

# UGM SECURITIES LTD

## Sanctions Policy

Document Reference UGM Securities Ltd – Version 1

|             | Name        | Date        |
|-------------|-------------|-------------|
| Prepared by | AML Officer | August 2023 |
|             |             |             |
|             |             |             |
|             |             |             |

August 2023

**Version Tracking:**

| SN | Author      | Description    | Date        |
|----|-------------|----------------|-------------|
| 1  | AML Officer | Initial Policy | August 2023 |
| 2  |             |                |             |
| 3  |             |                |             |
| 4  |             |                |             |
| 5  |             |                |             |
| 6  |             |                |             |
| 7  |             |                |             |
| 8  |             |                |             |
| 9  |             |                |             |

**Recipients:**

- Board of Directors
- Risk Manager
- Reception & Transmission Department
- Execution Department
- Investment Advice
- Compliance Officer
- MLCO / Alternate MLCO
- Internal Auditor

**Relevant Legislation and References:**

- The Prevention and Suppression of Money Laundering Activities Law of 2007 L188(I)/2007 as amended in 2010, 2012, 2013, 2018, 2019 and 2021 by Laws L58(I)/2010, L192(I)/2012, 80(I)/2012 101(I)/2013, 13(I)/2018, 81(I)/2019 and N.131(I)/2021,
- The CySEC Directive of March 2020 for the Prevention and Suppression of Money Laundering and Terrorist Financing,
- The Law for the Implementation of the Provisions of the UN Security Council Resolutions (Sanctions) and the Decisions and Regulations of the Council of the European Union (Restrictive Measures) Law 58(I) of 2016 as amended from time to time (the “Sanctions Law”),
- The Combating of Terrorism and Protection of Victims Law of 2019, N. 75(I)/2019 which replaced the Combating of Terrorism Law of 2010 (110(I)/2010) as amended from time to time (the “Terrorism Law”),
- The CySEC Guidance of March 2023 on Sanctions and Restrictive Measures,
- CySEC Circulars,

- Council of the European Union – Restrictive Measures (Sanctions): Update of the EU Best Practices for the effective implementation of Restrictive Measures, and
- UK's National Crime Agency – Financial Sanctions Evasion Typologies: Russian Elites and Enablers.

### Table of Contents

|  |           |
|--|-----------|
| <b>1. INTRODUCTION .....</b>   | <b>6</b>  |
| <b>2. SANCTIONS COMPLIANCE PROGRAM .....</b>   | <b>6</b>  |
| <b>3. GENERAL APPROACH TO SANCTIONS .....</b>  | <b>7</b>  |
| <b>4. SCREENING OF CUSTOMERS AND TRANSACTIONS .....</b>                                    | <b>8</b>  |
| <b>5. ACTIONS REGARDING OWNERSHIP, CONTROL, AND FAMILY MEMBERS.....</b>                    | <b>9</b>  |
| <b>6. IDENTIFICATION AND REPORTING MATCHES AND BREACHES OF THE SANCTION'S REGIME .....</b> | <b>11</b> |
| 6.1 REPORTING TO CYSEC .....   | 11        |
| 6.2 TIPPING OFF.....   | 12        |
| 6.3 REPORTING TO MOKAS.....  | 12        |
| 6.4 APPLYING TO THE ADVISORY BODY ON FINANCIAL SANCTIONS .....                             | 12        |
| <b>7. RECORD KEEPING .....</b>   | <b>13</b> |
| <b>8. EDUCATION AND TRAINING.....</b>  | <b>13</b> |
| <b>9. RED FLAGS / TYPOLOGIES .....</b>   | <b>13</b> |
| <b>10. ANNEX 1 – DUE DILIGENCE STEPS IN DETERMINING A TRUE MATCH. ....</b>                 | <b>15</b> |

**Definitions**

|                                      |  |
|--------------------------------------|--|
| “Alternate MLCO”                     | Means the person who is appointed by the BoD to perform the duties of the MLCO in the absence of the MLCO  |
| “CySEC” or “the Commission”          | Means the Cyprus Securities and Exchange Commission  |
| “Designated Person(s)”               | Means any natural or legal person or other entity against which economic or other sanctions have been instigated by virtue of the provisions of United Nations Security Council Resolutions or Decisions and Regulations of the EU Council   |
| “False Positives”                    | Means the positive matches to listed persons and entities for which, following investigation and assessment, it transpires that they do not relate to a Designated Person  |
| “MOKAS”                              | Means the Unit for Combating Money Laundering and Terrorist Financing  |
| “MLCO”                               | Means Money Laundering Compliance Officer  |
| “Sanctions”                          | Mean the UN sanctions and EU restrictive measures  |
| “Sanctions Lists”                    | Means the relevant lists issued by the United Nations and/or the European Union pursuant the UNSCR/Decisions and EU Regulations/Decisions  |
| “SAR” or “STR”                       | Means a Suspicious Activity Report or Suspicious Transaction Report  |
| “Tipping-Off”                        | Means the disclosure to the client concerned or a third-party that information or other relevant material regarding knowledge or suspicion for money laundering have been submitted or will be submitted to MOKAS, or a disclosure which may impede or prejudice the interrogation and investigation carried out in respect of prescribed offences or the ascertainment of proceeds, knowing or suspecting that the said interrogation and investigation are taking place. |
| “True Match”                         | Means a positive match for which, following an investigation, it is assessed that the person or entity concerned is a Designated Person  |
| “UN”                                 | Means the United Nations   |
| “UN and EU Sanctions” or “Sanctions” | Means UN Security Council Resolutions (Sanctions) or Decisions and the Decisions and Regulations of the Council of the European Union (Restrictive Measures)   |
| “UNSCRs”                             | Means United Nations Security Council Resolutions  |

## 1. Introduction

The Sanctions Policy (the “Policy”) of UGM Securities Ltd (the “Company”) has been prepared by taking into consideration:

- a) The nature, scale, and complexity of the Company’s business,
- b) The diversity of the Company’s operations, including geographical dispersion,
- c) The nature and characteristics of customers’ base and transactions, and
- d) The sanctions risk profile of both the Company and its clients.

The Policy and any changes thereto must be approved by the Company’s Board of Directors (the “BoD”) and communicated in a timely manner to relevant staff. **In this respect, each relevant staff member shall be required to sign an undertaking to acknowledge they received, read, and understood the Policy.**

The Policy shall be adequately monitored and reviewed by the MLCO to ensure the Company’s compliance with the Sanctions requirements, including mechanisms to ensure any new or changes to Sanctions in force are appropriately considered.

## 2. Sanctions compliance program

The Company’s Sanctions compliance program has been designed to provide safeguards against Sanctions-related risks and potential damages from Sanctions breaches, and is based on the below elements:

### a) **Management commitment**

Compliance culture throughout the Company starts from the management. The management is setting the tone from the top, by embedding a Sanctions compliance culture throughout all functions of the Company and this is reflected in important decisions. Furthermore, adequate resources and management support are committed for Sanctions compliance purposes. Accountability is also clear and evident in all levels of the Company.

### b) **Sanctions risk assessment**

A Sanctions risk assessment is key in identifying, assessing, and mitigating any Sanctions related risks that are relevant to the Company’s business operations and clients. Sanctions risks are firstly identified within a business-wide risk assessment that allows the Company to identify which business activities, locations and clients are more vulnerable to Sanctions-related risks and how in the conduct of business sanctions provisions could be breached, consequently allocating Sanctions-related resources to the vulnerable areas. The Sanctions risk assessment is conducted on a client basis, by identifying and assessing Sanctions-related risks emanating from clients’ activities, clients’ characteristics (complex structures, omnibus accounts), locations (i.e., jurisdictions under embargoes), products/services (i.e., can the service offered be exploited for Sanctions evasion) and delivery channels. The Sanctions risk

assessment identifies and evaluates potential threats and vulnerabilities that the Company is facing from Sanctions-related risks that if not properly managed, it might lead to possible violations of Sanctions/Restrictive Measures.

c) **Internal policies, procedures, systems, and controls**

The Company has designed and implements effective policies, procedures, systems, and controls for minimizing the risks identified from the Sanctions risk assessment performed. A vital aspect of this element is the procedures in place for Sanctions screening for clients, their activities and transactions, as well as documenting these checks/investigations.

d) **Testing and auditing**

An assessment of the effectiveness of the internal policies, procedures, systems, and controls shall be performed periodically. If weaknesses and/or deficiencies are identified, the Company shall apply corrective measures to mitigate them.

e) **Training and awareness**

An effective training program shall be designed for achieving the appropriate level of quality for the internal policies, procedures, systems, and controls in place for Sanctions and Restrictive Measures. The training program shall be tailored to the Company's Sanctions risk assessment, including an element for assessing the adequacy and effectiveness of staff training. In addition, clear responsibilities shall be assigned to employees for Sanctions-related issues.

### 3. General approach to Sanctions

The Company implements a policy of zero-tolerance when it comes to Sanctions. Sanctions can be categorised according to their characteristics as follows:

- **Comprehensive Sanctions:** These Sanctions target entire countries or geographic regions and prohibit most activity involving the targeted jurisdictions i.e., asset freezes, prohibitions on products and services, imports and exports, diplomatic cessations etc. Their aim is to change governmental policies and activities by cutting the targeted country out of the markets, imposing economy-wide costs, and restricting access to a wide range of goods and services. The UN, the EU, and other countries such as the U.S., have imposed comprehensive sanctions (e.g., U.S. sanctions on North Korea),
- **Regime-based Sanctions:** These Sanctions target current or former governments or regimes. They are primarily list-based, focusing on high-ranked officials of the respective regime that posed threats. Their aim is to protect human rights, therefore regime-based Sanctions target any legal or natural person involved in serious violations of human rights. The UN, the EU, and other countries such as the U.S., have imposed regime-based sanctions (e.g., EU Restrictive Measures against Belarus for internal repression),

- **Sectoral Sanctions:** These Sanctions target entities in key sectors of a country's economy with the aim to limit their activities in the respective sector. Sectoral Sanctions do not impose asset freezes, rather they restrict the ability of the targeted entities to access financing, import or export equipment, goods, services, or technology (e.g., EU Restrictive Measures against Russia, for prohibitions on the energy sector, imports/exports of specific goods/services, aviation and space industry, gold, and precious metals, etc.),
- **Conduct-Based or List-based Sanctions:** These Sanctions target any person or organisations that engage in any type of malicious activity, such as terrorism, drugs trafficking, bribery, corruption, organized crime, proliferation of weapons of mass destruction, human rights violations, etc. For persons included in these Sanctions lists, their assets and economic resources must be frozen and is prohibited to make any funds or economic resources available to them,
- **Secondary Sanctions:** These Sanctions are a special category of Sanctions, which are applied by the U.S. to prohibit engagement in transactions with sanctioned persons in jurisdictions where the U.S. has no authority.

#### 4. Screening of customers and transactions

As a policy, the Company performs background checks (screenings) against the Sanctions Lists (as well as against other organisations that it may consider appropriate such as OFAC) as follows:

- a) On all prospective clients before the establishment of the business relationship (or the execution of an occasional transaction). As part of this process, the Company performs screenings on any other related party, including:
  - Directors,
  - Beneficial owners,
  - Authorised signatories,
  - Nominees,
  - Trustees,
  - Counterparties to agreements,
  - Intended recipients of funds, where there is reason to believe that they may be subject to Sanctions.
- b) On existing clients, as part of its on-going monitoring process, to identify whether a client with whom a business relationship has been established has been included in any Sanctions Lists after the establishment of the relationship.
- c) On existing clientele whenever a new UNSCR or EU Decision/Regulation is issued, or when there are additions or changes to the existing Sanctions lists.



**Transaction screening:**

Transaction screening refers to the process of screening a movement of value within the Company's records, including funds, goods, or assets, between parties or account to identify possible Sanction targets.

Transaction screening is performed on a real-time basis, i.e., before the transaction is executed. Focus is placed primarily on cross-border transactions, which carry a higher risk as opposed to domestic transactions that are subject to the same jurisdictional regulatory requirements.

In determining which transactions to screen, factors to consider include the following:

- a) The materiality of the transaction,
- b) The nature of the client's business,
- c) The characteristics of the transaction, (e.g., cross-border transaction, currency used, the rooting of the transaction),
- d) Availability of adequate information to ascertain whether it is a potential match.

The Company shall keep a clear and documented audit trail of the investigation of the potential target matches and the decisions and actions taken, such as the rationale for deciding that a potential target match is False Positive or True Match.

**5. Actions regarding ownership, control, and family members****Ownership:**

All Sanctions lists include Designated Persons, either natural or legal. If a Designated Person is deemed to own (directly or indirectly through intermediary companies) or control a non-listed entity, it can be presumed that the control also extends to the assets of that legal entity (and its subsidiaries), and that any funds or economic resources made available to that entity would reach or benefit the Designated Person. Therefore, the assets of the legal entity which is owned or controlled by the listed person must also be frozen.

EU Restrictive Measures apply the "50% rule". When assessing whether a legal entity is owned by another person or legal entity, the criterion to be considered is the possession of more than 50% of the proprietary rights of a legal entity or having majority interest in it. The assessment for the 50% rule also takes into consideration the aggregate ownership i.e., if a legal entity is directly owned by more than one Designated Person, their aggregate ownership should be considered and if it amounts to more than 50%, then the legal entity is considered to be a Sanctioned entity.

**Control:**

If the ownership criterion is not met (50%), the control of the assessed entity should be considered. 'Control' means that a person is able to and effectively asserts a decisive influence over the conduct of the legal entity that is being assessed.

As per the updated guidance provided by the EU Council on EU Best Practices for the effective implementation of Restrictive Measures, the factors to be taken into account in assessing whether a legal entity is controlled by another person or entity, alone or pursuant to an agreement with another shareholder or other third party, could include, inter alia:

- a) Having the right or exercising the power to appoint or remove a majority of the members of the administrative, management or supervisory body of such legal person or entity,
- b) Having appointed solely as a result of the exercise of one's voting rights a majority of the members of the administrative, management or supervisory bodies of a legal person or entity who have held office during the present and previous financial year,
- c) Controlling alone, pursuant to an agreement with other shareholders in or members of a legal person or entity, a majority of shareholders' or members' voting rights in that legal person or entity,
- d) Having the right to exercise a dominant influence over a legal person or entity, pursuant to an agreement entered into with that legal person or entity, or to a provision in its Memorandum or Articles of Association, where the law governing that legal person or entity permits its being subject to such agreement or provision,
- e) Having the power to exercise the right to exercise a dominant influence referred to in point (d), without being the holder of that right,
- f) Having the right to use all or part of the assets of a legal person or entity,
- g) Managing the business of a legal person or entity on a unified basis, while publishing consolidated accounts,
- h) Sharing jointly and severally the financial liabilities of a legal person or entity or guaranteeing them,
- i) Having influence as regards corporate strategy, operational policy, business plans, investment, capacity, provision of finance, human resources and legal matters,
- j) Putting in place or maintaining mechanisms to monitor the commercial conduct of the legal person or entity,
- k) Other indicia such as sharing a business address or using the same name which could cause third parties to have the impression that the two entities are in fact part of the same undertaking.

If any of the above factors are satisfied, it is considered that the legal entity is controlled by another person or entity, unless the contrary can be established on a case-by-case basis. The control criterion should be decided on a case-by-case basis, following a thorough assessment by the affected regulated entity.

**Family members:**

Sanctions against Designated Persons could also extend to family members or non-designated third parties, if, as part of the “control factors” mentioned above, any of the below criteria is met:

- a) The closeness of business and family ties between the Designated Person and the third person,
- b) The professional independence of the third person now owning the assets,
- c) Previous gifts given to the third person and how they compare to the transaction in question,
- d) The frequency/regularity of previous gifts to the third person,
- e) The content of formal agreements between the Designated Person and the third person,
- f) The nature of the assets (e.g., whether these are shares in a company owned or controlled by the Designated Person).

**6. Identification and reporting matches and breaches of the Sanction’s regime**

In case where the screening process identifies a potential positive match:

- a) The MLCO shall investigate whether the potential target match is False Positive or True Match,
- b) In case of False Positive, the Company shall proceed to the establishment of the business relationship,
- c) In case of True Match, the Company’s senior management will be notified accordingly, and the Company will refrain from entering a business relationship and reporting procedures are applied immediately,
- d) Where a True Match relates to an existing relationship, the Company’s senior management will be notified accordingly, and the Company will immediately freeze all the funds, financial assets and economic resources of the Designated Person under the Company’s possession and/or refrain from executing any transaction or providing any service,
- e) The Company shall inform CySEC of the existence of a True Match on its client base in connection to financial sanctions and the actions taken in order to comply with the Sanction’s requirements and the reporting obligations.

When trying to identify a positive match as a True Match, the Company should seek to obtain enough information as to be able to confirm or eliminate the positive match. For more information regarding identification of True Matches, refer to **Annex 1**.

**6.1 Reporting to CySEC**

Reporting to CySEC, will include, as a minimum, the following:

- Information on which knowledge or suspicion was based to support the conclusion of the existence of a True Match,
- All information that the Company has in relation to the Designated Person,
- All information regarding the nature, amount and quantity of funds and economic resources which the firm holds in the name of the Designated Person, including:
  - Details of the assets, name and address of the owner or controller of the assets, and
  - Details of any transactions involving the assets, including:
    - The name and address of the sender,
    - The name and address of the intended recipient,
    - The purpose of the attempted transaction,
    - The origin of the assets, and
    - The intended destination of the assets.
- Information of any corporate vehicles, directly or indirectly, owned by the Designated Person.

## 6.2 Tipping Off

There is **no** “Tipping Off” offence in relation to Sanctions and/or Restrictive Measures, since the information related to Sanctioned persons and/or entities, constitutes public information.

## 6.3 Reporting to MOKAS

The identification of a Designated Person alone and/or holding funds and other financial assets in the name of a Designated Person, does not in itself constitute grounds for filing a SAR/ STR with MOKAS.

Nonetheless, should a reasonable suspicion of a crime arise or there is a True Match concerning terrorism related Sanctions, the Company shall also submit a SAR/ STR to MOKAS in compliance with its requirements under the AML/CFT Law.

The Company has established clear reporting processes to comply with its obligation to report to MOKAS, where and as applicable.

## 6.4 Applying to the Advisory Body on Financial Sanctions

Where the Company intends to take an action which falls within those cases that may be approved under the provisions of the Sanctions or Restrictive Measures, the Company shall submit, prior to taking the said action, through its Compliance Officer, a relevant application to the Unit for the Implementation of Sanctions in the Financial Sector, or, as the case may be, to its credit institution for submission by it to the Advisory Body on Financial Sanctions, for approval or rejection.

## 7. Record Keeping

The Company shall keep Sanctions related information and documents for a period of five (5) years. This will include documents and information in relation to True Matches, investigations, and outcome thereof and final decisions taken.

As a minimum, the below shall be kept:

- The information or grounds which triggered the match (i.e., the positive match of the screening process)
- Any further checks, actions or enquiries taken,
- The applicable Sanctions regime,
- The person(s) involved, including any members of the Compliance Department or Senior Management who concluded that the positive match represented a False Positive,
- The nature of the relationship with the person or entity involved, including attempted or refused transactions,
- Action taken following the classification of the match as a True Match, and
- Any consultation with or filing a report with MOKAS.

## 8. Education and Training

The MLCO is responsible to ensure that the BoD and relevant staff are aware of the Company's Sanctions obligations and the related policies and procedures. In this respect, at least once a year, or more frequently if that is deemed necessary, the MLCO shall organize an internal training session (which may be carried out alongside AML/CFT training) of at least two hours duration, to which the BoD and relevant staff must participate. Proof of attendance to the training session shall be documented via signed participation forms, which shall be accompanied by a copy of the training material. The MLCO shall evaluate the adequacy of the training provided via interviews or written assessment tests.

## 9. Red flags / typologies

Red flags, which cover Sanctions evasion attempts, may include:

1. Abuse of the financial system (use of corporate vehicles, shell companies and third parties to shield the identity of sanctioned persons, newly established accounts that attempt to send or receive funds from a sanctioned institution, non-routine foreign exchange transactions etc.),
2. Use of convertible virtual currencies (transactions initiated from or sent to nontrusted Internet Protocol (IP) addresses such as from locations in Russia and Belarus and customers using exchanges or foreign-located Money Service Businesses (MSBs) in a high-risk jurisdiction with AML/CFT/CP deficiencies etc.),

3. Ransomware attacks and other cybercrime (transfer of funds using a virtual currency ‘mixing’ service, etc.),
4. Designated Persons are communicating changes to the beneficial ownership of their corporate structures, such as Private Investment Companies (PICs) and Joint Stock Companies (JSC), to non-Russian or dual national family members or associates, or nominee directors/shareholders, prior to, or shortly after sanctions taking effect. These new individuals are likely to be a front, with the designated person maintaining indirect control,
5. Changes to ownership of a corporate holding to reduce ownership stakes to below the 50% threshold, shortly before or after sanctions designations. Where the transaction does not appear to be at “arms-length”, the designated person may still be able to initiate undue influence through associates or existing corporate governance, or through a joint arrangement,
6. Use of trust arrangements or complex corporate structures involving offshore companies, with circumstances of transfers calling into question whether the original owner retains indirect control or otherwise could retain a benefit from the assets transferred,
7. Holding companies based in jurisdictions that are offshore and/or historically linked to former Soviet Union jurisdictions,
8. Trust and Company Service Providers (TCSPs) offering nominees and trustee services to designated persons and close family members or business associates,
9. Use of banks and financial organisations owned by close associates of Designated Persons,
10. The appointment of a nominee director to manage the assets of the company and beneficial ownership is obscured through the use of nominee shareholders and a deed of trust between the parties, with the Designated Person claiming to have divested the asset,
11. The use of a complex trust structure for the ownership of a luxury asset, which is overseen by a trust company and its trustees for no apparent legitimate reason,
12. Holding companies based in jurisdictions that are offshore and historically linked to assets in the former Soviet Union,
13. Identification of transactions by holding companies linked with designated persons with Swiss bank accounts and offshore-registered legal persons,
14. Payments via a Fintech with Russian investor nexus including customer’s transactions that are initiated from or sent to IP addresses that have non-trusted sources, or are located in Russia, Belarus, jurisdictions with FATF-identified AML deficiencies or comprehensively sanctioned jurisdictions,
15. Circumvention attempts through Open Account Trade-Based Money Laundering typology, such as increases in third party open account payments.

## 10. Annex 1 – Due Diligence steps in determining a true match.

**Step 1:** Is the “match” against a Sanctions List or is it a “match” for any other reason, e.g., PEP, adverse media etc.?

If the “match” is against a Sanctions List, proceed to step 2 below.

If the “match” is for any other reason, it is not a “match”.

**Step 2:** Evaluate the quality of the match. Compare the name of the person concerned with the name on the Sanctions List. Is the name in the Company’s possession a natural person while the name on the Sanctions List concerns a legal person, vessel (or vice-versa)?

If yes, it is not a true match.

If no, proceed to step 3 below.

**Step 3:** How much of the listed entry’s name is matching against the name of the client, e.g., just the last name?

If yes, it is not a true match.

If no, proceed to step 4 below.

**Step 4:** Compare the complete Sanctions List entry with all the information that the Company has on the matching name. An entry will often have a full name, address, nationality, passport, tax ID, place of birth, date of birth, former names, and aliases.

Is a lot of this information for the name missing?

If yes, the Company’s due diligence process is lacking, and more information shall be obtained and then compare the complete information against the entry.

If no, proceed to step 5 below.

**Step 5:** Are there several similarities or exact matches?

If yes, it is a true match. Reporting and freezing procedures apply immediately.

If no, it is not a true match.