

A pocket guide to: **Sanction controls**

To find out how FCR Compliance can help you with your Sanctions needs, please contact steve@fcrcompliance.com



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What are sanctions?

Financial sanctions are restrictions put in place by governments or multilateral organisations to achieve a specific foreign policy or national security objective.

This is realised by limiting provision of certain financial services or by restricting access to financial markets, funds and economic resources.



To whom does the UK Sanctions regime apply?

1. All individuals and legal entities who are physically within, or undertake activities within, the UK's territory must comply with the **EU and UK financial sanctions regimes** that are in force.
2. All UK nationals and UK legal entities established under UK law, including their branches, must also comply with UK financial sanctions that are in force, **irrespective of where their activities take place.**



What is the FCA's role?

The FCA is responsible for ensuring the firms it supervises have **adequate systems and controls** in order to comply with sanction requirements as per SYSC 3.2.6R and SYSC 6.1.1R.



What does the FCA expect?

When reviewing a firm's sanction controls, the FCA broadly focuses on seven areas:

1. Governance
2. Risk assessment
3. Policies and procedures
4. Systems and controls (own systems)
5. Systems and controls (3rd party)
6. Controls review and calibration
7. Skills and training



Governance

Senior management should be sufficiently aware of the firm's obligations regarding financial sanctions to enable them to discharge their functions effectively.

Key elements of an effective program:

- Defined oversight and reporting responsibilities for individuals, committees and forums
- Management information focused on program performance and risk



Governance

- Sanction related KRIs, reported at least monthly
- Process for escalating, dealing with and reporting potential sanction breaches
- An agile program able to respond to changes in global sanctions regimes
- MLRO report including KRI metrics, key risk events and any sanction breaches



Risk assessment

Firms should consider which areas of its business are **most likely** to provide services or resources to sanctioned individuals, entities or countries.

Key elements of an effective program:

- A sanctions risk assessment to be performed at least annually and when necessary in response to changes in sanctions regimes
- A risk assessment linked to your risk appetite statement



Risk assessment

- Feedback loops involving key stakeholders e.g. screening teams, to manage any downstream impacts

NB: Sanction controls are not solely about your customers - you must evidence that all elements of your **business and supplier relationships** have been assessed for sanctions risk.



Policies and procedures

Firms must have up-to-date policies and procedures **appropriate to its business.**

These should be **readily accessible, effective, and understood** by all relevant staff.



Policies and procedures

Key elements of an effective program:

- A **documented** risk appetite statement
- Policies and procedures **reflecting your risk appetite**
- A document governance process



Systems and controls (own systems)

A firm should have effective, up-to-date screening systems appropriate to the nature, size and risk of its business.

Key elements of an effective program:

- Core system governance including key processes and metrics
- Documented system management and ownership responsibilities
- A defined system configuration methodology



Systems and controls (3rd parties)

Where third parties are relied on, remember you can outsource the process, but you **still own** the risk.

Key elements of an effective program:

- A business risk owner who can demonstrate their understanding of the processes and controls applied by 3rd parties



Controls review and calibration

A firm's efforts to combat financial crime should be **subject to challenge**.

Key elements of an effective program:

- Systems calibrated to manage **your** risks
- Controls tailored to **your** customer, supplier and business sanction risk
- Systems subject to periodic recalibration



Controls review and calibration

- An annual assurance conducted to assess design and operating effectiveness
- Reviews conducted either by a **third party or internal, independent function**



Skills and training

Firms must employ staff who possess the skills, knowledge and expertise to carry out their functions effectively.

Key elements of an effective program:

- Firms should review employees' competency and take appropriate action to ensure they remain competent for their role.
- **Continually upskill** your sanction teams to keep pace with changes in sanction regimes.



Skills and training

- Achieved through:
 - Formal training
 - Internal communications
 - Subscribe to industry briefings
 - Join peer/industry working groups





Steve Lockwood

Steve is one of FCR Compliance's founders. He has been a financial crime specialist for over 20 years.

Steve started his career in law enforcement investigating organized crime money laundering, he moved to the UK Financial Conduct Authority (FCA) as an investigator in Enforcement and then as a specialist supervisor in the Financial Crime Supervision team. Here he conducted reviews of regulated firms' financial crime compliance programs.

Since 2017 Steve has been helping clients to assess, develop and remediate their Financial Crime compliance programs.

In 2023 Steve was appointed to the International Compliance Association (ICA) panel of external experts.



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