



## KPMG SMART PRACTICE

# The benefits of a Sanctions Compliance function

The recent global uptick in sanctions regulations and enforcement has required many companies to reassess business relationships, customers, and suppliers. Further, multinational companies are finding it tricky to navigate Russia sanctions. Yet, surprisingly, many companies do not have a dedicated sanctions compliance function. This could be a result of an overreliance on automated screening solutions or a belief that sanctions regulations do not pose a material risk to the business. However, companies with global touchpoints should reconsider this position as sanctions management is a critical compliance function that often requires dedicated expertise.

### There's more to it than screening

It is not uncommon for companies to think that restricted party screening ("RPS") is the sole component of a sanctions management program. This attitude may be present when there is insufficient expertise around the capabilities and limitations of automated screening solutions. However, truly effective programs understand that RPS is a tactical aspect of a broader, strategic

program tailored to the organization's unique risk. The primary task of a sanctions compliance professional is to assess how best to maintain compliance while enabling the business to effectively deliver to customers. This is largely

**Sanctions management is a critical compliance function that often requires dedicated expertise.**

achieved by documenting and monitoring risk.

Among the most important activities the sanctions compliance team will conduct are periodic risk assessments. This foundational compliance activity entails documenting third-party touchpoints, business activities, global subsidiaries/affiliates, and product profiles. It also assesses how the business is evolving – for instance, whether there was a recent acquisition or divestiture. At its conclusion, the team will know the activities that create sanctions risk, as well as whether risk is adequately managed.

With this understanding in place, the sanctions team designs policies and procedures that integrate into the business operations. By understanding both the current sanctions environment and its applicability to the business, they will build compliance gates at critical decision-points. Importantly, these gates will include managing the RPS process. Far from being a "set-it-and-forget-it" tool, automated sanctions screening requires calibration to ensure that the right number and type of results are returned. If not monitored, the results may be far too broad – essentially overestimating sanctions risks. Conversely, if the risk has not been adequately identified, the screening may be insufficient either in frequency or results. Without an expert guiding these conversations, screening may only occur at one point in the sales lifecycle, such as payment, instead of at multiple points, or may not include screening service providers, like banks, thereby, leaving compliance gaps. Like any tool, a screening solution must be monitored, adjusted and tested to remain effective.

Further, the sanctions compliance team will help evaluate potentially high-risk transactions. With the appropriate controls in place, riskier transactions will be pushed to the sanctions team for review. Evaluating high-risk transactions necessitates a thorough understanding of the applicable sanctions regime. Sanctions regimes are not necessarily comprehensive – and may not apply to all transactions. Furthermore, understanding if and when a general license may be applicable can be a nuanced analysis. The facts of each transaction must be carefully evaluated in light of the applicable regulations and the company's overall sanctions management strategy. The sanctions compliance team is responsible for guiding these determinations.

Given how quickly sanctions are adding complexity to business, it is important that professionals with the right expertise be added to compliance teams to help navigate evolving regulatory requirements. The on-going benefits to the enterprise's compliance profile with the efficiencies that will be developed will be substantial. ■

#### About the authors:

Steven Brotherton (San Francisco) is a Principal in the Global Export Controls & Sanctions practice of KPMG LLP and leader of the service line. [sbrotherton@kpmg.com](mailto:sbrotherton@kpmg.com)

Elizabeth Shingler (Richmond) is a Senior Manager in the Global Export Controls and Sanctions practice of KPMG LLP. [eshingler@kpmg.com](mailto:eshingler@kpmg.com)