

Business intelligence response to Russian sanctions

Managing an organization's response to sanctions exposure is more critical than ever



In addition to the US sanctions on Russia, other countries have issued sanctions that have immediate and long-term effects on the Russian economy and financial system as well as companies that have operations in Russia or business relationships with suppliers, vendors or customers in Russia.

Organizations with investments, suppliers, customers, or other business activities relating to Russia or Russian individuals and entities should assess the impact these sanctions may have on their risk profile. In order to be prepared in this rapidly evolving sanctions environment, organizations should refine their sanctions monitoring programs using the framework outlined by the Office of Foreign Assets Control (OFAC) and remain cognizant of key risk considerations.

Five pillars of a sanctions program

OFAC outlines five essential components for a sanctions compliance program (SCP), including:

- 1 Management commitment – delegation of authority and autonomy, allocation of adequate resources and promotion of compliance.
- 2 Risk assessment – holistic review of the organization and an assessment of touch points where the organization may violate sanctions.
- 3 Internal controls – set clear expectations, define procedures and minimize the risks identified by risk assessments.
- 4 Testing and auditing – ensure awareness and effectiveness of the SCP performance and regularly recalibrate per risk assessments or changes in the sanctions environment.
- 5 Training – identify job-specific knowledge, communicate responsibilities and define accountability.

Key risks

Liability and reputation:

- ▶ Strict liability risk and reputational harm for firms even through inadvertent exposure.

Hidden sanctions exposure:

- ▶ The “50 percent rule” blocks the property and interests of entities owned 50% or more by parties sanctioned by the U.S. Department of the Treasury even if not sanctioned by name.
- ▶ Determining whether a company is controlled by a sanctioned individual can be difficult to identify if shell companies or tax havens are involved.

Other risks to consider:

- ▶ Commercial partners, supply chain vendors, shared identifiers, shipping and maritime exposure, and financial conduits.

Solutions

Understanding ownership structures:

- ▶ Identify establishment, ownership, subsidiaries, affiliates, executives, operational footprint and potential business partners.
- ▶ Update ownership and relationship structures frequently to understand evolving exposure.

Conduct screening and due diligence procedures

- ▶ Screen suppliers for sanctions risk and identify higher-risk suppliers for active monitoring of any changes to their status.
- ▶ Conduct investigative due diligence on companies and individuals as deemed necessary.

Determine the next steps:

- ▶ Determine what necessary actions should be taken depending on the identified exposure.

EY sanction offerings provide a rapid, scalable and customized approach to evaluate and monitor sanctions risk using leading-edge technology

EY Business Intelligence provides actionable intelligence, insights and analysis to empower risk-informed decision-making.

EY maintains a globally connected team of 250 investigative researchers covering 40 languages and 150 countries including former prosecutors, law enforcement officials, intelligence professionals, and regulators from the FBI, SEC and DOJ. Leveraging in-country and industry-specific teams to conduct more in-depth analysis and intelligence gathering for elimination of false positive results.

Blending technology with human analysis – we combine technology with human analysis to more effectively synthesize findings, analyze results, clear false positives, and offer insight and context to interrelated data points. Our technology allows for screening of high volumes of business partners and third parties through monitoring, risk analytics and scoring.

Providing context – to deliver actionable intelligence, we harness our collective understanding of a country's business, regulatory and legal environments. We also consider the limitations of individual data sources along with industry- and risk-specific considerations.

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