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இலங்கை மத்திய வங்கி
CENTRAL BANK OF SRI LANKA

இலாச இல்டி லீகலக
நிதியியல் உளவறிதற் பிரிவு
FINANCIAL INTELLIGENCE UNIT

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May 12, 2026

To: CEOs/ General Managers/ Managing Directors of All Financial Institutions and Designated Non- Finance Businesses

Red Flag Indicators - No. 03 of 2026
Red Flag Indicators on Proliferation Financing

Please find the attached Red Flag Indicators, No. 03 of 2026 relating to Proliferation Financing.

Yours faithfully,

Director
Financial Intelligence Unit

Cc:

1. Director, Bank Supervision Department of Central Bank of Sri Lanka
2. Director, Department of Supervision of Non- Bank Financial Institutions of Central Bank of Sri Lanka
3. Director, Payments and Settlement Department of Central Bank of Sri Lanka
4. Director, Department of Foreign Exchange of Central Bank of Sri Lanka
5. Director General, Securities and Exchange Commission of Sri Lanka
6. Director General, Insurance Regulatory Commission of Sri Lanka
7. Director General, National Gem and Jewellery Authority of Sri Lanka
8. Chairman, Gambling Regulatory Authority
9. Compliance Officers, all Financial Institutions and Designated Non- Finance Businesses

Red Flag Indicators on Proliferation Financing

Practical Guidance for Reporting Institutions on Identifying Proliferation Financing Red Flags

No Single Red Flag Is Determinative

No single indicator, transaction, customer attribute, trade activity, or sanctions alert on its own confirms Proliferation Financing (PF).

PF risk must be assessed holistically, taking into account the overall context, customer profile, transaction behavior, beneficial ownership, trade activity, end-user information, geographic exposure, and available intelligence.

Institutions are not expected to prove financing of weapons of mass destruction. They are expected to identify suspicious activity consistent with sanctions evasion and proliferation financing typologies.

Apply a Cumulative and Behavior-Based Approach

Institutions should focus on:

- behavioral patterns, not isolated transactions
- linkages between persons, entities, vessels, jurisdictions, and counterparties
- changes over time, including sudden deviations from established profiles
- procurement behavior involving dual-use goods
- concealment of beneficial ownership
- trade finance inconsistencies
- shipping and maritime deception practices
- attempts to avoid sanctions screening and asset freezing obligations

PF suspicion often emerges from patterns and cumulative indicators rather than transaction value alone.

Suspicious Transaction Report (STR) Filing Threshold: *Reasonable Grounds, Not Proof*

Reporting Institutions must file STRs once reasonable grounds for suspicion exist, even where:

- the PF link is indirect or not fully confirmed
- the sanctioned connection is not explicit

- the amounts involved are small or routine
- the activity appears facilitative, preparatory, or commercially legitimate on the surface

The absence of confirmed sanctions violations must not delay reporting.

Document the Decision-Making Rationale

Institutions should maintain clear documentation explaining:

- why activity was considered suspicious (or not)
- what indicators, patterns, or contextual factors were relied upon
- how alternative explanations were assessed and ruled out
- whether sanctions screening was conducted
- whether attempted transaction reporting obligations were triggered

This documentation is essential for:

- supervisory examinations
- FIU analysis

These indicators are not exhaustive and should be applied flexibly using professional judgment, evolving typologies, and institution-specific risk assessments.

Key PF Red Flag Indicators

1. Customer Profile and Behavior

- Newly incorporated companies conducting high value international trade without clear business history
- Customers involved in chemicals, industrial machinery, electronics, metals, precision equipment, or laboratory devices without clear business rationale
- Frequent use of nominee directors, shareholders, or proxies without legitimate purpose
- Complex ownership structures with unclear beneficial ownership
- Frequent changes in ownership, directors, or signatories without commercial rationale
- Customers reluctant to provide source of funds, source of wealth, beneficial ownership, or end-user details
- Use of multiple accounts without clear personal or business justification
- Requests for information regarding sanctions freezes or asset release procedures
- Attempts to avoid customer identification or sanctions screening procedures

2. Trade and Dual-Use Goods Indicators

- Import/export of chemicals, industrial machinery, electronics, valves, pumps, sensors, precision instruments, laboratory equipment, or other dual-use goods without valid economic basis
- Trade finance involving vague descriptions such as "equipment," "industrial goods," or "parts"
- Invoice values significantly inconsistent with known market prices
- Frequent amendments to trade documents, invoices, shipping instructions, or letters of credit
- Suspicious or unverifiable end-user certificates
- False consignee or consignor details
- Repeated routing through third countries without economic justification

3. Transaction Pattern Indicators

- Pass-through accounts where funds received and transferred out rapidly with no clear economic rationale
- Repeated use of intermediary companies for payments
- Third-party payments for trade, assets, or financing without clear justification
- Structured transactions designed to avoid threshold reporting
- Transactions that appear legitimate individually but become suspicious when viewed cumulatively over time

4. Sanctions and Designation-Related Indicators

- Matches or near-matches to UN designations under UNSCR 1718 and UNSCR 1737 (2231)
- Use of aliases, spelling variations, or identity manipulation to avoid screening
- Transactions involving associates, family members, or front entities linked to designated persons
- Attempts to rapidly move funds following sanctions-related communications or alerts
- Requests involving release, transfer, or restructuring of frozen assets

5. High Value Asset and DNFBP Indicators

- High value property purchased through shell companies or trusts
- Large cash purchases of precious/ semi-precious metals and stones without clear source of funds
- Use of casinos to convert large volumes of funds with minimal gaming activity
- High value asset transactions funded by unrelated third parties
- Use of DNFBPs to facilitate asset concealment for sanctioned-linked persons

6. STR and Escalation Indicators

- Transactions linked to procurement, shipping, logistics, or industrial goods inconsistent with customer profile
- Attempts to circumvent sanctions screening, monitoring, reporting, or freezing controls
- Attempted transactions involving designated persons/entities even where the transaction does not proceed