



Effective Screening for Restricted Parties: Don't be a Cautionary Tale

U.S. exporters and other organizations engaged in international trade must comply with a host of statutes and regulations that prohibit transactions with parties considered to be a threat to the national security or foreign policy interests of the United States.

A number of U.S. government departments and agencies maintain lists of these parties, which include individuals, companies, foreign government agencies and other entities. U.S. companies conducting business with any of the listed persons or entities are subject to civil and/or criminal prosecution, fines and/or denial of export privileges.

This white paper examines the landscape in which companies must operate and provides recommendations for performing Restricted Party Screening (RPS) to ensure that companies do not find themselves engaged in transactions with persons or entities on any of the numerous sanctions, watch, regulatory and law enforcement lists.

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Overview of Sanctions Lists

Companies that regularly engage in export transactions are no doubt familiar with some of the U.S. government agencies that maintain lists of restricted parties, such as the Commerce Department's Bureau of Industry and Security (BIS), the State Department's Directorate of Defense Trade Controls (DDTC) and the Treasury Department's Office of Foreign Assets Control (OFAC).

BIS maintains several lists which identify individuals and entities that have been denied export and re-export privileges, foreign parties that are prohibited from receiving items unless the exporter obtains a license and end-users whose bona fides BIS has been unable to verify but whose presence should serve as a "red flag" requiring further investigation before proceeding with a transaction.

OFAC enforces U.S. economic sanctions programs, including embargoes against certain countries (e.g., Cuba, Iran) and sanctions against individuals such as terrorists and narcotics traffickers, as well as certain business entities. OFAC maintains various lists identifying restricted parties. Similarly, DDTC maintains a list identifying individuals and entities prohibited from participating, directly or indirectly, in the exportation of defense articles, technical data and defense services.

While these agencies and their respective sanctions lists may be the most familiar to exporters and other companies engaged in international trade, they are not the only agencies whose lists should be checked.

Numerous U.S. law enforcement agencies, including the FBI, the U.S. Marshals Service, the Drug Enforcement Administration, the Bureau of Alcohol, Tobacco, Firearms and Explosives and Immigration and Customs Enforcement, maintain lists of terrorists, fugitives, narcotics traffickers, smugglers, money launderers and the like. Conversely, there are also restricted parties for which no centralized lists exist.



Interpol headquarters building in Lyon France

For example, the State Department's Bureau of International Security and Nonproliferation has the authority to sanction parties under various statutes, but the Federal Register is the only official and complete source of the Bureau's nonproliferation sanctions determinations. Similarly, no single, unified list exists for Politically Exposed Persons (PEPs) who pose an increased risk for money laundering.

Numerous foreign countries, as well as Interpol, maintain lists similar to those maintained by U.S. regulatory and law enforcement agencies. The presence of individuals and entities on these countries' lists should serve as a red flag to U.S. companies who may be doing business with such parties.

In all, there are more than 400 ever-changing sanctions, watch, regulatory and law enforcement lists of restricted parties worldwide, transactions with whom may subject companies to severe civil and/or criminal penalties.

Effective Screening for Restricted Parties

Companies should conduct restricted party screening of all business partners, including suppliers, customers, freight forwarders, customs brokers, financial institutions and other vendors. As changes may occur at any given time, such screening should be done at all stages of a transaction, including at the time of initial quotation order placement, any order modifications and shipment. While some agencies such as BIS and OFAC publish their restricted party lists on their websites, simply performing a manual search of such websites to see if a name results in a "hit" is an approach that is fraught with danger.

Relying on a manual check of a few government websites will not be considered sufficient due diligence or reasonable care when there are many more lists which could potentially identify a restricted party. Furthermore, it is not only inefficient, but in fact virtually impossible, to manually check all of the lists that should be checked. Even if this could be done, such an approach would only uncover exact matches and would miss the inevitable variations in spellings and aliases that are not searched. Moreover, sanctions lists are constantly changing, often on a daily basis, so it is essential that they be scanned regularly and frequently.

The day-to-day practicalities of running a business make it impossible to devote the personnel and time necessary to monitor restricted party lists as frequently as they should be. And, as noted, there is no complete, centralized list to check for some parties, such as Politically Exposed Persons or individuals/entities subject to certain nonproliferation sanctions determinations issued by the State Department.

Faced with these daunting obstacles, a best practice is for companies to use an automated screening tool. To maximize compliance, the screening tool should:

1. Search all U.S. and foreign country restricted party lists simultaneously
2. Have batch processing capability to screen numerous entities simultaneously
3. Employ word-matching algorithms and fuzzy logic to pull up names with likely misspellings or other close similarities, while at the same time minimizing the number of false positives
4. Uncover aliases
5. Track updates to all lists as they occur and provide automatic updates of screening results
6. Automatically re-screen at all relevant stages of a transaction
7. Search beyond official government denied party lists and screen for Politically Exposed Persons, among other individuals, search published media and other sources, which may alert companies to high-risk individuals or entities well before they appear on government lists

Companies that employ inadequate screening procedures place themselves at serious risk

8. Fully integrate with a company's Enterprise Resource Planning (ERP) or other internal system to facilitate automatic screening of a company's business partners and place a hold at any stage of a transaction, as necessary, until the screened individual or entity has been further investigated and cleared
9. Have tracking and recordkeeping functionality to establish a screening audit trail that will help demonstrate care

Inadequate Screening is Not an Option

Companies that employ inadequate screening procedures place themselves at serious risk in an area where government enforcement is on the rise. The recent case involving PayPal should serve as a cautionary tale. In April of this year, PayPal agreed to pay almost \$7.7 million to settle allegations that it processed payment transactions in violation of OFAC's Weapons of Mass Destruction Proliferators Sanctions Regulations, Iranian Transactions and Sanctions Regulations, Cuban Assets Control Regulations, Global Terrorism Sanctions Regulations and Sudanese Sanctions Regulations. The settlement agreement specifically noted that "PayPal failed to employ adequate screening technology and procedures to identify the potential involvement of U.S. sanctions targets in transactions that PayPal processed."

Similarly, in July 2014, Bank of America agreed to pay \$16.5 million to settle allegations that it violated OFAC's Foreign Narcotics Kingpin Sanctions Regulations by processing transactions on behalf of narcotics traffickers on OFAC's List of Specially Designated Nationals and Blocked Persons (SDN List). The settlement agreement specifically noted that most of the alleged violations arose from a screening deficiency on the part of Bank of America.

The PayPal and Bank of America cases are also noteworthy because of the relatively small amount of money involved in the prohibited transactions. PayPal's transactions totaled less than \$44,000, while Bank of America's totaled only \$91,000. The key takeaway from these cases is that restricted party screening failures in transactions involving relatively small sums resulted in millions of dollars in liabilities. This underscores the seriousness with which restricted party violations are viewed by the U.S. government and the aggressive nature of its enforcement in this area.

An effective automated restricted party screening tool is something that companies simply cannot afford to do without if they regularly engage in export commerce and want to ensure compliance with U.S. export controls. Thomson Reuters is the industry leader in Restricted Party Screening solutions and we welcome the opportunity to provide you with information about our products.

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RELATED RESOURCES

You'll find all the comprehensive tools you need for performing Restricted Party Screening and ensuring your company is in full compliance with U.S. and non-U.S. regulations.

[CHECKPOINT RPS](#)

Checkpoint RPS (powered by World-Check) is a comprehensive restricted party screening online tool from Thomson Reuters. Checkpoint RPS is the most effective restricted and denied party screening solution to comply with U.S. and non-U.S. regulations prohibiting transactions, exports and reexports with listed parties. Identify individuals and companies that are 1, 2 or 3 degrees removed from the party named on the sanction lists. More than 400 sanction lists reviewed simultaneously with automatic updates. Includes quick look-up feature and batch processing of business partners and customers. Also available as integrated solution from ONESOURCE.

[CHECKPOINT TRADE](#)

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[ONESOURCE GLOBAL TRADE FOR RPS](#)

ONESOURCE Global Trade for RPS is a fully integrated solution for company's Corporate System (ERP/CRM/SRM), allowing the validation of business partners (customers and suppliers). RPS is backed by Thomson Reuters World-Check, the most comprehensive and widely-adopted source of structured intelligence on heightened risk individuals and organizations, and is available through ONESOURCE and Checkpoint platforms.

[ONESOURCE GLOBAL TRADE FOR FTA](#)

ONESOURCE Global Trade for FTA can help companies identify opportunities to qualify their goods under FTA-specific rules of origin or reduce supply chain costs through taking advantage of FTAs. It further reduces risks in complying with FTA guidelines by streamlining logistical processes, eliminating manual work and ensuring adherence to the latest regulatory changes.

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