

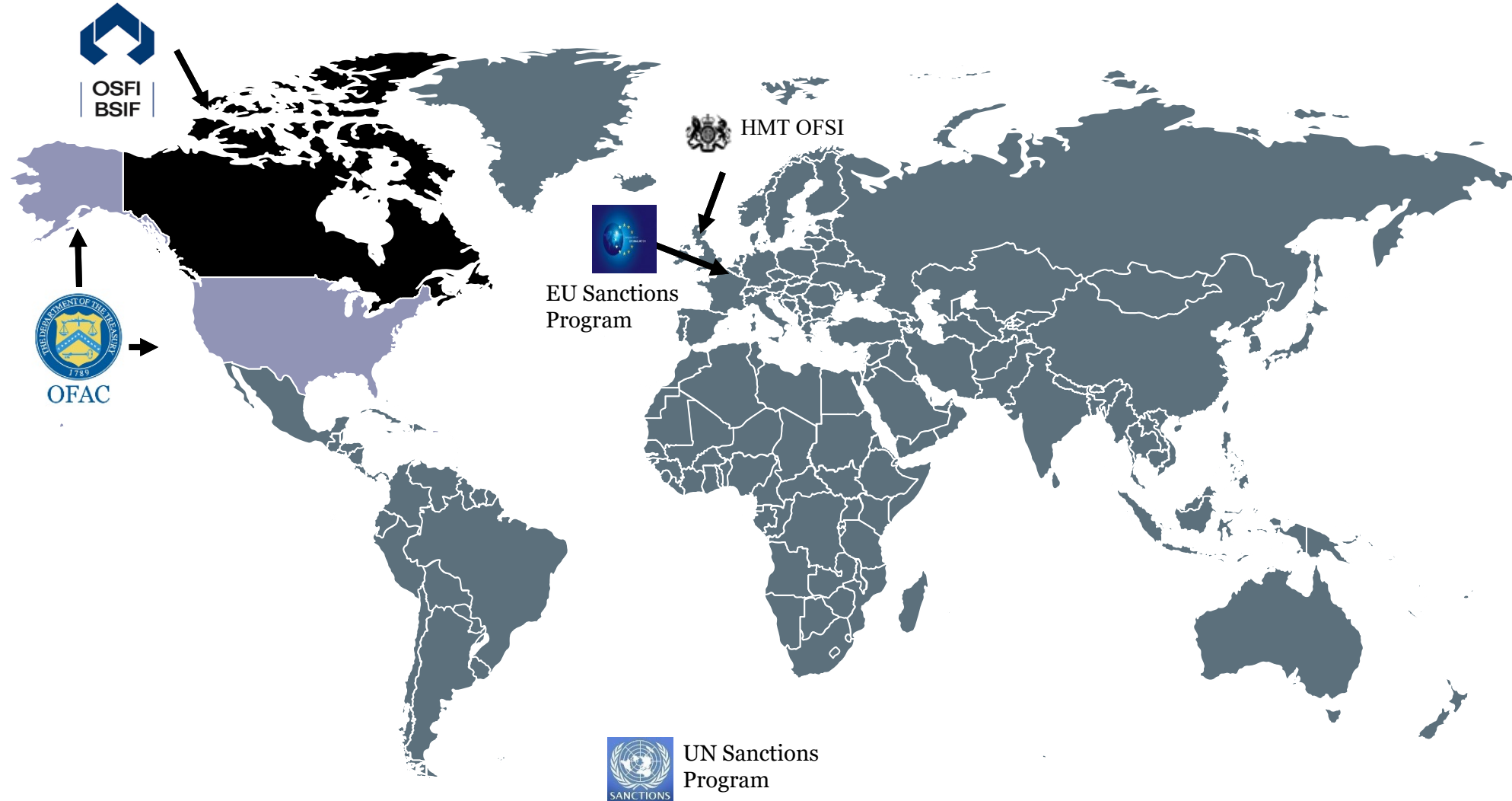


Sanzioni Internazionali

Agenda

- *Key Sanctions Programs across the World*
- *50 Percent Rule*
- *Correspondent Banking – Nesting*
- *Sanctions Evasion*
- *Digital Sanctions Risks*
- *Sanctions compliance program framework principles*

Key Sanctions Programs across the World



International Sanctions and US nexus

The international landscape has become complex due to the increasing use of economic sanctions by some countries towards others as a **form of control of geopolitical balances**.



UN Sanctions | INTERNATIONAL

The **Security Council** can take action to maintain or restore international peace and security under *Chapter VII of the United Nations Charter*. SC sanctions have taken a number of different forms, ranging from comprehensive economic and trade sanctions to more targeted measures such as arms embargoes, travel bans, and financial or commodity restrictions.



EU Sanctions | SUPRANATIONAL

In addition to the sanctions **to implement UN Security Council Resolutions**, other sanctions regimes are adopted **autonomously** by the EU. As a tool of the Common Foreign and Security Policy, they are intended to bring about a **change** in the policy or conduct of those targeted, responsible for the malign behavior at stake.



US Sanctions | NATIONAL

The **Office of Foreign Assets Control** ("OFAC"), the US enforcement body within the Department of Treasury, administers a number of sanctions programs. The sanctions can be either **comprehensive** or **selective**, using the **blocking of assets** and **trade restrictions** to accomplish foreign policy and national security goals.

US NEXUS

OFAC has entered into settlement agreements with **foreign companies with a US presence**, and more recently, foreign companies **without** a US presence.

US sanctions laws apply whenever there is a "US Nexus" and exists if a transaction or business relationship contains any of the following at any time:

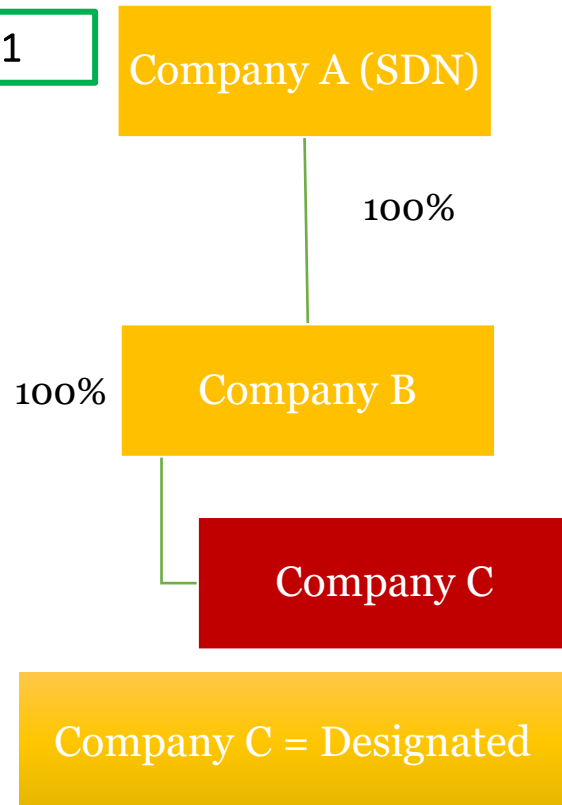
- **US Citizens and permanent residents** (located anywhere in the world)
- **Entities organized under US law**, including their foreign branches and personnel
- **Non-US persons located within the US** (including temporary visitors)
- **Non-US persons** intending to **export «controlled US-origin» goods**
- **Transactions involving US banks or US dollars**

ATTENTION! OFAC's 50 Percent RULE: even companies **not** appearing on the SDN list may be considered "blocked" if they are directly, indirectly or aggregate owned **50% or more** by one or more persons or entities who do appear on the SDN list. **This is particularly relevant during the diligence and screening process.**

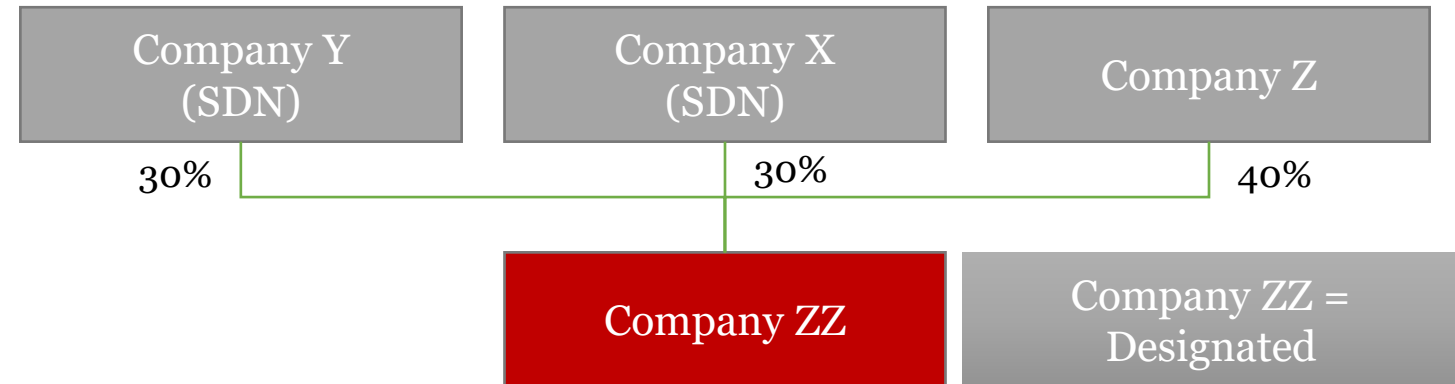
Other relevant sanctions regimes are those administered by the UK's Office of Financial Sanctions Implementation, Canada's Office of the Superintendent of Financial Institutions, Singapore's Monetary Authority of Singapore and Hong Kong's Monetary Authority

50 Percent Rule

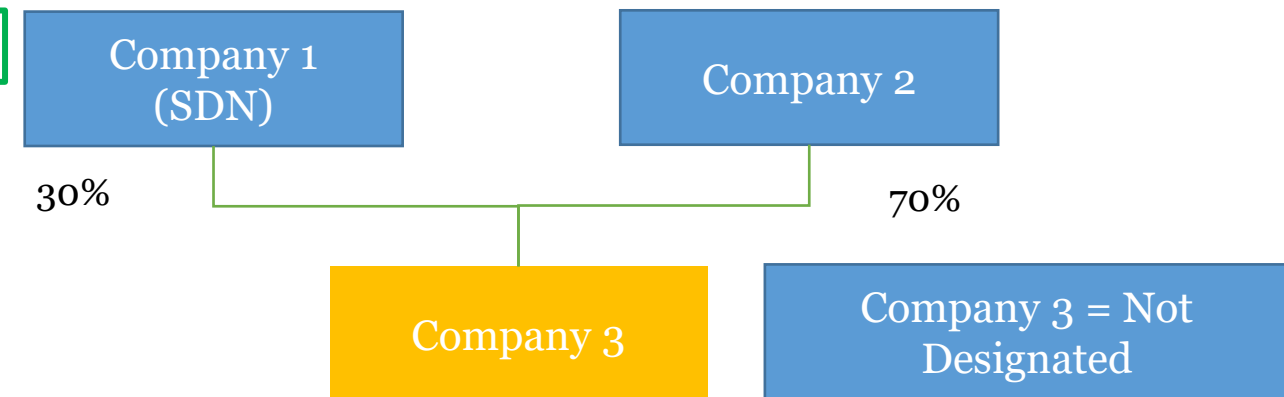
Example 1



Example 2



Example 3



Correspondent Banking - Nesting

The basics: "Nested accounts occur when a foreign financial institution gains access to the U.S. financial system by operating through a U.S. correspondent account belonging to another foreign financial institution."

Basically, Bank B has an account with Bank A; Bank C has an account with Bank B; Bank C may use Bank A "to obtain access to other financial services".

Now in concrete terms:

Bank C is in a sanctioned country or it's an SDN (Russia). Bank C has an account with Bank B.

Bank B is a bank in a not sanctioned country and it's less concerned about US, EU, UK sanctions (just an example). Bank B maintains an account with Bank A.

Bank A is a great European Bank that clears its USD traffic (example) with a bank in NY.

Now... Bank C send "sanctioned money" to Bank B that with(out) knowing it uses Bank A to clear sanctioned money in NY.

Consequences

At that point Bank A is responsible for violating US sanctions... penalty, money, adverse media and expensive lawyers and consultants....

Banks A: in correspondent banking you need to "Know Your Customers' Customers", as much as your actual clients.

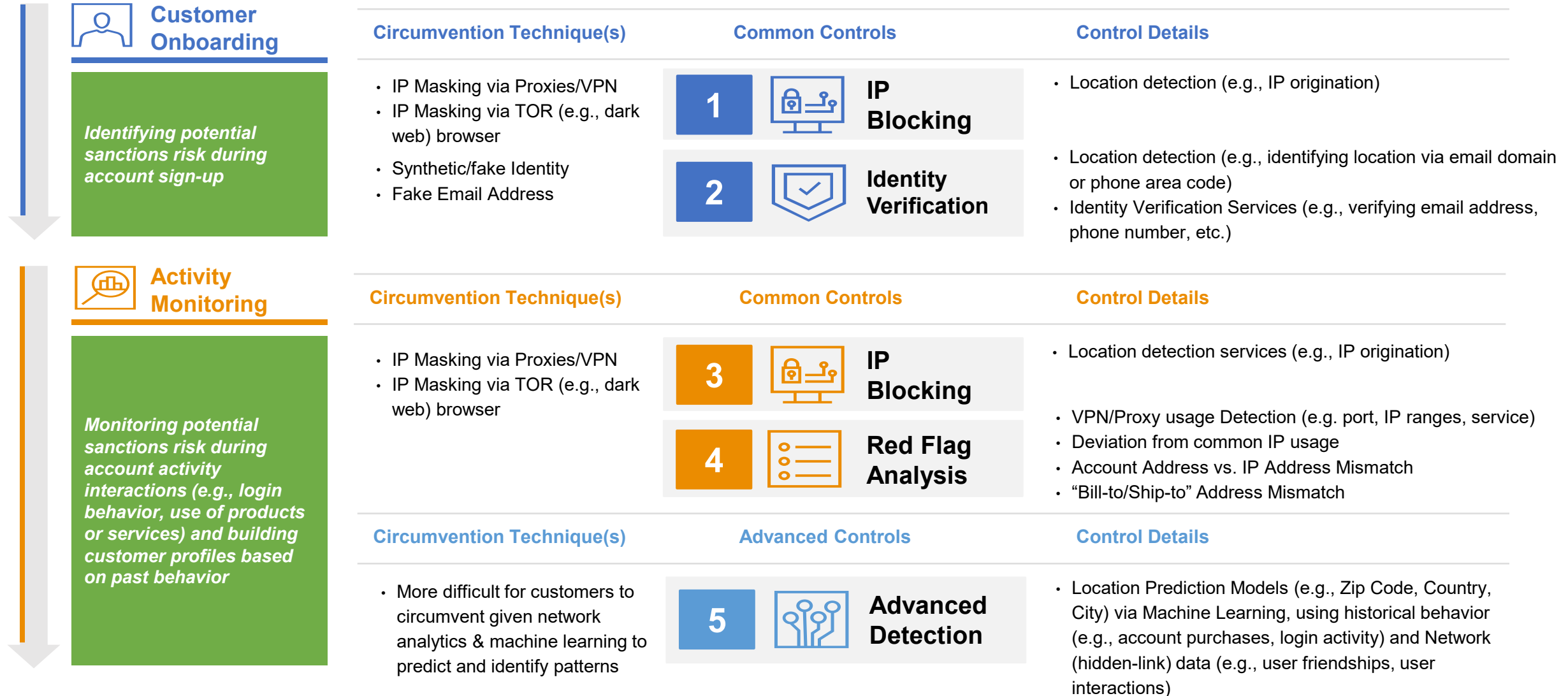
Sanctions Evasion

- Question: I have a ton of “special” goods I need to deliver to that “you know what” client in Russia. Can I send them through Turkey to avoid problems?
Answer: No, you can’t. It’s called sanctions evasion.
- Question: My broker buys from a “you know what” supplier in Russia. I’m aware of that but, whatever, I buy from the broker anyway. Cool?
Answer: No, ain’t cool. It’s called sanctions evasion.
- Question: What about if I get my money not from Russia but instead it goes thru China, New Zealand, Seychelles, Lichtenstein, BVI (example!) and then I get it? We good?
Answer: We no good. It’s called sanctions evasion.
- Question: “a friend of mine” in Moscow is using a VPN to e-buy expensive watches to protect his money. But the VPN makes it look like he is in Europe with delivery in Dubai. Not problem on that right?
Answer: “On my watch” that’s called sanctions evasion.

Do not underestimate. Do not mess up. Evading is so much worse than making a mistake




Digital Sanctions Risks

Online & digital based companies that allow for transactional services should consider the sanctions risk associated with their customers accessing their services. When it comes to digital transactions, controlling for sanctions risk becomes more complex and various techniques exist to mitigate the risk beyond traditional list screening software



Use Cases

The following summarizes use cases of sanctions violations related to digital transactions and/or services, the enforcement action and penalty incurred against the company:

Company	Violation Details ¹	Penalty
	<ul style="list-style-type: none">Violated OFAC Sanctions program by allowing transactions for goods and services to be processed online, specifically, for users located sanctioned countries. This was in part due to the company's inability to implement IP geo-blocking	\$134.5K
	<ul style="list-style-type: none">OFAC investigation conducted identified that SC Bank was accepting online payments subject to comprehensive sanctions, specifically, customers logging into the platform from Iran to initiate payments. This was in part due to the bank's inability to effectively identify and block the transaction based on the customer's IP address.	\$132MM
	<ul style="list-style-type: none">Violated OFAC Sanctions program for providing digital wallet services to users located in sanctioned countries. Though the company has implemented controls to identify the location of their users using IP Address, the data was not actively used or screened against for sanctions compliance purposes.	\$93.4K

¹ References: <https://www.steptoointernationalcomplianceblog.com/2021/01/ofac-announces-first-ever-enforcement-action-targeting-a-digital-asset-company/>

Sanctions compliance program framework principles

Below is a high level overview of the 5 key components of a sanctions compliance program (“SCP”) and how these components contribute to the program.

