

# MARKET BULLETIN

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<b>Title</b>	Sanctions
<b>Purpose</b>	To update Lloyd's Managing Agents on developments under the Counter Terrorism Act 2008 and international sanctions
<b>Type</b>	Event
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The purpose of this bulletin is to provide updated guidance regarding international sanctions compliance and should be read in conjunction with Market Bulletin [Y4117](#). This bulletin focuses on the Counter Terrorism Act 2008, reporting to HM Treasury under their international sanctions regime and best practice. This guidance is also being issued to compliance officers of Lloyd's brokers for information purposes.

## The Counter Terrorism Act 2008 ("The CTA")

The CTA addresses the risks from money laundering, terrorist financing and the proliferation of nuclear, radiological, biological or chemical weapons. It confers new powers on HM Treasury ("HMT") to issue directions to firms in the financial sector in relation to business relationships and transactions with jurisdictions of concerns. HMT has consulted key industry contacts, including Lloyd's, on the range of options that may be applied and the implementation challenges they may bring. The consultation has assisted HMT in the application of their powers and their impact on the industry.

HMT may issue a direction if the Financial Action Task Force ("FATF") has advised that measures should be taken against a particular country because of the risk of terrorist financing or money laundering activities being carried on in that country, by the government or by persons resident or incorporated in the country or if HMT reasonably believes there is a risk that terrorist financing or money laundering activities are being carried on in that country, by the government or by persons resident or incorporated in the country and that this poses a serious threat to the national interests of the UK.

HMT may also issue a direction if it reasonably believes that the development or production, or facilitation of the development or production, of nuclear, radiological, biological or chemical weapons in the country poses a significant risk to the national interests of the UK.

The range of directions issued by HMT under the CTA may vary. However under the recent (and first) direction issued by HMT in respect of two Iranian entities, Bank Mellat and the Islamic Republic of Iran Shipping Lines (“IRISL”), UK financial and credit institutions (including insurers) were required to cease all transactions and business relationships with the two entities. HMT issued a general licence of exemption which allowed anyone within the financial sector who was providing insurance to Bank Mellat or IRISL under an existing contract, to continue to provide it for a 7 day period only. Anyone utilising this exemption, was required to notify HMT within a 3 day deadline in order to continue the relationship for a 7 day period only. After that time, all business relationships and transactions were required to be ceased. Any continuing transactions required a licence from HMT. For further information, see [http://www.hm-treasury.gov.uk/fin\\_crime\\_policy.htm](http://www.hm-treasury.gov.uk/fin_crime_policy.htm).

Ultimately, the responsibility for reporting notifications under the CTA to HMT lies with managing agents. Where possible, IRR will seek to obtain clarification for managing agents upon the adoption of any HMT direction but generally it is expected that managing agents will make their own notifications to HMT and report the same to IRR.

Compliance officers should ensure that they keep up to date with notifications from HMT with regard to both the CTA and other sanctions legislation. IRR seeks to ensure that notifications from HMT are issued to managing agents as soon as possible but expect that managing agents should subscribe to the email alerts, particularly where action to cease business is required within a short time frame. As an additional service, notifications regarding CTA will be linked to Crystal.

The subscription service in relation to Financial Crime, including measures under the Counter Terrorism Act, is detailed at:

[http://www.hm-treasury.gov.uk/fin\\_crime\\_mailinglist.htm](http://www.hm-treasury.gov.uk/fin_crime_mailinglist.htm)

The email address to subscribe to is: [FCSubscribe@hmtreasury.gov.uk](mailto:FCSubscribe@hmtreasury.gov.uk)

The subscription service regarding financial sanctions is found at:

[http://www.hm-treasury.gov.uk/fin\\_sanctions\\_subscribe.htm](http://www.hm-treasury.gov.uk/fin_sanctions_subscribe.htm)

The email address to subscribe to is: [AFUsubscribe@hmtreasury.gsi.gov.uk](mailto:AFUsubscribe@hmtreasury.gsi.gov.uk)

### **International Sanctions legislation - Reporting to HMT**

Separate to the requirements of the CTA, HMT administer the UK's obligations under international sanctions legislation, such as that implemented by the UN and EU. Under this legislation, HMT states that positive target matches must be reported to HMT, and where applicable, assets of the target should be frozen.

It is the responsibility of individual managing agents to make notifications to HMT, however it is recognised that submitting one notification for a contract is more practical than multiple notifications from all subscribing syndicates. Whether the notification is made by the lead syndicate, broker or Lloyd's will depend on the information available and number of placements relating to the insured. IRA will seek to assist in making notifications where possible but this may need to be assessed on a case by case basis. In addition, managing agents may still wish to make their own notifications to HMT and in these cases, IRA would require a copy of the notification.

### **Best practice recommendations regarding international sanctions compliance**

The operational risk reviews recently carried out by Lloyd's identified that managing agents consider that international sanctions pose a significant risk to their business activities. The review put forward certain recommendations to counter the higher risk assessment including:

- documentation regarding compliance and controls, such as:
  - specific reference to sanctions risk and controls on risk registers;
  - specific policies and procedures regarding compliance and controls;
- training regarding compliance and controls;
- appropriate consideration of the risk of sanctions to domestic business as well as to international business. Insurance services cannot be provided to persons/entities listed under the Terrorism Order (which will include UK persons and entities) and UK persons/entities also appear under other sanction regimes;
- consideration of automated checks to screen client database against sanctioned persons/entities, which are recommended to be carried out at inception stage and ongoing, including before the payment of claims and return premiums, to ensure new sanction targets have not been designated.

Managing agents were provided with a copy of the above mentioned review at the time of issue. However, if further copies are required they can be obtained from the managing agent's relevant risk executive in the Operational Risk Department. For further reading, the FSA produced a report in April 2009, which sets out its findings of firms' performance in meeting financial crime requirements in relation to the UK financial sanctions regime. The report can be accessed on the FSA web site at the following link:

<http://www.fsa.gov.uk/pubs/other/Sanctions%20Final%20Report.pdf>

### **Conclusion**

In view of the current climate, it is probable that international sanctions (including counter terrorism/proliferation financing) will be increasingly implemented against targeted countries/entities and individuals.

In view of the additional powers that HMT have under the CTA and the recent exercise of these powers, it is expected that managing agents subscribe to the email alert service, referenced above, to ensure there are no delays in receiving the information and to ensure compliance with any deadlines.

In addition, based on the findings of the Operational Risk review, which is reflected by the FSA's own review, it is considered best practice for managing agents to consider the need for automated systems to fully comply with international sanctions.

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