

Guidance on False Hit Lists as a Compliance Tool in International Transactions

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On October 21, 2015, the U.S. Department of the Treasury's Office of Foreign Assets Control (OFAC) announced new guidance on the use of "false hit lists" to simplify compliance with the prohibition on transacting business with foreign persons and entities that are on OFAC's list of Specially Designated Nationals (the "SDN List") who are subject to U.S. sanctions.

Many U.S. businesses, notably financial institutions, routinely screen their foreign customers, suppliers, independent distributors, and other business partners to detect potential violations of that prohibition. In practice, U.S. companies find that screening generates "false hits" because the screened person/entity has a similar name or address as a prohibited person/entity. Once a match is determined to be a false hit, some screening software programs will block future alerts related to that name, assuming the alert is the result of a false hit. However, this can result in a violation when changes to sanctions regulations are made – a false hit may no longer be false. In light of recent enforcement actions, OFAC's guidance is intended to alert companies to this potential problem.

The new guidance recognizes the use of false hit lists as a legitimate practice, but the Treasury Department emphasizes the importance of implementing policies and procedures designed to review, evaluate, and reassess the parties that are included on such lists. The measures recommended by Treasury include:

- Involving sanctions compliance personnel in developing guidelines for, and oversight of, the functioning of false hit lists, including periodic reviews.
- Ensuring that alerts generated after additions/changes to the SDN List are not automatically suppressed by the existing false hit list entry.
- Amending the false hit list, as needed, in response to updates to OFAC's sanctions programs (including, for example, the revocation of general licenses, the implementation of new sanctions programs and/or prohibitions, or enhanced restrictions on certain categories of transactions).
- Where routine screening results in a customer, supplier, distributor, or other business partner being placed on a false hit list, it is important to ensure that any meaningful changes to the customer's information (e.g., a change in ownership status, business activity, address, date of birth, place of business, etc.) trigger a review of the false hit list entry.

Winston’s team of professionals is available to assist your business in understanding the OFAC sanctions, and to develop a program to ensure compliance with the new false hit list guidance.

The full guidance issued by the Treasury Department is available [here](#).

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