FINVISOR
governance - risk - compliance

What should a financial institution
actually do differently?

Managing Proliferation Financing Risk in Practice

From Customer Risk Assessment to Enterprise-Wide Risk Assessment

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Knowing how proliferation financing works is not the same as managing it - the task now is to decide what the institution does differently

STEP 1 OF 8 · UNDERSTAND THE EXPOSURE

1 2 3 4 5 6 7 8

WHAT YOU HAVE HEARD TODAY

Threat
Who proliferates, and how they are financed

Typologies
How procurement and evasion schemes are structured

Intelligence
Emerging risks, regional developments, crypto

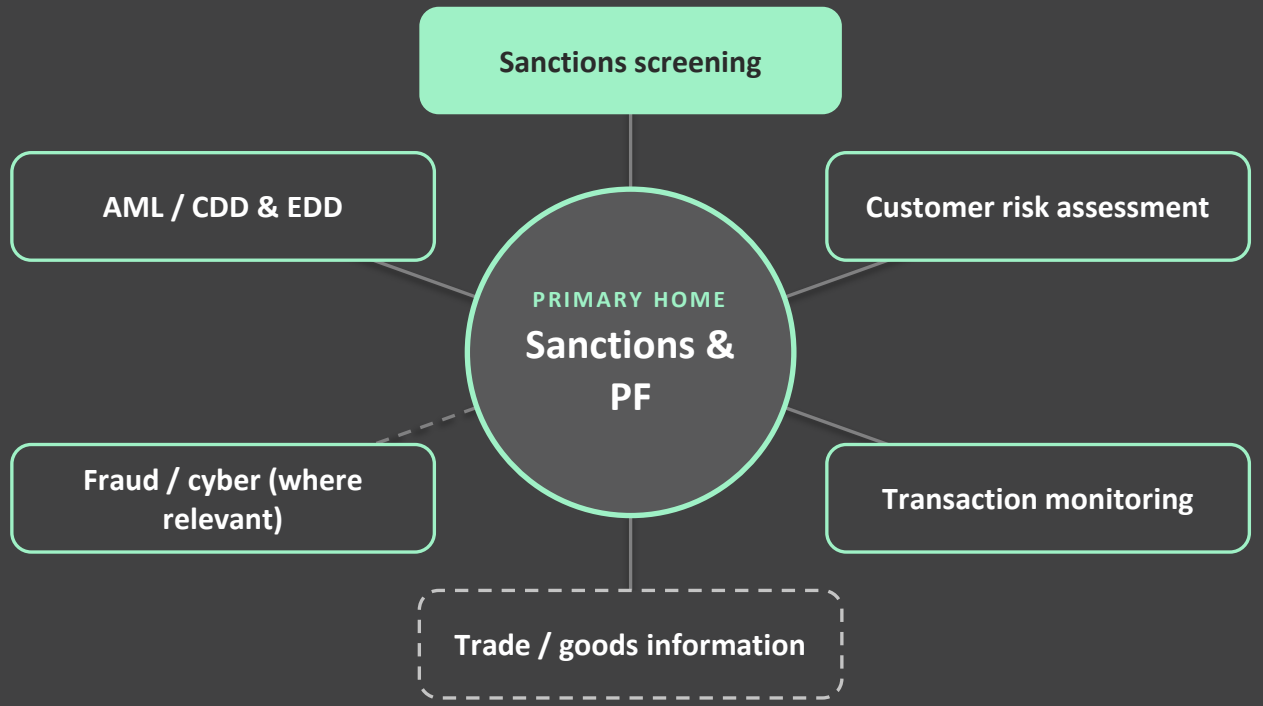
this session

WHAT THE INSTITUTION HAS TO DO

1. **Risk appetite** — What PF exposure will we accept?
2. **Customers** — Who brings PF exposure - and do we see it?
3. **Controls** — What actually mitigates it?
4. **Monitoring** — What has changed since onboarding?
5. **EWRA** — Where is PF risk concentrated?

PF needs one owner in the risk taxonomy - Sanctions & PF - but it reaches into CDD, risk assessment, monitoring and trade information

STEP 1 OF 8 · UNDERSTAND THE EXPOSURE 1 2 3 4 5 6 7 8



Connected ≠ identical

Classify each existing process honestly before you call it a PF control

Shared
Already addresses PF: screening customers, UBOs and counterparties against PF-related designations

Needs PF adaptation
CDD questions, CRA factors, monitoring scenarios, training - built for ML, not yet for PF

PF-specific
Goods and end-use understanding, PF red flags, a PF escalation route - do not exist by default

Source: FATF Recommendations 1 and 7; FATF (2021) Guidance on PF Risk Assessment and Mitigation - PF risk refers to the potential breach, non-implementation or evasion of PF-related targeted financial sanctions. Taxonomy placement and the three-way classification are a suggested practical model.

Decide what PF exposure the institution is prepared to accept before PF becomes just another number in the customer risk score

WHAT DRIVES PF EXPOSURE

- Sensitive industries
- Dual-use or controlled goods
- Higher-risk jurisdictions
- Complex trading structures
- Intermediaries and agents
- Freight and shipping
- Certain virtual-asset exposure
- Goods or end users that cannot be understood

No driver means automatic rejection. Appetite is about combinations - and about what the institution can still understand.

PROHIBITED
Outside appetite

Direct or indirect links to designated persons or prohibited activity; goods, counterparties, destinations or end users that still cannot be understood after reasonable enquiry.

ESCALATE
Enhanced controls, senior sign-off

Dual-use or potentially controlled goods; complex trading or intermediary chains; freight linked to higher-risk routes; certain virtual-asset exposure.

ACCEPT
Standard or enhanced controls

A sensitive sector with a transparent supply chain and documented end markets; jurisdictional exposure that is explained, limited and monitored.

Source: risk-based approach - FATF R.1 and FATF (2021) PF Risk Guidance. EBA/GL/2024/14 (applicable from 30 Dec 2025) places responsibility for restrictive-measures compliance and the exposure assessment with the management body. Appetite categories and examples are illustrative, not regulatory lists.

A standard AML customer risk assessment measures ML risk - without PF-specific indicators it will not see PF exposure

STEP 3 OF 8 · IDENTIFY IT AT CUSTOMER LEVEL

1 2 3 4 5 6 7 8

Existing indicator - already relevant to PF

Existing indicator - needs PF adaptation

New PF-specific indicator

CUSTOMER	GEOGRAPHY	PRODUCT	CHANNEL	OWNERSHIP
Industry / business activity	Residence / incorporation country	Cross-border payments and trade finance	Non-face-to-face onboarding	UBO and structure transparency
Goods and technology handled	Higher-risk and sensitive jurisdictions	High-risk product flags	Introducers and intermediaries	Links to sensitive jurisdictions
Supply chain and key counterparties	Destination and transit markets			

*A single indicator rarely warrants suspicion on its own. The CRA does not need every question for every customer - it needs a few **gateway indicators** that open the PF-specific questions only when they are triggered.*

Source: FATF (2021) PF Risk Guidance - risk factors across customers, geography, products/services, transactions and delivery channels; a standalone indicator may not warrant suspicion on its own. AMLR (EU) 2024/1624, Annex I - customer, product and delivery-channel risk variables. Classification of indicators: suggested practical model.

You can know exactly who the customer is and still know almost nothing about the PF risk in what they trade

STEP 3 OF 8 · IDENTIFY IT AT CUSTOMER LEVEL

1 2 3 4 5 6 7 8

RUNNING CASE

ComponentCo (fictional). An electronics wholesaler onboarded by a Lithuanian financial institution - imports components from Asia and sells through intermediaries into several markets.

TRADITIONAL KYC

Company registered?	Answered
UBO identified?	Answered
Director verified?	Answered
Sanctions screening clear?	Answered

PF-RELEVANT UNDERSTANDING

What does the company actually sell?	Partly
Where are the goods sourced?	Answered
Who buys them?	Unknown
Where do the goods ultimately go?	Unknown
Are intermediaries used - which ones?	Partly
Can the customer explain the commercial chain?	Not tested

*Identity tells you who the customer is. PF risk sits in **what they trade, with whom, and where it ends up**.*

Illustrative fictional case. Electronics trading and the use of intermediaries are not high-risk per se - the question is whether the combination can be understood. The ICC Banking Commission's paper on dual-use goods notes that banks rarely have the information to identify proliferation risk in a single transaction - understanding the customer's business is the practical entry point.

PF enhanced due diligence should be triggered by combinations of indicators, not applied to every customer in a sensitive sector

STEP 4 OF 8 · ASK MORE WHEN NECESSARY

1 2 3 4 5 6 7 8

RISK INDICATOR	TRIGGER	ADDITIONAL QUESTION	EVIDENCE (WHERE JUSTIFIED)	DECISION
Sensitive industry	Goods could be dual-use or controlled	Which goods? Which counterparties and destinations?	Product list, key buyers, sample invoices	**Accept · Escalate · Reject**
Higher-risk destination or unusual intermediary	Activity outside the expected profile	What is the commercial rationale and the end destination?	Contracts, shipping documents vs. declared activity	**Accept · Escalate · Reject**
COMPONENTCO **Intermediaries in three markets**	End markets not explained at onboarding	Who are the intermediaries? Where do the goods end up?	Part of the volume is re-sold into a higher-risk destination region	**Escalate → enhanced controls**

*Ask the **next proportionate question** - PF EDD is not a full export-control investigation for every customer.*

Source: FATF (2021) PF Risk Guidance, Section Two - enhanced measures proportionate to the identified risk; FATF guidance on implementing PF-related UNSCRs - measures by financial institutions should complement, not duplicate, export-control regimes. Refusal to provide end-user, end-use or ownership information is a recognised red flag (FATF; US BIS guidance to financial institutions, 2024). Decision tree and case: suggested practical model, fictional example.

Screening tells you whether a name is on a list - it cannot tell you whether a relationship could facilitate proliferation

SCREENING ASKS

"Is this person or entity currently identified on a relevant sanctions list?"

PF RISK MANAGEMENT ALSO ASKS

"Could this relationship, structure or activity facilitate proliferation or sanctions evasion?"

COMPONENTCO AT ONBOARDING

Customer: not sanctioned | **UBO: not sanctioned** | **Counterparties: not sanctioned** | **BUT** | **Sensitive goods** | **Unusual intermediary** | **Unexplained destination change**

No screening hit ≠ No PF risk

Proliferation networks are built to pass screening - undisclosed control by designated persons, front companies, newly incorporated intermediaries, trans-shipment through third countries.

*Treat a clear screening result as **one input** - not as the conclusion of the PF assessment.*

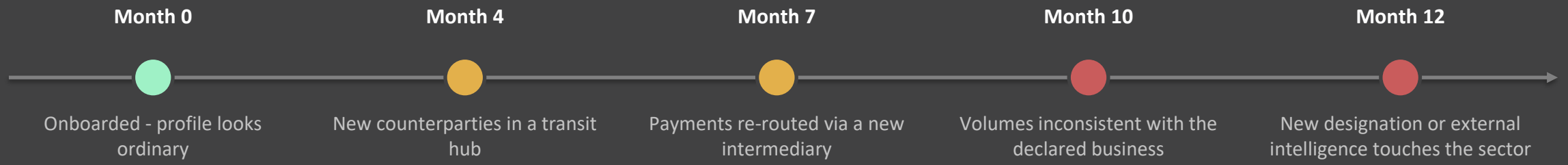
Source: FATF (2021) PF Risk Guidance - evasion through front and shell companies, intermediaries and complex structures. Switzerland, NRA on proliferation financing (Sept 2024) - failure to identify companies controlled by designated persons and concealment through front companies listed as distinct PF risks. US Treasury, 2024 National PF Risk Assessment - Russia and the DPRK as highest-risk actors, relying on front companies and intermediaries. Case is fictional.

PF risk changes after onboarding - monitoring has to be calibrated to PF exposure and feed back into the customer risk assessment

STEP 5 OF 8 · MONITOR IT

1 2 3 4 5 6 7 8

COMPONENTCO - YEAR ONE



GENERIC AML MONITORING

Useful, but insufficient for PF

- Thresholds, velocity, cash, structuring, round amounts
- Calibrated to ML typologies - rarely to goods, routes or end markets
- PF-relevant flows are often low-value, commercially plausible trade payments

PF-RELEVANT MONITORING

Calibrated to the actual exposure

- New jurisdictions, counterparties or intermediaries against the profile
- Routing changes; activity inconsistent with the declared business
- Material change → CRA refresh, PF EDD review, re-screening

*Not every AML scenario is a PF control - a **material change must trigger a PF review**, not just an alert.*

Source: FATF (2021) PF Risk Guidance - ongoing monitoring as part of PF risk mitigation. EBA/GL/2024/14 and EBA/GL/2024/15 (applicable from 30 Dec 2025) - trigger events for re-screening and due diligence measures to detect attempts to circumvent restrictive measures. Timeline and scenarios are illustrative; the case is fictional.

Having many AML and sanctions controls does not mean the institution has effective PF controls - each one must be tested for PF relevance

STEP 6 OF 8 · APPLY THE RIGHT CONTROLS

1 2 3 4 5 6 7 8

1 EXISTING CONTROL

Already addresses PF

- Screening of customers, UBOs and counterparties against PF-related designations
- Asset-freezing and reporting procedures
- Re-screening on list updates and trigger events

Test: are PF-related lists, ownership and control in scope - and is matching good enough?

2 EXISTING CONTROL

Needs PF extension

- CDD: goods and end-market questions when a gateway indicator is triggered
- CRA: PF factors with real weight in the score
- Monitoring: scenarios calibrated to PF exposure
- Training: PF cases for the front line

Test: has it actually been extended - or only renamed in the control inventory?

3 NEW CONTROL

PF-specific

- PF risk indicators and red flags
- Sensitive-goods assessment where applicable
- PF escalation route and expert review
- PF section in the EWRA with its own conclusion

Test: does it exist, is it used, and can you show an example?

*For every control claimed against PF, ask **which PF risk it mitigates** - and where the evidence is.*

Source: FATF (2021) PF Risk Guidance, Section Two; EBA/GL/2024/14 - restrictive-measures policies, procedures and controls commensurate to the exposure assessment. UK FCA multi-firm reviews (2024-2025) repeatedly found business-wide risk assessments that did not consider PF, generic frameworks and undocumented actions. Three-way classification: suggested practical model.

One customer in a sensitive sector rarely moves the dial - concentration across the portfolio does, and the EWRA has to show it

STEP 7 OF 8 · AGGREGATE IT INTO EWRA

1 2 3 4 5 6 **7** 8

Individual customer
ComponentCo - enhanced controls, documented rationale

↓

Portfolio exposure
How many ComponentCos do we have?

↓

Enterprise-wide PF risk
Where is PF risk concentrated?

DIMENSIONS TO AGGREGATE

Customers | Geographies | Products | Transactions | Channels

ILLUSTRATIVE PORTFOLIO - FIGURES ARE MADE UP

15%
of the customer base in PF-sensitive sectors

+

Material
payment flows linked to higher-risk destinations

+

Weak
PF-specific controls - CDD and monitoring not yet extended

↓

Materially higher enterprise-wide residual PF risk
- although no single customer looks alarming

*Ask the EWRA question early: **how many customers like this do we have** - and how good are our controls for them?*

Source: AMLR (EU) 2024/1624, Art. 10(1) - the business-wide risk assessment covers ML, TF and the non-implementation and evasion of targeted financial sanctions; AMLA draft BWRA Guidelines (consultation 16 Apr - 15 Jul 2026, final expected Q4 2026) - four minimum elements: business overview, inherent risks, control quality, residual risk. Risk dimensions: FATF (2021) PF Risk Guidance. Figures illustrative.

A separate PF EWRA is not required - but PF indicators, controls and conclusions must be able to change the assessment result

STEP 7 OF 8 · AGGREGATE IT INTO EWRA

1 2 3 4 5 6 **7** 8

ML | TF | **Sanctions & PF** | Fraud

RISK DOMAINS OF ONE ENTERPRISE-WIDE METHODOLOGY

- **Indicators** PF-relevant inherent-risk indicators, not only 'sanctions'
- **Scoring** PF exposure can actually move the score
- **Applicability** explicit in- and out-of-scope rationale per product and segment
- **Controls** rated for PF on their own merits, not inherited from AML
- **Conclusions** a stated residual PF result, with an owner

DOES NOT WORK

"Sanctions risk also includes proliferation financing." One paragraph, no PF indicators, no PF control rating - and no effect on the result.

WORKS

PF indicators scored, PF controls rated on their own merits, and a residual PF conclusion stated - inside the existing methodology. A separate PF assessment is a valid alternative, not a requirement.

*If PF **cannot influence the assessment result**, it is probably not really being assessed.*

Source: AMLR (EU) 2024/1624, Art. 10(1); AMLA draft BWRA Guidelines (consultation closed 15 Jul 2026, final expected Q4 2026) - extend the ML/TF assessment to cover TFS non-implementation and evasion, or complement it with a separate assessment. EBA/GL/2024/14 - the restrictive-measures exposure assessment is aligned with, but not identical to, the AML/CFT risk assessment. Five elements: suggested practical model.

Residual PF risk is driven by exposure and by how well the controls actually work - both sides have to be assessed and owned

STEP 8 OF 8 · MANAGE THE RESIDUAL RISK 1 2 3 4 5 6 7 8

Inherent PF exposure + **Quality and effectiveness of PF-relevant controls** → **Residual PF risk**

Illustrative conceptual model - not a mathematical formula. Scales are indicative.

	EXPOSURE	CONTROL EFFECTIVENESS	RESIDUAL OUTCOME
A	**Higher inherent exposure** *e.g. trade-finance book serving manufacturing exporters*	**Strong, PF-specific controls** *extended CDD, calibrated monitoring, working escalation*	**Manageable - within appetite**
B	**Moderate inherent exposure** *e.g. mostly domestic retail and SME payments*	**Weak or generic controls** *AML controls relabelled as PF, no PF indicators*	**Potentially significant concern**

*Assess both sides - then give residual PF risk **an owner, an appetite comparison and an action plan**.*

Source: inherent and residual risk - FATF (2021) PF Risk Guidance; AMLA draft BWRA Guidelines - inherent risk, control quality and residual risk as minimum elements. Ownership: AMLR (EU) 2024/1624, Art. 10(2) - the business-wide risk assessment is drawn up by the compliance officer and approved by the management body in its management function. Examples and scales are illustrative.

Nine questions your institution should be able to answer tomorrow - with evidence rather than intentions

YOUR PF TEST · ALL 8 STEPS COVERED 1 2 3 4 5 6 7 8

1 EXPOSURE
Where does PF sit in our risk taxonomy?

2 APPETITE
Is PF reflected in our risk appetite?

3 CUSTOMER
Which customers create PF exposure?

4 CUSTOMER
Do we collect the information needed to identify it?

5 EDD
What triggers PF-specific EDD?

6 MONITOR
What identifies PF concerns beyond sanctions screening?

7 CONTROLS
Which controls specifically mitigate PF risk?

8 EWRA
Where is PF assessed in our EWRA?

9 RESIDUAL
Who owns the resulting residual risk?

*PF becomes manageable when it moves from a **regulatory concept** into the institution's **everyday risk-management framework**.*

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