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FCA publishes report highlighting the effectiveness of firms' sanctions systems and controls

Of particular interest to: All UK firms under FCA regulatory and supervisory scope.

In brief

The FCA has intensified its scrutiny of financial services firms' sanctions systems and controls in light of increased sanctions following Russia's invasion of Ukraine in February 2022.

Good and bad practices have been identified based on findings from a comprehensive and analytical assessment of over 90 firms' sanctions systems and controls. These have been highlighted under 5 key themes.

Summary

On 6 September 2023, the FCA published report findings on its website outlining good and bad practices found after assessing the sanctions systems and controls of over 90 firms in a range of sectors. The increased focus on sanctions systems and controls is being driven by The Office of Finance Sanctions Implementation (OFSI), in collaboration with the FCA. OFSI being both the enforcing and implementing body for financial sanctions in the UK has emphasized the importance of firms having appropriate systems and controls in place to prevent a breach of UK sanctions, especially now due to increased sanctions volumes.

The FCA identified examples of both good practices and areas for improvement under 5 key themes::

- **Governance & Oversight**
 - Some firms have lacked sufficient **Management Information** (e.g., Sanctions exposure) for senior managers, meaning they cannot fulfil their responsibilities effectively.
 - Global firms have focused too heavily on U.S. sanctions, neglecting the UK regime.
- **Skills & Resources**
 - Some firms experienced backlogs in alert handling due to a lack of resources when dealing with higher volumes as well as a lack of governance and internal Service-Level Agreements (SLAs).

- Screening capabilities
 - Poorly calibrated screening tools (both over and under sensitive) caused too many false positives and missed sanctioned individuals.
 - Outdated lists caused generation issues, missing sanctioned individuals without justification
- Customer Due Diligence (CDD) and Know Your Customer (KYC)
 - Low quality CDD and KYC as not enough information was gathered, ignoring the recommended risk-based approach.
 - Backlogs of CDD and KYC assessments further exacerbated the low-quality checks, increasing the risk of not identifying sanctioned persons..
- Reporting breaches to FCA
 - The FCA found inconsistent timeliness of reporting potential breaches resulting in a hindering of the FCA's ability to understand and address issues promptly. The expectation is firms make timely and accurate reports to the FCA on potential sanctions breaches.

Expectation of firms following this report

- Consider the findings, evaluate approaches to identifying and assessing sanctions risks, and take action where appropriate
- Read the [FCA Financial Crime Handbook](#) (in particular Chapter 7) and, [SYSC 6.3](#) of the Handbook. Furthermore, the [FCA Sanctions webpage](#), Joint Money Laundering Steering Group [Current Guidance \(JMLSG\)](#) and [OFSI UK Financial Sanctions General Guidance](#) should be reviewed.
- Be prepared to engage with the FCA on their testing of sanctions systems and controls, and report any significant deficiencies identified in such processes.

Wise Payments Enforcement Example

On 31 August 2023, the Office of Financial Sanctions Implementation (OFSI), issued a report in accordance with s149(3) of the [Policing and Crime Act 2017](#) ("PACA") against Wise Payments Limited ("Wise") for breaching regulation 12 of [The Russia \(Sanctions\) EU Exit Regulations 2019](#) ("the Russia Regulations"). This disclosure related to cash withdrawals of £250 made from a business account with Wise held by a company owned or controlled by a "Designated person" under the Russia Regulations. OFSI deemed the breach as moderately severe and felt a disclosure was the appropriate enforcement response, this highlights the importance of robust sanctions systems and controls for firms. In brief, this power allows OFSI to publish details of financial sanctions breaches - including the person/entity who committed the breaches – where OFSI decides that the breaches are not serious enough to justify a civil monetary penalty.

Useful Links

[FCA Report on Sanctions systems and controls](#)

[OFSI uses disclosure power for first time](#)

[Wise Payment Case Example](#)

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Our mailing address is:
126-128 Buckingham Palace Rd, London SW1W 9SA