



SANCTIONS RISKS OF SPECIFIC BANKING SERVICES

DATE: 06 November 2025

This **ADVISORY NOTE** is produced by the Australian Sanctions Office (ASO) to inform the regulated community of a developing issue presenting significant sanctions risk. It provides a summary of relevant sanctions laws but does not cover all possible sanctions risks. Users should consider all applicable sanctions measures and seek independent legal advice. This document should not be used as a substitute for legal advice. Users are responsible for ensuring compliance with Australian sanctions laws.

Trade Finance

Trade finance involves a wide range of banking services that help facilitate, finance and secure international and domestic trade transactions. These services are critical in reducing the risks for both importers and exporters. However, individuals and entities may abuse trade finance in their attempts to circumvent sanctions. Potential strategies may include providing false, altered or incomplete documentation relating to the exchange. This could include details provided for letters of credit, documentary collections, trade loans / import & export financing, supply chain finance and trade settlement services.

Sanctions risks are enlivened when the following attributes are present:

1. The customer had a **previous trade relationship** with entities or to jurisdiction which are now subjected to sanctions.
2. The customer conducts trade or has commercial relationships with **entities or jurisdictions that are higher risk for sanctions circumvention**, typically referring to countries that do not recognise or comply with autonomous sanctions and continue trading relationships with sanctioned jurisdictions.
3. The customer is engaged in the **trade of goods** that are sanctioned in particular jurisdictions (see sanctions [guidance on export sanctioned goods](#) for further information).
4. The customer presents **inconsistent or incomplete documentation** to support the transaction.
5. The physical good being traded is being **transported on high risks vessels**, including vessels identified as acting as part of the 'Shadow Fleet,' or via unusual and non-direct shipping pathways.

The ASO has published [an advisory](#) that provides further information to the Australian export sector on how to identify Russian evasion methods.

BOOK TRANSFERS

Book transfers refer to the movement of assets of funds within an accounting or record keeping system. It is a way to reflect changes in ownership or balances without necessarily involving the physical movement of cash or assets. In the banking system, book transfers (also known as book-to-book transfers, or 'internal transfer') have been identified as mechanism used to evade sanctions in other jurisdictions when the transaction occurs between account held by different people or businesses. Book transfers, though internal, should be assessed and monitored for sanctions compliance.

Sanctions risks are enlivened when the following attributes are present:

1. **Complex beneficial ownership arrangements.** Book transfers may be used in conjunction with complex beneficial ownership arrangements to directly or indirectly provide sanctioned entities payments. Book transfers may be exploited to pay outstanding dividends or profits back to companies

2. **Recordkeeping and Transparency Challenges.** Book transfers may reduce transparency, making it more difficult to identify underlying transactions that may contravene sanctions law. This complicates compliance, due diligence, and audit processes.

NOSTRO VOSTRO ACCOUNTS

Nostro Vostro accounts are used to facilitate international transactions and settlement between correspondent banks. These accounts, held by one bank at another to facilitate international transactions, can be vulnerable to exploitation by sanctioned entities or individuals, either directly or indirectly. This is because the originating bank may not always have full visibility into the ultimate beneficial owners or the purpose of transactions passing through the nostro account. Banks must ensure their nostro/vostro relationships don't involve sanctioned entities or facilitate transactions that would result the provision of assets.

Sanctions risks are enlivened when the following attributes are present:

1. **Nested correspondent banking**, where multiple layers of correspondent relationships exist, can further complicate due diligence and increase the risk of sanctions contravention.
2. **High Wealth Individuals**, such as Russian oligarchs frequently have access to complex financial arrangements, including those facilitated by nostro and vostro accounts.

NETTING ARRANGEMENTS

Netting is a contractual or operational arrangement between two or more parties to offset mutual obligations, resulting in a single net payment. Common forms include:

- **Bilateral Netting:** Two parties offset their obligations.
- **Multilateral Netting:** Multiple parties offset obligations through a central clearing party or agreement.
- **Close-out Netting:** Triggered upon default or insolvency, where obligations are terminated and replaced by a single net payable.

While netting offers operational efficiencies, it poses significant sanctions risks if not managed carefully. Organisations should ensure that compliance programs explicitly address netting practices and incorporate adequate controls to prevent inadvertent sanctions contraventions.

Sanctions Risk Considerations in Netting Arrangements

1. **Indirect Involvement of Sanctioned Parties:** Targeted financial sanctions also prohibit indirect benefits to sanctioned individuals and entities. Netting may obscure the flow of funds or value to or from a sanctioned individual or entity. Even if the final net payment does not directly involve a sanctioned party, the underlying obligations being offset might.
2. **Indirect Benefit and Facilitation Risk:** Facilitation of transactions involving sanctioned parties may result in a sanctions contravention. If netting arrangements benefit or clear obligations for a sanctioned individual or entity, even indirectly, this may constitute facilitation.
3. **Constructive Receipt:** Sanctions risks with netting arrangements may occur when it results in **constructive payment or receipt**, especially if the netting process allows a sanctioned party to benefit from the reduction of a liability without an actual cash transfer.

4. **Recordkeeping and Transparency Challenges:** Netting can reduce transparency, making it more difficult to identify underlying transactions that may contravene sanctions law. This complicates compliance, due diligence, and audit processes.

Red flag indicators (non-exhaustive):

- Exporters ship products internationally without corresponding or sufficient international payments received.
- An importer purchases goods with little or no evidence of international payments made to exporters.
- Discrepancies occur between the destination countries to which goods are shipped by exporters and the jurisdictions from which payments are received.

FURTHER INFORMATION AND RESOURCES

While this advisory note provides a framework for understanding key sanctions risks and compliance requirements, it is essential to remember that it does not cover every possible scenario. Sanctions compliance is an ongoing obligation rather than a one-time assessment. Sanctions measures and associated risks are constantly evolving, requiring regulated entities to continuously monitor and reassess their compliance strategies. Australian regulated entities are encouraged to seek independent legal advice tailored to their specific situations and ensure thorough due diligence in all activities.

We recommend users also refer to the following resources to assist in their evaluation of sanctions risks:

- [Sanctions Compliance Toolkit](#)
- [Sanctions Risk Assessment Tool](#)
- [Guidance Note - Dealing with assets owned or controlled by designated persons and entities | Australian Government Department of Foreign Affairs and Trade](#)
- [Guidance Note - Export Sanctioned Goods – Russia and Specified Regions of Ukraine | Australian Government Department of Foreign Affairs and Trade](#)
- [Advisory Note – Australian export sector, Russian evasion methods | Australian Government Department of Foreign Affairs and Trade](#)
- Further information is available on the [Department's website](#), or by making an enquiry to sanctions@dfat.gov.au.

