

The Evolution of Compliance and Third Party Risk Management

Challenges and Opportunities in the New Era of Business Due Diligence



The Changing Compliance Landscape

Organizations are finding it increasingly challenging to meet emerging compliance and third-party risk management requirements because recent regulatory trends point towards more accountability being placed on organizations via directional guidance rather than explicit instructions, such as exact directives to screen against set denied parties lists, for example, OFAC's 50 Percent Rule. Organizations are now navigating not only the regulatory context, but also the research and due diligence process necessary to comply. The expectation, therefore, is for businesses to be far more accountable in the compliance process than ever before.

Key Takeaways

U.S. and EU Sanctioned Ownership Rules	Governments emphasize that companies cannot do business with organizations that have denied parties among their shareholders, but provide no lists to screen against.
U.S. Military End User and Military Intelligence End User Regulations	A major caveat is that businesses have to exercise their own due diligence over and above the partial screening lists provided.
Continued promulgation of new sanctions	The U.S., in particular, has been rolling out new sanctions in the recent past, especially against China and Russia, and taking enforcement action.
Where we are headed	The trendline points to governments wanting companies to play a greater role in strengthening national security.

INDUSTRY INSIGHT

Listen to Scott Gearity, President of the Export Compliance Training Institute (ECTI), talk at a recent joint Descartes/ECTI webinar about the Bureau of Industry and Security's (BIS) guidance regarding the U.S. Military End Use rule.

Challenges to be Addressed in the New Environment

The fact that governments are placing more of the burden of responsibility on businesses means that companies around the world will need to rethink what compliance means, not just in terms of international trade but holistically for the corporation as a whole.

Sanctioned Ownership Challenges (including OFAC's 50 Percent Rule)

- No official sanctioned ownership screening lists exist that companies can reference
- Company ownership structures can be complex and can change frequently
- Ownership trigger thresholds vary by jurisdiction and industry

New Environment Challenges

- Lack of clear entities to avoid
- Companies need to exercise greater due diligence
- Compliance can be more time-consuming
- Compliance can be more resource-intensive



Successful management of these issues gives companies continued economic growth in addition to complying with the law.



Consequences of Compliance Oversights/Errors

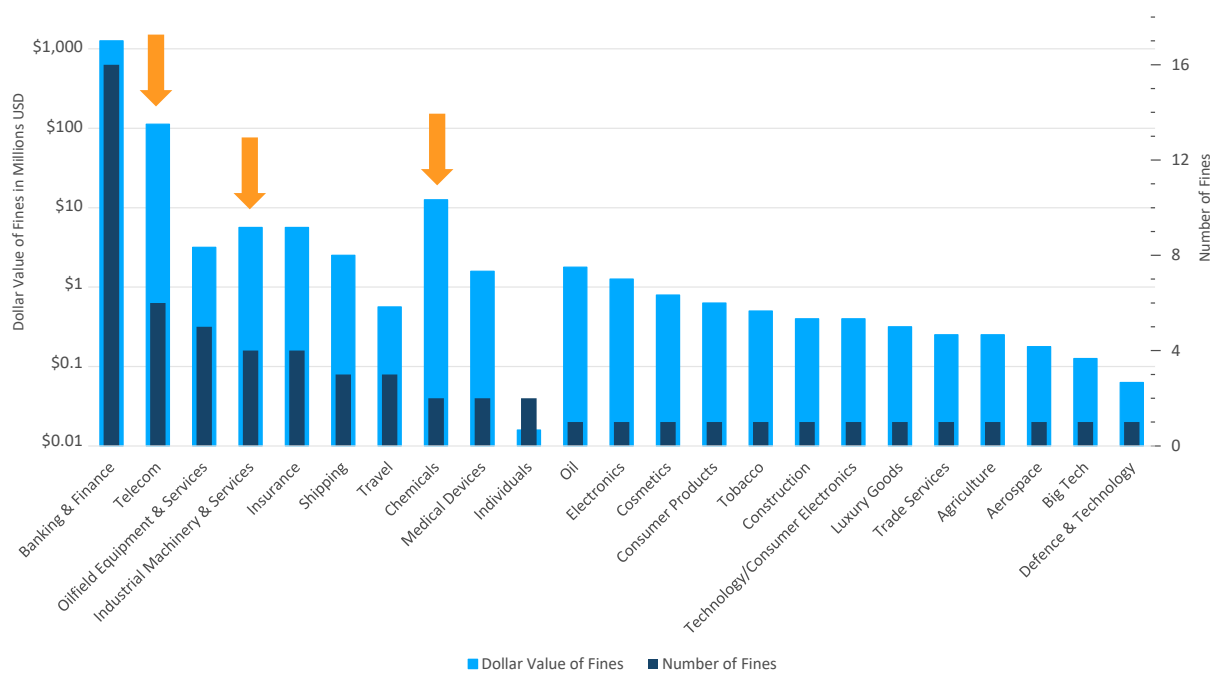
As can be seen in the news media recently, governments are vigorously enforcing export compliance laws. Just as ignorance is not an excuse, so is using the argument that the rules are too complex, or nebulous. There are significant repercussions downstream for an organization not being able to manage regulatory complexity.

Enforcement action against violations is ongoing across industries and around the world, as figures from the Office of Foreign Assets Control (OFAC) demonstrate (see next page).

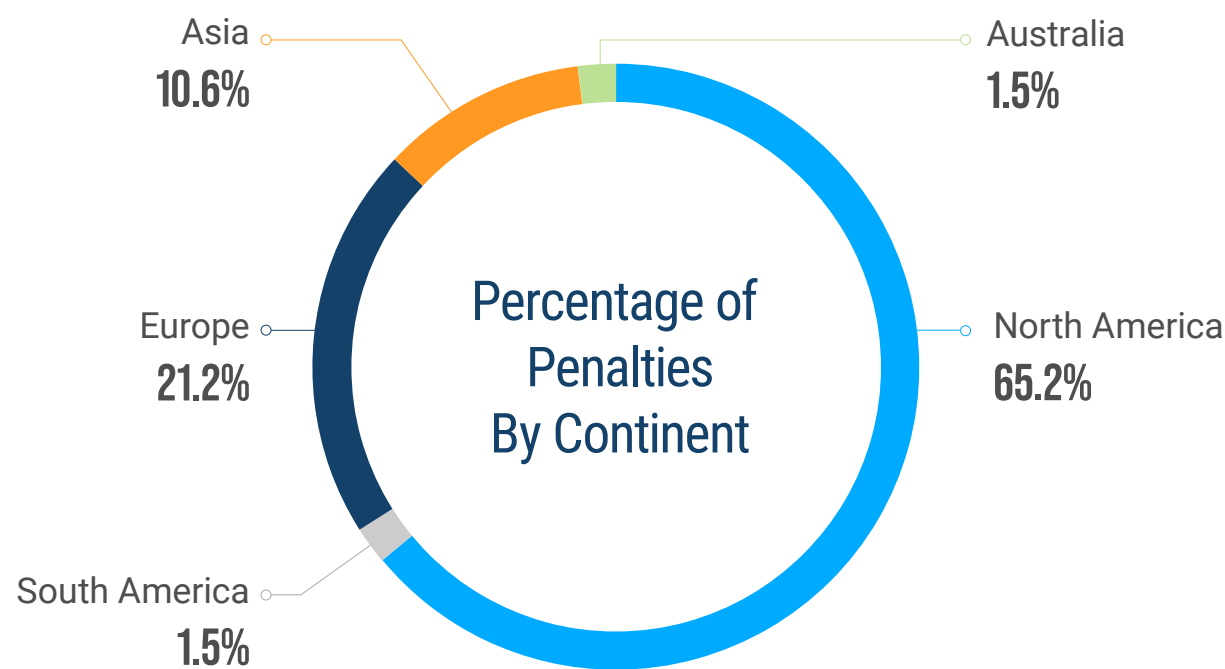
INDUSTRY INSIGHT

Listen to Jackson Wood, Director of Industry Strategy at Descartes, talk at a recent joint Descartes/ECTI webinar on the subject about missed market opportunities being a major issue to non-compliance.

OFAC Enforcement Actions (2017-2020)

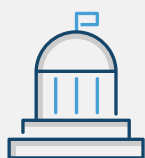


OFAC Penalties around the globe (2017-2020)



Strategy for Compliance and Growing the Business

The best strategy in the new environment is to implement a centralized compliance program that is companywide to cover international trade, finance, human resources, data security, health and safety, among others. Only in this way can companies comply most effectively with emerging compliance regulations and at the same time increase their profile as good corporate citizens in the realm of national security.



The corporate compliance infrastructure should be centralized, consolidated and connected to major internal functions and processes.

Seven Steps to Steward the Company to Prosperity While Abiding by Compliance Laws

Effective compliance is easier said than done. But there are seven main ways to be compliant with emerging export compliance regulations, including Sanctioned Ownership rules, while minimizing the burden on staffing budgets and resources.

1	Select Compliance Champions	Ensure management buy-in as well as continued top-level support. This also facilitates cooperation among various teams, departments, and divisions.
2	Stay Focused on Emerging Rules and Regulatory Updates	Understand the compliance controls as they relate to specific products/ services is important. Equally crucial is making sure the right people in your organization are empowered to evaluate the practical implications on your business and have the resources necessary to manage new compliance risks appropriately.
3	Connect and Centralize Processes	Increase the probability of success by breaking down the silo walls and make compliance a unified and high priority corporate endeavor.
4	Widen the Compliance Net	Screen against denied parties lists every entity you engage and transact with – business and trade chain partners, end users, contractors, visitors, new hires, mergers and acquisitions, and others.
5	Calibrate Risk Organization-wide	Engage in evidence-based internal discussions to make sure all stakeholders – sales, engineering, distribution, legal and others – are aligned on what the organization must do to keep revenue flowing without exposing the business to undue harm.
6	Continually Assess Risk Over Time	Continually rescreen trade chain partners over time, especially because compliance status can go from green to red at any point in the business relationship.
7	Leverage Technology	In the more demanding new environment, proven technology solutions can strengthen compliance while saving time and budget. They will have the capacity and capability to address new compliance requirements proactively, allowing you to focus more time on core business objectives.

How Descartes Can Help

The Descartes Systems Group has the expertise and technological know-how to deliver end-to-end solutions and data to organizations to help them remain compliant with compliance regulations from across the world – including sanctioned ownership rules.

Different kinds of solutions to meet your needs: From ad-hoc web-based screening solutions that require minimal deployment times and training, to integrated screening solutions that can be embedded in an organization's existing CRM, ERP, or other business systems, to providing extensive datasets for organizations to deploy and leverage in their own workflows, Descartes screening solutions can help provide comprehensive compliance coverage for organizations of all sizes and across industries.

INDUSTRY INSIGHT

Listen to Scott Gearity elaborate on Trade Compliance's role in the bigger corporate picture.

If you want to watch the full Descartes/ECTI webinar, please contact the [Export Compliance Training Institute](#).



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.

Learn more at www.descartes.com and connect with us on [LinkedIn](#) and [Twitter](#).

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