



Terrorist Financing Risk Assessment



Combating terrorism became a priority and a hot topic of many discussions after the terrorist attacks of 11 September 2001 in the United States. Subsequent to these attacks, the Financial Action Task Force (FATF) developed eight (8) Special Recommendations to address terrorist activities and financing. These were incorporated into the revised 40 FATF Recommendations in 2012. The FATF Recommendations are frequently revised to enhance measures to address emerging trends. Each jurisdiction is required to have the appropriate legislation to identify, track, combat and mitigate the risks of possible terrorist activities. The Financial Services Regulatory Commission's (FSRC's) mandate includes the supervision of regulated entities and their compliance with the Anti-Terrorism Act and such other Acts, regulations, codes or guidelines relating to the financing of terrorism. The relevant legislation is regularly reviewed to ensure that St. Kitts and Nevis remains current and in accordance with international standards.

“ The FATF plays a central role in global efforts in combating terrorist financing:

- through its role in setting global standards to combat terrorist financing,*
- by assisting jurisdictions in implementing financial provisions of the United Nations Security Council resolutions on terrorism, and;*
- by evaluating countries' ability to prevent, detect, investigate and prosecute the financing of terrorism.”*

Depending on the scale of the terrorist activity planned and organised, there usually is some level of non-self financing and fund raising. This level of financing of terrorism can be traced and combated if there are suitable mechanisms in place to monitor activities and transactions. It is fundamental to have adequate Countering the Financing of Terrorism (CFT) measures designed to stifle financing opportunities for terrorist groups. These measures must assist Authorities, Financial Institutions (FIs) and other entities susceptible to abuse by terrorist groups (such as Non-Profit Organizations (NPOs)) in reducing a jurisdiction's TF threat and vulnerability and essentially its TF risk.

Definition Corner

Terrorist Financing (TF)—the financial support of terrorists in order to carry out their agendas.

TF risk—a function of three factors: threat, vulnerability and consequence.

TF threat—person or group of people with the potential to cause harm by raising, moving, storing or using funds and other assets (whether from legitimate or illegitimate sources) for terrorist purposes.

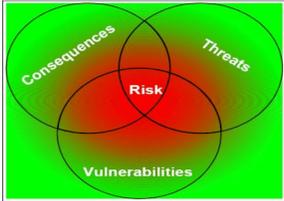
TF vulnerability—comprises those things that can be exploited by the threat or that may support or facilitate its activities. Vulnerabilities may include features of a particular sector, a financial product or type of service that makes them attractive for TF, weaknesses in measures designed specifically for CFT or more broadly in AML/CFT systems or controls, or contextual features of a jurisdiction that may impact opportunities for terrorist financiers to raise or move funds or other assets (e.g. large informal economy, porous borders etc.).

TF consequence—the impact or harm that a TF threat may cause if TF occurs. This includes the effect of the underlying terrorist activity on domestic or institutional financial systems and institutions, as well as the economy and society more generally.

TF risk assessment—a product or process based on a methodology, agreed by those parties involved, that attempts to identify, analyse and understand TF risk and serves as a first step in addressing them.

Virtual Assets—a digital representation of value that can be digitally traded, or transferred, and can be used for payment or investment purposes. Virtual assets do not include digital representations of fiat currencies and securities.





Terrorist Financing Risk

Recommendation 1 of the FATF Recommendations requires a jurisdiction to identify, assess and understand its risks including TF risks. Jurisdictions should adopt a risk based approach to ensure measures to prevent and mitigate TF are commensurate with the risks identified and review the risk assessment on an ongoing basis to accommodate changes in the regulatory environment and emerging trends.

In 2019, St. Kitts and Nevis completed its National Risk Assessment (NRA) which included an assessment of its TF risks. St. Kitts and Nevis determined its TF risk to be low based on the following factors:

- ⇒ No Suspicious Transaction Reports (STRs) filed with the Financial Intelligence Unit (FIU).
- ⇒ No TF related investigations conducted.
- ⇒ No Mutual Legal Assistance Requests in respect of suspected terrorists or known terrorist financing related activities were received during the assessment period of the NRA (2014—2018).
- ⇒ No International Requests received by the FIU regarding TF activities during the assessment period (2014—2018).
- ⇒ No known evidence of TF activities within the financial services systems.

The absence of any threats such as known activities or transactions involving designated terrorists or terrorist groups does not mean the jurisdiction is automatically deemed low risk. The jurisdiction, financial institutions (FIs) and Designated Non-Financial Businesses and Professions (DNFBPs) must have monitoring systems in place to identify persons, transactions and activities that are suspicious. Additionally, adequate legislation must be developed and implemented to detect, monitor and deter TF to reduce any vulnerability and susceptibility to financial crime.

The following legislation has been established in St. Kitts and Nevis to combat TF:

- ◇ Anti-Terrorism Act, Cap 4.02
- ◇ Anti-Terrorism (Prevention of Terrorist Financing) Regulations, No. 47 of 2011
- ◇ Anti-Terrorism De-Listing Procedures Regulations, No. 62 of 2011

All legislation is available on the FSRC’s website: www.fsrc.kn.

References:

1. FATF REPORT Terrorist Financing Risk Assessment Guidance, July 2019
2. <https://www.fatf-gafi.org/publications/fatfgeneral/documents/terroristfinancing.html>
3. <https://www.rand.org>

Emerging Risks

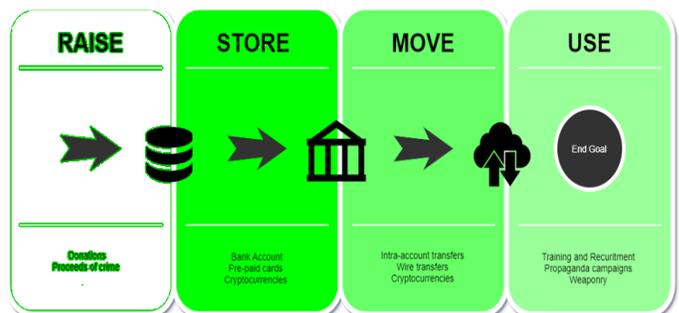
Fundamentally, terrorist financing activities are tracked by monitoring and tracing funds flowing through accounts held in banking institutions or cross border transactions with money remitters. Consequently, counter financing of terrorism policies and strategies developed have focused on measures to reduce these financial transactions with fiat currency. These measures have proven to be successful in the fight against terrorist financing. Therefore, terrorists must find new avenues to facilitate their funding activities. Hence with the rise of the use of virtual assets in the global market, discussions have begun among regulators and policy makers on the need to develop adequate measures to combat the misuse of this new technology. As TF risk assessment is an ongoing process, new risks must be considered.

ONGOING



Recommendation 15 of the FATF Recommendations requires countries, FIs and DNFBPs to assess the risks associated with new products and technologies. Therefore, the introduction of these products must be considered when determining TF risk. With the advancement of the digital age, criminals can take advantage of the absence or limited regulation and supervision in this area. The following aspects of virtual assets can be attractive:

- ⇒ *Anonymity*—the ability to hide and protect the identity of the user.
- ⇒ *Usability*—the ease through which the user can conduct transactions and manage his or her own currency.
- ⇒ *Security*—the degree to which the virtual assets infrastructure secures confidentiality, integrity, and accuracy of transactions and user accounts.
- ⇒ *Acceptance*—the degree to which the currency is accepted by a user community.
- ⇒ *Reliability*—the speed and availability of transactions.



#STOP TERROR FINANCE
DEPRIVE TERRORIST GROUPS
 From accessing, raising, and moving funds