

How to Use This Manual

In the current environment, financial institutions that don't take the Office of Foreign Assets Control (OFAC) requirements very seriously are likely to find themselves in deep trouble with the regulators and federal authorities. Not even small banks, with limited resources and potentially minimal system support to monitor OFAC requirements, are exempted from complying with OFAC regulations and issuances.

The individuals, entities, or representatives of foreign governments that have been sanctioned or blocked by OFAC use whatever means or access opportunities possible to launder funds and move money through the U.S. financial network. As noted by the Financial Action Task Force¹ on Money Laundering, terrorist groups finance their operations using any number of methods, including:

- Fraud
- Gambling
- Smuggling and trafficking in counterfeit goods
- Extortion and kidnapping
- Robbery
- Drug trafficking
- Contributions and donations
- Sale of publications (legal and illegal)
- Funds derived from legitimate business activities
- Direct sponsorship by government entities or states

As OFAC and the regulators try to keep up with the criminals, the requirements and areas of focus with which banks must keep up and comply change as well. The problem with foreign assets and economic sanctions is the fluid nature of subjects to monitor, and that alone creates a huge challenge. That's where the *Compliance Guide to OFAC Standards* comes in.

This resource represents a compilation of both research and hands-on experience. The authors have talked with a wide variety of financial institutions and reviewed their internal policies and procedures to address OFAC compliance. They've gained insights by helping institutions to develop and implement integrated, detailed policy and procedures to address OFAC requirements. And they've interacted with various regulators, bankers, and industry vendors who shared their insights and experiences. This manual represents the culmination of all the facts, ideas, experiences, and examples collected in the research, interviews, and interactions.

In this manual, we look at the full spectrum of bank products and services in relation to OFAC compliance — not just deposit transactions. From lending activities to safe deposit box rentals, banks must be prepared to comply, and we look at all the considerations and detail them for management review.

1. FATF-XII Report on Money Laundering Typologies 2000-2001 (February 1, 2001).

Of course, use of advanced technology will continue to be critical in helping both smaller institutions and larger institutions to monitor OFAC compliance. Nevertheless, overreliance on technology presents its own range of problems. Ultimately, whether initiating a new customer relationship or managing existing customer relationships, it is critical that staff be acutely aware of OFAC requirements. Only by staying abreast of changes in OFAC requirements, and periodically receiving updated training or briefing sessions, will staff be able to sufficiently monitor and ensure OFAC compliance.

HOW THE MANUAL ADDRESSES TODAY’S OFAC ISSUES AND CONCERNS

The manual focuses on basic challenges for financial institution management, including:

- How does bank management identify, analyze, and determine what types of transactions may be OFAC related, and in what departments or functional areas these may occur?
- If multiple locations (e.g., branch offices) exist, how does an institution’s management team determine what resources or compliance checks are appropriate for a specific organization?
- In establishing corporate governance, can the board of directors ensure a flexible approach to managing and monitoring OFAC compliance that addresses all types of potential risks that might arise?

These challenges are further complicated by the very nature of the business financial institutions conduct every day; public trust and confidence in the institutions that handle personal and business financial transactions must be without exception or concern. Absent that trust and confidence, the basic foundation of the United States financial system weakens.

Special Insights, Guidance, and Updates

In designing, researching, developing the format, and writing the *Compliance Guide to OFAC Standards*, intentional consideration was given to the resources financial institution management and staff were seeking to address OFAC compliance. Financial institutions’ representatives asked for a resource to address the following questions and suggestions:

- Develop a resource manual that offers separate training materials just for OFAC compliance.
- Explain how OFAC is different from Bank Secrecy Act money laundering.
- Provide specific guidance on OFAC basic requirements, if different than the Bank Secrecy Act. (Note: The OFAC requirements are quite different.)
- Point out specific examples of OFAC violations or exceptions that have occurred.
- Offer a sample OFAC policy and related procedures to help management and staff institute a meaningful, internal program to address the requirements.
- Develop monitoring procedures or questionnaires to help management test for ongoing compliance of OFAC initiatives.
- Provide audit procedures to assist internal audit staff to test for OFAC compliance.
- Explain regulatory examination approaches to assess OFAC compliance.
- Identify specific resources to help financial institutions monitor OFAC compliance, whether opening new customer accounts or periodically reviewing the existing customer base.
- Provide periodic updates to keep the resource current with what’s changing.

Through research and assistance from various regulatory agencies and sources familiar with OFAC issues, this manual has been written and will be updated with an emphasis on meeting the needs of the financial services industry to comply with OFAC requirements. This manual provides the following:

- *Chapter 1, Getting Started.* This chapter presents an overview of OFAC and a brief review of frequently cited exceptions and violations.
- *Chapter 2, OFAC Regulations and Requirements.* The legislation creating OFAC and the laws it administers are described here, as well as the various requirements and supporting regulations.
- *Chapter 3, Designing and Monitoring OFAC Control Systems.* Monitoring OFAC compliance is an ongoing challenge, requiring periodic self-checking to assess compliance efforts. Internal control questionnaires in this chapter will help management and staff to assess the level of compliance. Specific risk management controls are discussed and insights provided. Additionally, OFAC requirements periodically change, and methods are described for addressing the changing elements.
- *Chapter 4, Developing Formal Policies and Procedures.* Sample OFAC policies and procedures have been created to help management address the necessary issues and concerns. These procedures include forms, control points, and insights on modifying the format to meet the unique needs of each financial institution.
- *Chapter 5, Understanding Current OFAC Sanctions.* This chapter looks at each of the blocked countries and sanctioned groups and discusses the sanctions currently in effect.
- *Chapter 6, OFAC Reporting and Compliance Examinations.* This chapter provides examination procedures and supporting insights on what will be assessed during on-site examinations. The chapter also details examples of violations and exceptions noted during examinations — important guidance for internal audit staff.
- *Chapter 7, Training.* Training serves as one critical tool to meet OFAC compliance requirements. Steps are provided to set up an internal employee training program, including outlines, reading materials, and quizzes. Factual case studies illustrate how entities or individuals tried to move funds and what made bank employees suspicious.
- *Chapter 8, Related Laws and Issues.* This chapter offers thoughts and guidance on what may happen next and how to plan for change.
- *Appendixes.* The manual contains a glossary, resources, regulatory issuances, enforcement actions, and selected OFAC regulations. If you need a resource with respect to software or technology to help staff search the OFAC lists and compare to customer databases to seek matches, this manual offers information on the resources available and provides contact information.

Since OFAC requirements and lists are continually changing, this manual is periodically updated.

PREPARING FOR EXAMINATIONS

Your institution may not be at risk today, and it may not have specific concerns regarding OFAC compliance requirements and related internal control systems. However, various aspects of your next examination will undoubtedly focus on how management properly addresses risk management controls and oversight related to OFAC requirements. These examinations will check your regulatory risk management approach, and examiners will also correlate OFAC risk issues or risk exposures as they are detected throughout the organization. You will reduce your regulatory risk by preparing a corporate approach to OFAC compliance activities, including policies, procedures, internal control system

processes, and plans for changes in data flow or system processes. Analyzing your risk exposure and making enhancements before your next examination will have a positive effect on the results.

TOOLS FOR ADDRESSING SOLUTIONS

To achieve successful implementation and maintenance of a viable OFAC banking compliance system, banks must focus on their risk management processes. This manual offers insights on evaluating how various banking system and OFAC solutions and resources can be integrated with your institution's current information systems. It also offers guidelines on the elements of sound risk management and how to develop OFAC banking compliance policies, procedures, and internal control systems to address the risks associated with noncompliance. The manual discusses how to:

- Assess risk positions for each type of control risk.
- Design procedures.
- Detail internal controls.
- Develop formal internal audit policies and procedures.
- Implement alternative systems.
- Implement systems to ensure ongoing control and oversight.

The OFAC banking internal control and audit monitoring questionnaires included in the manual are critical tools to help supervisors and auditors perform in-depth analysis and review. By using this manual, management team members will become aware of existing OFAC controls, important international banking system components, and current developments and will understand applicable regulatory issues and examination focus points.

ACCOMPANYING CD

The manual also includes an accompanying CD containing the entire manual in Microsoft Word format. The CD can be used to search for specific material and customize the sample policy, procedures, and training materials for your institution's needs.

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- Office of Foreign Assets Control, United States Treasury Department — Various publications, including brochures, issuances, and documents that detail the regulatory requirements and current outstanding sanctions
- Financial Action Task Force — Publications and resources that detail the international supervisory efforts to monitor and stop money laundering

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