



Sanctions — Compliance
Monitoring Approaches and Tools
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Your Speakers



Chris Matteson
US Forensics Compliance Services
Executive
Ernst & Young, LLP
chris.matteson@ey.com



Jason Macias
Head of Risk Assessment &
Monitoring CoE
Viatris, Inc.
jason.macias@viatris.com



Jeremy Osinski
Principal
Ernst & Young, LLP
Jeremy.osinski@ey.com



Roberto J. Gonzalez, JD
Partner
Paul, Weiss, Rifkind, Wharton
& Garrison, LLP
rgonzalez@paulweiss.com

What are sanctions?

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Sanctions are restrictions on financial and/or trade transactions with a targeted self-governing state, group, or individual. Restrictions include the blocking of property, trade prohibitions, prohibitions on commercial dealings or denial of access to the financial system.

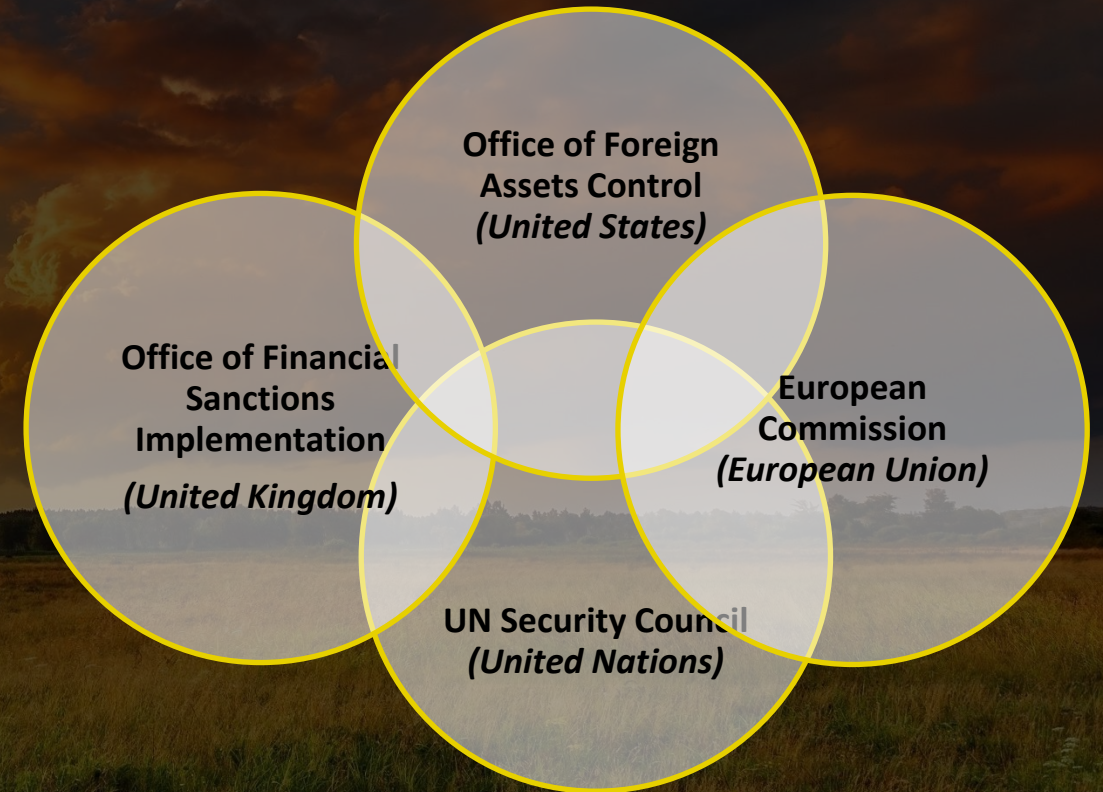
Why are sanctions imposed?

Sanctions are used as a policy tool and implemented by governments and international bodies to change behavior, prohibit illicit activity, and curb undesirable actions by certain high-risk persons or groups.

How are sanctions communicated?

Sanctions are communicated through sanctions lists, a compilation of individual sanctions that can be applied to countries, entities, companies, people, and ships. Sanctions lists can be issued by governments or international bodies.

Major sanctioning bodies



Characteristics of sanctions

Key aspects

- Binary violation logic (i.e., transaction is or is not a violation of a sanction)
- Blocking property (freezing of assets)
- Real-time screening (i.e., requirement to monitor transactional activity for sanctions nexus)
- Prevent, not detect (i.e., prohibited transaction must be stopped **before** it occurs, not after)

Strict liability

- Dealing with sanctioned parties or jurisdictions is a strict liability. Intent does not matter in determining if a transaction is a violation (although intent may be considered in deciding penalties).

Consequences

- The fines for violations can be substantial. In some cases, civil and criminal penalties may exceed hundreds of millions of dollars. Intent, action, self-disclosure and cooperation may mitigate the ultimate penalty.

Beneficial ownership considerations

Even if a particular individual or entity is not listed on a sanctions list, they still may be subject to sanctions considerations:

	United States	United Kingdom	European Union
Beneficial ownership	<ul style="list-style-type: none">A legal entity will be considered sanctioned if it is at least 50% owned by a sanctioned person or entity	<ul style="list-style-type: none">A legal entity will be considered sanctioned if it is over 50% owned by a sanction person or entity	<ul style="list-style-type: none">A legal entity will be considered sanctioned if it is over 50% owned by a sanction person or entity
Control requirement*	<ul style="list-style-type: none">No separate requirements for an entity controlled by a sanctioned person or entity	<ul style="list-style-type: none">A legal entity will be considered sanctioned if it is controlled by a sanctioned person or entity	<ul style="list-style-type: none">A legal entity will be considered sanctioned if it is controlled by a sanctioned person or entity

*Note: The United Kingdom and the European Union have different definitions of "control" in this context.

Company A
33% owned by a sanctioned entity



Permitted by US, UK, EU



Company B
50% owned by a sanctioned entity



Permitted by UK & EU



Prohibited by US

Company C
51% owned by a sanctioned entity



Prohibited by US, UK, EU



These requirements make additional screening efforts, including identifying beneficial ownership, a key component of effectively managing sanctions risk.

The effect of government sanctions



Key considerations when implementing an effective Sanctions Program

- OFAC recommends companies employ a risk-based approach to sanctions compliance by developing, implementing, and routinely updating their Sanctions Compliance Program inclusive of:
 - Management commitment
 - Risk assessment
 - Internal controls
 - Testing and auditing, and
 - Training
- Common Compliance Program Failures:
 - Lack of a formal Sanctions Compliance Program
 - Misinterpretation or failure to understand OFAC, UK, or UN regulations
 - Facilitating transactions by non-U.S. persons (including through or by overseas subsidiaries or affiliates)
 - Limitations in sanctions screening software to identify beneficial owners
 - Improper due diligence of customers or clients (and transactions)
 - De-centralized sanction program functions leading to inconsistent identification and responses to sanction risk

A landscape photograph of a field at sunset or sunrise. The sky is filled with dramatic, dark clouds, with a warm glow from the sun on the left side. The foreground is a field of tall grasses and wildflowers, and a line of trees is visible in the distance.

Thank you