

SANCTIONS THEMATIC REVIEW 2022

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UNDERSTANDING HOW FIRMS RESPONDED TO FAST-CHANGING FINANCIAL SANCTIONS

We have an important role as the largest accountancy professional body supervisor in the UK, supervising around 11,000 firms for anti-money laundering compliance. Our strategy is to provide robust anti-money laundering supervision through a risk-based regime, focussing our efforts on firms where the risk that they will be used to enable money laundering is highest.

The sanctions regime is not new. We have been checking that our supervised firms understand the regime and the anti-money laundering (AML) risks presented in their client bases through our AML monitoring reviews for many years. Historically, we have had a limited number of findings in this area, but the pace of change and volume of sanctions imposed in spring 2022 meant the risk of our firms inadvertently enabling sanctions evasion has increased. We recognised the need to perform monitoring activity to identify and mitigate the risk.

ICAEW, and the AML Guidance for the Accountancy Sector, encourage firms to sanction-check their clients on a risk-based approach. While it is not mandatory, the penalties for breaching sanctions are very high.

We conducted this thematic review to build our understanding of sanctions compliance within the firms where risk is concentrated – either due to the services offered or the geographical reach of the firms. The objectives of the thematic review were to understand:

- how firms responded to the fast pace of change in the financial sanctions' regime in spring 2022;
- how firms identified, handled and mitigated the AML risks associated with sanctions;
- the resources needed by firms to respond to the changes; and
- the level of exposure to sanctioned individuals/entities.

For firms that took part in this review, this report will enable them to benchmark their own policies and procedures for screening clients and to assess the level of risk to which they may be exposed.

Other firms will also find this review useful as it describes policies and procedures that they may be able to implement to mitigate risks.

We already have some evidence around sanctions compliance from our [2021 trust and company services providers \(TCSPs\) thematic review](#). We asked the firms that took part in that thematic review about their approach to customer due diligence (CDD) and specifically about sanctions checking. We did this so that we could understand how the risks manifest themselves within our supervised population.

METHODOLOGY

For this thematic review, we contacted the 25 largest accountancy firms in our supervised population and asked them to respond to detailed questions on their sanctions' compliance. 19 firms responded to this review between 11 and 25 July 2022. We have summarised the results in this report.



FINDINGS

Prior to the 2022 changes to the sanctions regime, all the firms surveyed had procedures in place to screen their clients for sanctioned individuals and entities. However, as result of the changes in 2022, firms increased the intensity and frequency of their existing sanctions screening procedures.

All firms that responded to the survey are screening their client base for entities/individuals sanctioned by the UK government. Not only do firms check against UK sanctions, but all firms check for individuals/entities sanctioned in other jurisdictions. All firms use third party screening software to screen their clients. Many firms are alert to circumvention risks and extend their checks to include those with close links to clients. Firms with insolvency specialists also screen creditors in insolvency to ensure payments are not made to sanctioned individuals/entities.

Although firms had not recruited new staff to assist in the sanctions checking process, over half had redeployed staff from other areas of the business to provide additional resource.

Over half stated they had incurred additional external costs. Most of the additional spend was on legal guidance and the additional costs of increased use of third-party screening services.

We also asked about the level of exposure to sanctioned individuals and entities and many of our respondents have identified sanctioned individuals/entities within their client community. Our sample of 19 firms identified links to 27 sanctioned individuals and 75 sanctioned entities. Most of those sanctioned were subject to asset freezes. Where a licence had not been approved, firms disengaged.

Our firms are continuing to provide useful information to law enforcement.

- **42% (8/19)** of responding firms have made suspicious activity reports (SARs) in relation to sanctioned individuals and entities.
- **3** firms identified sanction breaches.
- **7** reports have been made to the Office of Financial Sanctions Implementation (OFSI).

There are many factors that are in play when deciding whether to proceed with a business relationship. Professional ethics and reputational considerations are an important part of the decision to continue a relationship with a client that may not be sanctioned but have links to sanctioned individuals/entities and/or Russia.

Our firms face challenges in implementing sanction changes. Many firms said obtaining adequate staffing resources prove a challenge, as well as the additional costs (mainly legal) and lack of clarity from OFSI. The speed of change and lack of consistency across jurisdictions were also cited.

An underlying theme coming out of this review and anecdotal discussions is the challenge of communicating messages to clients, particularly where there are links to sanctioned individuals/entities, but the nature of those links did not make the activity undertaken illegal. For example, where there are sanctioned shareholders with minority shareholdings or where new clients are not currently sanctioned but there is a question as to whether they may fall into the sanctions regime in the future.



89%

(17/19) of responding firms told us they automatically sanction screen all new clients.



ICAEW sanctions resources issued during 2022 include articles, guidance updates and webinars. Available at [icaew.com/amlresources](https://www.icaew.com/amlresources)



Firms continue to provide useful information to law enforcement.

11%

(2/19) take a risk-based approach and screen all clients with overseas links.



All responding firms have increased the intensity and frequency of their existing sanctions screening procedures in response to the 2022 changes to the sanctions regime.



42%

(8/19) of responding firms have made suspicious activity reports (SARs) in relation to sanctioned individuals and entities.

3 identified sanction breaches. 7 reports have been made to OFSI.



74%

(14/19) of responding firms sanction screen all existing clients following the new financial sanctions.

Many firms have identified sanctioned individuals/entities within their client community.

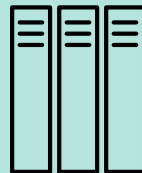


Identified challenges for implementing sanction changes include:

- Adequate staffing resource.
- Additional costs (mainly legal).
- Lack of clarity from OFSI.
- Speed of change.
- Lack of consistency across jurisdictions.

26%

(5/19) take a risk-based approach and re-screened all clients known to have links to Russia/Ukraine.



This is the **3rd** ICAEW AML thematic review.

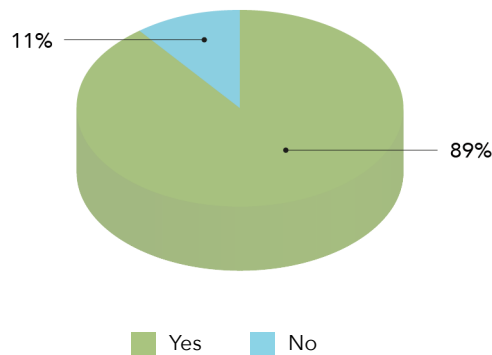
The TCSP review was published in 2021 and the SARs review in 2020.



DETAILED FINDINGS

WHO DO OUR FIRMS SCREEN?

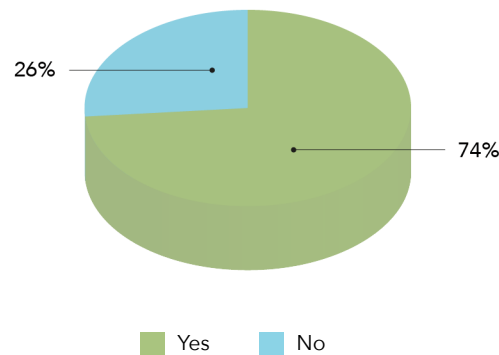
ALL NEW CLIENTS



89% (17/19) of the firms told us they automatically sanction screen all new clients.

The 2 firms that do not screen all clients told us they take a risk-based approach and always screen clients with overseas links.

ALL EXISTING CLIENTS



74% (14/19) of the firms told us they sanction screen all existing clients following the new financial sanctions.

Those that do not screen all clients said they take a risk-based approach and re-screened all those they knew to have links to Russia/Ukraine.

Often partners and senior staff are asked to review clients for Russian/Ukraine links.

'... all clients were screened at onboarding and periodically. Though not all clients have been re-screened in response to the Russia sanctions - for this we undertook a risk-based review of our clients, focusing on those with known Russian or Belarusian connections, politically exposed persons, very high-risk clients, and high-risk clients. This also extended to creditors in insolvency appointments with Russian connections. All of these have been rescreened and are currently subject to ongoing (daily) screening. The firm is about to go-live with a new system that will provide ongoing screening against all clients, ultimate beneficial owners and certain directors.'

'Through a risk-based approach, all clients with any connections to Russia and Ukraine have been re-screened on our third-party sanctions screening tool with automated ongoing monitoring capabilities initiated.'

'Post 24 February 2022 all existing and prospects are being screened.'

INDIVIDUALS CONNECTED TO A CLIENT

All firms confirmed they currently screen all beneficial owners, regardless of the legal form of entity.

In addition:

58%

(11/19) of firms screen known close family members/business associates of clients/beneficial owners.

42%

(8/19) of firms currently screen minority shareholders of clients.



However, rather than a blanket policy, many firms take a risk-based approach to screening as highlighted by the comments from our firms.

'Known close family members/business associates of clients/beneficial owners are not ordinarily screened but reviewed if there is a politically exposed person relationship. Minority shareholders are screened when holding 25% or more. Any additional screening may be performed following discussion with 2nd line function based on risk.'

'We screen directors of entities where we are required to identify for know your client (KYC) purposes. In addition, we may choose to screen close associates of clients/beneficial owners. If concerns have been identified about them during adverse media searches. Concerns may include that they may be subject to sanctions, have investments in sanctioned entities and general financial and non-financial crime adverse media.'

CHECKS AGAINST OTHER JURISDICTIONS SANCTION LISTINGS

All firms told us they screen for individuals/entities sanctioned by other jurisdictions.

In addition:

63%

(12/19) of firms screen against both US and EU sanctions.



The remaining screen against EU and/or Swiss, Australian and UN.



Firms were reluctant to proceed with any engagement where sanctions applied in other jurisdictions.



Some firms also stated they consider the impact on professional indemnity insurance (PII) and reputation.

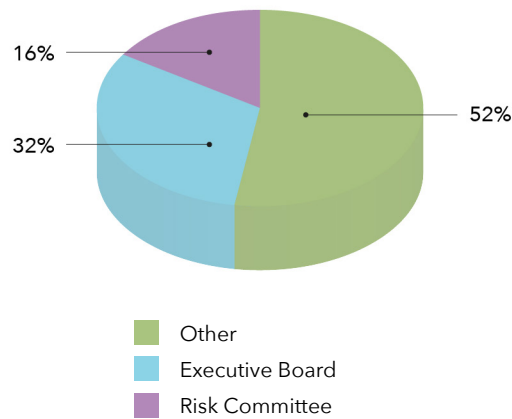
'Depending on the jurisdiction, an analysis would be performed to understand the impact to our ability to provide services, to receive funds, and any impact to our PII insurance coverage. This would be on top of reputational risk considerations and 'doing the right thing'. We liaise regularly with our external sanctions lawyers when matters arise.'

'We do not work with individuals or entities that are designated persons on the UK, EU or UN sanctions lists. A positive result on another jurisdiction's sanctioned list will be reviewed by the central compliance team and escalated to the MLRO and/or the MLCP and/or the group Ethics Committee for a decision.'

'Discuss with the client partner and the risk committee to decide whether we should end the client relationship.'

APPROVAL PROCESS

Most firms appear to have a blanket approval policy in relation to interacting with a sanctioned entity. All such clients are referred to the executive board/risk committees or other senior stakeholders.



'The specifics of the situation will determine the level of approval obtained when there is a potential engagement with a sanctioned entity. This may include but is not limited to Risk Committee, Executive Board, Network Leadership.'

'The MLRO would approve, as well as the Client Assessment Forum (inc. managing partner, chair, and a member of the management board).'

SCREENING SERVICES

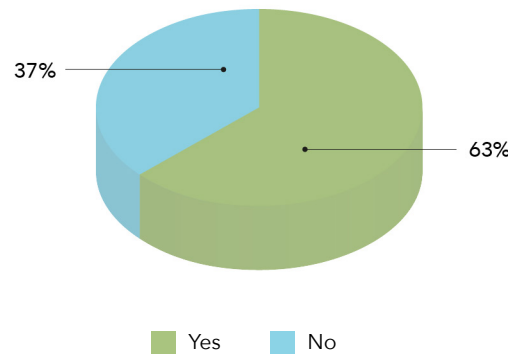
WHICH SCREENING SERVICES?

- All responding firms had bought in third party screening services.
- The most common screening services in use are Smartsearch, Worldcheck and Dow Jones.
- Some firms use more than one screening service.

Firms rely on these lists to be updated daily and are confident that the lists were current and reliable.

FREQUENCY OF SCREENING

We asked firms whether they have automated sanctions screening that runs regular checks against all existing clients.



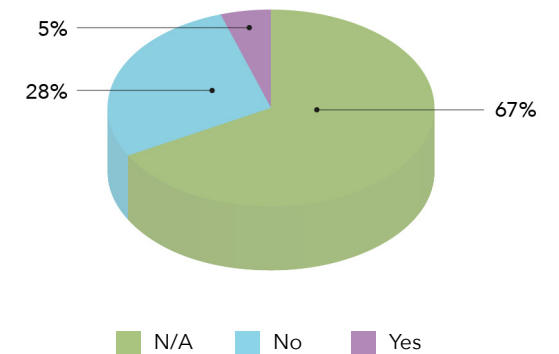
Of those that do run regular checks:

- **67% (8/12)** of firms screen ALL existing clients daily.
- **17% (2/12)** of firms screen ALL existing clients weekly.

The remaining commented that clients are selected for regular screening on a risk basis.

We asked firms who answered yes to having automated sanctions screening whether this was a new screening check that had commenced since the changes to the Russian sanctions regime in March 2022.

The majority confirmed that no, this was not a new screening change, and that there were already automated screening checks in place, prior to the sanction regime changes.



SUPPLIERS

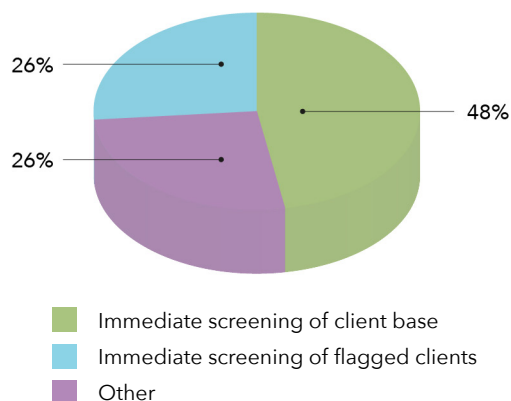
63% (12/19) of firms screen their supplier listings for sanctioned entities/individuals.

WHEN DO OUR FIRMS SCREEN?

100% (19/19) of firms stated that they sanction screened clients before engagement with the client prior to the Russian sanctions of spring 2022.

Many already use sanctioned screening services that provide ongoing monitoring services. These inform the firm of any clients added to or removed from sanctions listings.

IMPACT OF CHANGES WITHIN THE SANCTIONS REGIME



We asked firms how they ensure that sanctions changes do not impact their existing client base.

- **48% (9/19)** of firms immediately screen the client base.
- **26% (5/19)** of firms immediately screen clients that are flagged as being higher risk.
- **26% of firms (5/19)** of firms described different practices.

'Clients are assigned a risk rating of low, moderate, or high. Low risk rated clients are reviewed every three years, moderate every two years and high is annually. Sanctions checks are also undertaken at certain triggers for example at change of ownership.'

'Previously received a monthly update on sanctions changes from SmartSearch - now daily.'

'Prior to March 2022, we (re)screened for sanctions bi-weekly (every other week).'

'Ongoing monitoring will flag sanctions changes within our screening software; we also rely on our engagement leaders and Legal Team to identify significant changes in the sanctions environment.'

'When a sanctions change is announced by the UK, we take proactive steps to identify and assess whether existing clients and engagements are impacted. We conduct a legal analysis and seek external legal advice as appropriate. We place reliance on our screening provider and ongoing monitoring functionality to flag specific clients and engagements that have become impacted by any new UK sanctions.'

'For major changes (eg, Russia earlier this year) steps are taken to inform partners and staff of the changes and the need to consider the impact on their clients.'

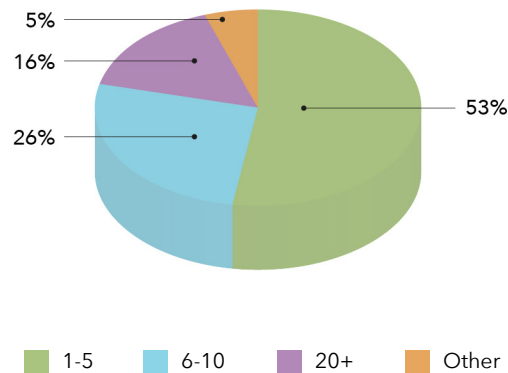
'This depends on the type of sanctions (sectoral will lead to an analysis of how/if it impacts our client base. New DPs we do a first quick check on clients).'

RESOURCING

- **32% (6/19)** of responding firms have sanctions specialists.
- Those that don't stated they used compliance teams and financial crime teams where staff have an understanding of sanctions.

FTE INVOLVED IN SANCTIONS CHECKING

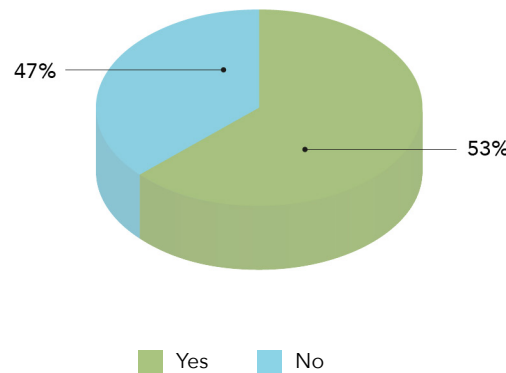
The firms estimated the number of FTE involved in sanctions checking:



- All responding firms stated that as of 2 August 2022 they had not recruited additional staff to assist in sanctions checking.
- **47% (9/19)** of firms have redeployed staff from other departments to provide additional resources.

COSTS OF RESOURCING CHANGES TO THE SANCTIONS REGIME

Over half our sample have increased the level of external spend to support sanctions checking.



Where there was external spend this has been very much focussed on legal counsel.

'Increased checking of client listing against sanctions lists.'

'Additional outside counsel advice.'

'Now receive daily updates, not monthly and then need to check to database and also inform all BOOMs to check their client portfolio (at least two times a week).'

'Additional bulk and ongoing screening, licenses to a specialist sanctions enhanced due diligence database, analysis of Russia, Belarus (and other risk country - i.e., Switzerland, Monaco etc) countries in relation to the export sanctions - in total around £100k of additional spend.'

'Increased external counsel engagement - expected costs c. £10k to 20k this year on sanctions.'

EXPOSURE TO SANCTIONED INDIVIDUALS/ENTITIES

SANCTIONED INDIVIDUALS

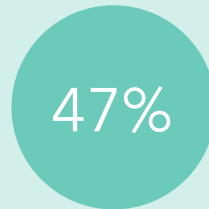


58% (11/19) of firms have identified clients (individuals) subject to sanctions. The number of such clients varied from one to six, although the six included those sanctioned in other jurisdictions.



27 sanctioned individuals had been identified. Most of these individuals were subject to asset freezes. Five were subject to directions to cease business.

SANCTIONED ENTITIES



(9/19) of firms have identified entities within their client base that were subject to financial sanctions.

Overall...



sanctioned entities were identified.



were subject to both asset freezes and financial restrictions on access to financial markets.



of these entities were subject to asset freezes.



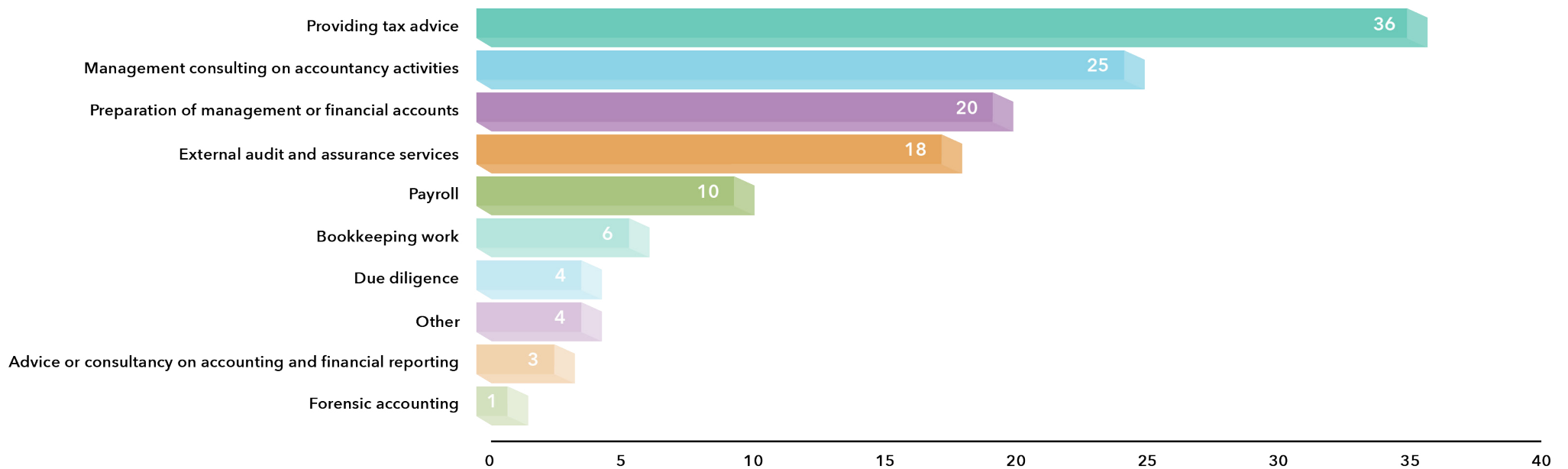
were subject to directions to cease business.

SERVICE EXPOSURE

We asked our firms about the services they had been providing to those clients they had identified as being subject to sanctions.

We note that tax advice is the most common accounting service used by sanctioned entities, followed by management consulting and preparation of financial accounts and the audit and assurance services.

SERVICES PROVIDED AGAINST SANCTIONED ENTITIES/INDIVIDUALS



REPORTING SANCTIONS BREACHES

16%

(3/19) of our 19 firms have identified sanction breaches which they reported to OFSI.

Between them, the firms had made seven reports to OFSI of a suspected designated person.

SARs REPORTING

42%

Our firms have been informing the National Crime Agency (NCA) where they suspect there may be proceeds of crime linked to a sanctioned individual or entity.

(8/19) of firms have made SARs in relation to sanctioned individuals/entities since 10 February 2022.

APPLICATIONS FOR LICENCES IN 2022



We asked firms if they had applied for specific licences to continue to work with a client.

Few firms applied for licences to continue relationships with sanctioned clients:

- **2/19** firms had applied for licences to continue to work for one client.
- **2/19** firms had applied for a licence to bill for one client.
- **1/19** firm had applied for a licence to write off debt. In this case two clients were involved.

RESPONSES TO LINKS TO SANCTIONED ENTITIES/INDIVIDUALS

We asked firms what they did if they had a client subject to sanctions.

74%

(14/19) of firms had found links to sanctioned entities/individuals within in the client base. Of these 12 had disengaged, one had acquired a licence to continue to work with the client and in the final case the sanctioned entity was not a client but a creditor in insolvency, the firm took legal advice.

'Where sanctioned entities were identified because of changes to the Russian sanctions regime, we have disengaged from those engagements, and where required submitted the necessary reports to OFSI.'

'For one audit engagement, the entity obtained a special licence to permit us to continue our work. The special licence named the client and the work permitted under the licence.'

CHALLENGES TO DISENGAGEMENT

For firms who had disengaged we asked them what the challenges had been. Generally, firms said that there were no significant challenges, although as you can see from the comments there were some who found challenges in communicating the message, push back and breaking force majeure.

'Clarity of message while maintaining confidentiality as appropriate in terms of application of the firm's policies.'

'No significant or insurmountable challenges were found when disengaging from clients that have sanctions issued against them.'

'Following OFSI clarification on non-aggregation of sanctioned shareholders, a challenge on how to break contract force majeure given the sanctions connection.'

CLIENT SCREENING - RISK MANAGEMENT

We asked the firms whether they had disengaged from existing clients where the clients and/or beneficial owners were not currently subject to sanctions.

74%

(14/19) of the firms said they have disengaged from a client and/or beneficial owner not currently subject to sanctions.

- All **14** firms cited potential reputational damage as one reason.
- **12** firms also cited they were concerned the client might get sanctioned in the future, and the firm was minimising exposure risks.
- **11** firms confirmed the client was closely linked to sanctioned individuals and entities.

STAFF TRAINING



79% (15/19) of the firms had trained ALL their staff on sanctions.

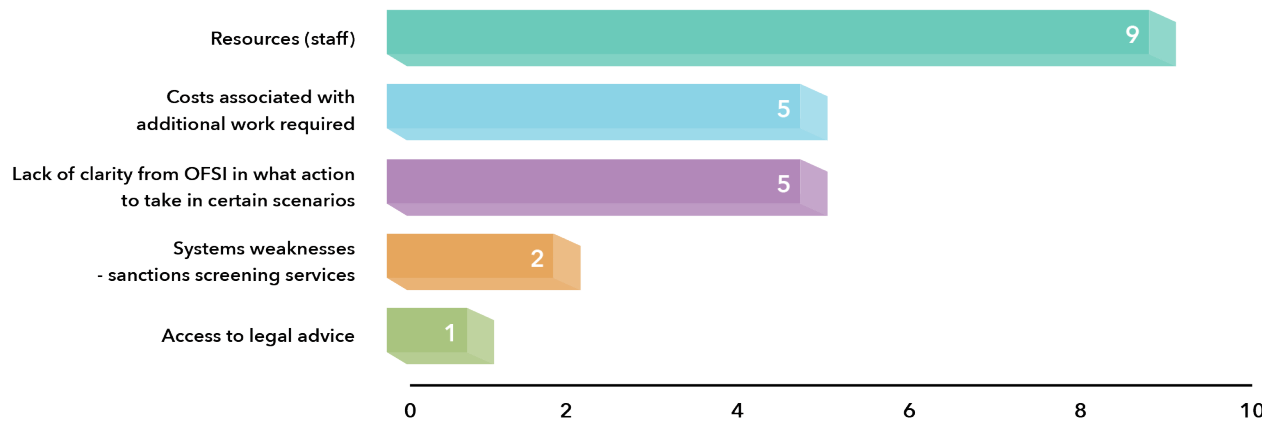


11% (4/19) focus training on client facing staff only and compliance/financial crime teams.

Most firms issued training annually with a few issuing training every two years. We asked how firms had changed sanctions training since March 2022. Not all firms had made changes. Those that had seemed to concentrate the additional training on their compliance teams.

THE MAIN CHALLENGES OF SANCTIONS COMPLIANCE

CHALLENGES IN SANCTIONS RESPONSE



The main challenges to responding to the sanctions appears to have been adequacy of resources, costs, and lack of clarity from OFSI. In their comments firms also cited the speed of changes and the differences between jurisdictions in their approach.

'Lack of coordination between the UK, EU and US in terms of sanctions, definitions and dates of implementation.'

'Complying with multiple sanctions regimes with uncoordinated approaches. Also, interpretation and lack of clarity in relation to service bans.'

'The speed with which the situation changed in respect of the invasion of Ukraine and subsequent UK and overseas sanctions, and the length of time between announcements made by the UK Government and subsequent phishing of sanctions and supporting legislation and guidance.'

'In scenarios where sanctions cause challenges but do not make our work illegal (e.g., PI insurance issue or sanctioned shareholders under 50%), weighing up risks of continuing v. litigation from clients for impact in services not being fulfilled. It is also difficult considering some new prospects where they are not currently sanctioned but might be in the future or that the provision of accountancy services to them may be banned. The uncertainty tends to favour a broad-brush approach in determining which new prospects to engage with.'



RESOURCES

SANCTIONS RESOURCES

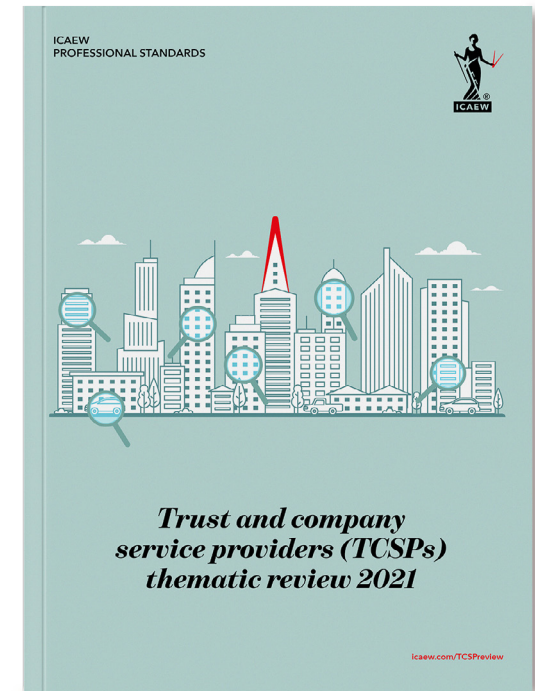
A key role for us is to ensure our firms understand sanctions and how to comply with them.

Throughout 2022 we have provided a breadth of sanctions resources for our firms including articles, guidance updates and webinars that been communicated in our newsletters to AML supervised firms; *AML - the essentials* and *Regulatory and Conduct News*, our Regulation and Conduct LinkedIn page and published on [icaew.com/amlresources](https://www.icaew.com/amlresources).

ICAEW also supports its members through the [client screening service](#) that allows ICAEW members to perform up to three name checks per week.

THEMATIC REVIEWS

This is the third ICAEW AML thematic review. The previous reviews identify the money laundering risks that can be linked to offering trust and company services [icaew.com/TCSPreview](https://www.icaew.com/TCSPreview) (2021) and a review of firms identifying suspicious activity and submitting suspicious activity reports (SARs) [icaew.com/SARsReview](https://www.icaew.com/SARsReview) (2020) as well as guidance on these topics.



ICAEW'S REGULATORY AND CONDUCT ROLES

Our role as an improvement regulator is to strengthen trust in ICAEW Chartered Accountants and firms. We do this by enabling, evaluating and enforcing the highest standards in the profession.

ICAEW's regulatory and conduct roles are separated from ICAEW's other activities through internal governance so that we can monitor, support or take steps to ensure change if standards are not met. These roles are carried out by the Professional Standards Department (PSD) and overseen by the ICAEW Regulatory Board (IRB).

We:

- **authorise** ICAEW firms, members and affiliates to undertake work regulated by law: audit, local audit, investment business, insolvency and probate;
- **support** the highest professional standards in general accountancy practice through our Practice Assurance scheme;
- **provide** robust anti-money laundering supervision and monitoring;
- **monitor** ICAEW firms and insolvency practitioners to ensure they operate correctly and to the highest standards;
- **investigate** complaints and hold ICAEW firms and members to account where they fall short of standards;
- **respond** and comment on proposed changes to the law and regulation; and
- **educate** through guidance and advice to help stakeholders comply with laws, regulations and professional standards.

Chartered accountants are talented, ethical and committed professionals. ICAEW represents more than 198,500 members and students around the world. 99 of the top 100 global brand employ our ICAEW Chartered Accountants.*

Founded in 1880, ICAEW has a long history of serving the public interest and we continue to work with governments, regulators and business leaders globally. And, as a world-leading improvement regulator, we supervise and monitor around 12,000 firms, holding them, and all ICAEW members and students, to the highest standards of professional competency and conduct.

We promote inclusivity, diversity and fairness and we give talented professionals the skills and values they need to build resilient businesses, economies and societies, while ensuring our planet's resources are managed sustainably.

ICAEW is the first major professional body to be carbon neutral, demonstrating our commitment to tackle climate change and supporting UN Sustainable Development Goal 13.

ICAEW is a founding member of Chartered Accountants Worldwide (CAW), a global family that connects over 1.8m chartered accountants and students in more than 190 countries. Together, we support, develop and promote the role of chartered accountants as trusted business leaders, difference makers and advisers.

We believe that chartered accountancy can be a force for positive change. By sharing our insight, expertise and understanding we can help to create sustainable economies and a better future for all.

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* includes parent companies. Source: ICAEW member data at 27 July 2022, Interbrand, Best Global Brands 2021

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