



**Standards of Banking Activities
CBA Standard No. 49**

**SCREENING CLIENT PORTFOLIOS OF
BANKS AGAINST SANCTIONS LISTS**

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INTRODUCTION

One of the basic responsibilities of banks, as obliged entities under Act No. 253/2008, Coll., on selected measures against legitimization of proceeds of crime and financing of terrorism (the "AML Act"), is to examine whether the client, or the natural person acting for the client in a given transaction or business relationship and its beneficial owner, if known to the obliged entity, is not a person which is subject to international sanctions applied by the Czech Republic pursuant to Act 69/2006, Coll., on implementation of international sanctions (the Act on International Sanctions), Act No.1/2023, Coll., on restrictive measures against certain serious acts applied in international relations (the "Sanctions Law"), Government Decree 210/2008, Coll., on the implementation of special measures to combat terrorism, Decree No. No. 67/2018, Coll., on certain requirements for a system of internal policies, procedures, and control measures against the legalization of the proceeds of crime and terrorist financing, and any other valid and effective regulations and laws dealing with this subject not mentioned herein.

Making sure that the banks (members of the Czech Banking Association) in the Czech Republic use the same standard for screening client portfolios against sanction lists ensures that no payments will be made between sanctioned entities within the domestic payment system. This document thus aims to make certain that the same standard of rules based on the applicable sanctions screening regulations is set and complied with by banks, thereby avoiding any breach of these regulations. As a result, banks can rely on conducting the screening of domestic transactions through the screening of other banks' portfolios.

At the banking market level, an Analysis of the Number of Generated False Positive Alerts which would be generated as a result of the implementation of the screening of domestic payments was conducted above transaction data monitoring. Banks performed the screening of the *Note* field, the *Payer/Payee* field for all transactions on the part of the payer/payee bank. The total number of alerts generated in one day for all CBA member banks for the above fields was more than 10 thousand. The analysis also showed that all alerts generated as part of the screening of domestic payments were false positive alerts.

1. BASIC RULES OF SANCTIONS SCREENING

The essence of sanctioning actions is to prevent funds and resources, the provision of entitlements, etc., being made available to the person subject to sanctions. In practice, this means that the screening against sanctions lists must be carried out before concluding the transaction or entering into a business relationship.

In the event that international sanctions are imposed on the entity at a time when it already has an existing business relationship with the Bank, the Bank has measures in place to enable it to detect early that the client has become a sanctioned person at any time during the course of the relationship and it proceeds in accordance with the relevant provisions of the AML Act and the Act on International Sanctions. These provisions generally include asset freezing and not allowing completion of outgoing transactions. The effect of sanctions screening and the implementation of follow-up measures is to prevent funds subject to sanctions at one Bank from being the subject of an incoming transaction of a customer of another Bank. Another purpose is also to prevent outgoing funds from being made available to a person on the sanctions lists at the beneficiary bank.

Effective sanctions screening measures are applied in practice prior to the establishment of a business relationship through the screening of the customer and persons linked to the customer against applicable sanctions lists. During the course of the business relationship, the effectiveness of sanctions screening measures is ensured through regular ongoing batch screening of the portfolio of clients and persons linked to them.

At the same time, the Bank applies real-time transaction screening against sanctions of all foreign transactions to comply with its legal obligations.

Banks apply a lower than 100% threshold match score (i.e., they do not apply only a full match) to identify the match of the customer and persons linked to the customer against sanctions lists, which allows them to also detect entities with changed names and company names due to transcription or phonetic transcription. Another key prerequisite for effective and correct sanctions screening is proper compliance with the KYC procedures established by legal requirements.

The Bank will establish formal written procedures in the field of sanctions screening and applied measures, which will always include as a minimum:

- Definition of roles and responsibilities of the staff involved in setting up and evaluating sanctions screening.
- Rules for alert handling or escalation, both for cases where match has been identified as well as for 'false matches' (the evaluation of alerts should make it clear what led to the decision).
- Rules for archiving alerts for reasons of reconstructability.
- A set-up, if relevant for the Bank, indicating in which cases manual and in which cases automatic screening is used.
- The obligation to carry out training of the persons evaluating the sanctions screening.
- Procedures for a regular monitoring of the performance of sanctions screening (e.g., at least in the regular AML Evaluation Report).¹

International sanctions can be imposed on a wide range of services and goods in addition to persons and entities. However, this benchmark applies only to minimum standards that prevent sanctioned entities from being present in the Bank's portfolio.

¹ Verification of the functionality and security of the sanctions screening system should also be carried out in accordance with IS/IT principles.

2. DEFINITIONS

Ex-post screening - retrospective, usually batch screening of the Bank's portfolio.

False positive - an alert that results in a negative match with an entity on the sanctions list.

KYC - Know Your Customer principle.

Real-time screening - screening conducted in real time above currently processed data.

Sanctions list - an official list of persons and entities against whom sanctions measures are applied and which is issued by a responsible authority (e.g., the authorities of the European Union).

True hit - an alert that results in a confirmed match with an entity on the sanctions list.

3. IDENTIFICATION OF PERSONS AND ENTITIES SUBJECT TO INTERNATIONAL SANCTIONS

Identification of entities subject to international sanctions is carried out by the Bank prior to the conclusion of the transaction or establishing the business relationship and is carried out as part of the initial identification using a sufficiently robust process or real-time application. Identification is further carried out at regular intervals by bulk screening to ensure that potential sanctioned entities in the Bank's existing portfolio are detected.

Natural and legal persons (and persons associated with them in various roles) that the Bank screens against the sanction lists when identifying and screening a client and then periodically during the course of the business relationship are always at least:

- The client.
- The person acting on behalf of the client:
 - Members of the statutory body of the legal entity.
 - Representatives and legal representatives of the client.
 - Persons authorized to dispose of the client's assets within the framework of the business relationship with the Bank.
- Persons and entities in the beneficial ownership of the client.

Screening:

- of natural persons shall always contain at least all names and surnames.
- of legal persons shall always include at least the trade name or the full name of the company.

Beyond the minimum data that should be input in the screening, comparisons with sanctions lists can be made over additional data that the Bank has on its customers and persons linked to them. Such data may include, for example, date of birth, which can automatically identify potential sanction matches even where the names of entities and clients match above a specified threshold.

4. SPECIFIC SANCTIONS LIST

Sanction screening is always carried out at least against entities set out in the lists issued by:

- the European Union and its bodies designed for that purpose.
- the Czech Republic.
- the United Nations and its bodies designed for that purpose.

The bank, in accordance with its risk-oriented approach and other factors (for instance correspondent relationships), may also include other sanctions lists in the screening to varying degrees, most commonly, for example, issued by:

- Office of Foreign Assets Control (OFAC) - US sanctions list.
- Office of Financial Sanctions Implementation (OFSI) - UK sanctions list.

5. UPDATES OF SANCTIONS LISTS

The Bank monitors whether the sanctions lists have been updated on a regular basis and updates the database of sanctioned entities used by the Bank without undue delay after updating the relevant sanctions list. The Bank's database update period may vary depending on the Bank's operations and the possibility of establishing business relationships and of making payments.

Updating of the basic, publicly available sanction lists (EU, Czech Republic, UN) takes place without undue delay, within the D+1 period, i.e., before the end of the next working day on which the updated sanction list was issued. The sanctions list update period is always without undue delay. It may be extended in justified cases, for example:

- Extraordinary failure of the sanction screening system on the part of the Bank or the supplier, if any.
- Reasons based on the operational activity of the Bank or the supplier (for instance, the Bank operates its business and processes payments only on working days, updating of the list at the parent company, etc.).
- Difference in time zones and difference in public holidays in case the sanctions screening system is supplied within a multinational group or is provided by an external supplier.

Updates can be performed through commercially supplied tools, in-house developed solutions or through parent companies if the Bank is part of a group.

Obligation to perform a look-back analysis

In the event of a system update failure, the Bank will perform a look-back analysis and, in the event that a true hit is detected, will inform other banks that have acceded to the standard and whose transactions/portfolio could be affected by the findings identified. This procedure will also be applied in case the screening of the portfolio against the updated sanctions list takes place later than on D+2.

In the event that the failure to update the system is significant and is expected to be prolonged, the Bank will inform other banks that have acceded to the Standard of the failure.

Each Bank will continue to consider next steps within its internal risk approach.

6. FREQUENCY OF SCREENING THE BANK'S PORTFOLIO AGAINST SANCTIONS LISTS

The Bank screens its clients' portfolio, as well as persons linked to them as defined in Chapter 3 of this Benchmark, on a regular basis.

Screening of the Bank's client portfolio is carried out in two phases:

- Due diligence of the new client - screening is part of the approval, i.e., it is an essential criterion in the approval of the client's onboarding.
- Due diligence of an existing client - screening of the client portfolio is always carried out by the Bank without undue delay after an update of one of the mandatory sanction lists (EU, UN, Czech Republic) or a change in the data maintained about the client. This check does not need to be carried out if the Bank performs the screening of its portfolio on a daily basis.

Investigation of potential matches with entities on sanctions lists is carried out within the normal working hours of the Bank's responsible employees.

In the event of a system failure, the Bank in question will inform the other banks and perform a look-back analysis, the result of which, if a true hit is detected, will be communicated to the other banks that have acceded to the Standard.

Each Bank will continue to consider next steps within its internally set risk approach.

7. CHECKS

As part of the sanctions screening of the client portfolio, the Bank shall ensure:

- a) Compliance of the activities thus carried out with the relevant legal regulations.
- b) Performance of supervision, including, where appropriate, the examination of the facts subject to supervision at the system provider.
- c) The effectiveness, consistency, and adequacy of prerequisites for good governance, risk management and internal control arrangements, including compliance with legal obligations, in particular prudential rules.
- d) The integrity of the Bank's legal relationship with the client; and
- e) The establishment of an audit cycle to monitor compliance with this Standard by the internal/external auditor. Compliance with and the effectiveness of the Bank's portfolio sanctions screening rules set out in this Standard should be audited internally/externally at least once every three years. The results of this audit will be shared among banks that have acceded to this Standard. Only results with a direct impact on compliance with this Standard are subject to sharing. Only statements relating to the sanctions screening at a general level, which should indicate whether the sanction screening meets the requirements needed for this Standard, will be shared. Internal/external audit findings with a severity level equivalent to the highest severity (or the second highest severity for a four-point scale or a scale with more points) that have a real impact on the fulfilment of obligations in accordance with the Standard are considered to be non-compliance with the requirements of the Standard. If deficiencies in this area are also

identified in another audit, the findings will be shared with other banks in accordance with identical principles.

Based on the outcome of the audit findings, it is up to the discretion of each bank to determine whether the identified status is sufficient for the entity given the risk appetite set.

A bank that adheres to this Standard undertakes to ensure that the rules set out in this Standard are auditable and enforceable.

The Bank shall put in place an adequate business continuity plan for situations where there is a prolonged failure of some parts of the system, and it is not possible to make the sanctions screening operational within a reasonable time. The procedure for short-term outages is addressed above.

The Bank will apply the measures of screening domestic payments against sanctions to other banks that have not acceded to this Standard.

The Standard will take effect on July 1, 2024.