

Navigating a course through sanctions compliance



The Deloitte Compliance Forum

The challenges faced by financial institutions to comply with economic sanctions should not be underestimated. Establishing which sanctions regime applies to which transaction is by no means straightforward. Sanctions can apply to individuals and/or entities and vary greatly from programme to programme with regional jurisdiction often complex and unclear.

The situation is complicated by the fact that there is little guidance from the various regulatory authorities on how to interpret the requirements of the various sanctions regulations.

This is due to two factors, firstly, the number of regulatory bodies performing similar functions makes a consolidated approach difficult to coordinate – the Bank of England, the Office of Foreign Asset Control from the US, the EU and so on; and secondly the reluctance of the regulatory bodies to publish specific implementation detail, preferring to define principles of compliance to be interpreted by appropriate institutions.

Sanctions screening covers both the client take on process and transaction monitoring which, though closely related, require different applications of an organisation's anti-money laundering strategy. For instance, the extensive information available at client take on permits more comprehensive screening techniques than possible when monitoring transactions. Financial institutions face tough decisions when striking the right balance between having a robust real-time transaction screening policy that does not adversely impact its ability to execute transactions in a timely manner.

To illustrate this challenge, organisations need to consider the following when devising and implementing a transaction monitoring solution to ensure sanctions compliance:

- Understanding and defining regulatory jurisdiction
- Assessment of 'risk based' vs 'zero tolerance' policy approaches
- Development of assurance models
- Technology selection and configuration

- Evidence standards for discounting potential matches
- Paper payments, letters of credit and manual payments
- Escalation processes
- Business activity in countries subject to sanctions
- Banking secrecy, data protection and conflicting sanctions instructions.

Insurers have to reconcile underwriting global risk against sanctions compliance; banks need to pay particular attention to transaction issues, not only on a business to business basis but individual too. This coupled with the FSA becoming involved in enforcing legislation means that sanctions compliance is truly a significant issue for the whole financial services industry.

It is important for financial institutions and other businesses operating on an international level to ensure they already have the processes in place to avoid transactions that will put them at risk of non-compliance with sanctions legislation. Failure to do so has huge potential financial and reputational consequences. A pre-emptive approach is the better option.

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