



Forensic & Integrity Services

Economic sanctions and export controls are changing the way companies do business

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Building a better working world

The international response to conflicts in Europe has resulted in the most sweeping economic sanctions and embargoes ever levied against major powers. Individuals, companies and entire industries have been targeted, expanding the risk for companies, including those that may normally have limited exposure to sanctions and export controls.

Other major policy changes by US agencies in 2022 also have wide-reaching implications:

- ▶ Regulations targeting semiconductor and supercomputer development have broadened the definitions for products and equipment subject to export controls, including new rules restricting certain types of transactions even when no US goods, software or technology is involved.
- ▶ Laws to prevent forced labor have instituted a “rebuttable presumption” that importation of goods from certain regions is prohibited, creating an expectation that importers review their supply chains.
- ▶ New enforcement initiatives regarding US anti-boycott laws, which are intended to prevent cooperation with foreign unsanctioned boycotts, have enhanced penalties. This change in approach is significant given that these laws have been in effect for decades with little regulatory update or attention.

Companies must consider and actively monitor the:

- ▶ **Parties** involved, even indirectly, in their transactions
- ▶ **Places** where parties operate and the origins and destinations of goods
- ▶ **Products** that may be subject to specific restrictions or controls
- ▶ **Purposes** for which those products may be used
- ▶ **Payments** to and from third parties resulting from the transaction

How should company leadership respond?

Take action to prevent future issues

“Companies should act now in anticipation of escalating enforcement,” says Matthew Nielsen, a partner on Bracewell LLP’s government enforcement and investigations team in Dallas, Texas. “While a comprehensive approach is necessary, targeted efforts to address high-risk operations can help companies avoid potential pitfalls that have resulted in violations and fines in the past.”

A critical step in this process, often omitted, is performing risk assessments, evaluating the company’s unique business environment against the five aspects listed above. Overseas operations pose a heightened risk, especially if operating relatively independently.

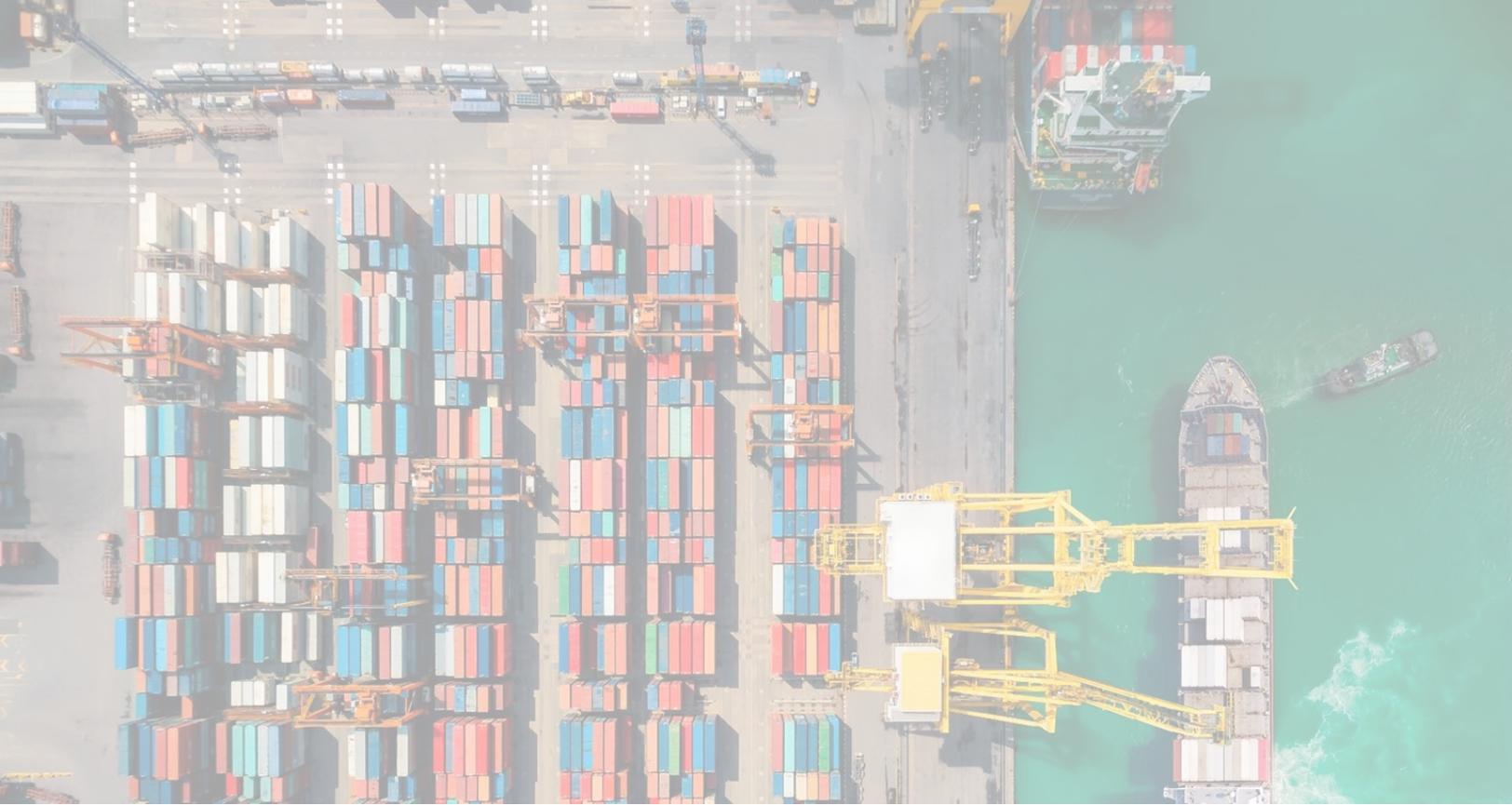
Existing procedures and controls should also be periodically reevaluated against new risks and rules changes. Systems frequently do not work as originally designed. Periodic assessment, including independent assessment, can help determine that automated controls, screening algorithms and transaction monitoring are up to date and functioning as intended.

Detect and remediate potential violations

Regulators closely scrutinize how company leaders detect and respond to potential violations. Potential violations may be due to malfeasance, such as a case where employees colluded to establish intermediary companies to divert shipments, or simple negligence, such as when data errors result in inaccurate or incomplete screening results.

Today’s advanced data analytical tools, such as [EY Virtual](#), now allow for consolidation of disparate data sources to flag indicators of diversion or reveal indirect relationships. However, at times, on-the-ground interviews and investigation remain the most effective means in bringing violations to light.

When violations do occur, it is essential that leadership adequately investigate the matter, identify root causes of the violation, implement remedial measures to prevent similar violations in the future, including appropriate discipline of the offending personnel, and incorporate “lessons learned” from the incident into their compliance programs.



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