



ISLE OF MAN  
FINANCIAL SERVICES AUTHORITY

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# **ISLE OF MAN FINANCIAL SERVICES AUTHORITY**

## **SANCTIONS THEMATIC REPORT PHASE 2 – INSPECTIONS**

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# 1 Glossary of Terms

<u>TERM</u>	<u>MEANING IN THIS REPORT</u>
<b>AML/CFT/CPF</b>	Anti-Money Laundering / Countering the Financing of Terrorism / Countering Proliferation Financing
<b>Authority</b>	The Isle of Man Financial Services Authority
<b>BRA</b>	Business Risk Assessment
<b>CDD</b>	Customer Due Diligence
<b>Code</b>	Anti-Money Laundering and Countering the Financing of Terrorism Code 2019
<b>CRA</b>	Customer Risk Assessment
<b>ECDD</b>	Enhanced Customer Due Diligence
<b>Handbook</b>	Anti-Money Laundering and Countering the Financing of Terrorism Handbook
<b>ML/FT</b>	Money Laundering / Financing of Terrorism
<b>NRA</b>	National Risk Assessment
<b>PEP</b>	Politically Exposed Person
<b>Registered Person</b>	Means a person registered under section 9 of the Designated Businesses (Registration and Oversight) Act 2015
<b>Regulated</b>	Refers to firms regulated under the Financial Services Act 2008, Insurance Act 2008 or the Retirement Benefits Schemes Act 2000
<b>RSS</b>	Really Simple Syndication
<b>SOF</b>	Source of Funds
<b>STRIX</b>	The Authority's AML/CFT risk analysis system
<b>TCSP</b>	Trust and Corporate Service Provider
<b>TRA</b>	Technology Risk Assessment

# 2 Background

## 2.1 Executive Summary

The Authority is currently undertaking a **thematic project** involving registered and regulated entities on the Island. This thematic is focusing on compliance with the Anti-Money Laundering and Countering the Financing of Terrorism Code 2019 (“the Code”) in relation to sanctions.

The Authority’s regulatory objectives are:



Securing an appropriate degree of protection for policyholders, members of retirement benefits schemes and the customers of persons carrying on a regulated activity



The reduction of financial crime



The maintenance of confidence in the Island’s financial services, insurance and pensions industries through effective regulation, thereby supporting the Island’s economy and its development as an international financial centre

A key part in achieving these objectives is the Authority’s effective oversight and use of its supervisory functions, which encompasses undertaking supervisory inspections including thematic inspections and reviews<sup>1</sup>.

The planning for the thematic exercise commenced in 2023 and a **public statement was released** on the Authority’s website in January 2024. Some of the key highlights are detailed below.

‘The importance of awareness relating to both financial and non-financial sanctions is long established in AML/CFT legislation, albeit additional focus has arisen in the last two years as a result of global conflict including the invasion of Ukraine and elsewhere.

The thematic presents a great opportunity to test and evidence how relevant persons are meeting their AML/CFT challenges in this area. In addition to increased engagement with firms during the project, we hope to discover and highlight some points of best practice that can be shared and

fed back with the industry.

The project will add to the Authority’s wider AML/CFT evidential understanding and picture of risk, building on from the work the Authority has recently seen with the foreign PEP, TCSP BRA and Accountancy profession CRA thematic projects.’



<sup>1</sup> The Authority continues to welcome feedback on the inspection process

Phase 1 of the thematic involved a questionnaire regarding sanctions procedures and controls which was issued on STRIX in January 2024 and received a response rate of 98.5%. A report was published in December 2024 which detailed the key findings and observations.

For the purposes of any sanction consideration in the Isle of Man the relevant competent Authority is the Isle of Man Customs and Immigration

98.5%

Response rate to phase 1 thematic questionnaire

Division (previously Customs and Excise) moreover in terms of the relevant sanctions list for Code purposes this is defined in the interpretations section of the Code as follows:



**The “sanctions list” is defined in the Code as the list of persons who are subject to international sanctions that apply in the Island which is maintained by the Customs and Excise (Customs and Immigration) Division of the Treasury.**



The positive response to the sanctions thematic project from industry has been welcomed and the Authority’s officers have received exemplary cooperation from the firms that were selected for inspections as part of phase 2 of the thematic project.

Participating firms have provided the Authority’s officers with the required documentation in an efficient and timely manner.

As part of the inspection process all participating firms provided the Authority with procedures and controls relating to the application of sanctions, however, in 50% of those inspected, the procedures and controls were observed to have not met the standards of the Code.

The paragraphs of the Code that saw the most contraventions during phase 2 of the thematic, were:

- **Paragraph 4** reflecting a breach of internal policies and procedures. Half of the firms inspected had documented procedures and controls in place to identify, manage and mitigate sanctions risk, staff training programmes were thorough, and escalation processes were clearly documented and accessible.
- **Paragraph 5** observations highlighting a lack of reference and consideration of sanctions risk within the firm’s BRA.

## 2.2 Thematic Scope

The primary objectives of phase 2 of the Sanctions Thematic were to review each firm's approach in relation to the identification and mitigation of sanctions risk by obtaining information from firms and to subsequently test procedures and controls to assess compliance with the AML/CFT Code 2019. The primary objectives of the inspections are broken down into the following sub-objectives:

### OBJECTIVE 1

Review the relevant person's procedures and controls relating to the identification, ongoing monitoring and mitigation of sanctions risk in compliance with paragraph 4 of the Code.

### OBJECTIVE 2

Review the relevant person's BRA and TRA focusing on the identification and mitigation of sanctions risk in compliance with paragraphs 5 and 7 of the Code.

### OBJECTIVE 3

Review the relevant person's new business documentation specifically in relation to sanctions risk, in compliance with paragraph 8 of the Code.

### OBJECTIVE 4

Review the relevant person's ongoing monitoring documentation specifically in relation to sanctions risk, in compliance with paragraph 13 of the Code.

### OBJECTIVE 5

As part of the review of the results of quality assurance/reporting to the Board and testing in relation to sanctions risk to assess the adequacy of governance and risk management in relation to sanctions risk, particularly considering paragraph 30 of the Code.

### OBJECTIVE 6

Review the relevant person's staff training documentation specifically in relation to sanctions risk, in compliance with paragraph 32 of the Code.

The Sanctions thematic engagement carried out by the Authority adhered to the Supervisory Methodology, [which can be found here](#), where necessary, while other areas of the Code were assessed where they became relevant to the inspection and/or the risk profile of the firm on a risk-based approach.

## 2.3 AML/CFT Code 2019 - Sanctions Obligations

It is vital that relevant persons meet the Code obligations in relation to sanctions.

**Paragraph 4(1)(a)(ii)** details that 'A relevant person must not enter into or carry on a business relationship, or carry out an occasional transaction, with or for a customer or another person unless the relevant person — (a) establishes, records, operates and maintains procedures and controls - ii) in relation to determining whether a customer, any beneficial owner, beneficiary,

introducer or eligible introducer is included on the sanctions list.

**Paragraph 13(1)(c)** details that 'A relevant person must perform ongoing and effective monitoring of any business relationship or occasional transaction, including c) monitoring whether the customer, beneficial owner, beneficiary, introducer or eligible introducer is listed on the sanctions list.'

### **A relevant person must perform ongoing and effective monitoring**



The Customs and Immigration Division of Treasury have detailed the following on [the government website](#):

*‘Sanctions are prohibitions and restrictions on trade and services, which may be put in place by the United Nations and at a national level by countries, acting alone or together with others, with the aim of maintaining or restoring international peace and security. They gener-*

*ally target specific individuals or entities, or particular sectors, industries or interests. They may be aimed at people in a particular country or territory, or some organisation or element within them. Sanctions may also impose restrictions on goods and services supplied to or from a country or territory. There are also sanctions to target those persons and organisations involved in terrorism, including Al-Qaida and ISIL.’*

Procedures for ongoing monitoring in the context of sanctions lists should be capable of detecting when a customer involved in an existing business relationship or occasional transaction becomes designated. Periodic or trigger event customer reviews may not be adequate to detect such listings in a timely manner such that the relevant person does not breach sanctions requirements. Relevant persons should have clear proce-

dures and controls for staff regarding the actions to be taken should a customer become designated.

Sanctions exposure and risk must also be considered in a firm’s monitoring and testing compliance procedures as outlined in paragraph 30 of the Code.

Staff training is imperative in ensuring that any sanctions risks identified are escalated accordingly and proce-

dures are adhered to in order to mitigate such risks. Paragraph 32 of the Code details that firms must carry out training for all officers, any persons involved in its senior management and all appropriate employees and workers.

Specialist training must also be considered for those dealing directly with any potential sanctions matches.

## A designated person is an individual, entity or ship, listed under UK legislation as being subject to sanctions - OFSI

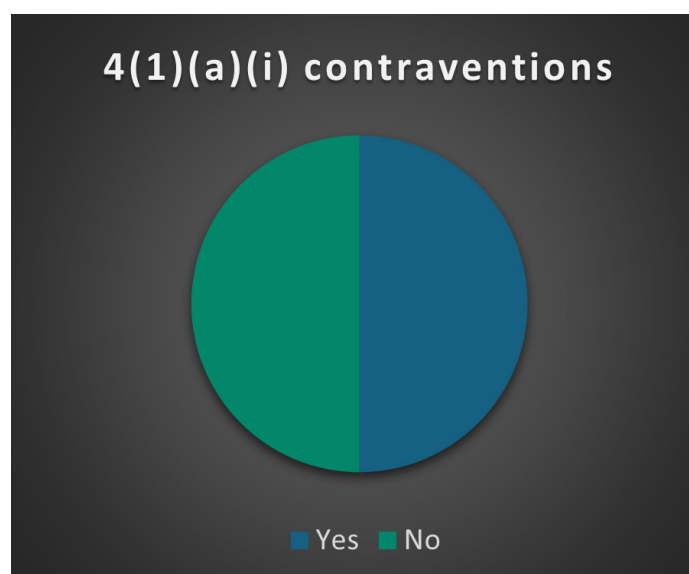
### 2.4 Breakdown of findings

#### 2.4.1 Objective 1

Paragraph 4 of the Code sets out the procedures and controls that relevant persons must establish, record, operate and maintain in order to enter into or carry on a business relationship or carry out an occasional transaction with or for a customer.

Paragraph 4(1)(a)(i) of the Code requires that such procedures and controls must enable a relevant person to comply with each paragraph within Parts 3 to 9 of the Code. On-site observations concluded that 50% of firms were in compliance with paragraph 4(1)(a)(i) of the Code, with 50% of firms receiving contraventions for this paragraph as they did not have adequate procedures and controls in place in relation to the identification, management and mitigation of sanctions risk.

Further, paragraph 4(1)(a)(ii) of the Code sets out that the procedures and controls must be in place to determine whether a customer, any beneficial owner, introducer, or eligible introducer is included on the sanctions list. It was



identified that 83% of firms were in compliance with this paragraph.

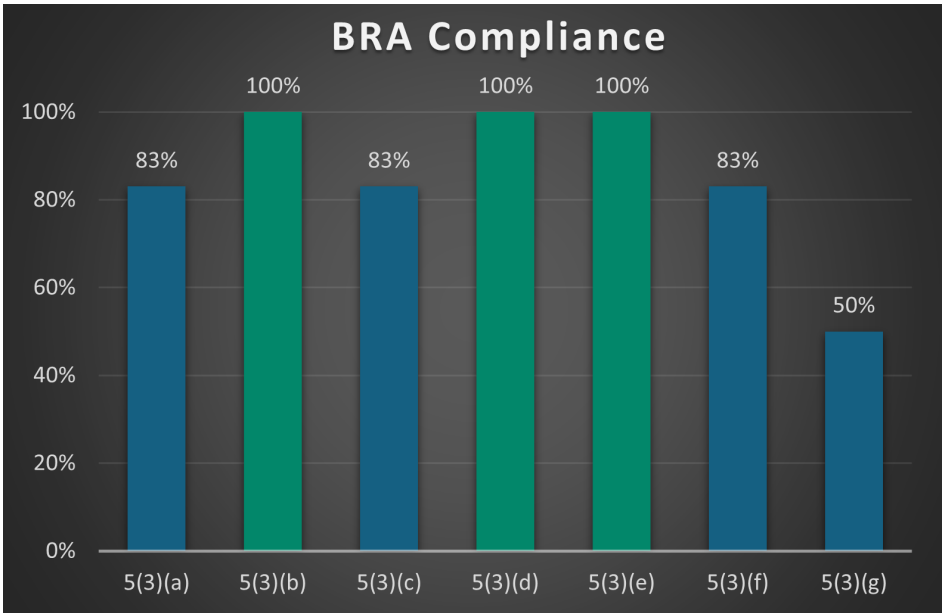
2.4.2 Objective 2

Within this objective, firms’ BRAs and TRAs were reviewed and assessed for compliance with the Code, specifically in relation to sanctions risk.

As per paragraph 5(1) of the Code a relevant person must carry out an assessment that estimates the risk of ML/TF posed by its business and customers. The inspections specifically assessed the BRAs from a sanctions risk perspective and concluded that all firms had assessed the sanctions risk posed by the business and their customers.

Paragraph 5(2)(c) outlines that the BRA must be regularly reviewed (details of any review must be recorded) and, if appropriate, amended so as to keep the assessment up to date. 17% of firms had failed to review their business risk assessment specifically in relation to the management and mitigation of any sanctions risk. Further, the BRA had not been updated to reflect any changes and as such contraventions were recorded.

Paragraph 5(3) of the Code sets out the prescribed risk factors which must be considered when assessing the sanctions risk of the relevant person’s business and customers. This graph reflects the percentage of compliance with each of the factors.



The TRA was also reviewed to assess whether the relevant person had estimated the risks of ML/FT posed by any technology to the relevant person’s business specifically in relation to sanctions.

The Authority’s officers observed that 50% of firms were in compliance with paragraph 7 of the Code, with 50% in contravention as they did not have an adequate TRA in place.

Firms must implement a documented TRA, ensuring that any third-party screening tools used to identify possible connections to sanctions risk are included within the assessment. Further, the TRA, BRA and CRA should form a continuous feedback loop and be subject to regular review, approval and amendment as required.



2.4.3 Objective 3

No contraventions were identified in relation to the assessment of sanctions risk during the establishment of a new business relationship or entering into an occasional transaction, for the firms reviewed. It was determined by the Authority’s officers that sanctions screening was being undertaken at the inception of new business relationships and/or occasional transactions and all firms were aware of and signed up to the live RSS feeds maintained by Isle of Man Customs and Immigration Division.

Code  
4(2), 5, 6,  
7, 14,  
15(3), 16  
- 22

The BRA, CRA and TRAs are interconnected with each type of risk assessment informing the other. Furthermore, they are the vital base on which to determine a relevant person’s risk appetite and build risk sensitive AML/CFT/CPF mitigation procedures and controls such as CDD procedures. Mitigation procedures and controls must flow from the results of the risk assessments, but equally information gained when operating mitigation procedures and controls such as for CDD and monitoring should feedback into risk assessment considerations. Risk assessments and mitigation measures are in a continuous feedback loop. Mitigation procedures and controls must also be tailored according to relevant persons’ particular circumstances and those of their customers enabling effective

Important to sign up to Customs RSS feeds

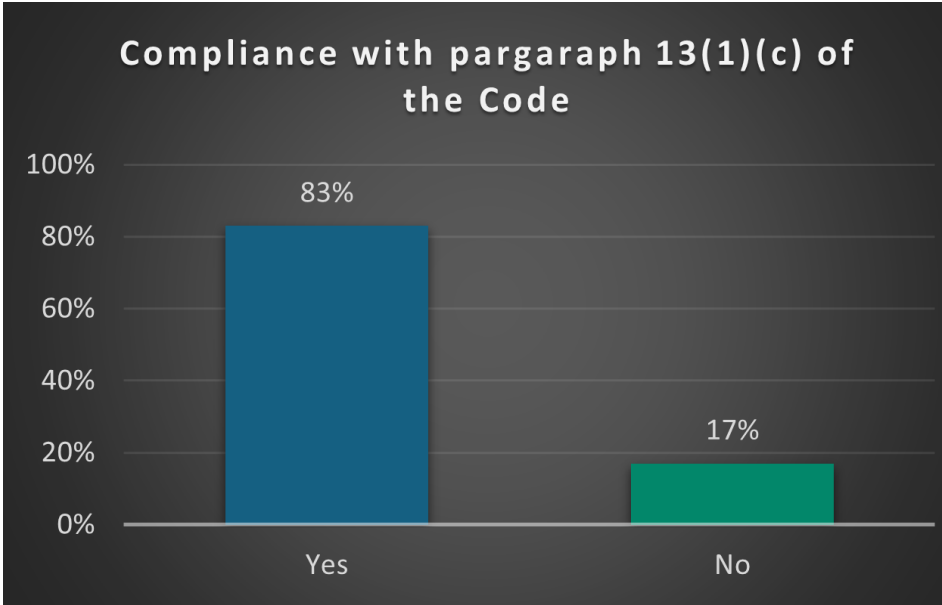


### 2.4.4 Objective 4

Ongoing monitoring is essential when assessing the firm’s exposure to sanctions risk and is crucial in ensuring that firms know their customer base and are not exposed to any risks arising from a customer becoming designated by sanctions.

### 2.4.5 Objective 5

The majority of firms inspected had sufficient monitoring and testing compliance plans and procedures in place.



### 2.4.6 Objective 6

No contraventions were identified in relation to staff training on sanctions for the firms reviewed. All firms had an appropriate training plan in place for all staff with specialised training being provided to staff where required. Further, firms were able to demonstrate compliance with training requirements utilising training materials, logs and registers.

## 2.5 Good practice / Areas for improvement



Phase 2 of the Sanctions Thematic project commenced in March 2024 with an initial focus on firms whose business demonstrates a higher level of transactional activity alongside a large international customer base. The Authority’s officers inspected 50% of firms licenced by the IOMFSA for Class 1 activity.

It is important to highlight that the extent and frequency to which firms screen for sanctions is proportionate to the size and significance of the firm and the risk profile of its customer base. Although this is the case, it is imperative that all firms comply with all relevant paragraphs of the Code to effectively manage and mitigate their sanctions risk. Where risk-based decisions have been applied, firms must ensure that any rationale is clearly documented to demonstrate their reasoning and proportion.

## Good practice

The Authority would like to take this opportunity to highlight some of the areas of good practice that were observed during phase 2 of the thematic, starting with the exemplary level of cooperation from the firms. All firms inspected provided pre-inspection documentation and further requested information in a timely and effective manner where necessary.

We appreciate that this exercise can be time consuming, yet the collaborative nature of the inspections ensured a successful process, moreover the inspection teams welcomed constructive feedback which has been considered as part of our continuous improvements to enhance the inspection process as mentioned earlier in this report.

System demonstrations were provided by those firms who utilise a screening tool for sanctions purposes, whether that be a manual or automated screening tool. This was extremely beneficial for the inspection teams to understand the consid-

- Exemplary level of cooperation
- Collaboration ensured successful process
- Firms were able to demonstrate how alerts are escalated
- All firms had procedures and controls in place

erations applied when reviewing potential matches and what that process looks like in practice. Firms were able to evidence their systems in practice and how alerts are escalated when there were potential sanctions matches highlighted.

Firms were able to evidence their transaction monitoring procedures, through the tools in place to mitigate the risks of a sanctions breach and articulate how this information is

also used in relation to the ongoing risk assessment of the customer.

All firms inspected by the Authority had documented procedures and controls in place in relation to the identification, management and mitigation of sanctions risk. Further, all firms had clear escalation processes that were documented and easy to follow, ensuring staff were able to refer a potential match if required.

## Areas for improvement

Whilst there were a number of areas in which good practice was observed, there were also a number of areas in which the inspection teams identified points for improvement. This does not necessarily constitute bad practice, but observations that could increase processes from good, to best practice.

### Documenting the decision-making process:

One of the key observations which was prevalent in more than one of the firms inspected, was surrounding the lack of documented rationale for the mitigation of potential sanctions risk. Section 3.1 of the [Handbook](#) states:

*“Similarly, it is only by (per paragraphs 33-35 of the Code) adequate-*

*ly documenting the CDD/ECDD steps and analysis that has been undertaken, as well as the reasoning behind those steps, or the documents, data or information obtained as part of the CDD/ECDD process, that relevant persons can satisfy the AML/CFT legislation and demonstrate their ongoing compliance”.*

**Further section 5.3.1 of the [Handbook](#) states:**

*“Relevant persons and MLROs need to be able to demonstrate their compliance with AML/CFT requirements. Fully documenting the reasons for decisions can assist with this”.*

Paragraph 15(7)(d) of the Code states that relevant persons must conduct enhanced customer due diligence for a situation that by its nature presents an increased risk of ML/FT i.e. sanctions risk.

It would be considered appropriate to ensure that the rationale for mitigating any potential sanctions risk be documented on the customer file. This will allow the firm to demonstrate the considerations applied to the potential risk and the outcome should the matter arise again in the future. Further, where there is more than one mitigating factor available it is suggested that all factors be documented as opposed to just one, this will add more weight to the decision-making process and the final outcome.

Subsequently, firms should ensure that any deviations to standard procedures are well documented, including the rationale for deviation. Section 2.1.2 of the [Handbook](#) details:

*“Relevant persons must ensure that the procedures and controls they have established are operated consistently. It is recognised that there may be circumstances when necessary but unforeseen or unplanned deviations from the procedures and controls may occur.”*

*Relevant persons should have procedures and controls in place to deal with these circumstances, ensuring that any deviations are subject to reasoned assessment of ML/FT risks and relevant approvals where relevant persons are satisfied they can manage those ML/FT risks. The deviation, assessment, rationale and approval should be fully documented both as regards to the case involved and subsequently as part of updating the relevant person’s documented procedures and controls”.*

## CDD / ECDD

Whilst CDD was present in all customer files reviewed, in some instances copies held on file were unclear and illegible. The Authority acknowledges that while the required documentation is held, to meet CDD requirements best practice would be to ensure that all copies of documentation are clear and legible and in the case of ID documentation, that the photograph of the customer is also clear.

Further, firms should ensure that SOF information is fully understood and documented at the outset and throughout the duration of the business relationship.



## Screening

During the course of the on-site inspections, the Authority’s officers observed a number of different sanctions screening tools and methods.

Often firms would incorporate sanctions risk into multiple forms of screening utilised by the firm for example, the firm may utilise World-check for adverse media and PEP screening and have the sanctions alerts incorporated within their package, then would also manually review

the RSS feeds from the Customs and Immigration Division followed by the inclusion of the word ‘sanctions’ within search strings when conducting open-source searches.

Whilst the above approach is a good example of a screening programme, firms must ensure that the supporting procedures and controls are followed ensuring:

- Any potential screening hits are reviewed and assessed at the

point of identification.

- The efficiency of their screening systems / processes are regularly reviewed to ensure they remain effective. This may mean enhancing search criterium or enhancing the screening programme / method.
- Clear documentation and methodology of rationale for discounting any potential sanction triggers.



## Risk assessments

It is imperative that sanctions risk is captured within a firm's BRA, further firms should ensure they also have a TRA in place especially in instances whereby third-party screening systems are utilised. The BRA, CRA and TRA should form a continuous feedback loop and should be reviewed on a regular basis and updated as required in a timely manner.

Evidencing sanctions considerations as part of the BRA, CRA and TRA processes ensures visibility across the firm, assists with assessing the required resource in order to effectively manage sanctions risk, assists with the consideration and building of an appropriate control framework and can feed into the firm's risk



appetite once the exposure has been identified, assessed and included within the BRA.

Failure to consider sanctions as part of the BRA process could leave the firm exposed to sanctions risk

which ultimately could lead to the firm facilitating the circumvention of sanctions. This enables designated persons to allow military actions, the finance and manufacture of weapons of mass destruction and to fund terrorist groups / activities.

## Procedures and controls

In some instances, it was identified by Authority's officers that the periodic review of a customer was not being carried out in line with the firms' policy and procedure requirements.

It is imperative that firms conduct their periodic reviews on a risk-based approach and in accordance with their procedure requirements, in order to demonstrate compliance with paragraph 4(1)(a)(i) of the Code.

The final point to raise in relation to areas for improvement is to ensure that the data and information being provided to the Authority is in its most accurate state.

## 2.6 Key notes to take away

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Although phase 2 was sector targeted, the learning points can be applied across the cohort of sectors. However, it is important to note that the extent to which screening measures are applied will be dependent on the size and resources of a firm and it is not expected that there will be a standardised approach.

Firms should ensure they are compliant with the relevant paragraphs of the Code, and a risk assessment must be considered to determine what additional measures should be implemented as a result.

## 2.7 Next steps

Phase 3 of the Sanctions Thematic which consists of on-site inspections, is to commence shortly and will run into 2026. This phase is risk driven using analytical outputs from both the Phase 1 Questionnaire and the 2023 AML/CFT Statistical Return.

As such, this phase will encompass a wide variety of sectors allowing the

Authority to broaden their understanding of the sanctions risk exposure to each sector on the island.

Throughout the inspections carried out in phase 2 it was identified that there was a need to broaden the inspection scope to include a review of paragraph 6 of the Code, CRAs. This will allow insight into the firms'

CRA process specifically in relation to sanctions risk, in order to understand the wider picture of risk for each customer.

Similarly, we intend to issue a thematic report following phase 3 highlighting key observations, good practice and areas for improvement.



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