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Sanctions 101 & Sanctions Violation

Meeting ever-changing sanctions updates challenges anti-money laundering (AML) teams to do more than know their customers; they must understand and mitigate the unique risks of every customer.

Financial institutions (FIs) must have a solid understanding of sanctions and a plan for how to meet sanctions obligations, even as sanctions lists and laws evolve constantly.

What are sanctions and why are they implemented?

The Association of Certified Anti-Money Laundering Specialists (ACAMS) defines economic sanctions as, "punitive or restrictive actions taken by individual countries, regimes, or coalitions with the primary purpose of provoking a change in behavior or policy." They can be specific or general in their implementation and enforcement and may restrict:

- TRADE
- FINANCIAL TRANSACTIONS
- DIPLOMATIC RELATIONS
- PHYSICAL MOVEMENT

Who can be sanctioned?

Entities

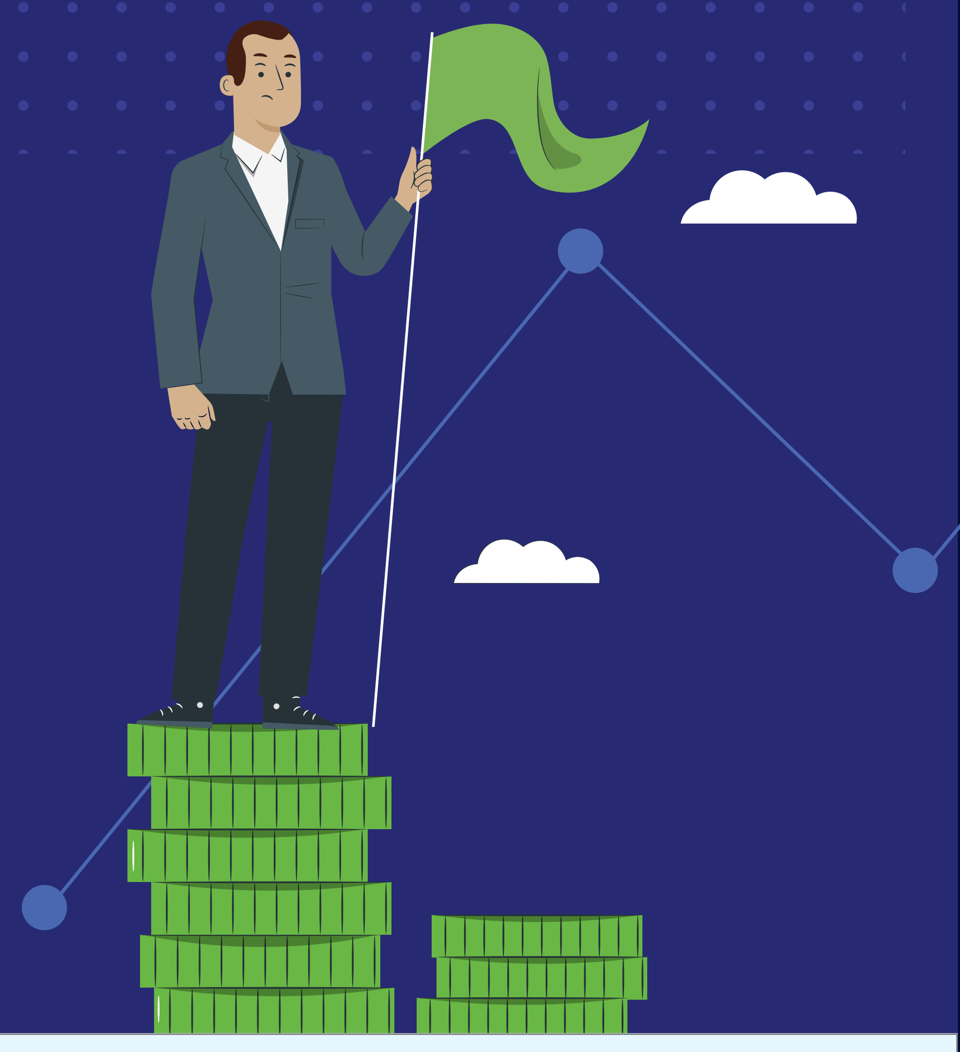
Individuals, organizations, countries, jurisdictions, regions, vessels, aircraft, and the like.

Trading

goods, services, and technologies.

How do sanctions affect banks?

1. Generally speaking, FIs are forbidden from interacting (e.g., transacting with, onboarding, etc.) with any sanctioned entity.
2. Continuous sanctions watchlist screening is required for every customer transaction.
3. Payments can't be made to anyone on a sanctions list (including pass-through payments), nor with the understanding that the ultimate beneficiary is a sanctioned entity;
4. Firms must have a detection program with controls to avoid and mitigate the effects of risks on national and international lines.

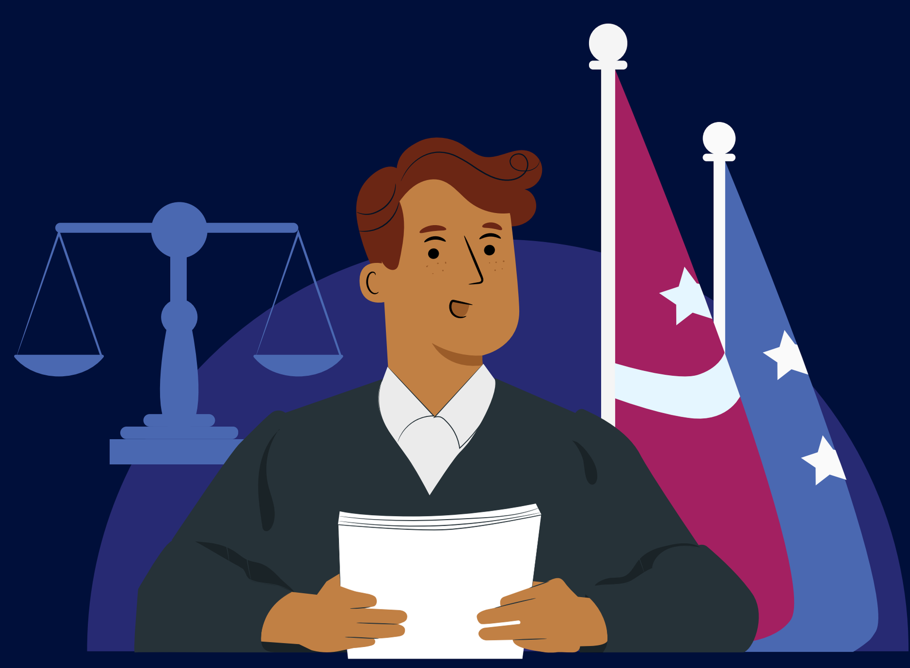


Example

A South African bank's customer makes payments to the UK and the US. The South African bank must conduct sanctions screening against watchlists as required by their regulatory oversight bodies in the UK and US, as well as South Africa, to comply with minimum sanctions requirements.

Sanctions Cases in the Court

- 2004, United States: Kashani v. Tsann Kuen China Enterprise Co
- 2015, United States: U.S. v. BNP Paribas SA
- 2020, United Kingdom: Lamesa Investments Ltd v Cynergy Bank Ltd



FIs can comply with sanctions obligations by:

- Using fresh data sources to monitor for changes in sanctions lists
- Performing continuous screening across customers and payments
- Implementing granular screening algorithms and controls to mitigate risks
- Adopting effective compliance policies and technology across all operating jurisdictions