

RESTRICTED PARTY SCREENING

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1.0 PURPOSE

Restricted party screening is a compliance control that prevents doing business with prohibited/restricted entities, including governments or individuals. Governments of various countries, as well as international organizations, e.g., United Nations, maintain a variety of lists of these types of entities. Screening means checking to see if an entity of interest to the organization appears on one or more of these lists. Depending on the nature of the list and transaction, it may be legally prohibited to engage in certain activities with listed entities. Prohibited activities could include contracting with, selling to, shipping to, receiving payment from, making payment to, or conveying technology to prohibited/restricted parties. Additionally, as a matter of reputation and policy, the organization may choose not to engage in certain transactions with listed entities, even if not legally prohibited.

2.0 REQUIREMENTS

2.1 Screening

All parties in any transaction should be screened, with exceptions as noted below. This includes both domestic and international transactions because (i) certain restrictions may apply to domestic transactions, (ii) domestic transactions may be part of an international transaction, and (iii) reputational concerns may exist.

2.1.1 A software tool should be used for screening. The software tool should employ a “fuzzy logic” algorithm to identify close as well as identical matches.

2.1.2 If there is likely to be significant overlap among business units, it could be advantageous to centralize the screening program. This could minimize duplicative work and could promote uniformity since different parts of an organization screening the same name could reach different results.

2.1.3 Because watchlist changes are often effective immediately, updating watchlists is critical. The automated screening tool must promptly update all applicable watchlists as these lists are changed and updated by issuing authorities.

2.2 Parties to be Screened as Applicable (includes but not limited to)

- Countries
- Customers

- Suppliers and subcontractors
- Consignees and intermediate consignees
- Freight forwarders
- Banks or other financial institutions
- Visitors and the organization they represent
- Sales representatives
- Consultants
- Merger and acquisition parties
- New hires
- Contract workers
- Agents
- Service providers
- Contractors
- Manufacturers
- “Pay to” parties
- “Pay from” parties
- “Ship to” parties
- End users, if known
- Recipients of technical data
- Other business partners

2.3 Limited Exceptions to Screening

The following entities are exempt from the screening requirement:

- U.S. Government agencies
- Entities “owned or controlled” by the organization conducting the screening
- Additional limited exceptions as approved by [designated person/position], including entities on any designated list of cleared entities maintained by the organization.

2.4 Screening Responsibilities

Businesses should have a documented procedure for screening their transactions. This process should incorporate the following elements:

2.4.1 Selection of lists that should be used for screening. A risk analysis should be done to determine which lists (by country, type, etc.) are needed for the organization to use for screening. It may be appropriate to use different lists for different businesses, different categories of transactions, or different geographic locations. It should be noted that privacy laws of certain jurisdictions, e.g., the EU, may restrict the ability to screen against lists originating outside the jurisdiction.

2.4.2 Transaction screening at various points during the transaction (see matrix in Section 2.5). New business partners should be screened prior to the first transaction or other business dealing. Additionally, the organization should consider implementing procedures to screen at the time the business partner is entered into the organization’s database, when background or credit checks are run, when quotes or proposals are requested, or at some other time, as appropriate.

2.4.3 In addition to transaction screening, databases of customers, suppliers, and other third parties should be screened periodically. Any potential redundancy should be designed to minimize gaps that could put the organization at risk. The intervals in between database screenings should be measured and limited in order to mitigate the risk of doing business with a restricted/prohibited/denied party.

Depending on the risk, the interval between screenings could be longer if a robust process is in place for transaction screening. Databases that are infrequently accessed should be screened when accessed or when information in the database is changed.

2.4.4 Screening matches and potential matches:

The process must allow for a transaction to be halted unless and until any screening matches are cleared. To minimize business disruption, potential matches should be cleared as promptly as possible.

- Potential match (the screened party may be a restricted party on a list): The business must have a process for verifying whether the screened party is a true match with the restricted party on the list checked. This determination should be documented.
- Actual screening match (the screened party is the restricted party): Depending upon the nature of the list, the legal applicability in the jurisdiction, and an evaluation of reputational concerns, the process must allow for determination by an authorized person whether the transaction may proceed. This decision should be documented.

2.4.5 The screening process, including match clearing as described in 2.4.4, should be adequately documented with a proper audit trail maintained, either by the organization or by the screening software tool.

2.4.6 Organizational and individual responsibilities should be clearly documented. For intracompany transactions, procedures should reflect which organizations/individuals have responsibility for screening third parties.

2.5 Screening Procedure Guide

Screenings should be performed in accordance with the following matrix.

(It is recognized that not all business, or business locations will necessarily have all of these functions, and some business locations may have other functions not specifically included in this table.)

| Party to Be Screened | Screening Point | Responsible Party |
|----------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------|
| Customers, potential customers, sales representatives and consultants, suppliers, subcontractors and teaming partners | <ul style="list-style-type: none"> • First step in the process when considering new Customers, Suppliers, and Third Party providers (may be performed by the Third Party Program service provider). • Prior to accepting any form of solicitation or contract. | Sales |
| Manufacturers, suppliers, or any other source of information | <ul style="list-style-type: none"> • Prior to soliciting information for new/revised designs. | Engineering Sourcing |
| All parties to the export or import transaction, including consignees, freight forwarders, and intermediate consignees; visitors | <ul style="list-style-type: none"> • Prior to submitting license or agreement applications. • Prior to making exports. • Prior to making imports. | International Trade Compliance, and/or Logistics/Distribution |
| Customers, suppliers, banks or | <ul style="list-style-type: none"> • Prior to making, transferring or | Finance (includes business Finance, Corporate Treasury, |

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| other financial institutions | accepting funds. | Accounts Payable, etc.) |
| Potential new employees | <ul style="list-style-type: none"> • Prior to making an offer of employment; or • Prior to first day of employment. | Human Resources |
| Any entity not owned or controlled by organization having access to organization's intranet | <ul style="list-style-type: none"> • Prior to approving access to organization's intranet. | Information Technology |
| Customers, suppliers, teaming partners, subcontractors, sale representatives, consultants, and other parties to a proposed transaction | <ul style="list-style-type: none"> • Prior to contacting potential or former customers for new or follow-on products and services (if screening has not recently been performed by another function). | Product Management, Sales, Purchasing, Other |
| Contract labor personnel, visitors | <ul style="list-style-type: none"> • Prior to badging or allowing access to a facility. | Security |
| Suppliers and subcontractors, including contract labor | <ul style="list-style-type: none"> • Prior to engaging in any procurement activity. • Prior to order issuance. | Supply Chain |

APPENDIX A—DEFINITIONS

Transaction includes virtually any kind of interaction, including but not limited to selling, purchasing, loaning, licensing, renting, quoting, returning, repairing, providing services (including financial services), providing samples, visiting, meeting, training, making or receiving payment, hiring, acquiring or merging, accessing controlled data, and collaborating in research involving controlled data.

Business partners may include customers, suppliers, distributors, agents (including selling or buying), consultants, law firms, teaming partners, joint venture partners, or almost any other type of third party who will participate in a transaction with the organization.

APPENDIX B—TECHNICAL CONSIDERATIONS WHEN SELECTING A SOFTWARE SCREENING TOOL

The following is a list of technical issues to consider when planning the selection and implementation of a software screening tool.

- **Type of system:** Will the system be transaction based (i.e., screen transaction parties when a transaction is initiated), party based (i.e., screen an established database of parties against the collective lists with a set frequency to catch changes to parties in the database), or both?
- **System hosting:** Will the company host the screening solution on its servers within its firewall, or permit hosting by the solution provider and what technical complexities will arise if the company pursues the latter approach?
- **Watchlists:** Which lists are included?
- **Timing of updates:** How quickly is the tool updated when there are changes to the lists?
- **Search Algorithm:** Does it employ a fuzzy logic algorithm?
- **Sensitivity:** Can the sensitivity be adjusted?
- **ERP Interfaces:** What interfaces does the software offer to operate with the various ERP systems?
- **System implementation:** Consider how to implement the system into the company's existing technology infrastructure and enterprise resource planning ("ERP") system(s). If the company has multiple ERP systems, will the automated screening solution be bolted on to all systems or only some?
- **System functionality:** Will the screening solution permit the ability to stop a transaction itself, or will that programming need to be added to the company's ERP system(s)?