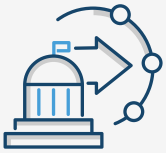
ACTION GUIDE

Proactive Compliance with OFAC's 50 percent Sanctioned Ownership Rule

The Importance of Sanctioned Ownership Compliance

Compliance requirements prohibit companies from doing business with organizations whose ownership by sanctioned parties exceeds certain defined percentage thresholds. The thresholds vary on a country-by-country basis. In the U.S., the Treasury Department's Office of Foreign Assets Control (OFAC) sets it at 50 percent. In other jurisdictions, such as the European Union, the figure could be more stringent.

Having a strong compliance infrastructure translates into keeping supply chains healthy and efficient, as well as meeting customers' expectations. But falling short can lead to monetary fines, tarnished corporate brand image and reputation, decline in shareholder value, damage to existing and future business opportunities, and even jail time.



Compliance with the rules helps maintain new and existing business growth.

Challenges Businesses Face

Companies understand the need to make sure they are not doing business with sanctioned, debarred or denied entities (organizations or individuals) by screening against restricted party lists maintained by governments, and world bodies.

But complying with the 50 percent or other similar rules through sanctioned party ownership screening poses a major challenge for most. While there are no official, published lists to cross-reference against, clear direction and guidance is provided, such as those from OFAC, including:

- Complex ownership screening guidelines that must be followed to comply with the 50 percent rule.
- Proceeding with caution when dealing with organizations in which sanctioned parties have large shareholding of less than 50 percent.
- Enforcement actions against non-compliance (Barclays and TD Bank).

Compliance means being able to see into complex ownership structures in multiple languages, uncover minority ownership, and mitigate supply chain risk.

Movement towards Greater Compliance

A recent global Export Compliance survey found that companies were gearing up for more effective compliance. When asked what would help strengthen their organization's overall compliance program, 80% of respondents pointed to meeting sanctioned party ownership rules.

Top Five Measures for Strengthened International Trade Compliance

- **92%** Automatically record screening activities for audit and reporting purposes
- **75%** Centralize visibility of screening activities across the organization
- **80%** **Comply with Sanctioned Party Ownership Rules**
- **68%** Automate screening by integrating with ERP, CRM and other business systems
- **68%** Daily rescreening of customers and other business contacts

The survey also found that companies were allocating resources to comply with Sanctioned Ownership rules. More importantly, businesses that have successfully implemented integrated, or automated, screening have an easier time setting up to comply.

OFAC has been meting out steadily higher penalties over the years, from US$3.5 million in 2008 to $1.2 billion in 2019

Proactive Compliance – Leverage Technology

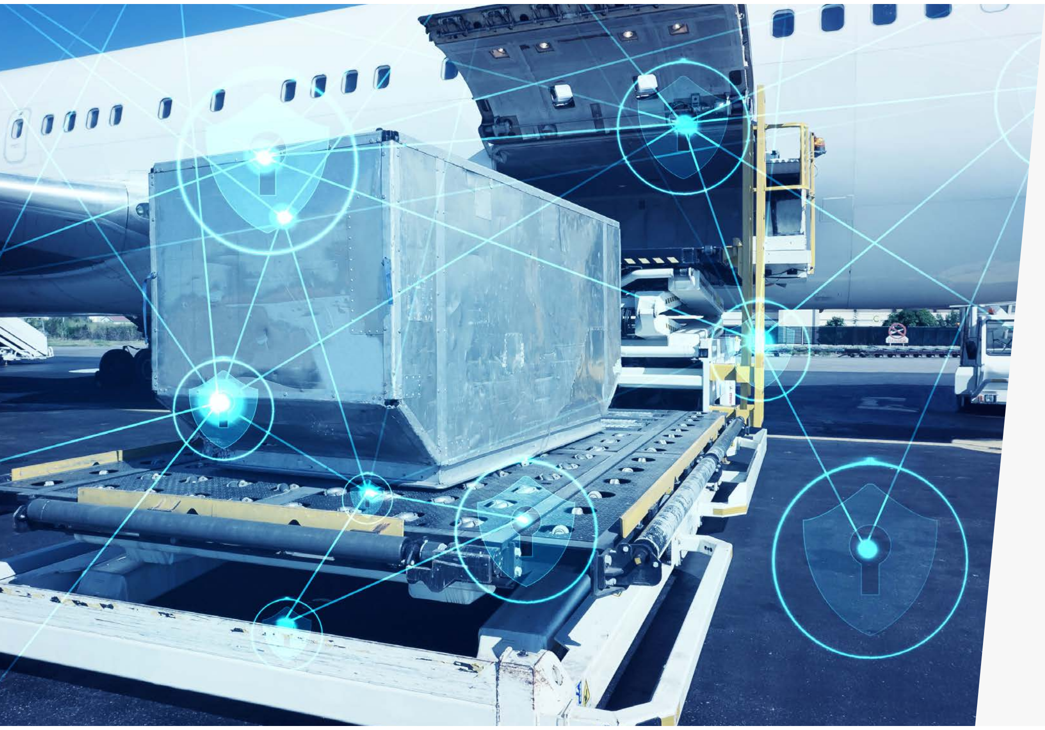
Adequately meeting sanctioned ownership requirements in multiple jurisdictions is easier said than done. Here are some action items to consider:

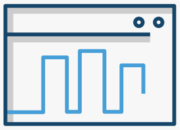
- Know who your customers, vendors, and others are
- Include sanctioned ownership screening in the due diligence policy of onboarding trade chain partners
- Continually assess your organization's risk over time as it relates to trade chain partners
- Leverage technology

The last point is the most crucial, because the right technology solution allows for proactive compliance. Technology provides organizations with timely intelligence on complex shareholding structures of parent companies and their subsidiaries that can trigger the 50 percent rule.

Many companies might see sanctioned ownership screening requirements as another financial burden whose only objective is to mitigate risk of non-compliance.

More enlightened companies have a different perspective. They acknowledge that we operate in a world of ever more stringent international trade control laws. But they can see the silver lining – the understanding that having compliance strong points within the corporate structure provides major strategic and competitive advantage in terms of maintaining existing and new business growth. And, of course, there are tremendous advantages to be had by being good corporate citizens.





The right solution provides organizations with timely intelligence on complex shareholding structures of parent companies and their subsidiaries that can trigger the 50 percent rule.

How Descartes Can Help

Descartes Visual Compliance™ Enhanced Risk Management Solutions help organizations save time by reducing the need to research and compile information related to sanctioned party ownership. By leveraging data provided by industry-leading research firms, the solutions screen for Ownership by Sanctioned Parties, and other risk-related areas.

These solutions help maintain compliance with international trade regulations and avoid reputational damage that could be associated with working with organizations that may be involved in illicit activities.

Technology such as those from Descartes Visual Compliance provides major strategic and competitive advantages for businesses engaged in international trade.

About Descartes Systems Group

Descartes (Nasdaq:DSGX) (TSX:DSG) is the global leader in providing on-demand, software-as-a-service solutions focused on improving the productivity, performance and security of logistics-intensive businesses. Customers use our modular, software-as-a-service solutions to route, schedule, track and measure delivery resources; plan, allocate and execute shipments; rate, audit and pay transportation invoices; access global trade data; file customs and security documents for imports and exports; and complete numerous other logistics processes by participating in the world's largest, collaborative multimodal logistics community. Our headquarters are in Waterloo, Ontario, Canada and we have offices and partners around the world.

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