WHITE PAPER

Six Best Practices for Improving Compliance

With a Restricted Party Screening Solution

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Executive Summary

Screening for sanctioned parties serves as the foundation for many compliance and security programs. The ability to evaluate trading partners is a fundamental component of an export management program and other compliance initiatives. Failure to screen has resulted in sanctions or fines for many small and large companies across various industries. Demonstrating reasonable care is an important way for companies to mitigate their risk and exposure.

Organizations face a number of challenges when it comes to restricted party screening (RPS):

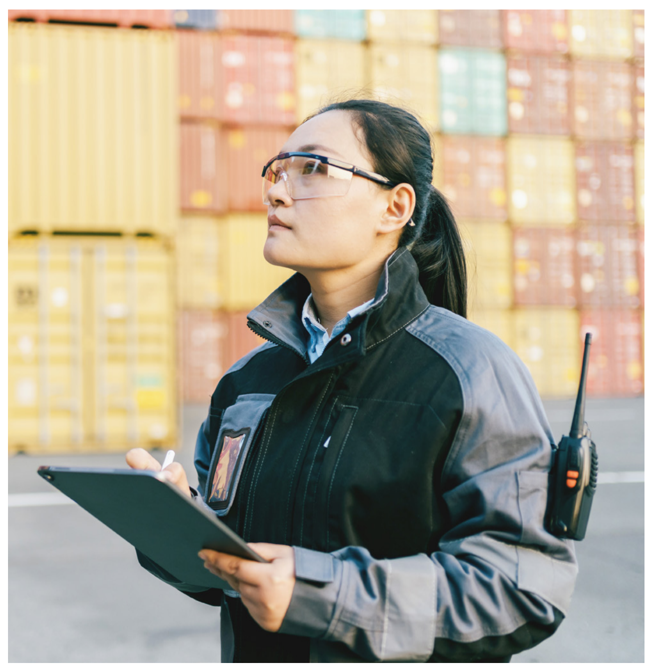
- **Accurate and current content:** Companies frequently don't know which lists to consult or when those lists change. Many do not have someone within the organization who monitors and manages the updates.
- **Proper screening methods:** If screening is done manually, it might be unclear as to how a compliance professional should compare names and addresses of transaction parties to entities on the lists. Problems also arise due to data entry mistakes and the screening of partial names.
- **Real-time screening as lists change:** Organizations with thousands of transaction partners must continuously rescreen them against changing lists.
- **Workflow:** A compliance professional might not know how to handle situations where a transaction partner matches an entity on the list, or how to resolve or clear matches when they are in error.

Failure to comply with export mandates could result in fines, denied payments, termination from federal programs, withdrawn funding or jail time for responsible parties.

Given the sheer number of restricted party entities and the need for fast-paced logistics processes, screening a customer base manually is inefficient — and it may be impossible. Many companies have acquired a technology solution to help them manage screening, but systems tend to vary in their degree of effectiveness.

This white paper explores the following six best practices for using an RPS system to improve compliance and provides insights for selecting a solution:

1. Expand screening scope using additional sanctioned party lists
2. Fully automate the screening process
3. Support multiple integration methods
4. Use advanced word-matching technologies
5. Use a cost-effective solution the company can deploy rapidly
6. Manage the resolution process with workflow and escalations



Best Practice 1

Expand Screening Scope Using Additional Sanctioned Party Lists

The single most important function of an RPS program is to effectively screen transaction parties against current denied party lists. The lists a company references must be complete, accurate and up-to-date for the best possible identification of a potential restricted entity. The United States has eight different agencies and departments that issue lists. Other countries and entities, such as the European Union, Russia, India, China, Hong Kong and Japan, are similar. There are more than 650 global lists used regularly by companies for RPS.

With the proliferation of these lists and the frequency with which they are updated, companies can experience a significant productivity drain if their compliance team attempts to manage the process manually. It could take many days to incorporate changes to the list, and this does not support the rapid pace of today's transactions.

Many RPS vendors aggregate and maintain list content within their screening software. An exporter should look for a vendor that provides accurate and complete content with regular updates to accommodate any recent changes. The vendor should also employ multi-lingual trade specialists to ensure the quality of the lists.

Although screening against multiple lists ensures a higher level of compliance, adding more lists can slow the screening process. An automated RPS solution that allows variable list selection provides flexibility when more in-depth screening is required.

Recommendations

Organizations can improve their results by doing the following:

- Minimize integration issues with a solution that offers both software for screening and the necessary trade content (sanctioned party lists).
- Realize productivity gains by outsourcing the manual, data intensive tasks of collecting information and maintaining restricted party lists.
- Use a cloud-based system with frequent updates that provides highly accurate and current trade content managed by trade specialists.
- Select a vendor with the scope of content needed to adequately support the business.

Exporters must regularly reference many continuously-changing global lists when conducting international business.

Best Practice 2

Fully Automate the Screening Process

Organizations seeking to design an effective screening process should ask these two key questions:

- How many trading partners does the company need to screen?
- How often will screening be necessary?

Volume, timing and control are important factors to consider when developing requirements for an RPS solution. Most screening solutions provide the option to manually enter trade party details through a web-based form. The user enters trade partner details, clicks the screening button and then views the results. This process is manageable for exporters who have a relatively low volume of screenings to perform.

However, for exporters with anticipated volumes of over 4,000 screenings per year, such manual processing can become quite tedious. Best-of-breed solutions provide a manual screening method as well as the option to batch-screen hundreds, or even thousands, of parties at one time. This ability is critical, especially if a company subscribes to multiple sanctioned party lists or has an extensive and changing partner or customer base.

Another key factor is the flexibility of the system with respect to the screening frequency. Organizations should look for a system that supports screening at four different points:

- When the party to the transaction is known
- Any time there is a material change in a party to the transaction, such as a new freight forwarder or intermediate consignee
- Prior to each shipment of goods or provision of services
- When the restricted party content is updated by the government

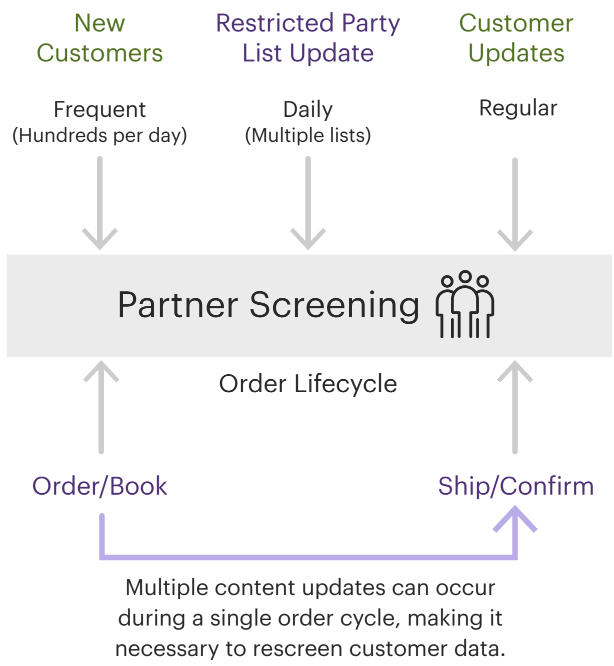
Recommendations

These guidelines are helpful for establishing efficient and effective RPS:

- Fully automate the screening process based on changes to trade parties or lists.
- Use technology that screens efficiently based on net changes to sanctioned party lists, especially with high-volume processing.
- Secure control over the screening rules for special cases, like related parties or one-time customers.

The rules for when to perform a screening should be automated, and they should not require any user interaction unless a match occurs.

Any additions or changes to transaction parties should initiate a rescreening of that customer, while any change to the restricted party lists should automatically induce a rescreening of all partners against the net change of the list. This level of screening automation takes the burden off the compliance team while keeping the customer database current and compliant for efficient order processing.



The ability to batch-screen hundreds or even thousands of parties at a time is critical, especially if a company subscribes to multiple sanctioned party lists or has a large partner or customer base that changes regularly.

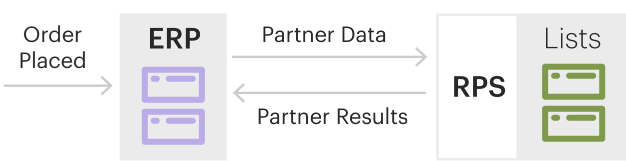
Best Practice 3

Support Multiple Integration Methods

It is best practice to use a screening solution that provides multiple ways to integrate and return status to any enterprise resource planning (ERP) systems and key users. Many RPS solutions today provide the ability to integrate data from an ERP system via Extensible Markup Language (XML). This real-time integration eliminates the re-keying of data and any associated errors.

A key element of electronic integration is that it should be bidirectional. Many RPS solutions do not send status messages back to an ERP system. For example, a flagged transaction party must be communicated back to an order management system so the order is put on hold. Companies with low screening volumes or limited technical resources for integration with ERP should seek a solution that supports a batch data transfer using a spreadsheet.

Integration Data Flow



Finally, users should be able to screen from any web browser. The right solution will provide simple, ad-hoc screening that allows a company to distribute this capability to human resources, shipping and receiving, and sales organizations.

Recommendations

Companies can maximize efficiencies by taking these tips into consideration:

- Choose a solution that supports bidirectional XML integration with the company's ERP system. In particular, automating the hold process an essential feature for export compliance programs.
- If real-time integration is not available, look for the option to batch-upload trade parties via spreadsheet.
- Make sure the system can be deployed across the enterprise to support ad-hoc screening when there are interactions with customers, prospects, contractors, employees and visitors to the corporate website.

Best Practice 4

Use Advanced Word Matching Technologies

In rare cases, screening results will give an exact match on a name, such as when "John Smith" matches "John Smith." In reality, sanctioned parties are not this easy to catch. They will try to avoid detection by ordering goods or services using an alias or by changing their address or the spelling of their name. If a screening solution relies on exact matching, one transposed character could potentially allow a transaction with a sanctioned trade party.

A good RPS solution will provide both single-word and phrase-matching functionality, ranking and scoring trade party names and addresses based on how similar they are to a sanctioned party. By evaluating each word in a phrase, a company can develop strategies to exclude common words, apply synonyms or give additional weight to special industry-related terms. This leads to a much more compliant and accurate screening solution.

Leading solutions have the ability to tune the screening engine to achieve the highest levels of accuracy with the lowest number of false positive matches. In the absence of advanced word-matching technologies and tuning algorithms, many organizations must increase their tolerance for false positives to achieve greater accuracy. Unfortunately, best practices research shows that productivity and the ability to make accurate decisions are inversely related to the percentage of false positive matches. Clearly, more false positive matches mean more work and lower productivity. Another consideration is that an overloaded user clearing false positives may miss an actual denied party match.

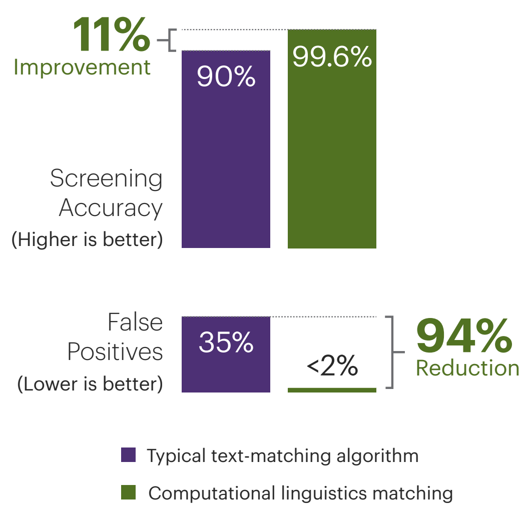
Technology is the key determinant here, and only those screening solutions that use advanced word- and phrase-matching can deliver high accuracy with low false positive match rates — often less than 1%. Many lower-end solutions have false positive rates between 5% and 25%, which can significantly increase the cost of resolution. Investing in the right screening technology can make the difference between hours or days of work and ensure the highest level of compliance.

Recommendations

These suggestions help companies improve accuracy, productivity and efficiency:

- Find an RPS solution that compares how similar a transaction party is to a sanctioned party, because exact word-matching is not sufficient for demonstrating reasonable care.
- Look for screening algorithms that can deliver high accuracy with false positive rates of less than 1%.
- Invest in an RPS system that reduces false positive rates to increase productivity and keep compliance teams fresh so they can accurately identify true sanctioned parties.

RPS solutions offer the highest levels of accuracy with the lowest false positive rate. Source:e2open®



Best Practice 5

Use a Cost-Effective Solution the Company can Deploy Rapidly

With shrinking information technology (IT) budgets, total cost of ownership (TCO) weighs heavily in the selection process for companies evaluating their current capabilities or considering a new system. For the best value, look for a cost-effective screening solution that employs a rapid implementation methodology.

Today's RPS solutions can run from the cloud, virtually eliminating new investments in hardware, software, data centers and the personnel required to manage them. This reduces the burden on IT and allows for more strategic investments in other types of technology infrastructure and resources.

Time-to-benefit is an important consideration because today's changing trade environment makes effective screening a business imperative. Some solutions are deployed very quickly. For example, companies that move their RPS data and operations to the cloud can be up and running within weeks — a distinct advantage.

Another time-saving factor is a rapid implementation methodology. A solution that is deployed fast leads to faster time-to-value, and users can become productive sooner as a result. A focus on configurations rather than customizations makes it possible to quickly roll out, and eventually upgrade, the solution. Integration points that rely on XML and open standards also help speed an implementation by making it easier to connect with critical systems.

Recommendations

The following best-practice concepts can help an enterprise minimize TCO:

- Avoid the cost and time to deploy a solution by using in-house IT staff.
- Get up and running quickly with a cloud-based system and a rapid implementation methodology.
- Achieve faster time-to-benefit by accessing centrally located RPS lists that receive continuous updates.

Companies that move their RPS data and operations to the cloud can be up and running within weeks — a distinct advantage.

Best Practice 6

Manage the Resolution Process With Workflow and Escalations

A company has a potential match — and now it is time to manage the resolution process. A screening solution with workflow tools will be able to provide event-driven notifications, task visibility and hierarchical exception management. Workflow helps users efficiently manage processes, assign tasks and escalate screening issues as required.

Event-driven notifications are triggered when certain events occur or could potentially occur. These proactive alerts help organizations and compliance officers improve planning and response time for significant events, such as when many lists are updated on the same day.

Task visibility gives insight into work volumes, supported by task monitors, dashboards and team-based work queues. The most flexible RPS solutions automate the resolution process as much as possible and then rely on exception-handling workflows for outlying cases. Global companies will often have more than one compliance expert for different business units or product lines. By properly allocating and escalating tasks, these experts are able to manage on an exception basis, improve overall accuracy and enhance compliance.

Recommendations

These recommendations can help a company handle the resolution process more efficiently:

- Use event notifications to keep the compliance team apprised of any potential issues.
- Leverage workflow tools that allocate tasks and provide users with the visibility they need to efficiently resolve potential matches.
- Look for exception-management tools that support escalations to experts by business unit, geographic region or product line.
- Use automation to support an export compliance program.

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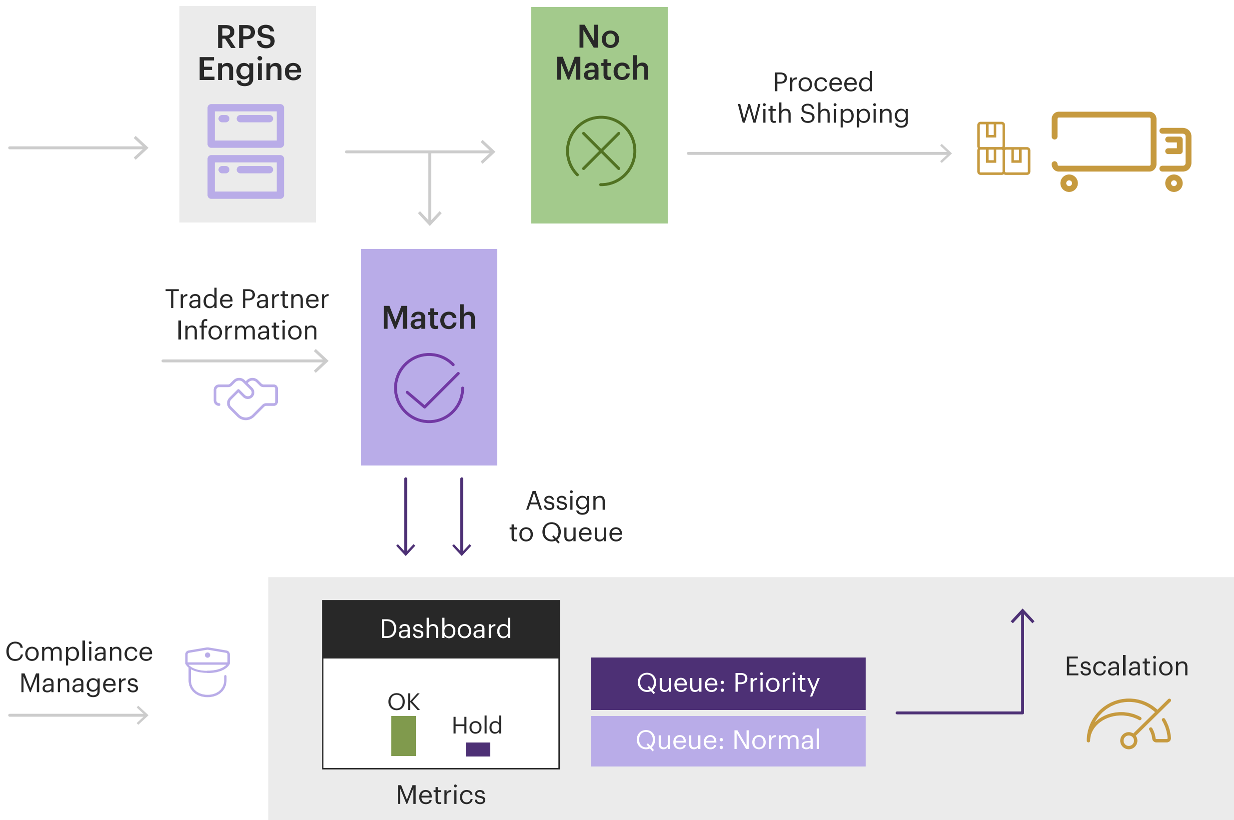
Workflow for Managing the Resolution Process

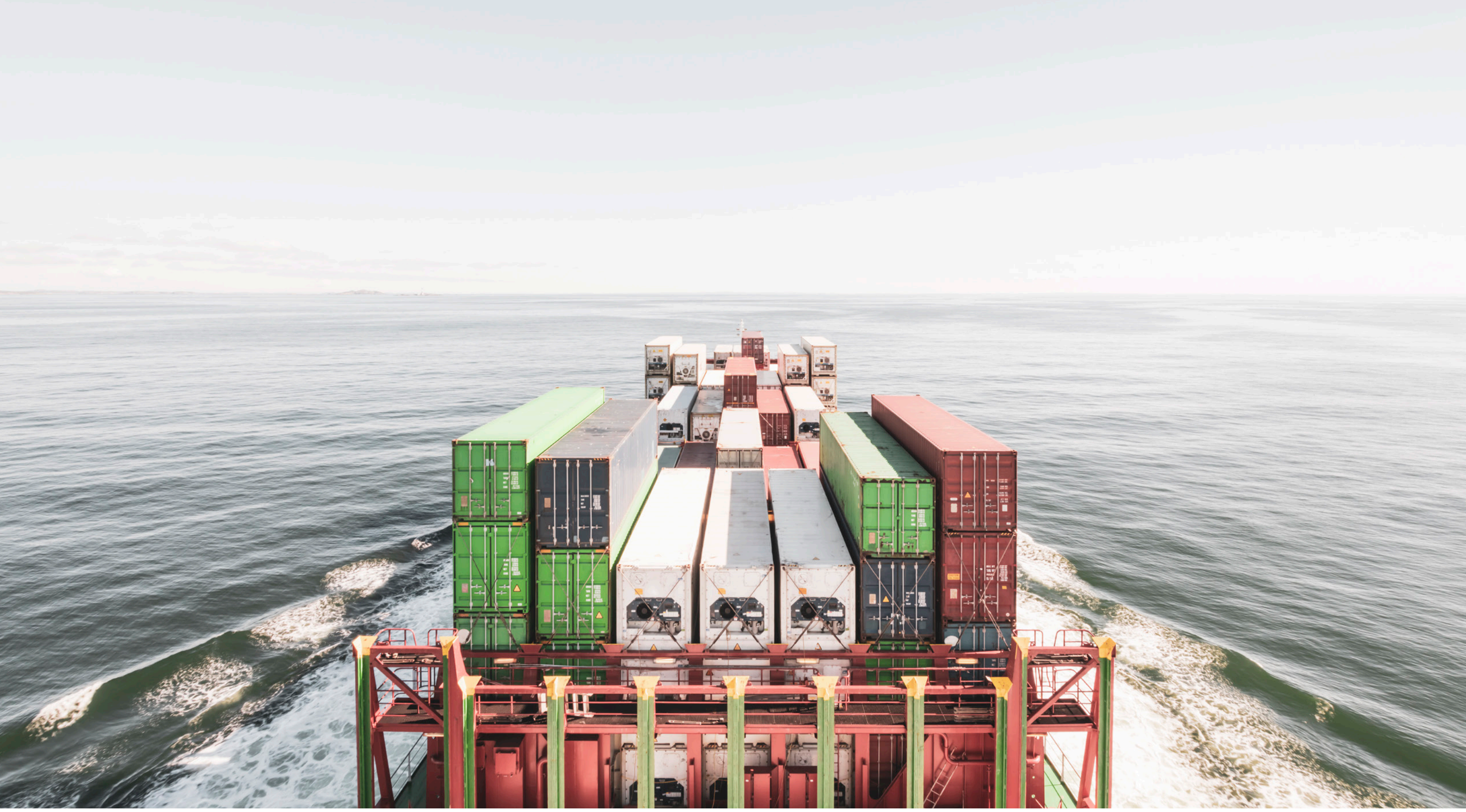


Effective RPS: Critical for Compliance

RPS is a must-have procedure for any organization engaging in global trade. The risks associated with not having a system in place are becoming increasingly great in light of the potential sanctions, fines and penalties associated with doing business with a denied party. The first step in assuring compliance is implementing software that automatically performs RPS in an effective manner.

A best-of-breed solution will enable companies to perform essential actions:

- Manage multiple restricted party lists from different sources
- Automate the screening process with scheduled and event-driven screening procedures
- Support multiple integrations with back-end systems, such as order management
- Utilize matching techniques that approach 100% accuracy while minimizing false positives
- Leverage complete RPS capabilities within a convenient cloud-based system that receives frequent updates
- Enable users to quickly perform their work using flexible dashboards and comprehensive workflow tools



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