August 1, 2019

OFAC Sanctions Update and Current Trends
Today’s Agenda

- Sanctions Compliance Framework
- What’s the latest in Sanctions
- OFAC Sanction Violations
- Current Issues and Trends
- Key Takeaways
- Networking
OFAC Compliance Framework (May 2019)
OFAC also highlighted common areas where Sanction Compliance Programs usually fall short:

- Lack of a formal OFAC sanctions compliance program.
- Misinterpreting or failing to understand OFAC regulations.
- Exporting (or re-exporting) U.S.-origin goods, technology or services to OFAC-sanctioned persons or countries.
- Utilizing the U.S. financial system for commercial transactions involving OFAC-sanctioned persons or countries.
- Facilitating transactions by non-U.S. persons.
- Issues with sanctions screening software updates and filters.
- Improper due diligence on customers and clients.
- De-centralized compliance functions and inconsistent application of a sanctions compliance program.
- Utilizing non-standard payment or commercial practices.
June 21st OFAC Interim Final Rule

OFAC significantly expanded the scope of sanctions reporting requirements.

• Now even “rejected” transactions have to be reported. The reporting requirement has broadened in two ways:
  1. It applies to not just rejected fund transfers but any type of transaction, from wire transfers and checks to trade finance and goods and services.
  2. It extends to all US persons or entities — not only US financial institutions

• In many instances, these violations will be picked up through the banks' reporting of rejected transactions, where OFAC could look for corresponding reporting from underlying companies and begin investigating.
OFAC Sanctions Statistics
Sanctions Update

$1.3 Billion In Fines in 2019

23 Programs Altered since 2018

14 Programs Updated in 2019

<table>
<thead>
<tr>
<th>Year</th>
<th># of Settlements</th>
<th>Total Penalties</th>
</tr>
</thead>
<tbody>
<tr>
<td>2018</td>
<td>7</td>
<td>$71,510,561</td>
</tr>
<tr>
<td>2019 (as of June 20, 2019)</td>
<td>18</td>
<td>$1,279,339,579</td>
</tr>
</tbody>
</table>
Sanctions Statistics

- 25 out of the 41 cases since 2017 related in whole or in part to Iran, accounting for 98.7% of total OFAC penalties since 2017.
- Global banks that deal with high volumes of transactions involving entities around the world, remain the most penalized since 2018, accounting for 98% of total OFAC penalties in the last 18 months.
- 2019 saw the very first Russia Sectorial Sanction enforcement action:
  - $75,375 penalty on a U.S. software company, which accepted invoice payments from a Russian oil company identified by OFAC on the Sectoral Sanctions Identification List that were made after the 90-day debt maturity period then permitted by Sectoral Sanctions Directive 2.
Pay Up
OFAC civil penalties and settlements reach decade-high dollar value

*2019 data reflects penalties and settlements published by OFAC as of July 16
Source: U.S. Treasury Department’s Office of Foreign Assets Control

Bloomberg Law
OFAC SDN Additions Trends

Additions to the SDN List by Year


200 400 600 800 1000 1200 1400 1600
KEEPING UP WITH RECENT U.S. SANCTIONS

VENEZUELA
January 28, 2019 - The Trump administration announced sanctions against the Maduro regime in Venezuela

IRAN
May 8, 2019 - President Trump issued an Executive Order imposing sanctions on Iran's iron, steel, aluminum and copper sectors

RUSSIA
March 15, 2019 - U.S. Treasury announced additional sanctions in response to Russia's "continued and ongoing aggression in Ukraine"
Recent Venezuela Sanctions

• Stealing From Venezuela’s Food Distribution Program, CLAP:
  • Colombian National Alex Nain Saab Moran and Former President Maduro’s three step sons were sanctioned from significantly profiting from food imports and distribution in Venezuela.
  • Through a sophisticated network of shell companies (13 identified in the press release located in UAE, Hong Kong, Mexico, Turkey, Panama, Colombia & US), business partners, and family members, Saab laundered hundreds of millions of dollars in corruption proceeds around the world.
  • Saab funneled money in exchange for access to contracts with the Government of Venezuela, including its food subsidy program
Government Contracts – Red Flags:

- Transactions involving Venezuelan government contracts that are directed to personal accounts or goods.
- Transaction involving Venezuelan government contracts that are directed to companies that operate in an unrelated line of business.
- Transactions involving Venezuelan government contracts that originate with, or are directed to, entities that are shell corporations, general “trading companies,” or companies that lack a general business purpose.
- Documentation corroborating transactions involving Venezuelan government contracts (e.g., invoices) that include charges at substantially higher prices than market rates or that include overly simple documentation or lack traditional details (e.g., valuation for goods and services). Venezuelan officials who receive preferential access to U.S. dollars at the more favorable, official exchange rate may exploit this multi-tier exchange rate system for profit.
Government Contracts – Red Flags continued:

- Payments involving Venezuelan government contracts that originate from non-official Venezuelan accounts, particularly accounts located in jurisdictions outside of Venezuela (e.g., Panama or the Caribbean)
- Payments involving Venezuelan government contracts that originate from third parties that are not official Venezuelan government entities (e.g., shell companies)
- Cash deposits instead of wire transfers in the accounts of companies with Venezuelan government contracts.
- Transactions for the purchase of real estate – primarily in South Florida and Houston Texas regions – involving current or former Venezuelan government officials, family members or associates that is not commensurate with their official salaries.
- Corrupt Venezuelan government officials seeking to abuse a U.S. or foreign bank’s wealth management units by using complex financial transactions to move and hide corruption proceeds.
China Related Sanctions

• July 23, 2019 - The United States has slapped sanctions on a Chinese company for importing Iranian crude in violation of US restrictions on Iran's oil industry.
  • Zhuhai Zhenrong and Li will be barred from engaging in foreign exchange, banking or property transactions under US jurisdiction, according to American rules that govern Iranian sanctions.
  • Chinese company, owner indicted in U.S. on North Korea sanctions charges
China Related Sanctions

• July 22, 2019 - Huawei Blacklist Reversal At Risk After Report Of Secret Projects In North Korea
  • Secretly helped the North Korean government build and maintain the country’s commercial wireless network
• July 23, 2019 – Dandong Hongxiang Industrial Development Co. (“DHID”) along with senior management indicted on conspiracy to defraud the US and evade sanctions
  • Senior management created and acquired front companies in secrecy havens and opened accounts in China with specific Banks that maintained correspondent relationships with US financial institutions.
Company Sanctions

• Elf Cosmetics – Issued January 31, 2019 – Supply Chain Due Diligence issues involving goods from North Korea
  • “Throughout the time period in which the apparent violations occurred, ELF’s OFAC compliance program was either non-existent or inadequate.”

• AppliChem GmbH – Issued Feb. 14, 2019 – Scheme to sell reagent chemicals to Cuba through a subsidiary in Germany
  • “An anonymous report was made through the ITW (parent company) ethics helpline alleging that AppliChem continued to make the sales to Cuba through an intermediary company in Berlin, Germany.” “Senior management conducted both written and in-person training sessions for staff,... to help perpetuate the scheme.”
Company Sanctions

• Expedia – Issued June 13, 2019 – Cuba related travel arrangements in violation of the CACR
  • “Expedia failed to exercise a minimal degree of caution or care in avoiding the conduct that led to the apparent violations.”

• Mid-Ship – Issued May 2, 2019 – Iranian related
  • “Mid-Ships culture of compliance appears to have been deficient at the time of the apparent violations.” “Mid-Ship managerial personnel were also aware that financial institutions had rejected at least two payments for “administrative reasons,” “security reasons,” or “compliance issues.”
1. SWIFT Transaction Compliance (MT202)
2. Mitigating Current Country Exposure
3. How far do you need to go?
4. Knowing your customer’s customer
• **Adopt a global sanctions policy standard:** OFAC has an expansive view of its jurisdiction and it may be prudent to implement US standards globally as US sanctions come with the heftiest civil and criminal penalties.

• **Monitor compliance:** Allocate more time and resources to trade compliance monitoring at the corporate risk and compliance level.

• **Explore automation of screening and alert processes:** Consider how to improve screening procedures by automating data aggregation and generating high-quality alerts.
Meet the Speaker

Jason Chorlins is a partner in Kaufman Rossin’s Risk Advisory Services consulting practice and serves as the Firm’s National Banking Practice Leader. He spearheads forensic and financial investigative engagements specializing in money laundering, internal corporate investigations, due diligence and regulatory compliance matters. Additionally, Mr. Chorlins regularly advises clients on risk mitigation strategies specializing in anti-money laundering (AML), Bank Secrecy Act (BSA), and OFAC engagements.

Mr. Chorlins frequently speaks on BSA/AML matters across the country and was named AML Professional of the Year by ACAMS in 2018.