

Sanctions Compliance

Correspondent Banking Academy

What Will I Learn



Sanctions Compliance: Missing piece

- **What do you want to know more about?**
- **What areas are currently of most concern to your Bank?**
- **What are biggest notable challenges your Bank must face?**

What are Sanctions



What are Sanctions and Who Imposes Them?

Sanctions are legal measures imposed by countries or groups of countries that:

- **Prohibit** or **restrict** dealings
- **Deprive** a sanctions target of:
 - financial and economic assets
 - benefits of trade or economic interaction



Non-US Regulatory Authorities

SC receives information requests on a regular basis from such Non-US Regulatory Authorities as



United Nations

European Union

United Kingdom

Benefits of Sanctions

- **Alternative** to military force
- **Response** to a Foreign Crises which may impact national / international interests
- **Limit** to opportunities for those who engage in unlawful behavior
- **Identification** of anything which facilitates practices that challenge the global community:
 - Individuals
 - Entities
 - Modes of transportation

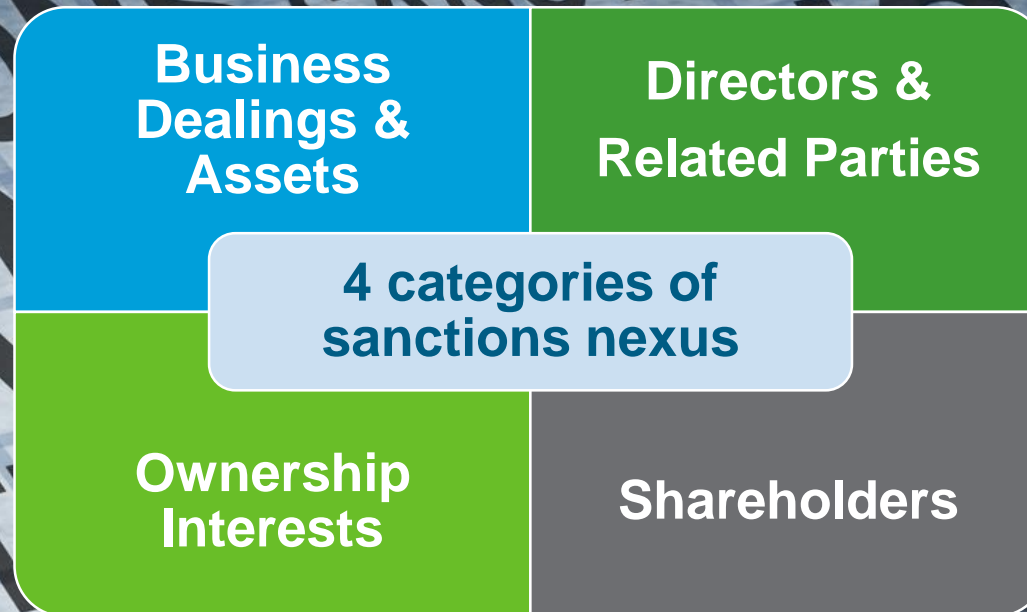


Sanctions: Don't Make It Personal

- **Expresses** collective or individual country foreign policy
- Beware of personal bias on the efficacy or appropriateness of that policy
- **Refrain** from personal bias for non-compliance *with all applicable sanctions laws*
- **Avoid** blindness or minimization of risks and consequences of insufficient controls



What is a 'Sanctions Nexus'?



Client Direct & Indirect Sanctions Linkages

Direct Linkage

VS

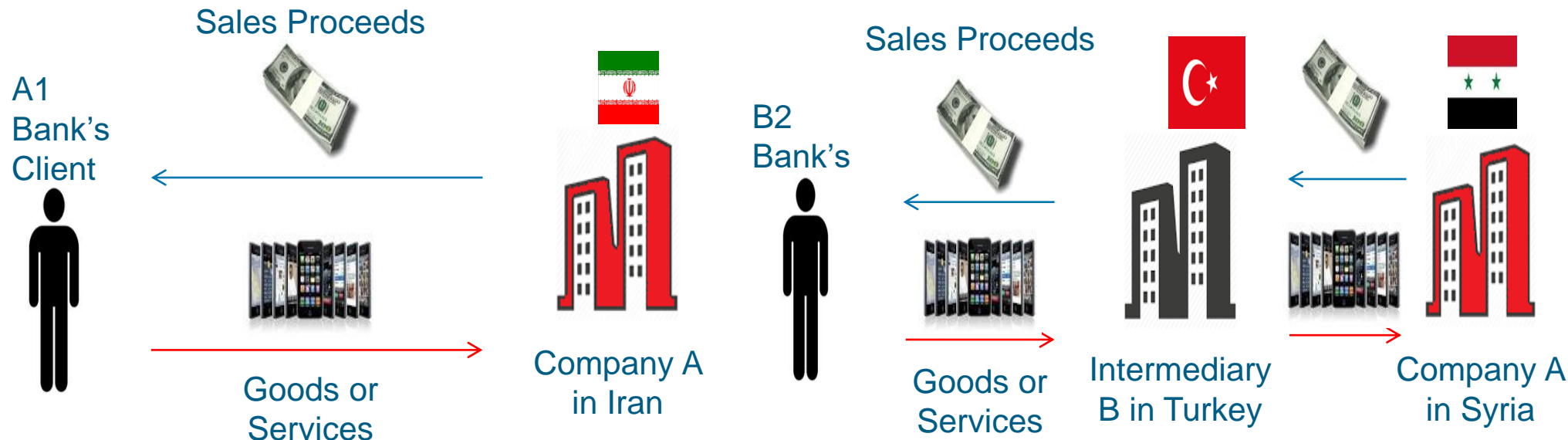
Indirect Linkage

Direct Sales of the Client's Goods or Services to Sanctioned Countries:

Sales proceeds received directly from any individual resident and/or entity incorporated or operating in any of the Sanctioned Countries for the client's goods or services

Indirect Sales of the Client's Goods or Services to Sanctioned Countries

Sales proceeds received from any intermediary of any individual resident and/or entity incorporated or operating in any of the Sanctioned Countries for the client's goods or services



Sanctions Policies

Banks should set Sanctions **Policy** and **Procedures** at the Group level to:

- Ensure compliance with all applicable legal requirements
- Reduce risk (operational and reputational)

POLICIES

PROCEDURE



Bank Policy and Procedures are often **more restrictive** than applicable laws, to **reduce risk**

Departmental Operating Instructions Training
Due Diligence

Procedures

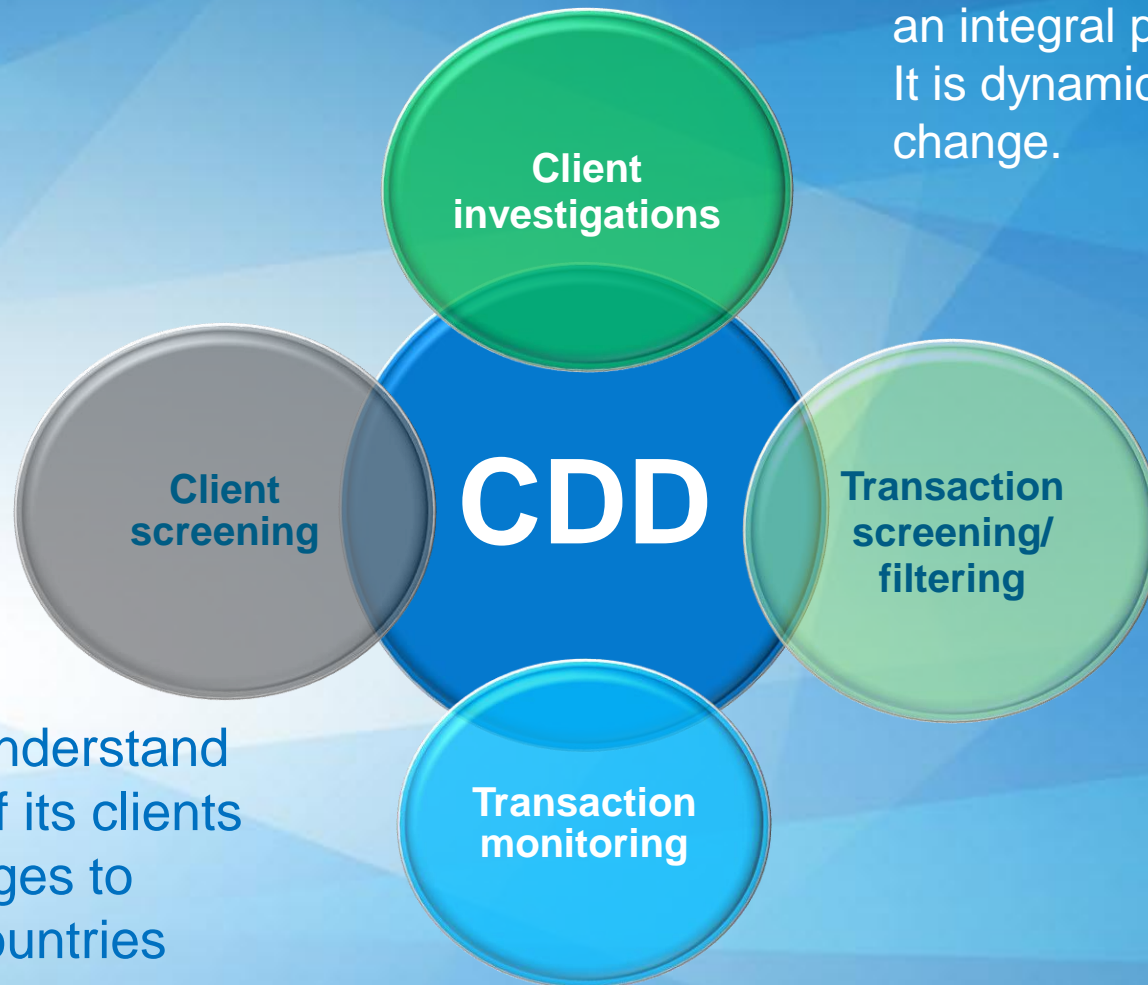
BEST PRACTICES

Record and Document

Policy



Client Due Diligence (CDD) is an integral part of all core controls. It is dynamic and evolves as risks change.



Banks must understand the activities of its clients and their linkages to Sanctioned Countries

Just Because It's Complicated, Doesn't Mean It Has To Be Difficult

- **Remember** that sanctions change constantly
- **Use** consistent Business operations
- **Provide** all employees with key concepts and implement effective processes to:

Detect and **identify** potential red flags and indicators

Communicate and **escalate** issues through defined processes

Articulate instructions to guide correct and consistent decision making

Types of Sanctions: Targeted



Types of Sanctions: Countries



Sanctioned Countries & Territories



Cuba



Iran



North Korea



Syria



Crimea &
Sevastopol

Types of Sanctions: Targeted

Targeted Sanctions

Targets parties who are related to an activity which is considered to be harmful to society

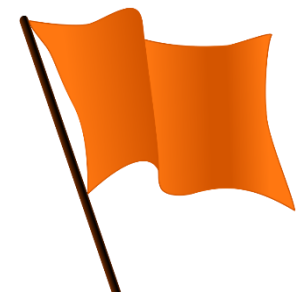
Prohibit activities involving any party which is designated under the sanction regime

Type of Designations

- **SDGT** - Global Terrorism Sanctions Regulations
- **SDNTK** - Foreign Narcotics Kingpin Sanctions Regulations
- **TCO** - Transnational Criminal Organizations Sanctions Regulations

Common types of Designated Parties

- **Individuals**
- **Vessels**
- **Entities**
- **Governments**





Sectoral Sanctions

- **Introduced** in 2014
- **Prohibit** certain activities involving the entities
- **Focuses** mainly on restricting new debt / equity of the SSIs
- **Bans** provision of goods/services/technology to Russia's:
 - Oil & gas industry
 - Military
 - Dual-use goods

Government of Venezuela and PDVSA are now blocked



Executive Order 13850

- Designates the Gold sector
- Designated entities which have been found to be complicit in Government corruption
- PDVSA (designated an SDN in Jan 2019)

Executive Order 13835

- Expand the definition of Venezuela Government to include parties who act on behalf of the Government
- Prohibits any debt owed to the Government of Venezuela
- Limit the governments access to capital

Executive Order 13884

- Blocking property of the Government of Venezuela
- US persons are prohibited from dealing in such property.

Sanctions Red Flags

Indications that a client's company:

- is controlled from a sanctioned country, or
- the commodity traded has either the origin or is transshipped through a sanctions country



Beware Black Holes

Sanctions compliance, like AML, depends on transparency.

Pay attention to, identify, and address business processes that lack transparency into essential risk-related factors that can undermine your controls; look for the black holes.

Black Holes exist. Don't pretend they don't.

What is Circumvention?

- **Removing** (aka stripping) or altering Sanctions related information from a payment or documentation
- **Acting** as a 3rd party with another entity that's unaware circumvention is occurring
- **Undertaking** transactions through intermediaries in non-Sanctioned countries

Circumvention is behaviour that seeks to avoid any prohibited activity which would ordinarily lead to a rejection or freezing of assets.



- **Using** front companies incorporated in non-Sanctioned countries to carry out transactions on behalf of the Sanctioned party
- **Disguising** the origin of funds by routing through local banks in jurisdictions that do not enforce Sanctions prior to transferring the funds to international banks

Circumvention: Illegal Actions

- Some clients may try to evade our controls through deceptive and non-transparent practices
- Avoidance or circumvention of Sanctions is behavior intended to facilitate any activity which is prohibited under applicable Sanctions
- No staff can be involved in any activity in avoidance or circumvention of Sanctions
- Any attempt to circumvent must be escalated and reported internally as a suspicious transaction

Targets of Sanctions will often seek to circumvent, or get around Sanctions



Covert Circumvention: Examples

- **Removing** information linked to a Sanctioned entity from payment messages and transaction documentation
- **Acting** as a 3rd party
- **Undertaking** transactions through intermediaries in non-Sanctioned countries
- **Using** front companies incorporated in non-Sanctioned countries
- **Disguising** the origin of funds sourced from a Sanctioned country by routing them through local banks in jurisdictions that do not enforce Sanctions



Avoidance, Circumvention & Breach of Sanctions: Examples

- **Omitting, altering** or **deleting** information showing involvement with Sanctioned entity
- **Structuring** transaction to conceal the involvement of a Sanctioned Country or Party
- **Directing** clients to make payments in another currency to avoid sanctions imposed by a particular country
- **Assisting** a client to avoid or circumvent sanctions
- **Failing** to promptly report a client request to assist them to avoid or circumvent sanctions



Circumvention Case Study




- Your Bank interdicted a trade product screening which included a shipping company that is listed on your Bank's private internal watchlist
 - The shipping company is an active alert as your Bank has reason to believe there is a chance they may deal with Iran in the future
- Due to this listed shipping company being present in the underlying trade product, the investigations team requested additional information on this screening, including supporting documents such as a Bill of Lading



Circumvention Case Study

Vessel	Voyage
ABC Transworld	36
Port of Loading	Port of Discharge
JEBEL ALI, UAE	NHAVASHEVA, INDIA

- Supporting documents show the goods were shipped from UAE to India on January 8th 2018
- Lloyds vessel search shows OEL Transworld ported in India during this time

called at	Mundra	 India (GMT +05:30H)	Port	12:45 GMT 09/01/18	17:36 GMT 11/01/18
called at	Jawaharlal Nehru	 India (GMT +05:30H)	Port	09:11 GMT 08/01/18	12:45 GMT 09/01/18
called at	Jebel Ali	 United Arab Emirates (GMT +04H)	Port	13:10 GMT 31/12/17	16:10 GMT 02/01/18

- Your Bank sent the B/L to a third party vendor for verification

Thank you for your recent inquiry

Reference to B/L number DXT6756TUM, it has been reported to the Bureau that the containers were loaded in Bandar Abbas, Iran (not Jelel Ali, Dubai)

We have further advised that containers have been discharged at Nhava Sheva, India on 08 January 2018.

Public sources available to the Bureau showed that the owner, operator, IMO number and flag is as follows:

SSI Case study 1 (approved)

- C_APLICANT] ABC client 1
[C_APLICADD] Address: 8 Marina
Boulevard, MBFC Tower 1, Level 28
Singapore 018981
[C_BENFICRY] ABC non client
[C_BNFADD] .
IRAQ
[C_BENFICRY] **DUKOIL MID-EAST**
LIMITED, 1 MENANDROU
STR.,BROSIA HOUSE
[C_BNFADD] 1 MENANDROU
STR.,FROSIA HOUSE
2ND FLOOR,FLAT/OFFICE 403
AND 204 1066,NICOSIA CYPRUS
- COUNTRY OF ORIGIN - SINGAPORE/
ROMANIA/ BATAM; SHIPMENT OF
ORIGIN - SINGAPORE/ ROMANIA/
BATAM; **DESCRIPTION OF GOODS -**
WELLHEAD & XMAS TREE &
ACTUATORS; COUNTRY OF FINAL
DESTINATION - **IRAQ**; END USER -
BOC - BASRA

Things to note:

- Dukoil Mid-East Limited is subject to Directive 4
- Goods involved are Wellhead/ Xmas Tress/Actuators
- Final destination – Iraq
- Project initiated in 2009

The provision, exportation, or reexportation, directly or indirectly, of goods, services (except for financial services), or technology in support of exploration or production for deepwater, Arctic offshore, or shale projects:

- (1) that have the potential to produce oil in the Russian Federation, or in maritime area claimed by the Russian Federation and extending from its territory, and that involve any person determined to be subject to this Directive or any earlier version thereof, their property, or their interests in property; or
- (2) that are initiated on or after January 29, 2018, that have the potential to produce oil in any location, and in which any person determined to be subject to this Directive or any earlier version thereof, their property, or their interests in property has (a) a 33 percent or greater ownership interest, or (b) ownership of a majority of the voting interests.

- :50K:/12345
- TOWER INVESTMENT COMPANY
- Address: 8 Marina Boulevard, MBFC Tower 1, Level 29 Singapore 018981
- :56A:DTBRRUMMXXX
- :57A:DTBRRUM2KMA
- :59:/12345
- SENERGY LLC
- 8 Marina Boulevard, MBFC Tower 1, Level 29 Singapore 018981
- :71A:OUR
- :72:/ACC/, DTBRRUMM, ,

Things to Note:


- DTB bank is designated under Directive 1
- DTB bank is acting as the beneficiary bank in this transaction

DIRECTIVE 1 of EXECUTIVE ORDER 13662

- (1) For new debt or new equity issued on or after July 16, 2014 and before September 12, 2014, all transactions in, provision of financing for, and other dealings in new debt of longer than 90 days maturity or new equity of persons determined to be subject to this Directive or any earlier version thereof, their property, or their interests in property.
- (2) For new debt or new equity issued on or after September 12, 2014 and before November 28, 2017, all transactions in, provision of financing for, and other dealings in new debt of longer than 30 days maturity or new equity of persons determined to be subject to this Directive or any earlier version thereof, their property, or their interests in property.
- (3) For new debt or new equity issued on or after November 28, 2017, all transactions in, provision of financing for, and other dealings in new debt of longer than 14 days maturity or new equity of persons determined to be subject to this Directive or any earlier version thereof, their property, or their interests in property.

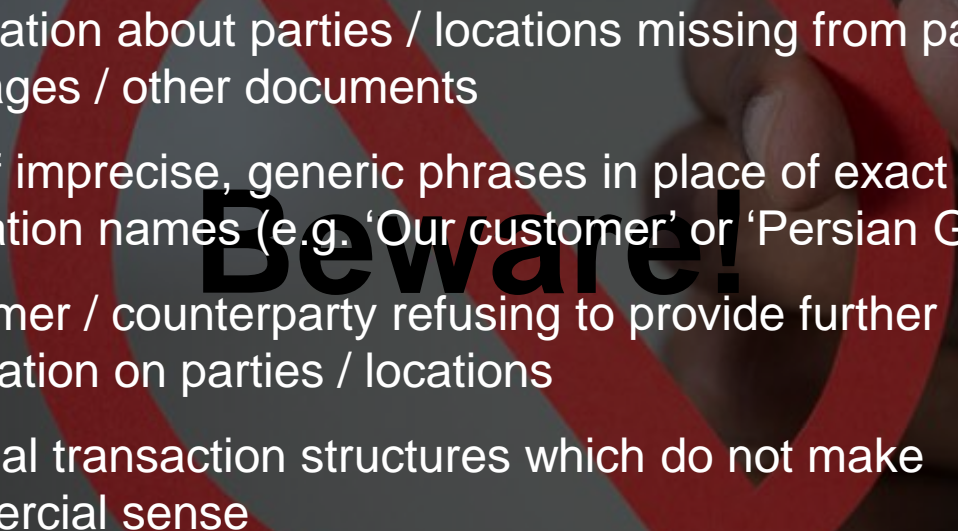
SSI Case Study 3 (Reject)

INVOICE

Exporter 		Invoice No. & Date 2E0000000040 DTD. 26.06.2018	
		Buyer's Order & Date CONTRACT NO.:D0412-4194 DT. 25.04.2017 ANNEX NO. 5 DT. 18.06.2018	
		Other Reference IEC NO : 0888038135	
Consignee LLC "DT" OGRABORG" 16,OKTYODRSKAYA STR., ROOM, STROITEL YAKOVLEVSKIY DRITRICT, BELGOROD REGION, RUSSIAN FEDERATION 309060		Buyer (if other than consignee) LLC "DT" OGRABORG" 16,OKTYODRSKAYA STR., ROOM, STROITEL YAKOVLEVSKIY DRITRICT, BELGOROD REGION, RUSSIAN FEDERATION 309060	
Notify : LLC "DT" OGRABORG" 16,OKTYODRSKAYA STR., ROOM, STROITEL YAKOVLEVSKIY DRITRICT, BELGOROD REGION, RUSSIAN FEDERATION 309060			
Pre-Carriage by ROAD	Place of Receipt by Pre-carrier HAZIRA PORT, INDIA	Country of Original of Goods INDIA	Country of Final Destination RUSSIA
Vessel/Flight No. CSAV TYNDALL V.1826W	Port of Loading HAZIRA PORT, INDIA	Terms of Delivery and Payment CIF ST. PETERSBURG, RUSSIA	
Port of Discharge ST. PETERSBURG, RUSSIA	Final Destination ST. PETERSBURG, RUSSIA	PAYMENT TERMS : T/T 60 DAYS FROM B/L DATE. PAYMENT DUE DATE : 31.08.2018	

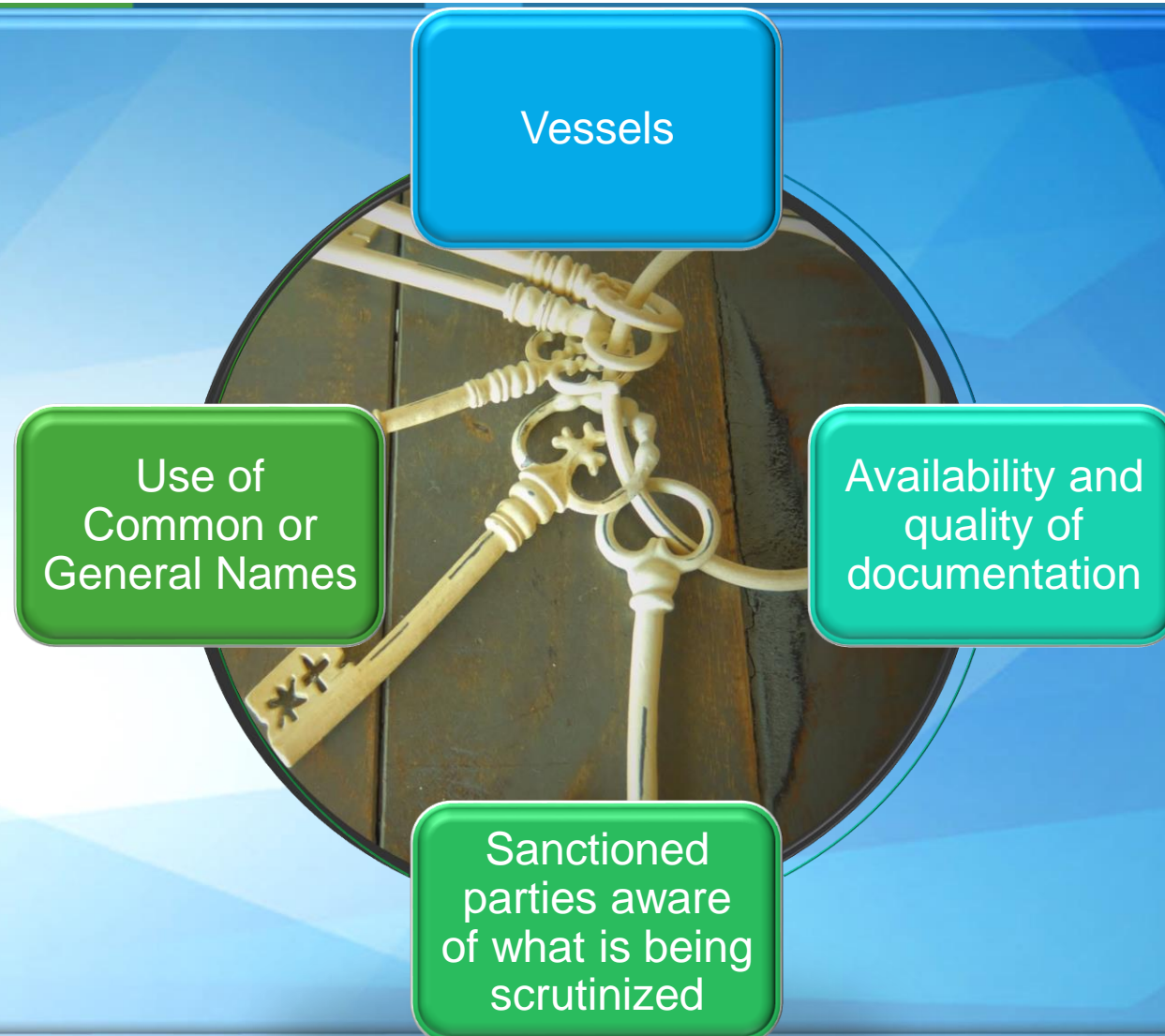
- **TD AGROTORG is designated under directive 1 of the Russian SSI sanctions**
 - (3) For new debt or new equity issued on or after November 28, 2017, all transactions in, provision of financing for, and other dealings in new debt of longer than 14 days maturity or new equity of persons determined to be subject to this Directive or any earlier version thereof, their property, or their interests in property.
- **Payment terms is 60 days – transaction is caught by directive 1 and should be rejected**

What are warning signs?

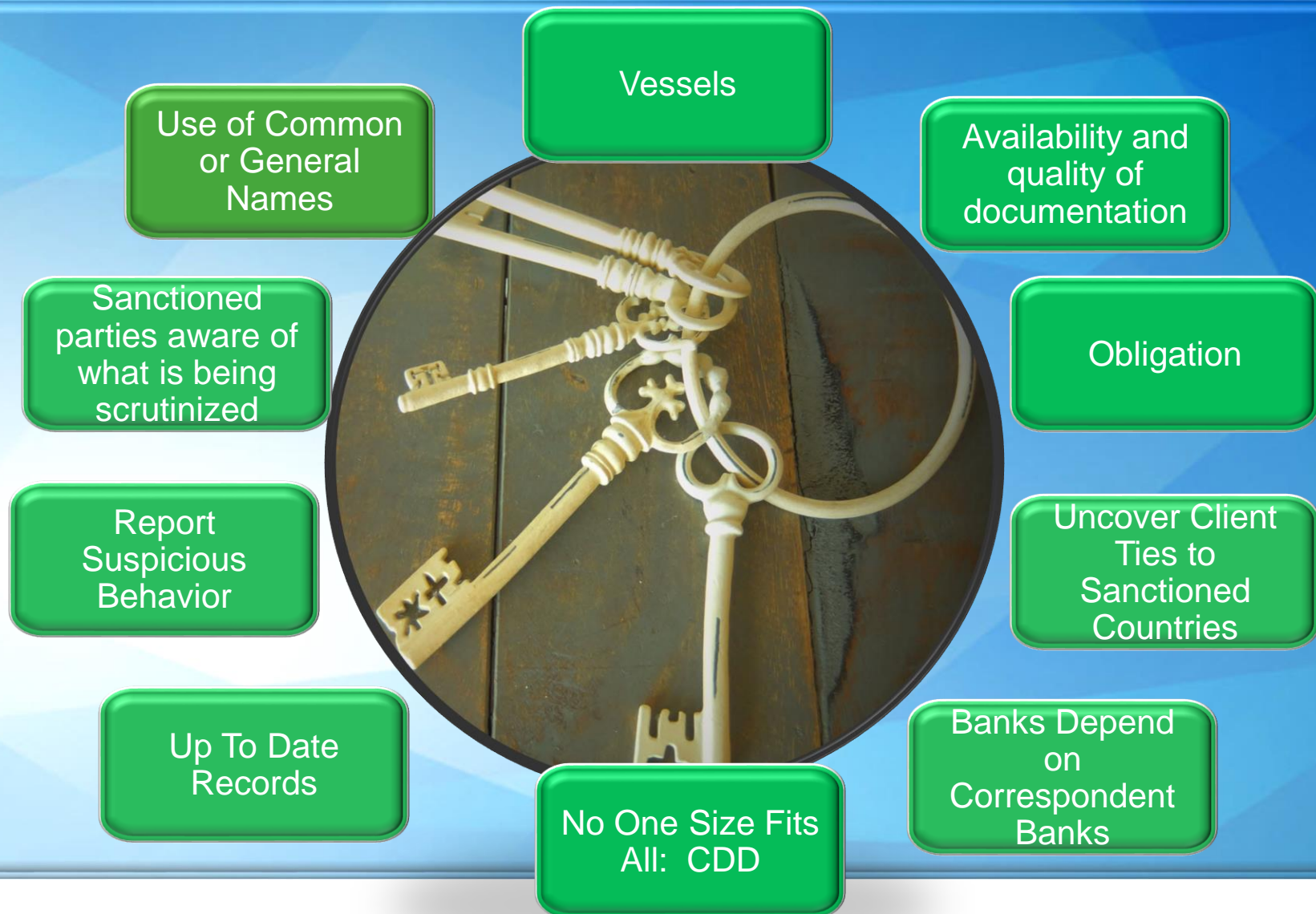
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- Information about parties / locations missing from payment messages / other documents
 - Use of imprecise, generic phrases in place of exact party or location names (e.g. 'Our customer' or 'Persian Gulf')
 - Customer / counterparty refusing to provide further information on parties / locations
 - Unusual transaction structures which do not make commercial sense

Any request or attempt to avoid or circumvent Sanctions must be declined and referred as a suspicious transaction

Key Challenges



Key Takeaways



Questions



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