and brings together law enforcement agencies, government departments, regulatory bodies and the private sector to work together to improve the UK's ability to fight economic crime. It has now incorporated JMLIT, meaning that existing intelligence sharing is available to a wider audience:

*These government agencies were involved in the NECC from its foundation. It also cooperates with the National Cyber Security Centre*



Online Fraud Steering Group



# The results



- 'JMLIT has supported and developed over **950** law enforcement investigations which has directly contributed to over **280** arrests and the seizure or restraint of over **£86m**'
- 'JMLIT private sector members have identified over **7,400** suspect accounts linked to money laundering activity, and commenced over **6,000** of their own internal investigations'
- 'Over **60** 'JMLIT Alert' reports have been shared with the wider financial industry to assist in focussing the identification and implementation of transactional monitoring system queries'

NECC, February 2023



**T**he National Crime Agency has recently announced that there will be a "day of action" conducted by the National Economic Crime Centre (the "NECC") partners to target money service businesses ("MSBs") at risk of being exploited by criminals.

NECC, February 2020

**Ransomware criminals sanctioned in joint UK/US crackdown on international cyber crime**

Seven Russian cyber criminals who are linked to the group behind some of the most damaging ransomware attacks on the UK in recent years have been exposed and sanctioned by the UK and the US.

NECC, December 2022

**City fund managers convicted in a \$8m fraud**

Three fund managers have been convicted of a large-scale fraud which resulted in losses of \$8.45 million to the Libyan Sovereign Wealth Fund.

NECC, February 2023



# Q&A

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