



# Sanctions Screening - Feedback from Recent Thematic Reviews

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# Sanctions Overview

- ▶ **Increasingly complex and dynamic sanction programs**
- ▶ **Regulations are rapidly evolving**
- ▶ **Significant risks for non-compliance**
- ▶ **Controls need to match developments**



# Sanction Compliance

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- ▶ **Adequate Risk Assessment**
- ▶ **Good Quality of Data**
- ▶ **Integrity of Source Lists**
- ▶ **Effective sanctions screening system**
  - Evaluation of parameters and thresholds on an on-going basis
  - Adequate and effective re-assurance processes



# Thematic Review by HKMA

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- ▶ **Thematic review on a number of AIs' sanction screening systems in June 2017**
- ▶ **Engaged a leading global service provider to assist in conducting review**
- ▶ **Purpose of the review:**
  - *Assess effectiveness and efficiency* of AI's screening system
  - Where required, work with AIs to ensure appropriate remedial plans implemented to address material deficiencies



## How the test was conducted

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- ▶ **Als selected based on risks, volume of payments processed etc.**
- ▶ **Workshop, guidance provided to participating banks**
- ▶ **Scope: customer and transaction screening systems**
- ▶ **Individual feedback provided to Als based on testing results**
- ▶ **Highlighting observations identified from the review**



# Observations

- ▶ **Most AIs' performances when screening against un-manipulated data were within expectations**
- ▶ **Results less consistent on manipulated data; a few AIs performed below expectations**
- ▶ **AIs must be able to demonstrate an adequate understanding of their systems**
- ▶ **System settings varied between AIs**



# Observations (Cont'd)

- ▶ **Most AIs monitoring / testing effectiveness, but less on efficiency**
- ▶ **Effectiveness issues**
  - Low matching capability
  - Weaknesses in matching algorithms
- ▶ **Efficiency issues**
  - High volumes of returns → system is inefficient.
- ▶ **Some AIs may be subject to re-test**



- ▶ **Industry wide guidance to be issued subsequently**
- ▶ **Thematic review to be extended to cover more AIs**
- ▶ **Improve understanding of risk and system operation**
- ▶ **Expectation is ongoing enhancement: screening systems should be subject to regular reviews and kept up-to-date**



**Thank You**