

SANCTIONS SCHOOL

Screening Sanctions

Screening

Sanctions are imposed by governments and supranational bodies such as the UN or EU. The timeline between a government issuing a designation and that designation being active within the corporate environment is subject to operational and time zone-based delays. The UK regulator, OFSI, sets out **in section 2.1 of its UK Financial sanctions general guidance** that it 'aims to update the Consolidated List within one working day for all new UN and UK listings coming into force in the UK, and within three working days for all other amendments'. In practice OFSI generally updates the consolidated list on the day of the designation, but this is still subject to a delay between ministerial sign off and list publication.

Sanctions screening itself is not a legal requirement, however under the Sanctions and Anti-Money Laundering Act 2018, UK sanctions are a requirement for all UK persons irrespective of where they are. Lesson 1 covered the extra territorial reach of sanctions (SAML **section 21**).

For large corporates, such as international banks, the sheer volume of daily business that needs to be checked to ensure it is not prohibited by sanctions leads to the use of technology to assist. The same general approach is taken with ensuring that customers are not designated parties.

The UK Finance sanctions school is free to everyone and builds knowledge and understanding of the international sanctions environment.

Year 1 materials cover the foundations of what sanctions are, their history, what types of sanctions are imposed, the key regulators for UK based companies and the licences, reporting, and enforcement that sanctions programmes have.

This is lesson 10 of 12, which covers sanctions screening. The other lessons, tests and the end of year test are available on the UK Finance web site along with links to accompanying podcasts for each lesson.

If we look at a bank based in London it is easy to see why technology is used. London is the largest cross border financial centre in the world and processes 40 billion transactions a year. This equates to 250,000 transactions a minute.

In order to comply with the legal requirement, sanctions screening is undertaken.

A typical path for a new designation is set out below, this may be a list update that includes the addition of one or more parties and may include amendments or corrections to existing entries.

It is typical to see hundreds of these a year from each of the 3 main bodies, UK, US and EU and they will not necessarily be aligned on entries or timing.

As mentioned in lesson 4, lists can come from different government departments and different governments. It is often a requirement to adhere to the sanctions obligations of more than one jurisdiction, it is important to ensure the right lists are maintained within screening systems.



List updates should be treated as a daily task in order to ensure any changes are captured to any required list.

Assessing the adequacy of regulated firms' sanctions controls forms part of the FCA's wider responsibility to assess financial crime systems and controls. The FCA have responsibility for the effectiveness of screening controls and their **Financial Crime Guide** details good and bad practice when it comes to screening for sanctions (Chapter 7, pages 81-90). Section 7.2.3 on page 85 qualifies that screening is not a legal requirement, but that firms should use systems appropriate to the size, nature, complexity and risk of their business.

Sanctions screening has **two main disciplines**, and these are treated slightly differently.

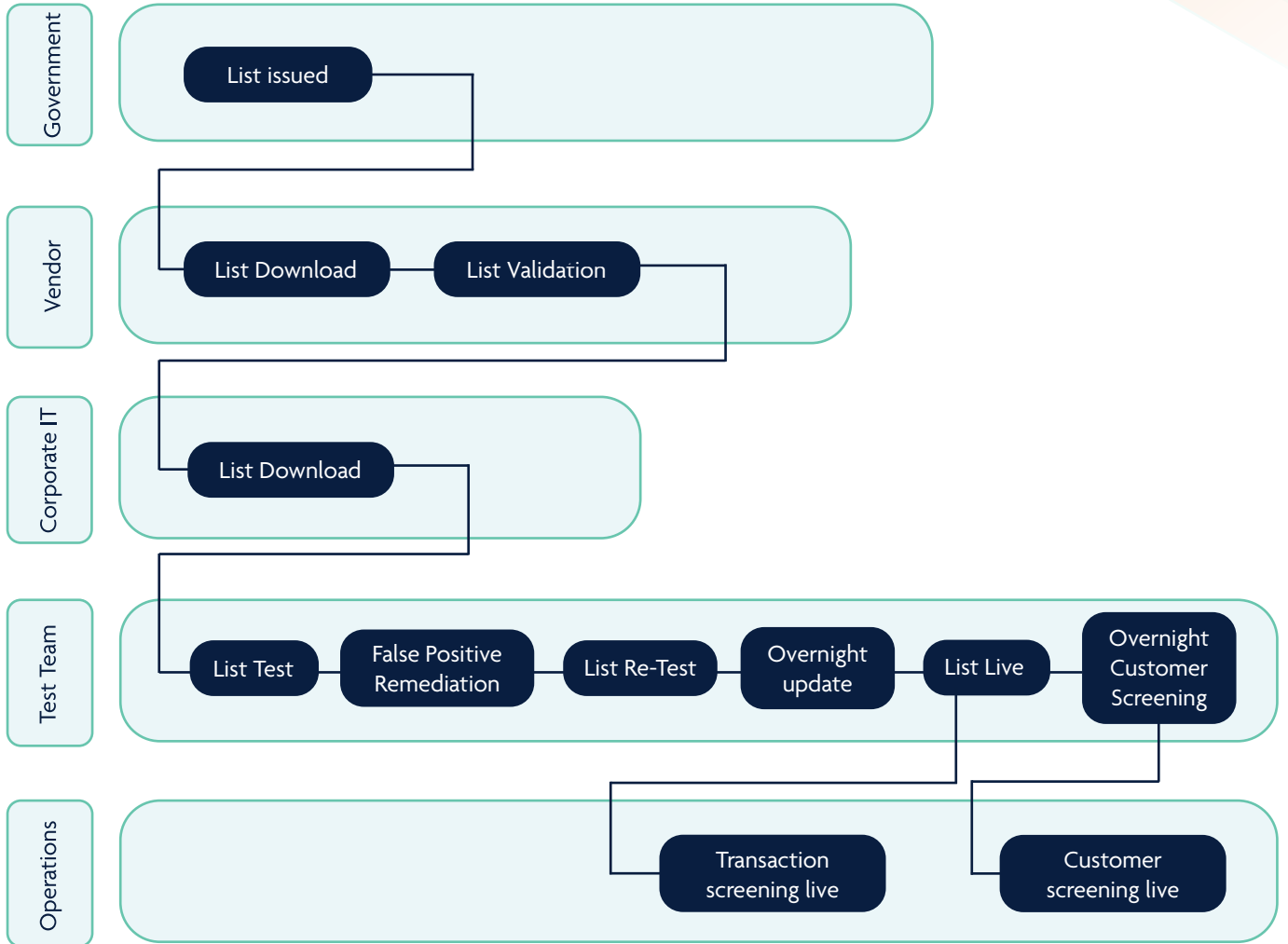
Transaction screening is real time.

Customer screening normally involves an element of batch screening due to the volumes involved.

They are both covered below.



List update steps



Transaction Screening

As mentioned earlier, the UK market is one of the largest financial markets in the world and **London processes >40 billion transactions a year**.

In order to screen these transactions, there has to be data that can be matched to the sanctions lists issued by governments and regulators in order for the systems to generate alerts for investigation.

The UK has different payment systems that move value, some of which are screened directly and some which rely on the instruction messaging.

SWIFT

The Society for Worldwide Interbank Financial Telecommunications is a global messaging system that banks use to communicate with each other. **This includes payment instructions, which are data rich and will contain the names of the remitter and the beneficiary**. SWIFT messages are routinely screened for sanctions compliance, especially those that instruct the movement of value or have a significant free form text area which may contain instructions that amend the interpretation of the content of the message.

CHAPS

CHAPS (Clearing House Automated Payment System) is the UK high value payment system and provides the 'rails' that actually move value within the UK. All CHAPS payments are initiated via a SWIFT message, and it is the SWIFT message screening that is used for CHAPS.

CHAPS is a sterling same-day system which operates 6am to 6pm, Monday to Friday except bank or public holidays in England and Wales.

Faster Payments

This is the lower value transaction system for the UK. It allows rapid movement of value between individuals and or companies, 24/7, 365 days per year.

Faster payments is available to nearly all UK payment accounts, and is an open transaction system. Faster payments uses the ISO 8583 standard.

Technically, it is possible to send individual payments of up to £1 million using the Faster Payments System but organisations offering the service can set their own limits, depending on how the payment is sent, and the type of account their customer is sending from. Faster payments typically credit the beneficiary immediately, though the aim is for this to be within 2 hours.

Faster payments transactions contain data that can be screened against sanctions lists and while they are a domestic channel, payments originating overseas will typically complete their final UK leg via Faster Payments. For this reason, they are usually screened for sanctions matches.



Bacs

This is the high volume, low value bulk debit and credit system for the UK and has been in place since the late 1960's. **Bacs is a closed system, in that the general public are not able to make payments or receive credits from other members of the public.** Bacs is not an immediate settlement system, typically taking 2-3 days to clear and is primarily used for areas such as utility bills, salary payments etc.

Bacs messages are designed for transferring funds efficiently and contain account numbers and amounts. The message format does not contain rich enough data about the parties to make it viable for sanctions screening. This will be covered via the customer account screening (see customer screening below).

LINK and Mastercard/Visa

The remaining systems, Link (cashpoints), and the Mastercard/Visa networks are captured via customer screening, (see customer screening below).

Cheques

Cheques are the final system in operation in the UK. These are often handwritten and are not a data rich source as typically they only contain the beneficiary name. They are scanned as part of the clearing process and this data may be used for sanctions screening purposes, but customer screening adds an additional layer of assurance.



Customer Screening

Each institution will screen their customer base against the applicable sanctions list, or lists, for that institution.

This is typically managed in two tranches.



Tranche 1

Existing customers will be screened against list additions and changes.

This is due to them being previously screened against the existing list content. This is sometimes referred to as 'New to list' or 'NTL' screening.

Tranche 2

New customers will be screened against the whole list.

This is due to these customers not previously being screened via the applicable lists at the relevant institution. This is sometimes referred to as 'New to Bank' or 'NTB' screening.

Customer screening is an additional line of defence for sanctions as it allows institutions to confirm if they are holding accounts or relationships for any designated parties. Holding accounts for a designated party is not an offence, but the assets will be required to be frozen as set out in the relevant Statutory Instrument that applies to the party.

Customer screening provides the ability to monitor and prevent any transactions that may be initiated via one of the data poor transaction systems such as Bacs.

Case Management

The output of screening will be an alert or case that will need to be reviewed.

Case management will be covered in more detail in years 2 (when we cover SWIFT screening) and 3 (when we cover managing false positives), but for now it is useful to cover the basic discipline.

As mentioned earlier, the customer screening and transaction screening differ in that transaction screening is real time and customer screening is typically an overnight batch process.

Transaction alerts

Transaction screening will be looking at the data in individual payment instructions and while an alert is being investigated, the payment will be held. This is because in the event of a positive match to a designated party the assets will need to be frozen.

It is not unusual for a single transaction alert to contain multiple hits on potential sanctions matches and each one will need to be investigated and a reason given for discounting them as a false positive match. If a true match is found then the assets moving due to the transaction will need to be frozen

Customer alerts

Customer alerts can come from two main sources, firstly from a new customer looking to open an account or undertake business with the firm. Positive matches in these cases are likely to be rejected and the business refused, but it is not illegal to hold customer accounts for sanctioned parties and the measures they are subject to would form part of the risk assessment.

Secondly, an existing customer may become designated, in this case assets (financial and non financial) would likely have a freeze requirement and the reporting requirements covered in lesson 12 will need to be followed.

Four eye process

It is very common for large corporates to use a 4-eye review process. This is good practice as it allows two separate colleagues to review the same alert and make an independent decision on the outcome. Four-eye checks are not a legal requirement, but some regulators such as the FCA (**FCTR 8.3.5**) highlight that it is good practice to have in place an effective process to ensure this happens where the corporate procedures require a 4-eye check.

The Monetary Authority of Singapore is one regulator that does recommend using a 4-eye approach in **section 6-15-9**.

Bacs

Bankers Automated Clearing System. This is the high volume, low value bulk debit and credit system for the UK.

CHAPS

Clearing House Automated Payment System is the UK high value 'Real time gross settlement' system.

EU

The European Union (EU) is an economic and political union between 27 European countries. The EU's main economic engine is the single market. It enables most goods, services, money and people to move freely. Member States delegate some of their decision-making powers to the shared institutions they have created, so that decisions on specific matters of common interest can be made democratically at EU level.

FCA

The Financial Conduct Authority regulates the conduct of 50,000 firms in the UK to ensure that financial markets are honest, competitive and fair. This includes systems and controls, such as those used for sanctions screening.

Four eye

4-eye. A dual control where two individuals review the same case independently. It gives comfort on errors being spotted and on ensuring internal controls and processes are not circumvented.

NTB

New to Bank. This is a new or changed customer which will be screened against the whole list.

NTL

New to list. This is the additions or changes to the sanctions list. For existing customers these changes are often used rather than a full rescreen of the whole list. This is because unchanged records have already been screened.

SAMLA

The Sanctions and Anti-Money Laundering Act 2018. The primary act in the UK which sets out the sanctions framework.

Screening

The process of comparing customer or transaction data against the data within the lists of designated parties issued by governments and regulators. Internal corporate lists are also often used for individual corporate policy reasons.

SWIFT

Society For Worldwide Interbank Financial Telecommunications is a financial messaging system used to instruct the movement of value. SWIFT is not a payment system.

UN

United Nations. The United Nations is an international organization founded in 1945. Currently made up of 193 Member States, the UN and its work are guided by the purposes and principles contained in its founding Charter.

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