cssf

Commission de Surveillance
du Secteur Financier

Counter-Proliferation Financing Thematic Review

Counter-Proliferation Financing Thematic Review

TABLE OF CONTENTS

Thematic reviews on Counter-Proliferation Financing controls

The CSSF conducted a thematic review on five Luxembourg-based investment fund managers (hereafter "IFMs") under its supervision, which focused on the IFMs' potential exposure to the risks related to the financing of proliferation of weapons of mass destruction (hereafter "WMD") at asset level, in particular with regard to dual-use goods (hereafter "DUGs")[1] and investments in vessels, shipping or other transportation means.

According to the Financial Action Task Force (hereafter "FATF"), the financing of proliferation of weapons of mass destruction is defined as the "*raising, moving, or making available funds, other assets or other economic resources, or financing, in whole or in part, to persons or entities for purposes of WMD proliferation, including the proliferation of their means of delivery and related materials (including both dual-use technologies and dual-use goods for non-legitimate purposes).*"[2] Furthermore, since October 2020[3], FATF Recommendations 1 and 2 and respective Interpretative Notes have required states and private sectors to assess the risks of potential breaches, non-implementation, or evasion of the targeted financial sanctions related to the financing of proliferation of weapons of mass destruction (hereafter "proliferation financing risk"), as covered in FATF Recommendation 7, and to mitigate such risks and enhance domestic coordination.

In the light of the above, the purpose of the thematic review has been three-fold: to gain a closer understanding of the market's awareness of proliferation financing risk through Luxembourg investment funds, to identify potential threats and vulnerabilities in the market and to benchmark market practice in this area.

The review considered the proliferation financing risk with respect to North Korea, Iran and non-country specific sanction regimes.

Context

The CSSF conducted its review in the context of FATF's revised Recommendations setting forth that "*Countries should require financial institutions and designated non-financial businesses and professions (*hereafter "DNFBPs") *to identify, assess and take effective and risk-based action to mitigate their money laundering, terrorist financing and proliferation financing risks*"[4] and that "*Countries should implement targeted financial sanctions to comply with United Nations Security Council resolutions relating to the prevention,*

[1] Cf. Article 2(1) of Regulation (EU) 2021/821 DUGs include "all goods which can be used for both non-explosive uses and assisting in any way in the manufacture of nuclear weapons or other nuclear explosive devices".

[2] FATF, 2025 – FATF Report Complex Proliferation Financing and Sanctions Evasion Schemes, p 8, https://www.bing.com/search?q=FATF+Report+Complex+Proliferation+Financing+and+Sanctions+Evasion+Schemes&cvid=9906b02d7baa4a8da5aac5e058462dac&gs_lcrp=EgRlZGdlKgYIABBFGDkyBggAEEUYOTIICAEQ6QcY_FXSAQczODFqMGo0qAIIsAIB&FORM=ANAB01&PC=U531.

[3] https://www.fatf-gafi.org/en/publications/Financingofproliferation/Statement-proliferation-financing-2020.html.

[4] The FATF Recommendations, https://www.fatf-gafi.org/en/publications/Fatfrecommendations/Fatf-recommendations.html.

suppression and disruption of proliferation of weapons of mass destruction and its financing."[5]

The review also drew on the adoption of the Luxembourg Law of 19 December 2020 on the implementation of restrictive measures in financial matters (hereafter the "Law of 19 December 2020"). This law sets specific obligations for the obliged entities and persons to apply restrictive measures in financial matters, such as for example the freezing of funds, assets or economic resources of any kind, including for the purpose of preventing the financing of proliferation.

In particular, Articles 2 and 3 of the Law of 19 December 2020 set the targeted financial sanctions (hereafter "TFS") specific obligations for professionals, including for Luxembourg IFMs to apply restrictive measures in financial matters regarding funds, assets and economic resources of any kind, where there is a risk of proliferation financing.

Furthermore, Article 6 of the Law of 19 December 2020 designates the Luxembourg Ministry of Finance as the competent authority for receiving all information regarding *"the enforcement of each restrictive measure taken in respect of a State, natural or legal person, entity or group designated in accordance with this law and the implementing regulations, including attempted transactions."*

The same article also bestows upon the CSSF the same powers and competences in this matter, as those attributed to it under the Law of 12 November 2004 on the fight against money laundering and terrorist financing, as amended.

Moreover, in 2022, the Law of 20 July 2022 introduced a new predicate offence to money laundering in the criminal code (Article 506-1(1) (last dash)), i.e. the infringement of Article 10 of the Law of 19 December 2020, thereby criminalising the laundering of proceeds from a failure to comply with restrictive measures in financial matters, including its tentative.

Best Practices Observed

Based on the thematic review, the following best market practices have been observed[6]:

- the inclusion of a separate section addressing specifically the proliferation financing risks in the IFMs' AML/CFT risk assessment, as well as in their AML/CFT policy and procedures;
- the consideration of geographical proliferation financing indicators at the level of the IFMs' country risk list including for example such indicators as those provided by the publicly available Peddling Peril Index[7];

[5] Idem footnote 4.

[6] As also introduced in CSSF Annual Report 2024 available at https://www.cssf.lu/en/Document/annual-report-2024/.

[7] An index for ranking national strategic trade control systems established by the Institute for Science and International Security. The index is periodically updated and published. The last available version can be found at: https://isis-online.org/peddling-peril-index.

- the inclusion of proliferation financing risks and related TFS in the annual compliance training for the relevant staff, i.e. definition, threats, vulnerabilities, the IFM's exposure, and trends, reporting to the competent authorities according to the Law of 19 December 2020;
- the performance of TFS screening at European and UN level and adverse media screening regarding parties involved in transactions;
- conducting due diligence when investing in vessels, including vessel screening against TFS lists (pre-acquisition), identification of destination and shipping routes, and risk-based monitoring using Automatic Identification System (AIS) tracking;
- in case of assets with a dual-use goods' exposure:
    - keeping a register of such assets;
    - on a risk-based approach ensuring that controls are in place at asset level based on Regulation (EU) 2021/821 of 20 May 2021 setting up the European Union regime for the control of exports, brokering, technical assistance, transit and transfer of dual-use goods;
    - verifying that the base client of the target asset does not include sanctioned countries/clients or clients in the military sector that would be linked directly to high-risk countries or countries under financial sanctions;
    - performing a risk assessment of the asset;
    - identifying and verifying the ultimate beneficial owner;
    - establishing and risk rating the asset's jurisdiction and that of the related parties; and
    - performing sanctions and adverse media screening, also OFAC screening on the asset[8] and all its related parties (seller, buyer, UBO).

Conclusion

During its review, the CSSF established that the sampled IFMs were aware of and prepared for the topic. The CSSF noted that the measures that they implemented to combat the proliferation financing risk were still maturing. This is in line with the proliferation financing risk identified for the Luxembourg fund industry, which is estimated to be low. The CSSF will continue to cover this topic in its public-private dialogues in the future and in its cooperation with other competent authorities and thus enhance market awareness and /or guidance. In the meanwhile, the CSSF would like to draw the attention of the professionals falling under its supervision to the FATF 2021 Guidance on "*Proliferation Financing Risk Assessment and Mitigation*"[9] and the FATF report of 20 June 2025 on "*Complex Proliferation Financing and Sanctions Evasion Schemes*"[10] as further detailed in the CSSF Newsletter n° 295 of August 2025.

[8] Despite the fact that Luxembourg laws and regulations only require name screening against EU and UN sanctions lists, screening against OFAC lists although not mandatory has been perceived as a best practice for combating the proliferation financing risk.

[9] https://www.fatf-gafi.org/en/publications/Financingofproliferation/Proliferation-financing-risk-assessment-mitigation.html.

[10] https://www.fatf-gafi.org/en/publications/Financingofproliferation/complex-proliferation-financing-sanction-evasionschemes.html#:~:text=Paris%2C%2020%20June%202025%20%E2%80%93%20A%20new%20FATF, the%20financing%20of%20weapons%20of%20mass%20destruction%20%28WMD%29.