Sanctions Screening

A quick and easy route to transaction screening

Sanctions Fines

U.S. SEC fines firm $7.2 mln in record short-selling sanction

WASHINGTON, March 5   Wed Mar 5, 2014 3:42pm EST

0 COMMENTS   Tweet 0   in Share   f Share this g+1 0   Email   Print

RELATED TOPICS

Stocks »

Regulatory News »

Markets »

Financials »

(Reuters) - A New York proprietary trading firm and its owner will pay $7.2 million to settle civil charges said on Wednesday

Telegraph.co.uk

Home | News | Election 2010 | Sport | **Finance** | Lifestyle | Comment | Travel | Cultu

News by Sector | Comment | Personal Finance | Markets | Economics | Your Business | Business

HOME > FINANCE

Lloyds TSB agrees to pay fine of $350m for sanctions help

Lloyds TSB

Business > Royal Bank of Scotland

RBS fined $100m for busting US sanctions in Iran and elsewhere

Settlement is latest in series of controv
with IT problems and allegations of mi

Jill Treanor
The Guardian, Wednesday 11 December 2013

JPMorgan To Pay $88 Million For Violating U.S. Sanctions

CHASE CHASE

BTMU fined $250m over US sanctions breaches

By Shannon Bond in New York

Bank of Tokyo-Mitsubishi UFJ has agreed to pay $250m for violating New York state's banking laws over transactions involving Iran, Sudan and Myanmar.

Regulators said Japan's largest bank by assets made 28,000 illegal transactions totalling $100bn for governments and institutions in those countries as well as entities on a US Treasury blacklist.
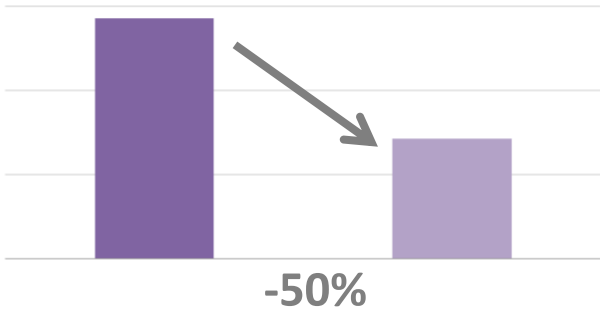
Sanctions impact

- **Fines are getting bigger, but more significantly:**
  - *Cost of remediation exceeds amount of fine*
  - *Includes limitation to business (e.g. no USD clearing)*
  - *Regulators pay more attention to the quality of the screening*

- **Banks are terminating correspondent relationships due to:**
  - *Risk factor (weak financial crime controls)*
  - *Low return on relationship due to Cost of compliance*

- **Impacts large and small financial institutions**
  - *Especially smaller FIs due to the ever growing requirements*
  - *Large FIs face increased regulatory scrutiny*
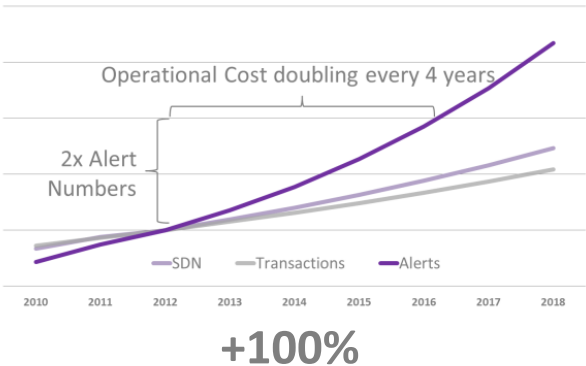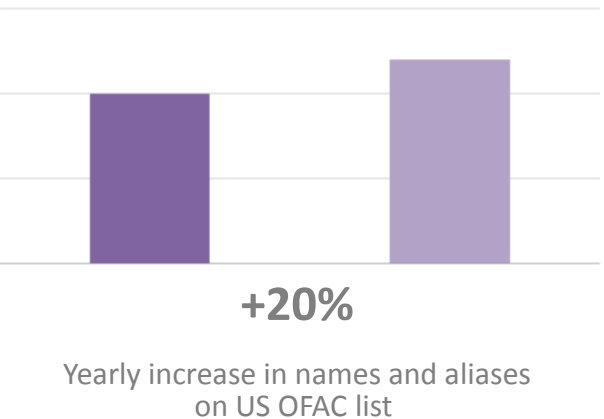
Why are Sanctions so complex?

40,000
names on lists → **4 Billion**
fuzzy combinations
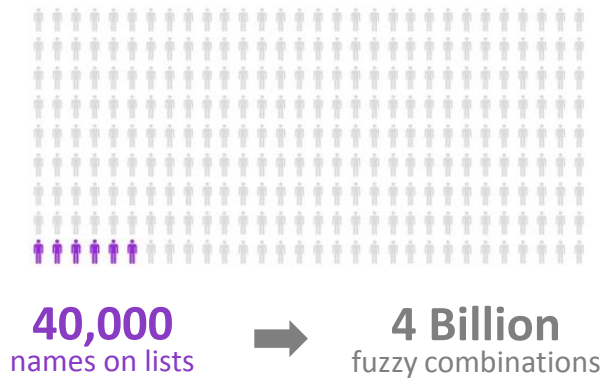
1 Day

Average interval between sanctions list updates for banks active globally

-50%

Decrease in number of correspondent relationships from some US banks

+20%

Yearly increase in names and aliases on US OFAC list

Operational Cost doubling every 4 years

2x Alert Numbers

SDN — Transactions — Alerts

2010 2011 2012 2013 2014 2015 2016 2017 2018

+100%

Increase in alerts every 4 years due to increase in SDNs and transaction numbers

15.5 Billion $

fines levied on financial institutions for violation of sanctions regulations

0.9 — 1.7 — 1.7 — 4.9 — 5.2 — 14.1 — 15.6

2009 2010 2011 2012 2013 2014 2015
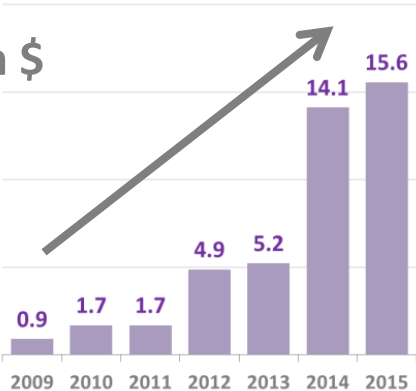
SWIFT

SWIFT Sanction Screening v manual checks

U.S. DEPARTMENT OF THE TREASURY

OFFICE OF FOREIGN ASSETS CONTROL
SPECIALLY DESIGNATED NATIONALS AND BLOCKED PERSONS

February 6, 2012

2ND ACADEMY OF NATURAL SCIENCES
(a.k.a. ACADEMY OF NATURAL SCIENCES;
a.k.a. CHAYON KWAHAK-WON; a.k.a. CHE 2
CHAYON KWAHAK-WON; a.k.a. KUKPANG
KWAHAK-WON; a.k.a. NATIONAL DEFENSE
ACADEMY; a.k.a. SANSRI; a.k.a. SECOND
ACADEMY OF NATURAL SCIENCES; a.k.a.
SECOND ACADEMY OF NATURAL
SCIENCES RESEARCH INSTITUTE),
Pyongyang, Korea, North [NPWMD]

SWIFT Sanction Screening v manual checks

Inconsistent listings (across lists)

- i. There are 112 spelling variations in Muammar Kaddafi's name in print media
- ii. The OFAC list provides 8 of them.
- iii. The UN sanction uses only 1 form of the name.

Qaddafi, Muammar	Kaddafi, Muamar	Muamar Al-Kaddafi	Mu'ammar Qadafi	Moammar Khadaffy	Muammer Gadaffi
Al-Gathafi, Muammar	Kaddafi, Muammar	Muamar Kaddafi	Muammar Qaddafi	Moammar Khaddafi	Muammer Gaddafi
al-Qadhafi, Muammar	Kadhafi, Moammar	Muamer Gadafi	Muammar Qadhafi	Moammar el Gadhafi	Mummar Gaddafi
Al Qathafi, Mu'ammar	Kadhafi, Mouammar	Muammar Al-Gathafi	Mu'ammar Qadhdhafi	Moammer Gaddafi	Omar Al Qathafi
Al Qathafi, Muammar	Kazzafi, Moammar	Muammar al-Khaddafi	Muammar Quathafi	Mouammer al Gaddafi	Omar Mouammer Al Gaddafi
El Gaddafi, Moamar	Khadafy, Moammar	Mu'ammar al-Qadafi	Qadafi, Mu'ammar	Muamar Gaddafi	Omar Muammar Al Ghaddafi
El Kadhafi, Moammar	Khaddafi, Muammar	Mu'ammar al-Qadafi	Qadhafi, Muammar	Muammar Al Ghaddafi	Omar Muammar Al Qaddafi
El Kazzafi, Moamer	Moamar al-Gaddafi	Muammar al-Qadhafi	Qadhdhāfī, Mu`ammar	Muammar Al Qaddafi	Omar Muammar Al Qathafi
El Qathafi, Mu'Ammar	Moamar el Gaddafi	Mu'ammar al-Qadhdhafi	Qathafi, Mu'Ammar el	Muammar Al Qaddafi	Omar Muammar Gaddafi
Gadafi, Muammar	Moamar El Kadhafi	Mu`ammar al-Qadhdhāfī	Quathafi, Muammar	Muammar El Qaddafi	Omar Muammar Ghaddafi
Gaddafi, Moamar	Moamar Gaddafi	Mu'ammar Al Qathafi	Qudhafi, Moammar	Muammar Gadaffi	Omar al Ghaddafi
Gadhafi, Mo'ammar	Moamer El Kazzafi	Muammar Al Qathafi	Moamar Al Kadafi	Muammar Gadafy	
Gathafi, Muammar	Mo'ammar el-Gadhafi	Muammar Gadafi	Maummar Gaddafi	Muammar Gaddhafi	
Ghadafi, Muammar	Moammar El Kadhafi	Muammar Gaddafi	Moamar Gadhafi	Muammar Gadhafi	
Ghaddafi, Muammar	Mo'ammar Gadhafi	Muammar Ghadafi	Moamer Gaddafi	Muammar Ghadaffi	
Ghaddafy, Muammar	Moammar Kadhafi	Muammar Ghaddafi	Moamer Kadhafi	Muammar Qadthafi	
Gheddafi, Muammar	Moammar Khadafy	Muammar Ghaddafy	Moamma Gaddafi	Muammar al Gaddafi	
Gheddafi, Muhammar	Moammar Qudhafi	Muammar Gheddafi	Moammar Gaddafi	Muammar el Gaddafy	
Kadaffi, Momar	Mu`amar al-Kad'afi	Muammar Kaddafi	Moammar Gadhafi	Muammar el Gaddafi	
Kad'afi, Mu`amar al-	Mu'amar al-Kadafi	Muammar Khaddafi	Moammar Ghadafi	Muammar el Qaddafi	

Importance of fuzzy matching

Companies/banks are penalized for violating sanctions, even if the illegal transactions are only processed because of flaws in screening software.

Example of a Bank sanctioned in June 2015:

"The bank's sanction screening software failed to recognize the name of the account name LC Aircompany Kyrgyztransavia as belonging to Kyrgyz Trans Avia account, OFAC said.*"

* Wall Street Journal, 18 June 2015

SWIFT

Sanctions Screening- *SWIFT's hosted screening service*

Challenges of small institutions

Regulatory scrutiny and enforcement of sanctions policies is increasing

Increasing pressure from correspondents to be compliant

Available screening solutions complex and costly to maintain

Increasing challenges for low-volume financial institutions

SWIFT provides

- **Screening engine & user interface**
- **Sanctions List update service with enhancements**
- **No additional footprint**
- **Centrally hosted and operated by SWIFT**
- **Real time**
- **Simple to configure and use**

A fully managed service to screen all transactions

Filtering engine

- **Using Fircosoft:**
  - *Used by 8 of the top 10 banks globally*
  - *Long term relationship*
  - *Includes Fuzzy logic and String matching*
  - *SWIFT has selected the default service and is continuously adapting the filter to clients, market and regulators requirements*

- **Hosted by SWIFT:**
  - *SWIFT maintains the filtering engine for all clients*
  - *No hardware investment from the client **
  - *No software investment from the client **

- **Providing the best in class solution for a fraction of the investment.**

* If the client needs to screen any format, a connector is required and implies a small licence fee

TCO

Training

Configuration

Installation

Software

Hardware

Auditing

Testing

Upgrades

Maintenance

Support

List Management

Transaction Fee

Annual Fee

Live in days

Weeks/Months
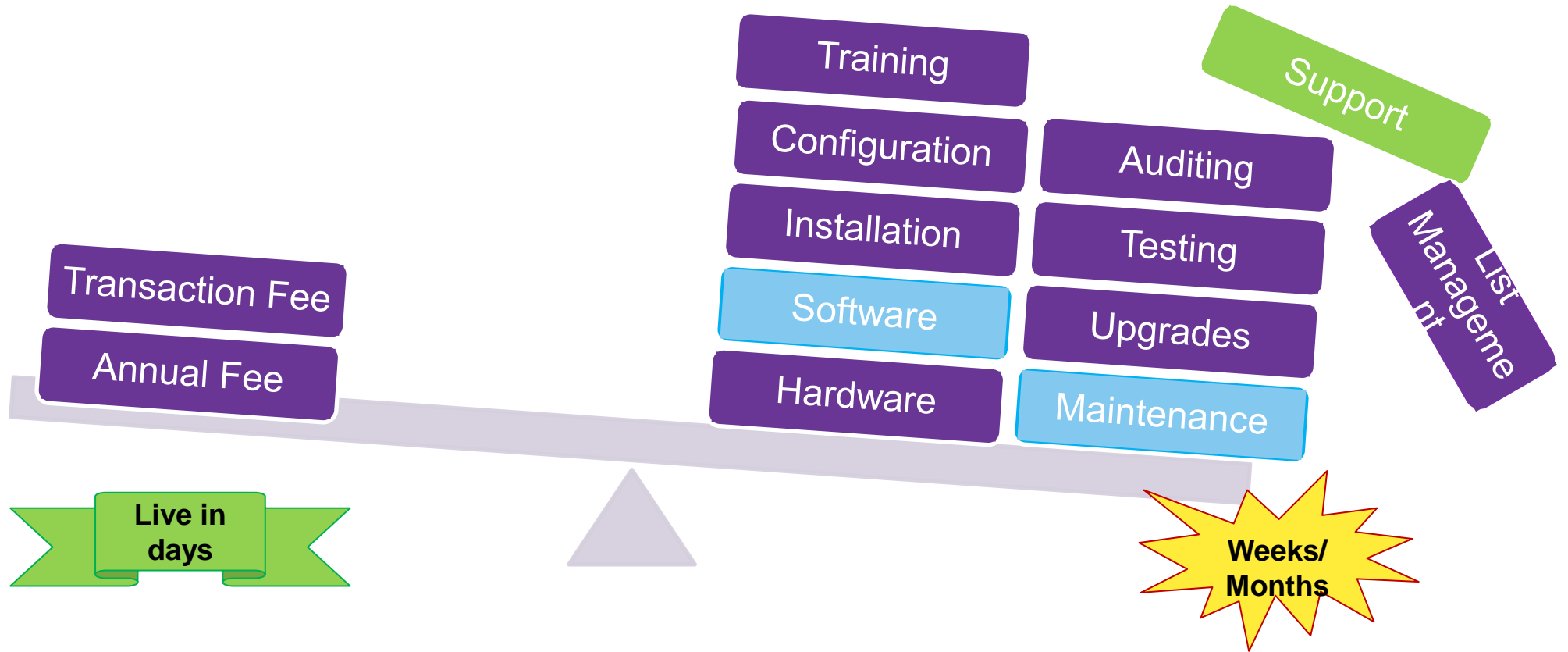
SWIFT

Public Sanctions lists available

36

Public sanctions lists updated by SWIFT daily

Private lists & Good-guys lists managed by the users

AND

Research-based ownership lists

Country	Description
Australia	Department of Foreign Affairs and Trade (DFAT)
	DFAT Autonomous list
	DFAT Country Embargoes
Canada	Office of the Superintendent of F.I. (OFSI)
	OSFI - United Nations Act Sanctions
	Department of Foreign Affairs and Trade (DFAIT)
	DFAIT Countries Embargoes
European Union	European Official Journal
	EU Countries Embargoes
	EU Ukraine Restrictive Measures
France	Journal Officiel français
Hong Kong	Hong Kong Monetary Authority (HKMA)
	HKMA Countries Embargoes
Japan	Ministry of Finance
	Special Measures
Netherlands	Frozen Assets List - Dutch Government
New Zealand	New Zealand Police
China	Ministry of Public Security of the PRC
Ukraine	State Financial Monitoring Service of Ukraine
	National Security and Defense Council

Country	Description
Norway	Ministry of Foreign Affairs (MFA) list
	MFA United Nations list
	MFA Countries Embargoes
Singapore	Monetary Authority of Singapore - Investor Alert List
	Terrorism (Suppression of Financing) Act
Switzerland	Secrétariat d'Etat à l'Economie
	SECO Countries Embargoes
United Kingdom	Her Majesty's Treasury
	HMT Countries Embargoes
	HMT Ukraine Restrictive Measures
United Nations	United Nations
	UN Countries Embargoes
United States of America	Financial Crimes Enforcement Network (FINCEN)
	OFAC Specially Designated Nationals
	OFAC Embargoed Countries
	OFAC non-Specially Designated Nationals, including: • OFAC Palestinian Legislative Council • OFAC Part 561 • OFAC Foreign Sanctions Evaders • OFAC Sectoral Sanctions Identifications • OFAC Non-SDN Iranian Sanctions Act

SWIFT

Data Enhancements

List from regulator needs to be enhanced and repaired

- DFAT000527 : ASSAD AHMAD BARAKAT
  - City Name (FOX DO IGUACO) corrected to: FOZ DO IGUAÇU
- OFAC004632 : BANK MARKAZI JOMHOURI ISLAMI IRAN
  - No BIC Code : added BMJIIRTH

Hit Reducing Rules

- Rules are pre-defined by SWIFT based on common practice and customer feedback
- Each rule has a "condition" and an "effect"
- Not meant to provide any advice or recommendation

Suppress or Non-blocking:

- Suppress: when a "suppress" version of a rule is selected hits matching the rule condition will be completely suppressed*.

- Non-blocking: when a "Non-blocking" version of a rule is selected hits matching the rule condition will be flagged as "non-blocking".

- **Reduces obvious False Positives**
- **Lowers the number of hits you need to review**
- **Enables a more efficient operational process**

Hit Reducing Rules – Initial rules

Two Vessels rules:

Many vessels names are also common names or first names (Maria, Christina, Salim…) and generate a large number of false positives.

- **Vessel – Payments**: This rule affects hits against vessels in most payments messages if the hit appears in any field except 70 or 72.
- **Vessel – Trade**: This rule affects hits against vessels in many trade messages, if the hit appears in any field except 46A, 77J and 72.

SWIFT

Hit Reducing Rules – Initial rules

Two rules linked to OFAC lists:

- **OFAC – Sent:** This rule affects hits against OFAC lists if either the sender or receiver is a not US BIC and there is a no intermediary banks of a US BIC and the Currency Code is not USD for **Sent** messages.

- **OFAC – Received:** This rule affects hits against OFAC lists if either the sender or receiver is a not US BIC and there is a no intermediary banks of a US BIC and the Currency Code is not USD for **Received** messages.

SWIFT

Screening & Audit Report

Screening Report

- Copy of each alerted transaction
- Hit details
- Final status

Audit Report:
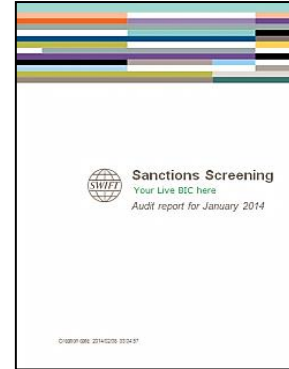
- Audit log of all transactions screened
- Audit log of all operators activity and decisions
- Comments

Quality assurance Report

- Periodical quality assurance checks on effectiveness of the service
- Verifies that lists used mirror regulatory sources
- Measures exact and fuzzy matching capabilities
- Provides details on filter configuration and related impact

18 central banks

440+ Clients

120+ countries

Implementation options

Copy option

Your institution   *Your correspondent*

Transparent routing of FIN transactions to the service using FIN-Copy

Connector option

Your institution   *Your correspondent*

Query/response screening of all transaction types

		Copy option	Connector option
Timeframe	*Implementation timeline*	**Few weeks**	**Few Months**
Footprint	*Installation & integration*	**Zero**	**Limited**
Flexibility	*Granularity on what is filtered*	**Limited**	**Unlimited**
Scope	*Transactions Screened*	**FIN Cat 1, 2, 4, 7**	**All transaction types**
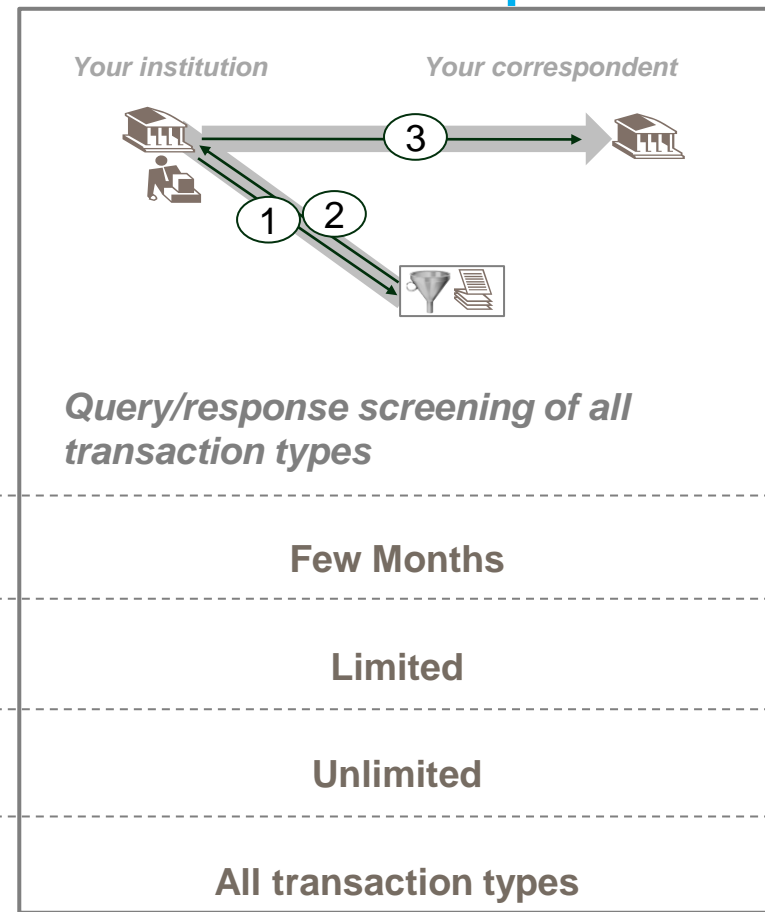
Same service, same end-user experience, different technical implmentation.

How does it work – Copy option

SWIFT

Service overview - as sender

Sending bank

Receiving bank

SWIFT Network

FINcopy

Outgoing transaction ①

⑤ *Transaction abort notification (true hit)*

⑤ *Transaction is delivered (no hit or false positive)*

Service user

GUI

Case management of alerts ③

Transaction is copied ② ④ *Decision to deliver (no hit / false positive) or abort transaction (true hit)*

Sanctions Portal

Screening engine

Managed by SWIFT

SWIFT

Service overview - as receiver

Sending bank

Receiving bank

Outgoing transaction ①

SWIFT Network

FINcopy

Transaction is delivered as-is (no hit or false positive) ⑤

Transaction is delivered flagged (true hit) ⑤

Transaction is copied ② ④ **Instruction to deliver transaction**

Case management of alerts ③

GUI

Service user

Managed by SWIFT

Screening engine

Sanctions Portal

SWIFT

Screening Configuration

2- Select which lists will apply
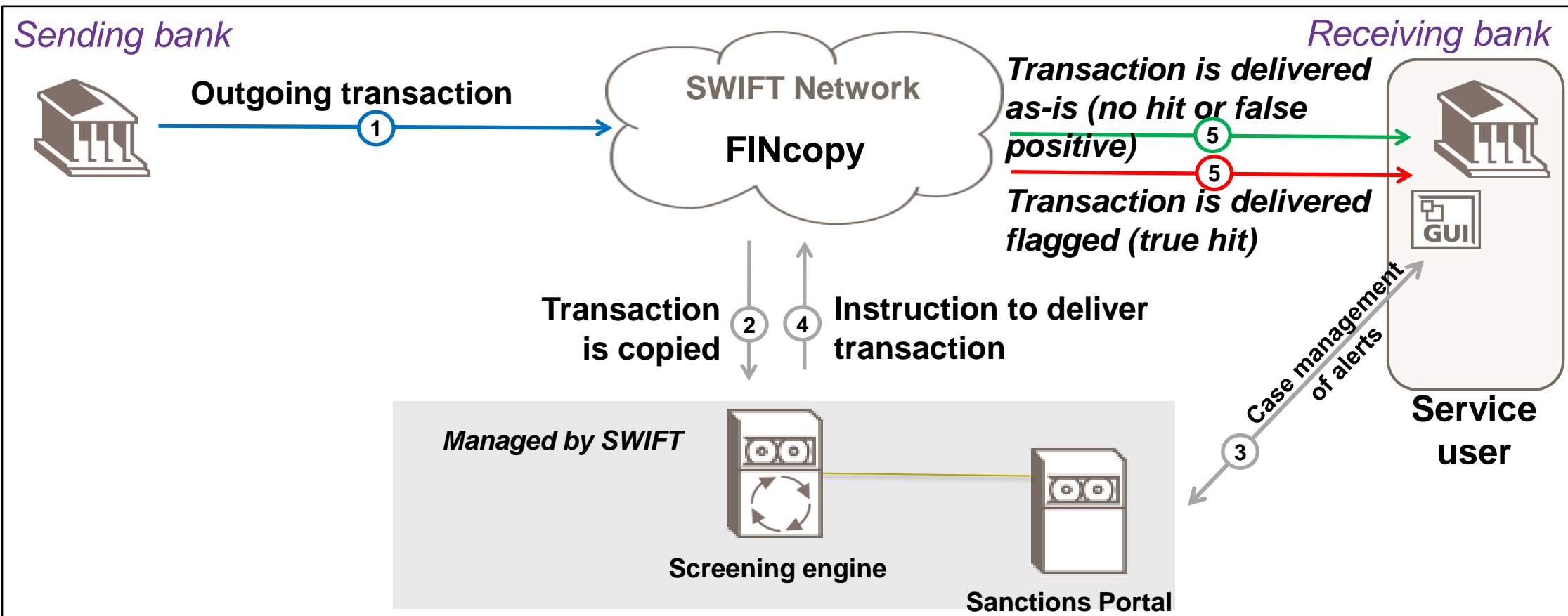
1- Select which traffic will be screened

3- Exclude some MT types if relevant

User & workflow management

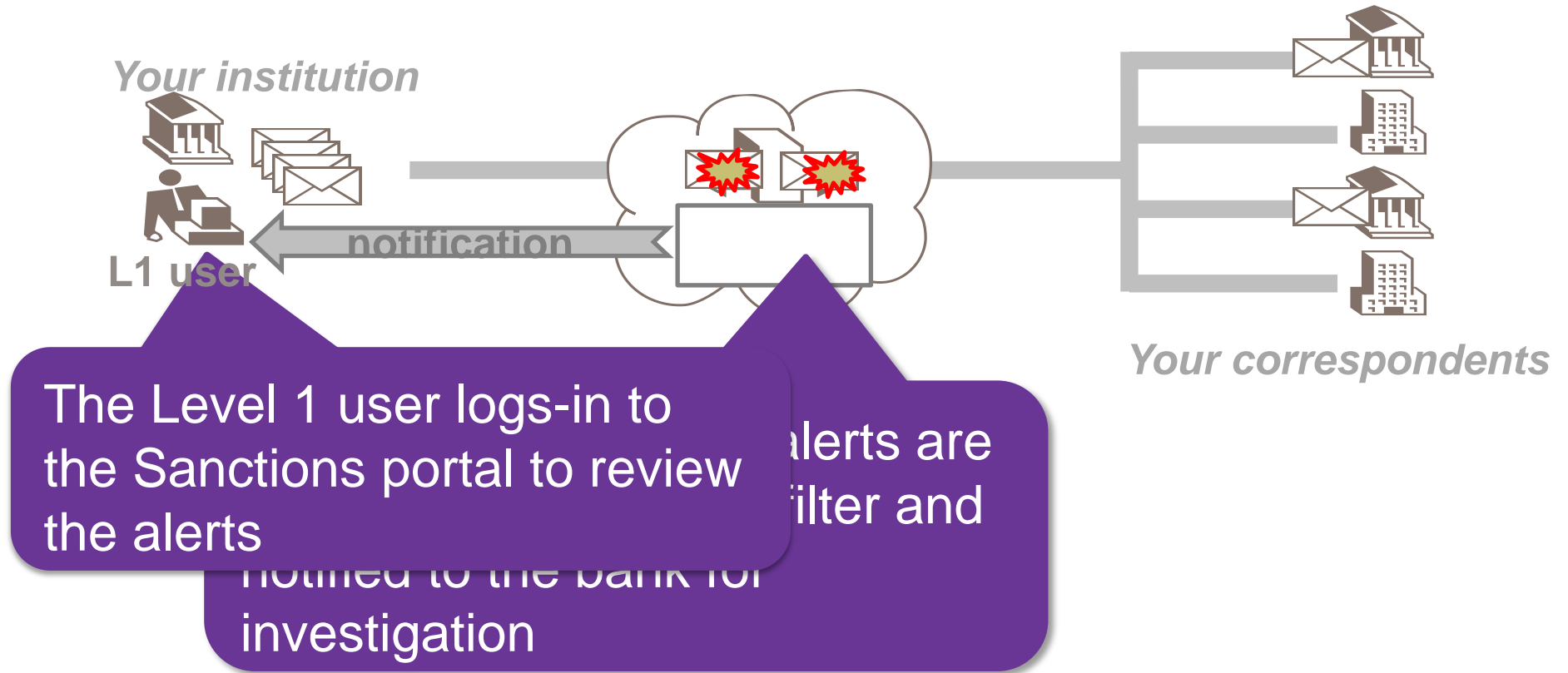## Users authenticated via Secure Tokens

Roles available:
- Administrator
- Compliance
- Level 1 user
- Level 2 user

Choice of workflow
- Standard
- 4 eyes

Sanctions screening - Test

The Level 1 user selects one of the pending alerts to view the details

Logout

~ Reports

Live Mes...

Live Messages   Outgoing Messages   *

Tools ▼   Co...   View ▼   1   0

Transaction	Receiver	State	Filtered Date	1 ▼	Type	Amount	Currency
OUR REF2	ZYFUBEB0XXX	FILTER	25/09/2012 07:03:54		103	312039	USD
8/MANY HITS 2	ZYFUBEB0XXX	FILTER	25/09/2012 07:03:52		110	12000	USD
3/OFAC ONLY	ZYFUBEB0XXX	FILTER	25/09/2012 07:03:52		200	1123.12	USD
5/SECO/FR/NZPOL	ZYFUBEB0XXX	FILTER	25/09/2012 07:03:52		202	9784.12	USD
7/MANY HITS 1	ZYFUBEB0XXX	FILTER	25/09/2012 07:03:52		210	1200.52	USD
4/SECO/FR	ZYFUBEB0XXX	FILTER	25/09/2012 07:03:52		205	12000	USD
OUR REF2	ZYFUBEB0XXX	FILTER	25/09/2012 06:58:57		103	312039	USD

Your institution

Your institution

Release the message

Escalate to Level 2

Hits generated by the message & sanctions list identifier

L2 user

Live Messages   History Messages   ▾ Reports

✓ Pass

Last Comment: Suspect(s) detected by OF...

Message content

Create

Sanctions list record detail

Type	Unit	Copy Serv.	In/Out
103	SSCRBEB3		In

Info SSCRBEB3

Trans

R

Value date   2012/09/25

{1:
{2:I103ZYI...N}{4:
:20:OUR REI
:23B:SSTD
:32A:111010US...39,00
:33B:USD300,00
:50A:/34x
CITIUS30
:59:/Abdul Mazari
Kushal Mena Dist n5
:71A:OUR
-}{5:{CHK:E7D0B24F4000}{TNG:}
{MRF:120925070339120925ZYFSBEB0AXXX0063000757}}

Origin	Designation		Priority
UN	TALIBAN	Individual	0

Name   MAZHARI, ABDUL QUDDUS
Address   KUSHAL KHAN MENA, DISTRICT
City/State KABUL
Country   AFGHANISTAN
Search codes
Passport   SE012820
National ID
BIC codes

Hit ID		Match
⚠ SECO000861	59	95
⚠ MA000726	59	95
⚠ **UNT0000066**	**59**	**95**
⚠ OSFI000129	59	95
⚠ NZPOL00462	59	95
⚠ BOE007296	59	95

Synonyms   More information
Name
عبد القدوس مظهری -
- AKHTAR MOHAMMAD MAZ-HARI
City/State

Country

Your institution

abort notif.
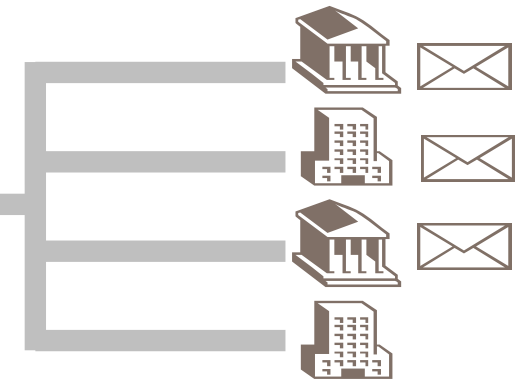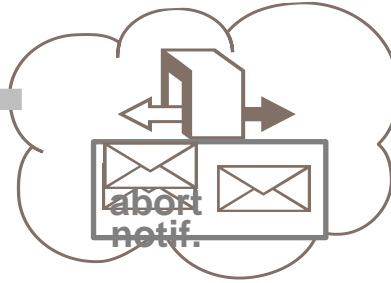
Live Messages   History Messages   ▾ Reports

| ✔ | Pass | | | ✖ | Fail | | 🏴 | 🖼 |

Last Comment: Looks really suspicious   PENDING REVIEW

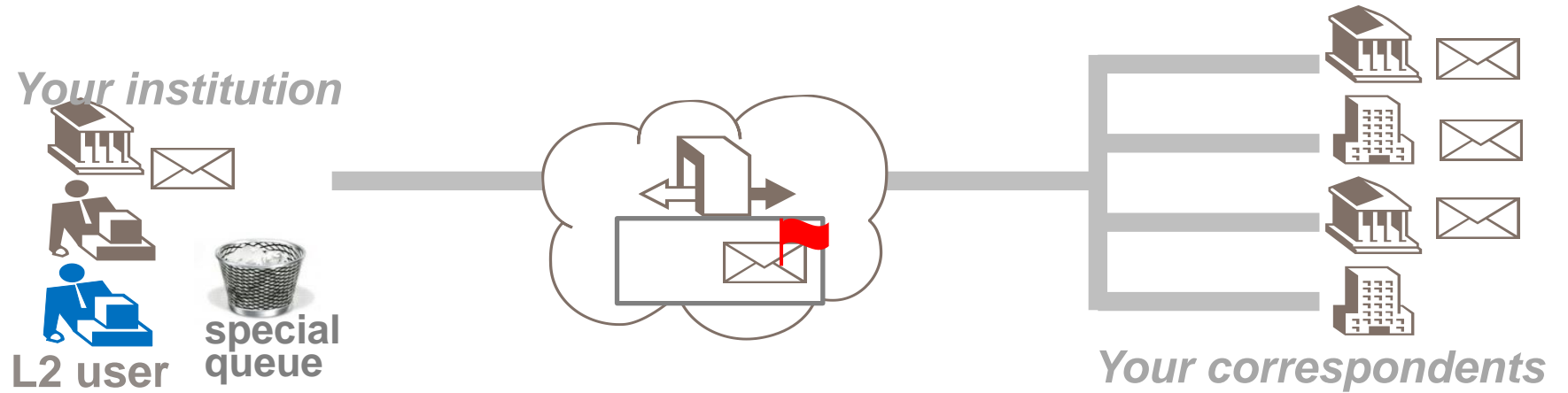| Type	Unit	Copy Serv.	In/Out		Hit ID	Tag	Match
103	SSCRBEB3		In	⚠	SECO000861	59	95
							95
							95
							95
							95
							95

```
{1:F01ZYFSE
{2:I103ZYFU
:20:OUR REF
:23B:SSTD
:32A:111010
:33B:USD300
:50A:/34x
CITIUS30
:59:/Abdul
Kushal Mena Dist n5
:71A:OUR
-}{5:{CHK:E7D0B24F4000}{TNG:}
{MRF:120925070339120925ZYFSBEB0AXXX0063000757}}
```

When the user confirms a true hit on an <u>outgoing</u> message:
- **The original message is aborted**
- **An abort notification (MT019) is sent to the user**

		عبد القدوس مظهري
Name	MAZHARI, ABDUL QUDDUS	AKHTAR MOHAMMAD MAZ-HARI
Address	KUSHAL KHAN MENA, DISTRICT	City/State
City/State	KABUL	
Country	AFGHANISTAN	
Search codes		Country
Passport	SE012820	
National ID		
BIC codes		

information

Your institution

L2 user

special queue

Your correspondents

When the user confirms a true hit on an <u>incoming</u> message:
- The original message is flagged…
- …then delivered to the recipient that routes it to a special queue for appropriate processing
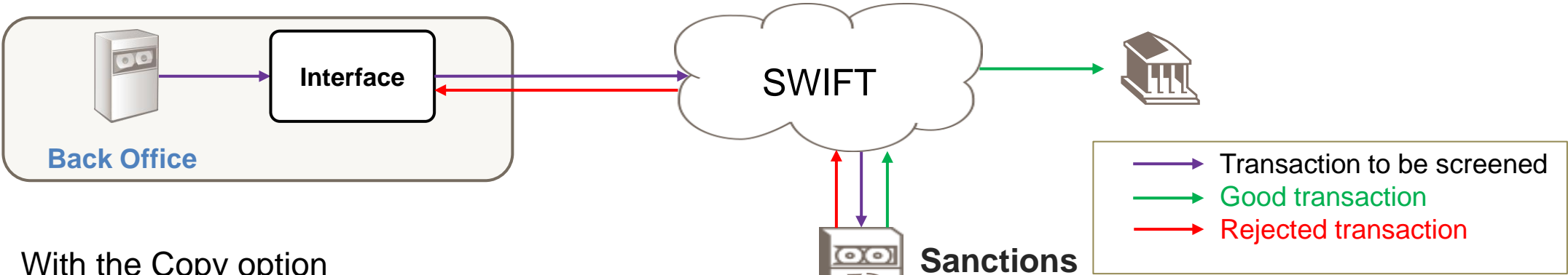
SWIFT

How does it work – Connector option
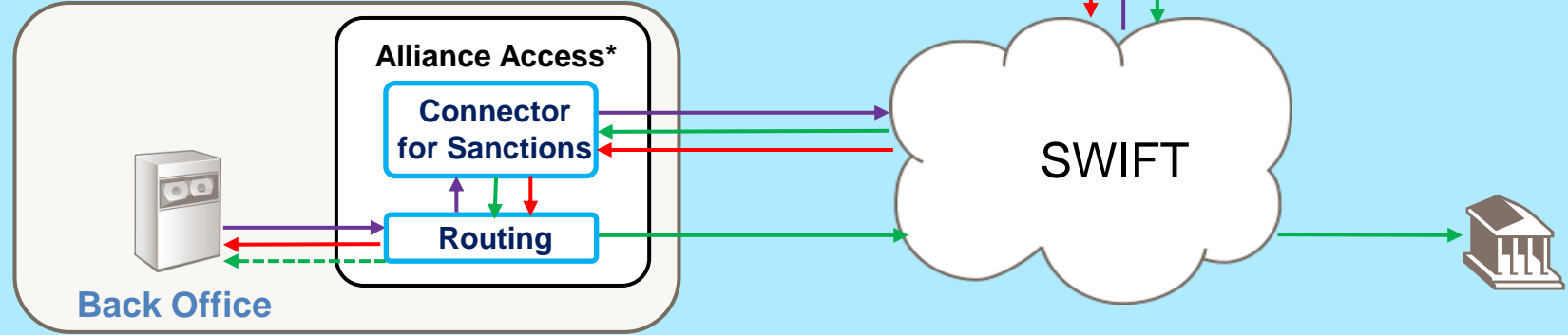
Enhanced Flexibility

- **Screening other formats than FIN, such as:**
  - Local non-SWIFT formats (e.g. domestic RTGS/ACH)
  - Internal format (before transformation to FIN, for instance)
  - ISO20022 MX messages
  - FIN MT or ISO20022 MX that would further be bulked in a file transmitted over FileAct or other file transfer, e.g. low value flows such as SEPA; sent through SWIFT or non-SWIFT channels.

- **More flexibility for screening FIN:**
  - More flexibility on which traffic is sent to the filter (e.g. exclude traffic from Head Office) – or even FIN traffic not sent over SWIFT
  - Screen all FIN categories
  - Ability to screen the messages before they are sent to SWIFT (and an acknowledgement is sent back to the Back Office)
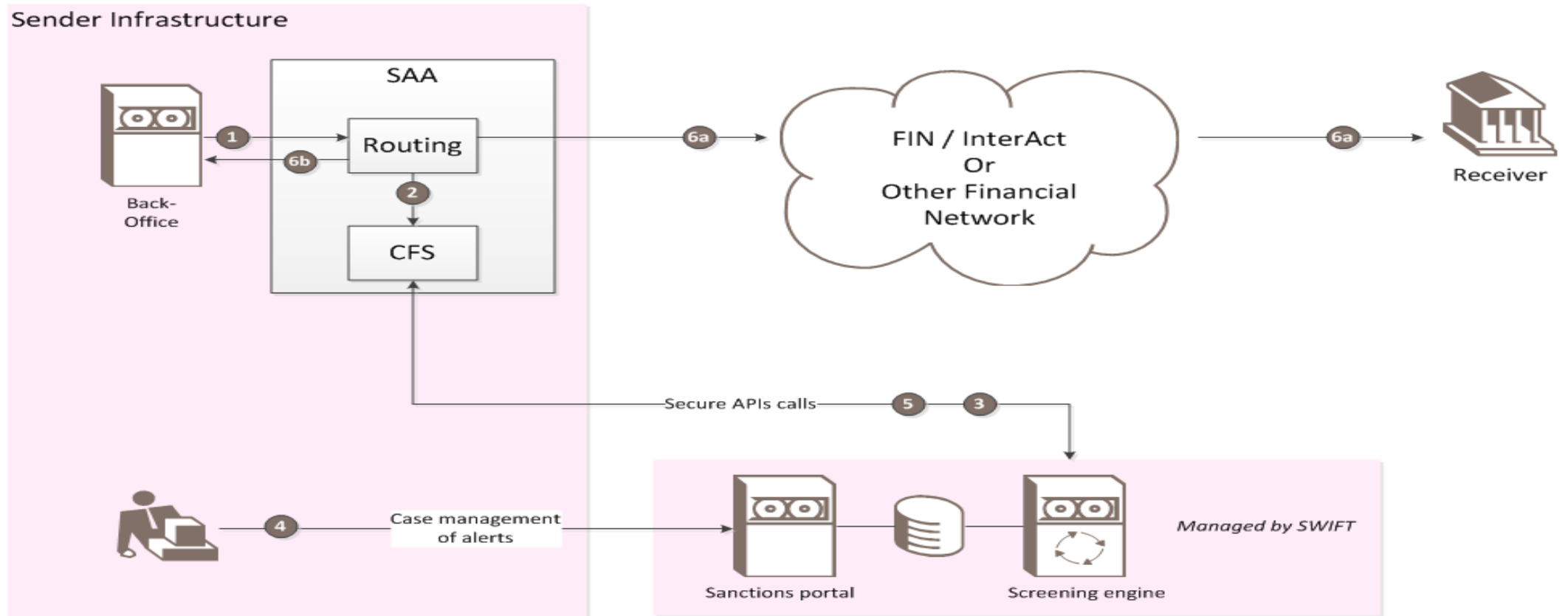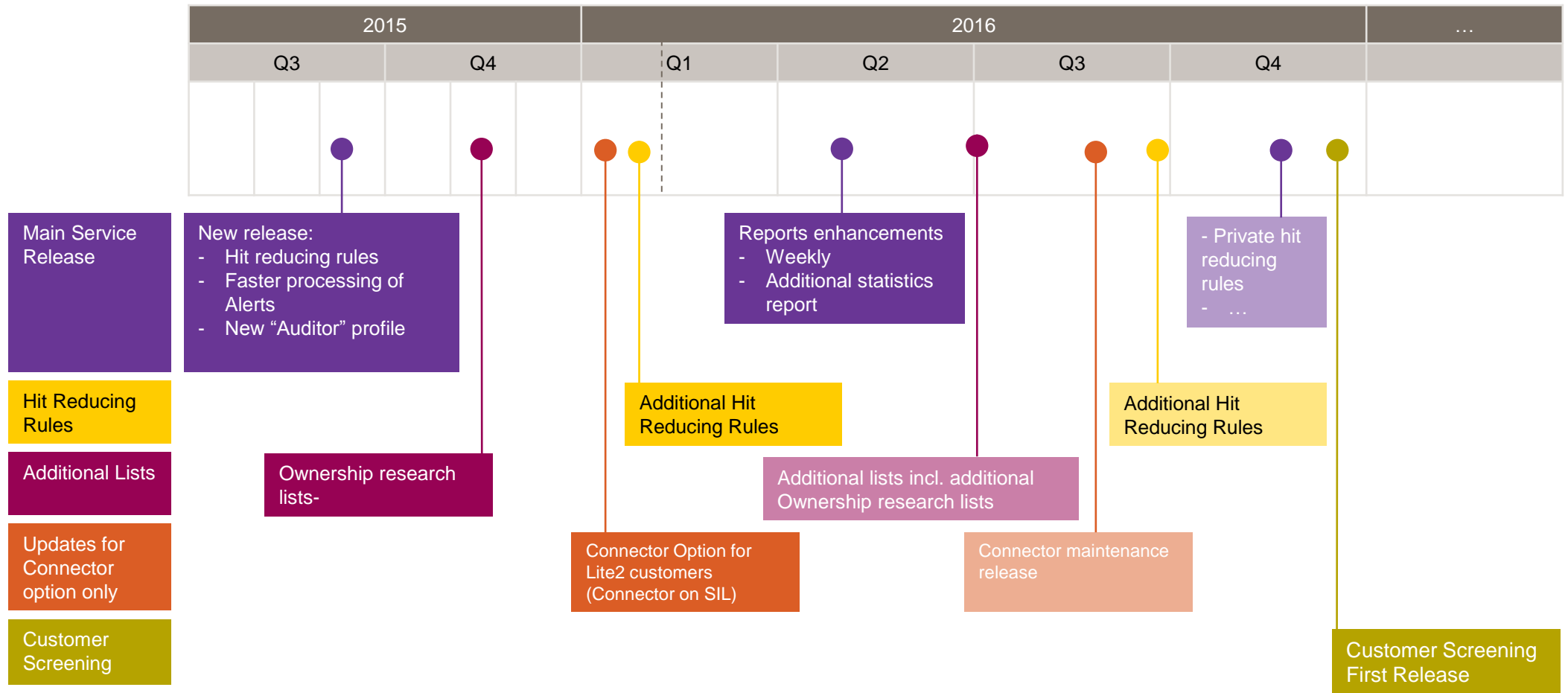
High level flows – Connector vs Copy option

Back Office

Interface

SWIFT

Transaction to be screened
Good transaction
Rejected transaction

Sanctions Screening

With the Copy option
With the Connector option

Alliance Access*

Connector for Sanctions

Routing

Back Office

SWIFT

*also available for Lite 2

How does it work

Benefits

Simple to use

Cost efficient

Compliance

Peace of mind

Minimal (if any) implementation

Merci