FINANCIAL INFORMATION UNIT

TYPOLOGY REPORT

FINANCIAL SANCTION EVASION AND SANCTION CIRCUMVENTION

UPDATED VERSION 2.0

2026

CONTENT

I. OBJECTIVE 2
II. SANCTIONS 3
2.1 Types of sanctions 5
2.2 Implementation of sanctions 7
2.3 Significance and adverse consequences of sanctions measures 8
2.4 Secondary sanctions 9
III. ECONOMIC SANCTIONS INTERNATIONALLY 10
3.1 Use of third countries, intermediaries and alternative trade routes to circumvent sanctions 10
3.2 Use of virtual assets to evade or circumvent sanctions 11
IV. REGULATORY FRAMEWORK OF MONGOLIA 13
V. TYPOLOGY 15
5.1 International typologies of financial sanctions evasion and sanctions circumvention 15
VI. RED FLAGS INDICATORS 18
6.1 Indicators Related to the Import and Export of Goods 18
6.2 Customer due diligence-related red flags 19
6.3 Indicators Related to the Financial System 20
6.4 Red flags related to changes in activity following the introduction of sanctions 22
VII. PREVENTIVE MEASURES 24
LIST OF REFERENCE 26

I. OBJECTIVE

Countries and international intergovernmental organizations, including the United Nations Security Council and the European Union, employ a range of multilateral instruments and mechanisms to prevent and address threats to international peace and security.

In recent years, sanctions policies and regimes have increasingly been used by states and international intergovernmental organizations as instruments of foreign policy. Available data show a steady increase in the number of sanctions imposed by major sanctioning jurisdictions and international organizations between 2021 and 2024. For example, the highest number of European Union sanctions prior to 2020 was 298 designations (243 individuals and 55 entities). This increased to 1,510 designations in 2022 (1,349 individuals and 161 entities) and 767 in 2023 (489 individuals and 278 entities).

Among the sanctions regimes implemented internationally, Mongolia is obligated to comply with the sanctions lists issued by the United Nations Security Council relating to the financing of terrorism and the financing of the proliferation of weapons of mass destruction. Mongolia is not legally required to comply with sanctions imposed unilaterally or by other international intergovernmental organizations. Nevertheless, the risk of sanctioned countries and entities using third countries to evade or circumvent unilateral and multilateral sanctions has increased.

In light of the growing international use of sanctions, there is a need to develop a typology report that outlines the sanctions measures applicable within Mongolia's AML/CFT framework, explains the sanctions that must be implemented, preventive measures, and common trends in sanctions evasion. Accordingly, the Financial Information Unit of Mongolia has prepared this typology report on financial sanctions evasion and sanctions circumvention.

This typology report has been prepared with the following objectives:

1. To enhance the understanding of reporting entities regarding sanctions evasion and sanction circumvention to raise awareness of sanctions lists that are required to be implemented.
2. To strengthen the capacity of reporting entities to identify, detect, and take appropriate measures to prevent transactions and activities intended to to evade or circumvent sanctions.
3. To support reporting entities in identifying customers, products and services that may, intentionally or unintentionally, be involved in sanctions-circumvention activity.

II. SANCTIONS

Sanctions is the measures imposed by states or international organizations to restrict the financial freedom, economic activities, and business operations of countries, natural persons, or legal entities that threaten the national interests of a government or violate international norms and legal instruments.

In 432 BC, Athens adopted the "Megarian Decree", excluding Megarians from Athenian ports and restricting trade with Megara.[1] Following the First World War, the League of Nations developed sanctions into a multilateral, legally regulated instrument under the principle of collective security. After the establishment of the United Nations in 1945, Articles 39 and 41 of the UN Charter vested the Security Council with authority to impose sanctions. From the 1990s onward, criticism that comprehensive country-wide sanctions disproportionately affected ordinary citizens contributed to the development of modern targeted financial sanctions. Since 1966, the UN Security Council has established 31 sanctions regimes, 15 of which remain in force.

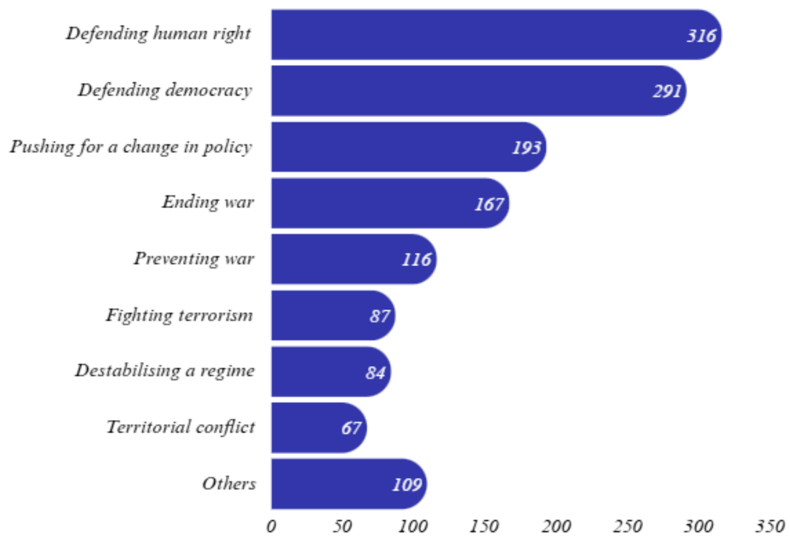
Sanctions also serve broader purposes, including preventing and managing interstate conflicts, combating terrorism, strengthening cybersecurity, holding human rights violators accountable, and preventing the proliferation of nuclear weapons. Accordingly, sanctions constitute an important instrument of foreign policy. Broadly, sanctions may be categorized according to their primary objective as signalling sanctions, coercive sanctions, and punitive sanctions, as described below:

- ***Signalling sanctions:*** States or regional organizations impose sanctions to express their opposition to the policies or actions of another state while leaving open the possibility of further measures. Such sanctions are often used to signal disapproval of conduct that violates internationally accepted norms.
- ***Coercive sanctions:*** Imposing economic costs and pressure on a state or person in order to induce a change in policy or conduct.
- ***Capacity-constraining (neutralizing) sanctions:*** Measures aimed at physically preventing a designated person or entity from accessing the resources, technology, and financing necessary to achieve a specific objective, such as developing nuclear weapons or financing terrorism.
- ***Punitive sanctions****:* A sanctioning state or regional organization may impose restrictive measures in response to past misconduct, such as human-rights violations, including restrictions on specified assets or financial services.

[1] Morgan, T. C., Syropoulos, C., & Yotov, Y. V. (n.d.). Economic Sanctions: Evolution, Consequences, and Challenges. The Journal of Economic Perspectives, Vol. 37(No. 1), pp. 3-30. https://www.jstor.org/stable/27192407

According to Desbordes R. and Munier F. (2023), the principal reasons for imposing sanctions include the following.[2] Their study indicates that sanctions are most commonly imposed to protect human rights, safeguard democracy, and compel target states to modify their policies

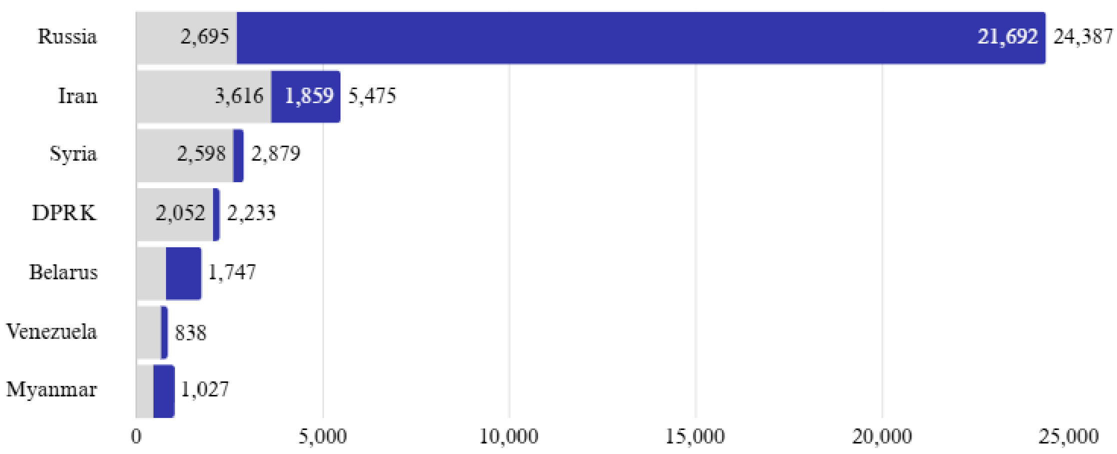
Figure 1. Main reasons for imposing sanctions



Source: Institut Jacques Delors (2024)

The following figure illustrates the seven countries subject to the highest number of sanctions as of 19 January 2025, ranked according to the total number of sanctions imposed. (Figure 2)

Figure 2. Most sanctioned nations, 2025



Source: Castellum AI (2025)

As illustrated in the figure above, the number of sanctions imposed against the Russian Federation increased significantly following the outbreak of the Russia–Ukraine war in 2022.

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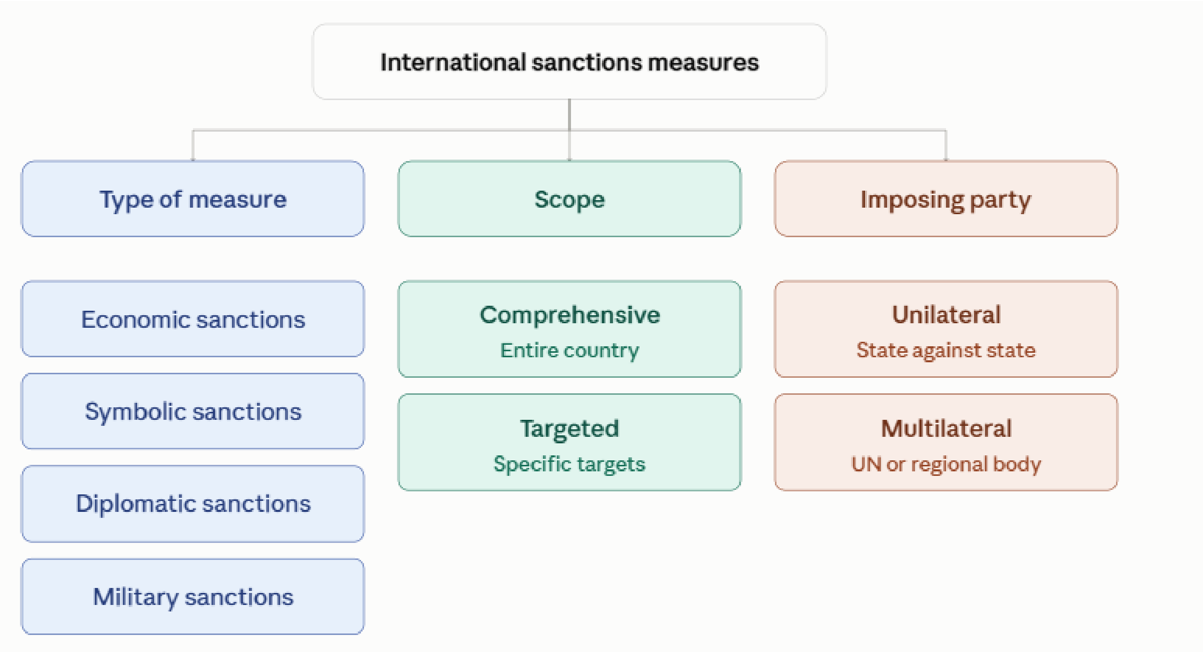
[2] Institut Jacques Delors. (2024, September 26). *Understanding international sanctions.* Institut Jacques Delors. Retrieved May 12, 2025, from https://institutdelors.eu/wp-content/uploads/2024/09/Infographie_Santions_Russie_Matelly_EN_A4.pdf

2.1 Types of sanctions

Sanctions can be classified based on their type, scope, and the imposing authority as follows: [3]

Figure 3. Classification of international sanctions measures



Source: Schmitt (2016)

Sanctions can be categorized into the following four main types. These are further explained below:

1. ***Economic sanctions*** is defined as "measures aimed at disrupting conventional trade and financial relations in pursuit of foreign policy and national security objectives." This type of sanction is widely used by countries and generally consists of trade sanctions, financial sanctions, and other measures aimed at restricting economic activities.
    - Trade sanctions
        - Prohibitions on goods, products and services
        - Restrictions on investment activities
        - Import and export restrictions
        - Other measures
    - Financial sanctions
        - Restrictions on interbank transactions
        - Restrictions on foreign-exchange transactions
        - Exclusion from the SWIFT network
        - Freezing of accounts belonging to legal entities, individuals, and government institutions

[3] Schmitt, O. (2016). *International Sanctions.* In M. D. Cavelty, & T. Balzacq (Eds.), Routledge Handbook of Security Studies (2nd Ed.) (2nd edition ed., pp. 360-370). Routledge.

   - Asset freezes
   - Other measures

2. ***Cultural/Sport Sanctions*** (often symbolic in nature) serve as a means for the international community or a group of countries to express their opposition to specific policies or actions of a particular state. These measures are primarily intended to demonstrate a political stance without causing significant additional economic costs or direct losses.

3. ***Diplomatic Sanctions*** are directed toward government representatives and key individuals of a targeted country. Such measures may include revoking visas of diplomats, politicians, or influential figures from the sanctioned country, as well as restricting or suspending their participation in international organizations.

4. ***Military Sanctions*** target military cooperation and related activities. These measures may include the suspension or termination of military training programs, arms trade restrictions, and the cancellation or postponement of joint military exercises.

Furthermore, sanctions may vary in scope. They can be comprehensive in nature, covering an entire country, as demonstrated by the long-standing sanctions imposed by the United States on Cuba, or they can be more targeted, focusing on specific businesses, groups, or individuals.

Sanctions can also be classified based on the characteristics of the sanctioning authority as follows:

- ***Multilateral sanctions*** are imposed by international organizations, such as the United Nations Security Council or intergovernmental organizations (e.g., the European Union), against specific countries, legal entities, or individuals. Member states are obligated to implement and comply with such sanctions. As a member of the United Nations, Mongolia must comply with the sanctions lists issued by the UN Security Council, particularly those related to countering the financing of terrorism and preventing the financing of proliferation of weapons of mass destruction. Furthermore, the FATF, as the global standard-setting body for financial sanctions related to anti-money laundering (AML), countering the financing of terrorism (CFT), and countering proliferation financing (CPF), assesses countries' compliance frameworks based on the FATF 40 Recommendations. In particular, Recommendation 6 and Recommendation 7 require countries to implement targeted financial sanctions established by the United Nations Security Council in relation to terrorism, terrorist financing, and the proliferation financing of weapons of mass destruction.

- **Unilateral sanctions** are imposed by a single country based on its own decisions and policies against another country, legal entity, or individual. Each country has its own domestic laws and regulations governing the implementation of unilateral sanctions against specific states, organizations, or individuals. The United States has used sanctions as a key foreign policy instrument since the 1950s. In recent years, it has imposed sanctions against approximately 25 countries, including the Islamic Republic of Iran, the Democratic People's Republic of Korea (North Korea), the Bolivarian Republic of Venezuela, and the Russian Federation.
- **Secondary sanctions** are measures directed against third parties that engage in activities with sanctioned persons or entities and thereby assist them in circumventing sanctions.

2.2 Implementation of sanctions

The legal effect and the legal framework governing the implementation of sanctions vary depending on the entity imposing them. Multilateral sanctions adopted by the United Nations Security Council are legally binding on all UN Member States and must be implemented accordingly.

In contrast, unilateral sanctions, as well as sanctions imposed by international intergovernmental organizations other than the United Nations, do not generally create an obligation for other countries to comply with them under international law. Some countries consider extraterritorial unilateral sanctions to be inconsistent with international law. Nevertheless, such sanctions may still need to be taken into consideration due to the potential risk of exposure to secondary sanctions.

At the international level, issues related to sanctions implementation have increasingly arisen in connection with **sanctions evasion** and **sanctions circumvention**. Although the concepts of sanctions evasion and sanctions circumvention are closely related, they are distinct in terms of their meaning and scope.

SANCTIONS EVASION	SANCTIONS CIRCUMVENTION
Definition: The intentional concealment of a sanctioned person, asset, financial transaction, goods, services, or the links between them, including through false or misleading information or avoidance of controls, in order to evade the implementation of sanctions. **Example:** Concealing the name or beneficial ownership information of a person or entity designated under sanctions, altering the stated purpose of a payment or information on the parties involved in a transaction, and using false	**Definition:** The use of third countries, legal persons, individuals, intermediaries, alternative payment channels, new ownership or control structures, or alternative trade and shipping routes to evade, bypass, or undermine the implementation, purpose, or effectiveness of sanctions, or to facilitate the continuation of sanctioned activities. **Example:** Continuing trade and payment transactions that were previously conducted directly with a sanctioned person or entity before the imposition of sanctions, by using newly established companies, intermediaries in third countries, other financial institutions,

contracts, invoices, or shipping documents may be used to evade sanctions. **Transaction monitoring:** Name screening; inconsistencies between transactions and documents; indicators of concealment; beneficial ownership and relationship checks.	re-export arrangements, or transit trade routes after sanctions have been imposed, may indicate a risk of sanctions circumvention. **Transaction monitoring:** Compare and analyze transaction patterns, ownership/control structures, intermediaries, third countries, trade routes, and changes observed before and after sanctions were imposed.

Sanctions evasion and sanctions circumvention may occur simultaneously within the same scheme. For example, if a sanctioned person transfers ownership of a company to a nominee and continues its business through a newly established company in a third country, while falsely declaring information concerning the ultimate beneficial owner and the end-user of the goods, the use of nominee ownership, intermediaries, and a third country constitutes elements of **sanctions circumvention**, whereas concealing the true ownership and information about the parties involved constitutes elements of **sanctions evasion**.

Therefore, reporting entities should not limit sanctions screening to checking whether a customer's name matches that of a person or entity designated under a sanctions list. They should also, on a risk-based approach, assess whether the customer, transaction, ownership structure, or trade arrangements have changed following the imposition of sanctions, and whether the customer is continuing its previous activities through new intermediaries, third countries, or related parties.

2.3 Significance and adverse consequences of sanctions measures

The literature presents different views on the effectiveness of sanctions measures. The following section synthesizes the common findings across these studies regarding both the significance and the adverse consequences of sanctions.

Significance of Sanctions Measures

International sanctions are a foreign policy instrument employed by states or international organizations to curb violations, uphold international law and regulatory order, safeguard peace and security, and protect human rights. These measures exert influence by weakening the economic, military, or political capacity of a targeted individual, entity, or state, thereby halting its activities or inducing a change in policy. Sanctions further play a critical role in preserving the integrity of the international community's rules-based order, protecting the interests of individuals whose rights have been violated, and holding perpetrators legally accountable.

Adverse consequences of sanctions measures

On the other hand, sanctions may adversely affect not only designated persons and entities but also the livelihoods of ordinary citizens and vulnerable groups in the targeted country. Studies have indicated that country-wide sanctions may have adverse effects on food security, access to healthcare, employment, and poverty levels. Furthermore, sanctions may undermine domestic political stability, fuel radicalization and social unrest, and have long-term negative impacts on regional economies, investment, and trade. Sanctions are generally regarded as a measure of last resort in international relations.

In recent years, countries have increasingly favored targeted financial sanctions directed at specific persons, entities, or activities, with the aim of minimizing the adverse humanitarian and economic consequences of broad-based sanctions. However, sanctions circumvention can undermine the effectiveness of sanctions and create a risk that they may fail to achieve their intended objectives. Therefore, in order to ensure the effective implementation of sanctions and mitigate the risks of sanctions circumvention, it is essential to enhance reporting entities' understanding and awareness of sanctions, common methods of sanctions circumvention, and the associated risks.

2.4 Secondary sanctions

As sanctions circumvention activities have become increasingly sophisticated and widespread, countries have increasingly relied on secondary sanctions as an enforcement tool. Secondary sanctions may target financial institutions, individuals, and other legal entities that provide assistance or support enabling sanctioned persons or entities to continue their activities. Relevant international cases are presented below.

International cases:

Case 1. Turkey's Halkbank was found to have facilitated approximately USD 20 billion in transactions in violation of U.S. sanctions against Iran and to have laundered funds through companies operating in Turkey, the United Arab Emirates, and Iran, thereby gaining access to the U.S. financial system.

Case 2. OFAC designated China-based Hebei Xinhai Chemical Group Co., Ltd. and three companies operating at Dongying Port in China on its sanctions list for importing Iranian crude oil.

Case 3. Aiotec GmbH was found to have arranged the sale of a polypropylene processing plant located in Australia to Iran while falsely representing that the end user was in Turkey. The conduct implicated the Iranian Transactions and Sanctions Regulations, and the company agreed to pay approximately USD 14.5 million to OFAC.

III. ECONOMIC SANCTIONS INTERNATIONALLY

In recent years, economic sanctions evasion methods have become increasingly sophisticated and have drawn growing international attention. Although economic sanctions are generally imposed on specific countries, regions, or jurisdictions, activities designed to evade such sanctions often extend across multiple jurisdictions, making detection and enforcement increasingly challenging. Furthermore, while sanctions imposed at the international level are intended to promote global political and security objectives and safeguard economic stability, the strategies and methods used to evade them have become increasingly diverse and sophisticated.

Third countries, companies, and individuals face a significant risk of being exposed to secondary sanctions when they intentionally or unintentionally engage in business or financial transactions with persons or entities designated under sanctions regimes. This has underscored the need to strengthen policies, controls, and compliance measures aimed at preventing sanctions violations. In this regard, conducting a comprehensive analysis of the various methods used to evade or circumvent sanctions, as well as the associated risks and potential consequences, is significant for safeguarding regional and international security.

Internationally, common methods of circumventing financial sanctions include using third countries, intermediaries, and alternative trade routes, as well as using virtual assets. For a detailed discussion of these typologies, please refer to Chapter 5.

3.1 Use of third countries, intermediaries and alternative trade routes to circumvent sanctions

As the scope of sanctions expands, the ability of sanctioned countries and persons or entities subject to sanctions to maintain direct trade and financial relationships becomes increasingly restricted. In such circumstances, the risk of sanctions circumvention increases through the use of third countries, intermediary legal entities, re-export arrangements, transit trade, and alternative routes for payments and financial settlements.

The following are common methods that may be used to circumvent sanctions:

- Using a newly established legal entity in a third country as the importer, exporter, buyer, or payer;
- Routing payments that were previously made directly through banks, financial institutions, or intermediary companies in another country;
- Supplying goods initially to a third country and subsequently re-exporting them, rather than shipping them directly to the destination country;
- Changing the transportation or transit route, or altering the consignee (i.e., the recipient of the goods);
- Concealing the end-user, destination, and actual buyer of the goods through intermediary companies;

- Continuing activities like previous transactions in terms of trade volume, frequency, or type of goods through a newly established company or via a different country after the sanctions have come into effect.

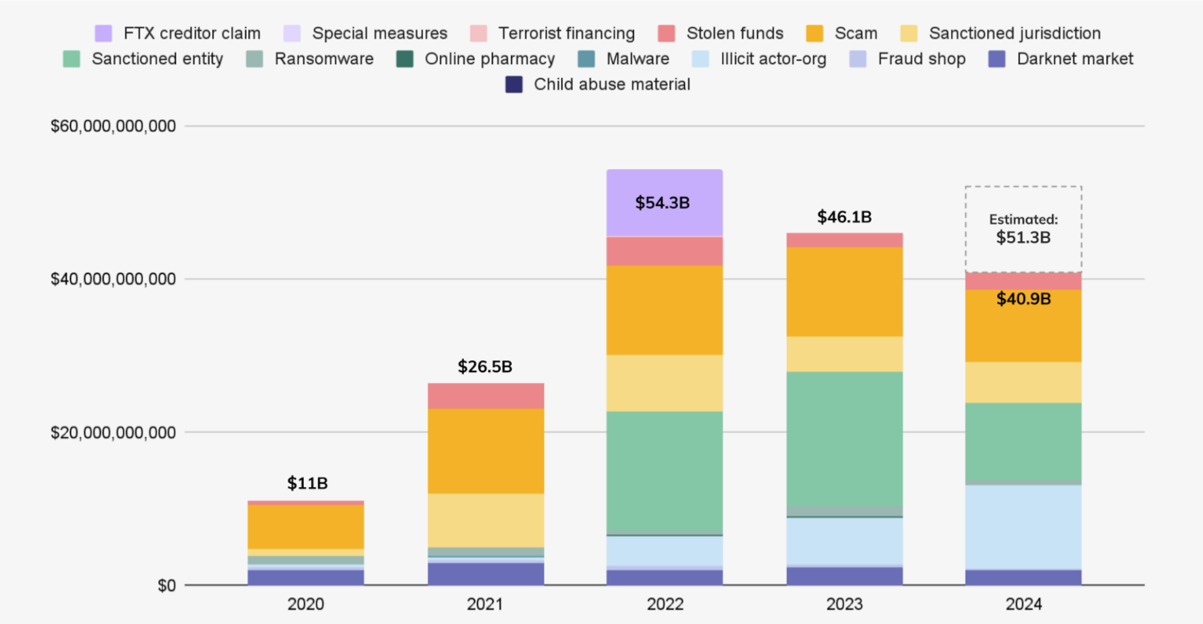
The use of a third country does not constitute sufficient grounds for concluding that sanctions are being circumvented. However, enhanced due diligence should be conducted where, compared with previous transaction or trading patterns, there are significant and sudden changes in the payment route, counterparties, destination of goods, buyer, or ownership and control structure, particularly where such changes lack a legitimate economic rationale or coincide with the implementation of sanctions.

Accordingly, circumvention risk should not be assessed solely on the basis of geography or political relationships. Reporting entities should consider the economic rationale for the transaction, links between the parties, historical trade activity, the nature of the goods, the end user, payment routes and behavioural changes following the introduction of sanctions.

3.2 Use of virtual assets to evade or circumvent sanctions

The Chainalysis 2025 Crypto Crime Report presents the total value of cryptocurrency received by illicit addresses during 2020-2024, as shown in Figure 5.

Figure 5. Total cryptocurrency value received by illicit addresses



Source: Chainalysis (2025)

As shown in the figure, since 2022, there has been an increase in the receipt of cryptocurrency payments by sanctioned countries and legal entities, as indicated in green and light yellow. In 2024, countries and legal entities subject to sanctions received USD 15.8 billion, accounting for 39% of total illicit cryptocurrency transactions.

When sanctioned persons or entities face restrictions on conducting cross-border payments through traditional banking and financial systems, they may seek to transfer or receive funds through virtual assets, virtual asset service providers (VASPs), third-party accounts, and alternative payment channels. This creates a risk of evading or circumventing the implementation of sanctions.

For example, rather than directly using bank accounts and virtual asset addresses held in its own name, a person or entity subject to sanctions may use the accounts and virtual asset addresses of non-sanctioned individuals, legal entities, or intermediaries to convert funds into virtual assets, transfer them through multiple virtual asset addresses and service providers, and subsequently convert them back into fiat currency in another country. In this way, the origin and ownership of the funds, the ultimate recipient, and the links between transactions may be concealed.

Such schemes may involve the combined use of traditional financial and virtual asset systems, with the flow of funds potentially structured as follows:

Sanctioned person or entity

→ intermediary / related party

→ virtual asset service provider

→ one or more virtual-asset addresses

→ third-country service provider / intermediary

→ ultimate recipient

In such cases, the use of virtual assets alone should not be considered sufficient grounds for determining that sanctions have been evaded or circumvented. Rather, it is necessary to assess, in conjunction with other relevant information, whether the virtual asset transactions have a direct or indirect connection to a sanctioned person or entity, the use of intermediaries and third parties, the economic rationale of the transactions, the source of funds, and the identity of the ultimate recipient.

IV. REGULATORY FRAMEWORK OF MONGOLIA

Pursuant to Article 41 of the Charter of the United Nations, the United Nations Security Council establishes sanctions regimes and adopts sanctions lists. As a Member State of the United Nations, Mongolia is obligated to implement and comply with sanctions imposed by the United Nations. The manner in which these obligations should be implemented is addressed under FATF Recommendations 6 and 7. Within the framework of these Recommendations, Mongolia has received a *largely compliant* rating. Matters relating to sanctions are regulated by the Law on Combating Money Laundering and Terrorist Financing, the Law on Combating the Proliferation of Weapons of Mass Destruction and Terrorism, the Criminal Code, the Law on Violations, and the relevant regulations and procedures adopted pursuant thereto.

Pursuant to the Law on Combating the Proliferation of Weapons of Mass Destruction and Terrorist Financing and the Procedure for Implementing Targeted Financial Sanctions for Combating the Proliferation of Weapons of Mass Destruction and Terrorism, approved by a resolution of the Government of Mongolia, every person in Mongolia is required to implement targeted financial sanctions. Under the aforementioned Law and Procedure, any person or legal entity located within the territory of Mongolia, as well as any Mongolian citizen or legal entity located outside Mongolia, is prohibited from providing assets, financial services, or conducting transactions for or on behalf of any person or legal entity designated on a sanctions list issued by the United Nations Security Council or by a competent authority of Mongolia.

Article 61 of the Law on Combating Money Laundering and Terrorist Financing regulates the implementation of sanctions imposed by the United Nations Security Council and competent authorities. The provisions include:

- prohibiting the provision of services to persons or entities designated on the UN Security Council sanctions lists:
- immediately freezing accounts and suspending the movement of funds or other assets associated with designated persons or entities;
- taking the required measures without prior notice to the person or entity concerned;
- immediately reporting such measures to the FIU;
- disseminating the sanctions lists to reporting entities; and
- regulating procedures for implementation and reporting through specific regulations.

Furthermore, Article 2.6 of the Procedure for Preventing Money Laundering and Terrorist Financing, which provides detailed rules for implementing the Law on Combating Money Laundering and Terrorist Financing, stipulates that, when conducting a risk assessment pursuant to Article 2.1 of the Procedure, reporting entities shall include high-risk business relationships specified under Paragraph 5.8 of Article 5 and Article 6 of the Law, while also taking into account the following factors. Among the factors listed under Article 2.6.2.2 are countries subject to financial sanctions, restrictions, or similar measures.

Article 29.10 of the Criminal Code of Mongolia provides for sanctions-related violations as an aggravating circumstance of a criminal offence. Meanwhile, Article 5.10 of the Law on

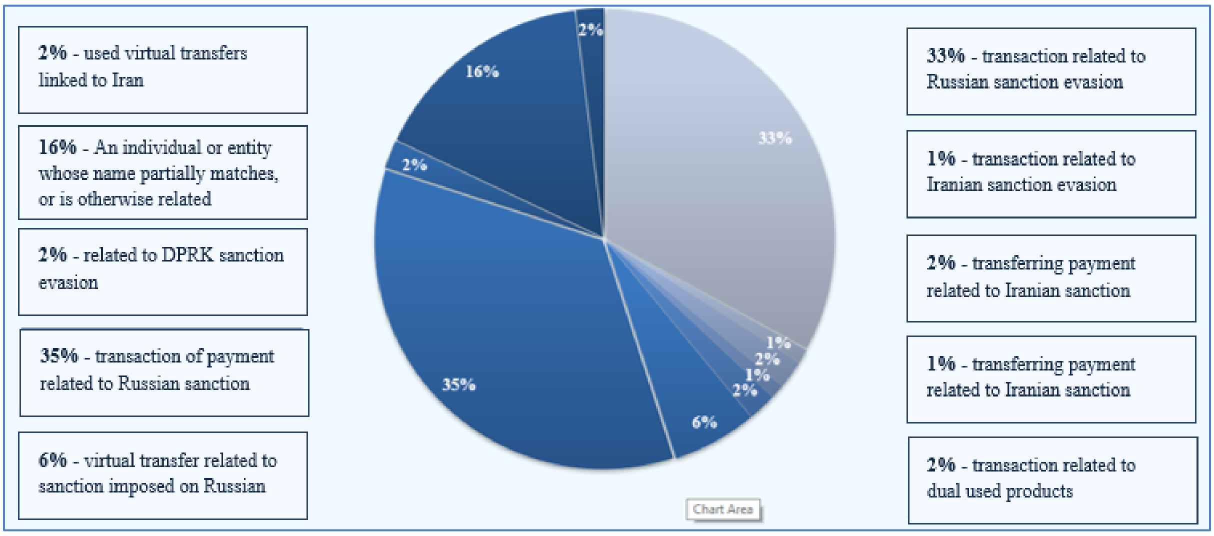
Violations provides for administrative sanctions where a person has failed to fulfill obligations stipulated under the Law on Combating the Proliferation of Weapons of Mass Destruction and Terrorism, including engaging with or providing assistance to a sanctioned person or entity, failing to freeze relevant assets, or failing to notify the relevant intelligence authority, provided that such conduct does not constitute a criminal offence.

In addition, pursuant to Article 11.29 of the Law on Violations, where a person or legal entity fails to fulfill the obligations prescribed under the Law on Combating Money Laundering and Terrorist Financing concerning the implementation of sanctions imposed by the United Nations Security Council or relevant government authorities, and such conduct does not constitute a criminal offence, the assets and income equivalent to the value of the transaction in violation shall be confiscated. In addition, an individual shall be subject to a fine equivalent to 20,000 units, while a legal entity shall be subject to a fine equivalent to 200,000 units.

Under this sanction's implementation framework, reporting entities are required to screen customers and relevant parties against applicable sanctions lists, immediately freeze or suspend the movement of assets belonging to designated persons or entities, report relevant information to the FIU and fulfill other obligations prescribed by law. At the same time, the detection and prevention of attempts to circumvent sanctions should be implemented in conjunction with the risk-based customer due diligence framework, including customer identification and verification, identification of the ultimate beneficial owner, ongoing monitoring, and the reporting of suspicious transactions. Accordingly, when assessing customer risk, conducting CDD, and monitoring transactions, reporting entities should consider not only the risk of sanctions evasion, but also the risk of sanctions circumvention, and should examine relevant indicators and red flags associated with such activities.

Since July 2022, the FIU has received suspicious transaction reports related to potential sanctions violations. The grounds for suspicion identified in these reports are as follows:

Figure 6. Reasons for suspicion related to sanctions



Source:FIU-Mongolia

V. TYPOLOGY

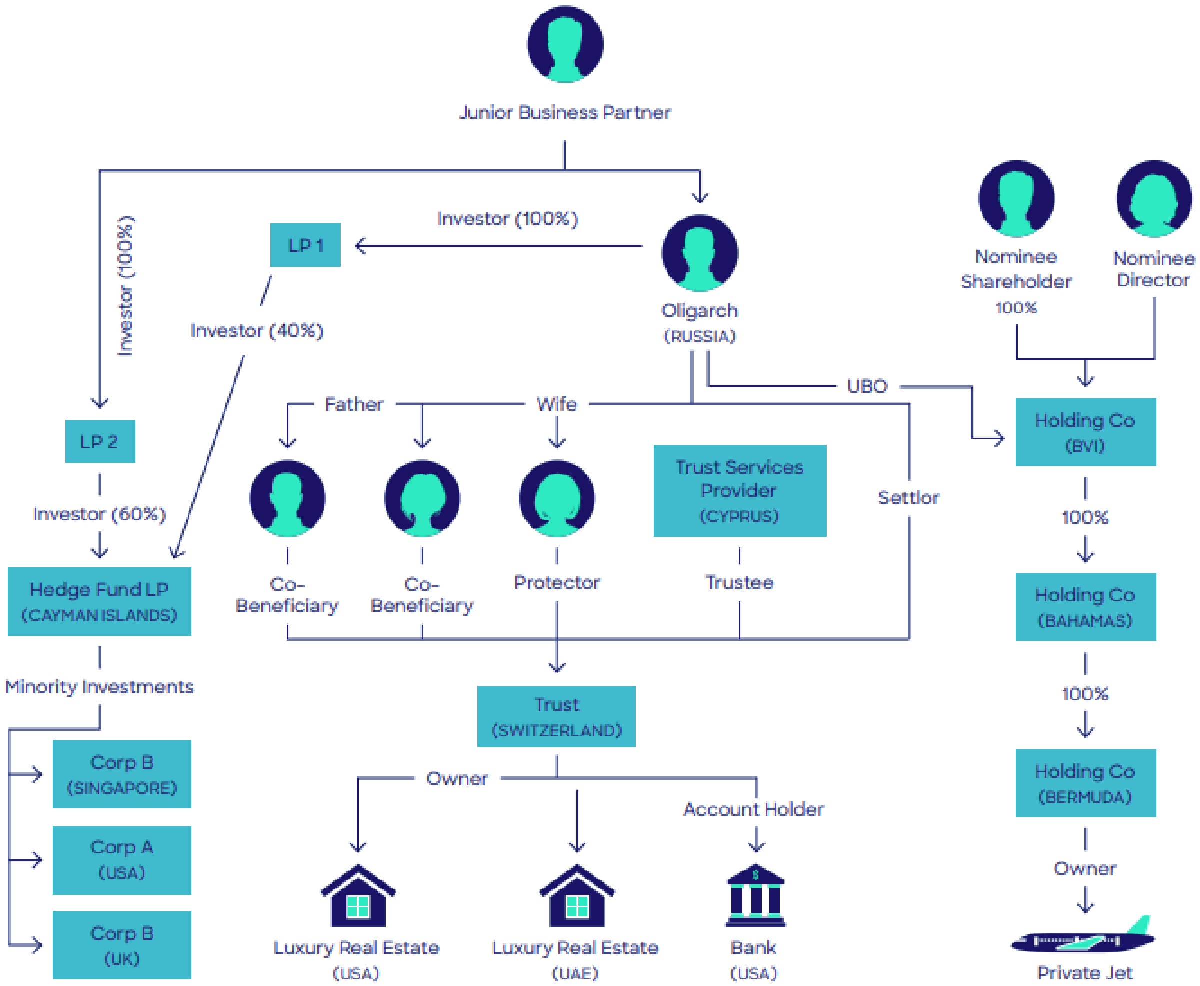
5.1 International typologies of financial sanctions evasion and sanctions circumvention

Internationally, the following are among the common typologies used to evade or circumvent financial sanctions. These include concealing the ultimate beneficial owner, using virtual assets, exploiting international financial intermediary systems, misrepresenting or altering the origin of goods, using fraudulent or falsified documents, utilizing third parties, and establishing new names or entities, among others.

Typology 1. Circumventing financial sanctions by concealing beneficial ownership

A Russian oligarch is an indirect investor in a hedge fund registered in the Cayman Islands, holding a 40% ownership interest. The remaining 60% of the hedge fund is owned by the oligarch's business partner, and together they exercise control over all the fund's assets. The fund has invested in three foreign companies located in Singapore, the United States, and the United Kingdom.

Figure 7. Circumventing financial sanctions by concealing beneficial ownership



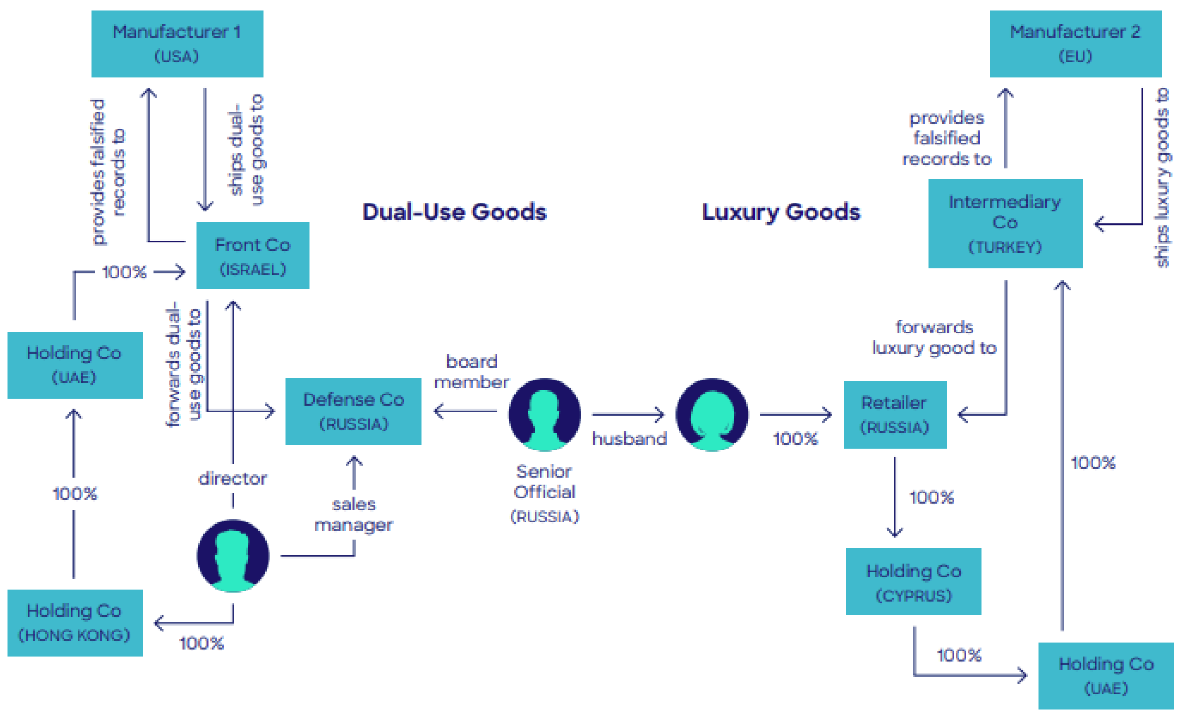
Source: ACAMS (2023)

Furthermore, the oligarch established a trust in Switzerland and manages his assets through a trust service provider based in Cyprus. His two children are registered as the beneficiaries of the trust, while his wife is registered as the protector. The trust assets include two luxury properties located in the United States and the United Arab Emirates, as well as a bank account held with a financial institution in the United States containing a substantial amount of funds. The oligarch retains control over the family trust.

The oligarch is also the ultimate beneficial owner of three holding companies registered in the British Virgin Islands, the Bahamas, and Bermuda. Through these companies, he has concealed his beneficial ownership and holds ownership of a private aircraft. As illustrated in the figure above, two individuals acting as nominees for the oligarch are registered as the shareholders and directors of the company incorporated in the British Virgin Islands.

Typology 2. Evading sanctions by concealing the end user, intended use and destination of dual-use goods

Figure 8. Common typology for procurement of dual-use goods



Source: ACAMS (2023)

Dual-use goods: A senior Russian government official on the sanctions list serves as a board member of "Defense Co," a state-owned defense enterprise. A sales manager at "Defense Co" established two holding companies in Hong Kong and the United Arab Emirates, through which he indirectly controls "Front Co," a company registered in Israel. When purchasing dual-use goods (items capable of both civilian and military application) from a U.S. manufacturer, "Front Co" misrepresents the end use, end user, and destination of the goods; upon receipt, the goods are then forwarded from "Front Co" to "Defense Co" in Russia.

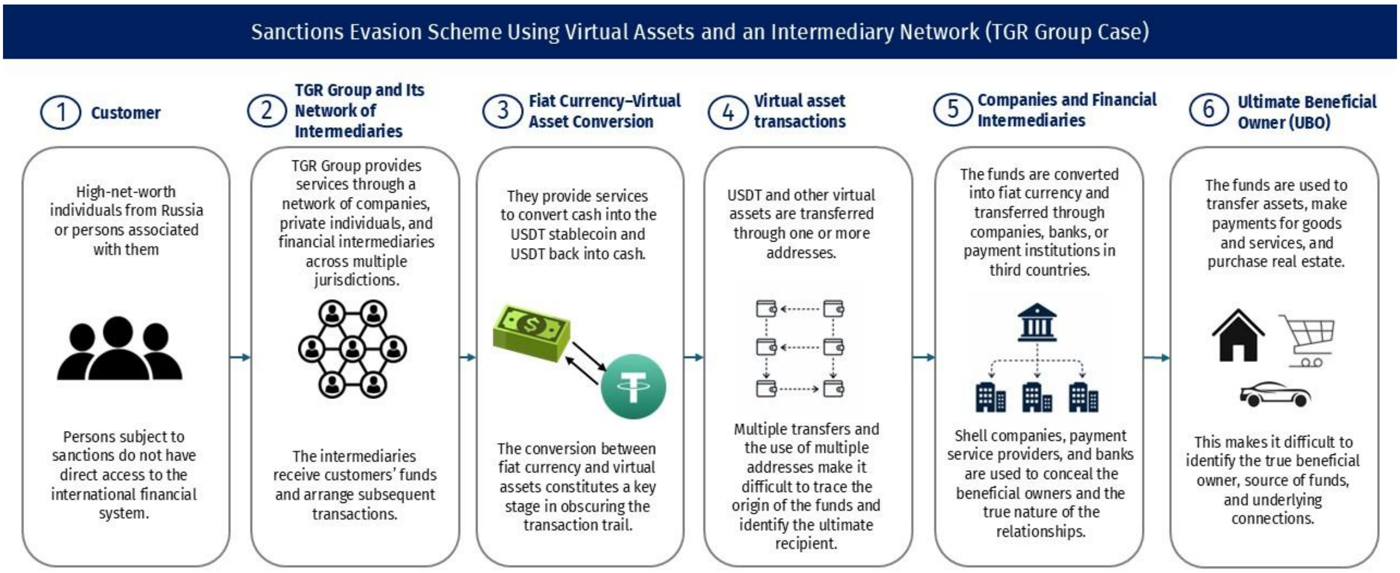
Luxury consumer goods: Prior to 2022, a Russian retail company purchased luxury consumer goods directly from European Union manufacturers. Since 2022, however, the company has established an intermediary company in Turkey, which it owns indirectly through two holding companies registered in the United Arab Emirates and Cyprus. When placing orders for luxury goods with EU manufacturers, the Turkish intermediary provides assurances that the goods will not be shipped to Russia. Following receipt of the goods, however, the Turkish intermediary forwards them on to the original retail company in Russia — the sole current owner of which was found to be the spouse of the sanctioned senior Russian government official.

Typology 3. Circumventing sanctions through virtual assets and an intermediary network

In December 2024, the U.S. Department of the Treasury's Office of Foreign Assets Control (OFAC) designated individuals and entities associated with the TGR Group, an international financial network that had facilitated sanctions circumvention on behalf of sanctioned Russian persons and entities. The network was used to transfer assets through virtual assets and a network of international intermediaries, obscure information concerning the source of funds and ultimate beneficiaries, and thereby circumvent sanctions restrictions.

According to OFAC, the network provided services aimed at converting cash into virtual assets and virtual assets back into cash, providing financial services to sanctioned persons and entities, and concealing the ownership and source of assets. By utilizing companies, individuals, and financial intermediaries across multiple jurisdictions, the network made it difficult to establish direct links between sanctioned persons and the movement of funds and assets.

Figure 9. Typology:sanctions circumvention using virtual assets and an intermediary network



Source:
U.S. Department of the Treasury, Office of Foreign Assets Control (OFAC)

Treasury Exposes Money Laundering Network Using Digital Assets to Evade Sactions (2024.12.04)
https://home.treasury.gov/news/press-releases/jy2735

Brief Description
- TGR Group established an international financial network to provide support to high-net-worth individuals in Russia, offering cash and virtual asset-related services.
- The network facilitated sanctions evasion through the conversion between fiat currency and virtual assets, as well as through the use of international intermediaries, shell companies, payment institutions, and cryptocurrency addresses.
- On December 4, 2024, OFAC designated five individuals and four entities associated with the TGR Group.

VI. RED FLAGS INDICATORS

Reporting entities should be able to identify, respond to, and take preventive measures against the following indicators associated with sanctioned countries, legal entities, individuals, and customers connected to them, as these measures can help mitigate the risks associated with sanctions evasion and circumvention. There may be various indicators associated with the evasion or circumvention of financial sanctions. The common red flags are categorized below:

6.1 Indicators Related to the Import and Export of Goods

Method	*Red flags*
Use of freight forwarding/logistics companies to conceal the beneficial owner, holder, or end user	• The freight forwarding company is registered as the end user of the goods • The client or purchaser declines to provide information on the end use of the goods • The delivery date is unspecified, or the delivery address is unusual or remote location • The receiving party's business activity is inconsistent with the nature of the goods • The transaction agreement, invoice, and shipping documents identify one person/company as the counterparty, while the goods or assets are in fact intended for another person/entity.
Sourcing components from multiple suppliers to conceal the true nature of the purchase	• The same type of product is procured from multiple sources in order to conceal actual need or intended use • The specifications or technical characteristics of the goods are inconsistent with the purchaser's business activity • The goods are inconsistent with the technological development level of the recipient country (e.g., shipment of semiconductor manufacturing equipment to a country with no electronics manufacturing base) • The counterparty declines standard accompanying services such as assembly, installation, or maintenance • Deliberately structuring the supply chain through multiple layers of intermediaries.
Mislabelling of import/export transactions	• The declared price, quantity, or description of the goods is inconsistent with reality • The value of the goods is deliberately overstated or understated • The nature of the goods is deliberately misrepresented, or false information is provided regarding the destination

	• Goods subject to sanctions or export controls are misclassified under a different tariff classification or declared using generic descriptions. • Dual-use goods are misrepresented as ordinary household or consumer goods. • Controlled goods are shipped together with other goods under vague, nonspecific, or generic descriptions.
Use third-country transit points	• Goods received at a freight-forwarding hub are subsequently redirected to a sanctioned jurisdiction

6.2 Customer due diligence-related red flags

Method	***Red Flag Indicator***
Use of shell companies	• Using foreign or domestically registered companies as front companies to conceal the identities of individuals or end users. • Having an excessively complex ownership or organizational structure. • Having an unusual name and appearing to be a legitimate business but having little or no information available online. • Being involved in transactions with countries or regions assessed as posing a high risk of sanctions circumvention.
Use of complex transaction structures	• Concealing the ultimate beneficial owner and the final destination of goods by routing financial flows through third countries. • The addresses of the parties involved in the transaction are inconsistent with the nature or location of their business activities.
Use of trusted persons and intermediaries to maintain control or influence	• Concealing the true ownership or control of assets by using professional intermediaries, such as lawyers, accountants, trust service providers, or nominees. • Refusing to provide information in response to detailed questions regarding financial sanctions, or communicating exclusively through intermediaries.
Alteration of beneficial ownership of assets	• Creating a structure that appears to fall outside the relevant ownership or control thresholds under sanctions by transferring a company’s ownership to other persons before or after sanctions take effect, or by dividing ownership interests among multiple persons. • The customer’s financial profile is inconsistent with the assets they own or control.

	• Maintaining control over assets through long-term loan arrangements.
False names, subsidiary companies, nominee owners	• Registration of the company under an altered or translated name • Ownership information registered in an offshore jurisdiction
Use of related persons	• Transferring the assets of a sanctioned person or entity through relatives or affiliated persons. • Transferring shares or assets to family members at below-market value in order to retain access to or use of the assets before sanctions are imposed. • Using financial institutions in countries or regions assessed as posing a high risk of sanctions circumvention.
Concealment of assets through real estate	• Purchasing high-value real estate using funds of unclear or unknown source. • Conducting cash transactions at values deviating from market prices • Payments made through foreign bank accounts, where the purchaser is a different party and the funds originate from a third party, among other indicators.
"Special-purpose projects," FSS/FSB certification	Special-purpose projects are often potentially linked to Russian military end use. Accordingly: • Particular attention should be paid to transactions involving companies holding certification from Russia's Federal Security Service (FSB)

6.3 Indicators Related to the Financial System

Method	*Red flags*
Common use of the financial system	Sanctioned persons may use the banking and financial system through various methods to evade sanctions, including: • Sudden increase in transaction/order volume: Transactions that are disproportionately large relative to actual need, or that recur with unusual frequency • Mismatch between ordered goods and stated business activity: Purchase of goods inconsistent with the purchaser's line of business • Discrepancy between the country of registration of the financial institution/company and the location of service delivery: The company is registered in one country, while its financial services are provided through another jurisdiction that maintains friendly

	relations with a sanctioned state and has weak regulatory oversight • Transactions involving investment funds in East Asia or the Middle East: Funds originating from these regions are treated as elevated risk, given the possibility that certain countries there may support Russian policy • Sudden foreign currency transactions: Sudden high-value currency transactions, particularly by previously dormant customers, constitute grounds for suspicion
Concealment of assets and funds	A common method of sanctions evasion involves concealing the actual flow of funds through multiple layers. Examples include: • Recurring transactions inconsistent with normal business activity; contracts with the same counterparty concluded under inconsistent terms • Structuring of transaction amounts below reporting thresholds to evade financial monitoring/controls Payments made through third parties, or using cryptocurrency or cash • Execution of complex transactions through front companies • Transactions conducted from jurisdictions with weak regulatory oversight • Inconsistencies in documentation — discrepancies or gaps between financial, shipping, and trade-related documents • Heavy involvement of dealers in jewelry, art, precious stones, or gold — sectors frequently exploited for asset concealment • Transactions involving large amounts of cash, or conducted in rarely used currencies
Use of virtual assets where SWIFT access is unavailable	• Transactions originating from IP addresses located in neighboring countries • Transactions involving cryptocurrency addresses associated with sanctioned persons • Transactions involving counterparties linked to mixing services or ransomware-associated crypto addresses

6.4 Red flags related to changes in activity following the introduction of sanctions

Method	Red flags
Changing counterparties and payment channels	• Replacing a foreign counterparty that had previously been engaged directly with another legal entity following the imposition of sanctions. • Using banks or financial institutions in third countries that had not previously been involved in the business relationship to process payments. • The sudden involvement of newly established companies or intermediaries that had not previously participated in the business relationship or transaction chain. • Routing previously established payment or trade flows through financial institutions or companies in third countries following the imposition of sanctions
Changes to goods-related documentation	• Inconsistencies among contracts, invoices, customs declarations, shipping documents, and other trade documentation, including unjustified changes to the description, HS code, value, quantity, or destination of the goods. • Goods subject to sanctions or export controls are misclassified under a different category or declared using generic descriptions.
Changes in geographic and digital transaction patterns	• Transactions are conducted from countries that are inconsistent with the customer's actual business activities. • The customer suddenly switches to countries, financial institutions, or payment channels that have not previously been used. • The IP address associated with the transaction is inconsistent with the customer's registered country or actual place of business. • Payment and trade flows are routed through multiple countries within a short period of time.

Key Considerations in the Mongolian Context

These indicators, when considered individually, do not in themselves provide sufficient grounds to conclude that sanctions have been violated, evaded, or circumvented. The international typologies, methods, and indicators outlined above should be taken into consideration when identifying and assessing potential risks of sanctions evasion and circumvention that may arise in the Mongolian context, as well as when taking preventive measures to ensure that Mongolia's financial, payment, and foreign trade systems are not misused for such activities.

Reporting entities should conduct a comprehensive assessment of the customer's risk level, business activities, the economic rationale for transactions, ownership and control structure, counterparties, and other relevant information.

Attention should be paid to the use of third parties and intermediaries, concealment of the ultimate beneficial owner or actual control, changes to payment and trade routes, re-exporting of goods, and the use of virtual assets or alternative payment channels.

VII. PREVENTIVE MEASURES

When assessing the risk of sanctions circumvention, the following links should be considered holistically:

Customer → Ultimate Beneficial Owner/Actual Control → Transaction Counterparty → Intermediary → Payment Route → Goods → End User → Final Destination

To mitigate the risk of sanctions circumvention, reporting entities should not limit their screening activities to name matching against sanctions lists. Instead, they should apply a risk-based approach to assess the links among the customer, ultimate beneficial owner, transaction counterparty, payment route, goods, end user, and destination. Sanctions lists include lists issued by the United Nations Security Council and other competent authorities.

In this context, the following measures may be considered and implemented:

1. Identify beneficial ownership and effective control

Customer due diligence (CDD) should be conducted to prevent the provision of services to persons designated under sanctions lists or otherwise presenting a high level of risk. This includes maintaining comprehensive customer profiles, requiring and verifying ultimate beneficial ownership information in the case of legal entities and trust service providers, and assessing whether the customer's transactions are consistent with their stated business purpose and nature of activities.

In addition to identifying the registered shareholders of a legal entity, reporting entities should also identify the person(s) exercising actual control over the entity's operations, assets, contractual arrangements, and financial decisions.

2. Conducting Customer Due Diligence and Risk Assessment

Assessing the risks associated with legal entities and other customers registered or operating in high-risk countries and conducting ongoing monitoring can serve as an effective preventive measure. In this context, the source of funds, business associates and related parties, and the nature of transactions should be taken into consideration.

3. Comparing Activities Before and After the Imposition of Sanctions

Changes in the customer's payment counterparties, banks, countries, currencies, goods, transportation routes, directors, and ownership structure should be assessed against historical information.

4. Establishing Economic Rationale for Third Parties and Intermediaries

Reporting entities should examine the services provided by newly involved intermediary companies in transactions or trade, whether their involvement serves a legitimate business purpose, and whether the intermediary's activities and financial capacity are commensurate with the volume and nature of the transactions.

5. Comparing Payment and Trade Documentation

Reporting entities should verify whether contracts, invoices, payment information, descriptions of goods, shipping documents, end-user information, and destination details are consistent with one another.

6. Identifying the End User and Final Destination of Goods

Particularly for dual-use, high-technology, industrial, and other goods that may be subject to sanctions or restrictions, reporting entities should establish, to the extent reasonably possible, the end user, intended end use, and actual destination of the goods.

7. Assessing Links Between Customers and Counterparties

Reporting entities should compare shareholders, directors, addresses, representatives, contact information, and other common characteristics of new and existing companies to determine whether they are linked to persons or entities previously subject to sanctions.

8. Applying Enhanced Customer Due Diligence and Reporting Suspicious Transactions

Where multiple indicators described above and other risk factors are identified, and the economic or legitimate purpose of the transaction or business relationship cannot be adequately explained, reporting entities should apply Enhanced Customer Due Diligence (EDD) and, where the grounds prescribed under the Law on Combating Money Laundering and Terrorist Financing and other relevant legislation are met, submit a Suspicious Transaction Report (STR) to the FIU.

9. Regularly Enhancing Staff Knowledge and Skills and Providing Relevant Information

Reporting entities should provide regular training to staff on detecting and preventing sanctions evasion and circumvention and ensure that employees are kept informed of the latest trends, methods, and typologies associated with such activities.

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