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Course Introduction

Overview

Office of Foreign Assets Control (OFAC) provides the overall purpose and background of OFAC. This course describes OFAC’s authority to impose civil penalties for violations. It provides the purpose and use of the blocked persons list, as well as the general guidelines for handling matched names and blocked funds. This course also describes the two types of reports that must be made when the bank has blocked or rejected transactions.

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Course Introduction

Overview

Bank employees are required to deal with a number of laws and regulations on a daily basis. This course covers the rules of the Office of Foreign Assets Control (OFAC) of the U.S. Department of the Treasury, the agency that administers and enforces economic and trade sanctions based on U.S. foreign policy and national security goals.

This course will provide the information that you need to understand and comply with OFAC regulations.

Objectives

By the end of Office of Foreign Assets Control (OFAC), you will be able to:

- Explain the background of OFAC and the purpose of economic and trade sanctions
- Describe who must comply with OFAC regulations
- Describe the penalties for noncompliance
- Describe the purpose and use of the OFAC Specially Designated Nationals and Blocked Persons List
- Describe how to handle a matched name
- Describe how to handle blocked or rejected transactions
- Identify reports that must be made to the United States Treasury
Office of Foreign Assets Control Overview

Introduction

One of the reasons OFAC is so important is that it helps protect the United States and every one of us by preventing terrorists, international drug traffickers, people who help develop and produce weapons of mass destruction, and others who would threaten our national security, foreign policy or economy from abusing the U.S. financial system to conduct their activities.

In this module you will learn what OFAC is, as well as, the background and reason for the regulations you must follow.

Objectives

By the end of this module, you will be able to

- Explain the background of OFAC and the purpose of economic and trade sanctions
- Describe who must comply with OFAC regulations
- Describe the penalties for noncompliance
Office of Foreign Assets Control (OFAC)

Background and Purpose

OFAC is part of the Office of Terrorism and Financial Intelligence of the U.S. Department of the Treasury, the division that also includes the Financial Crimes Enforcement Network (FinCEN). OFAC is responsible for administering and enforcing economic and trade sanctions based on U.S. foreign policy and national security goals against targeted foreign states, individuals, and organizations.

OFAC acts under Presidential wartime and national emergency powers, as well as the authority granted by specific legislation, to impose controls on transactions and freeze foreign assets under U.S. jurisdiction. Many of the sanctions are based on United Nations and other international mandates, are multilateral in scope, and involve close cooperation with allied governments.
Office of Foreign Assets Control (OFAC)

Background and Purpose

The Treasury Department has a long history of using economic sanctions to advance foreign policy goals. The intent of economic sanctions is to bring pressure to bear on another country to change policies. For example, economic sanctions are currently used to discourage Iran from engaging in nuclear proliferation.

OFAC and its predecessors are almost as old as the United States. Prior to the War of 1812, Secretary of the Treasury Albert Gallatin administered sanctions imposed against Great Britain for the harassment of American sailors. During the Civil War, as part of the efforts to restore the Union, the United States Congress approved a law which prohibited transactions with the Confederacy and called for the forfeiture of goods involved in such transactions.

OFAC is the successor to the Office of Foreign Funds Control (FFC) which was established at the beginning of World War II. The FFC's initial purpose was to prevent Nazis from taking advantage of financial assets in occupied countries.

OFAC as we now know it was formally created in December 1950 following the entry of China into the Korean War when President Truman declared a national emergency and blocked all Chinese and North Korean assets subject to U.S. jurisdiction.

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Office of Foreign Assets Control (OFAC)

Office of Foreign Assets Control Overview

Background and Purpose

To carry out its mission, OFAC maintains, updates, and distributes lists of targeted individuals, entities, and countries that are the subjects of sanctions and where transactions are prohibited. These lists are collectively referred to as "sanctions lists." The sanctions list you may know is the Specially Designated Nationals and Blocked Persons List, usually referred to as the "SDN List."

"Specially designated nationals" are organizations and individuals who are restricted from doing business with the United States or American companies, or American citizens. This includes drug traffickers, international organized crime syndicates, terrorist organizations, individual terrorists, and state sponsors of terrorism (such as Iran, and North Korea).

By complying with the lists of individuals and entities established by OFAC, banks can identify individuals and entities barred from the U.S. financial system. It is very important that the bank's procedures for checking the OFAC list be followed without exception.

Glossary term:

**Prohibited transactions**

Prohibited transactions are trade, financial transactions or other dealings that are barred to U.S. persons unless authorized by OFAC or expressly exempted from the restrictions by statute. Because each program is based on different foreign policy and national security goals, the prohibitions may vary between programs.
Background and Purpose

Self Check Quiz

What is the primary purpose of OFAC?

> Select the correct answer and click Submit.

A) To safeguard the financial system from illicit use and combat money laundering and promote national security through the collection, analysis, and dissemination of financial intelligence and strategic use of financial authorities

B) To protect and defend the United States against terrorist and foreign intelligence threats; to uphold and enforce the criminal laws of the United States, and to provide leadership and criminal justice services to federal, state, municipal, and international agencies and partners

C) To administer and enforce economic and trade sanctions based on U.S. foreign policy and national security goals against targeted foreign states, individuals, and organizations

D) To gather information about foreign governments, corporations, and individuals; analyzing that information in order to provide national security intelligence assessment to senior United States policymakers

C is correct.

A is incorrect because this is the mission of FinCEN, not OFAC. B is incorrect because this is the purpose of the FBI, not OFAC. D is incorrect because this is the purpose of the CIA, not OFAC.
Office of Foreign Assets Control (OFAC)

Compliance Obligations

The U.S. Government, through the Office of Foreign Assets Control, uses economic and trade sanctions to protect the country's economy, carry out our foreign policy goals and enhance our national security. Failure to comply with OFAC's economic and trade regulations may result in civil and criminal penalties against the person or entity responsible.

The following persons and entities must comply with OFAC's economic and trade embargo regulations:

- All U.S. persons, including U.S. citizens and permanent resident aliens regardless of where they are located
- All persons and entities within the United States
- All entities incorporated within the United States as well as their foreign branches
Office of Foreign Assets Control (OFAC)

Compliance Obligations

Banks are required to have OFAC compliance policies and procedures in place to ensure that the bank does not permit a transaction to take place for a targeted individual or entity. You should be familiar with your bank’s OFAC policy, procedures, and processes.

Financial institutions are also expected to take a risk-based approach when considering the likelihood that they may encounter OFAC issues. The prudential regulators examine financial institutions to determine the adequacy of each institution’s OFAC program and the effectiveness of its risk management.

While OFAC regulations are not part of the BSA, the FFIEC BSA Examination Manual section pertaining to OFAC compliance include overview and examination procedures for examining a bank’s policies, procedures, and processes for ensuring compliance with OFAC sanctions. Examiners must review the bank’s OFAC risk assessment and independent testing to determine the extent to which a review of the bank’s OFAC compliance program should be conducted during the examination.
Office of Foreign Assets Control Overview

Compliance Obligations

Self Check Quiz

Which two types of people must comply with OFAC regulations?

Select the correct answers and click Submit.

A) All U.S. persons, including all U.S. citizens and permanent resident aliens regardless of where they are located
B) All non-U.S. persons living in other countries and doing business in foreign countries
C) All foreign persons and foreign corporations living in the U.S. on either permanent or temporary basis
D) All persons and entities within the United States as well as all U.S. incorporated entities and their foreign branches

A and D are correct.

B is incorrect because the U.S. government does not have authority over foreign persons. C is incorrect because compliance with OFAC sanctions applies to more than foreign persons and entities.
Office of Foreign Assets Control (OFAC)

Penalties for Noncompliance

OFAC has authority to impose civil penalties for violations and enforcement responses are determined by OFAC. OFAC looks at a variety of factors in calculating any penalties, including the seriousness of the offense, whether senior management was involved, and whether the bank has a good OFAC compliance program.

Over the past several years, OFAC has imposed millions of dollars in civil penalties against U.S. banks. The majority of the fines resulted from banks’ failure to block illicit transfers or transactions of a targeted person or entity.

> Roll over the topics below to learn more.

Civil and criminal penalties

The ramifications of non-compliance can jeopardize critical foreign policy and national security goals. OFAC violations have serious consequences. Persons not complying with OFAC-administered sanctions are liable for significant penalties, even if their action was inadvertent or uninformed. The following are examples of penalties:

- **Civil penalties:** $250,000 or twice the amount of each underlying transaction up to $1,075,000 per violation
- **Criminal penalties:** $50,000 to $10,000,000 fine; 10–30 years in prison
- **Publication of penalty:** OFAC publishes the names of companies that have been penalized

Violations and other laws

Penalties or other enforcement actions involve the following violations:

- Substantive provisions
- Reporting requirements
- Recordkeeping requirements
- Failure to respond to subpoena
Office of Foreign Assets Control (OFAC)

In addition, OFAC violations can be prosecuted under a myriad of other laws, such as the following two laws:

- The Trading with the Enemy Act, which provides for imprisonment, fines and asset forfeiture for both individuals and corporations
- The International Emergency Economic Powers Act, which also provides imprisonment and fines for both corporations and individuals

Glossary term:

**Block**

When discussing OFAC sanctions requirements, a “block” is when the bank seizes the assets. This may also be called freezing. It is a form of controlling targeted assets under U.S. jurisdiction. In the case of bank operations, if the bank discovers it has funds which belong to an individual or entity on an OFAC sanctions list, it blocks the property and places it in a special interest-bearing account. Blocking immediately imposes an across-the-board prohibition against transfers or transactions of any kind with regard to the property. While title to blocked property remains with the designated individual or entity, the exercise of powers and privileges normally associated with ownership is prohibited without authorization from OFAC.
Office of Foreign Assets Control (OFAC)

Office of Foreign Assets Control Overview

Penalties for Noncompliance

Click each company to view examples of large penalties charged for OFAC violations between 2016 and 2018.


Société Générale S.A., a financial institution headquartered in Paris, France, agreed to remit $53,966,916.05 to settle its potential civil liability for the 1,077 apparent violations of the Cuban Assets Control Regulations and the Sudanese Sanctions Regulations. OFAC determined that Société Générale S.A. did voluntarily self-disclose the Apparent Violations and assessed a total base penalty amount of $101,630,490.80. For at least five years up to and including 2012, Société Générale S.A. processed transactions to or through the United States or U.S. financial institutions that involved countries or persons (individuals and entities) subject to the sanctions programs administered by OFAC and often processed these transactions in a non-transparent manner that removed, omitted, obscured, or otherwise failed to include references to OFAC-sanctioned parties in the information sent to the U.S. financial institutions that were involved in the transactions.

Zhongxing Telecommunications Equipment Corporation (2017)

Zhongxing Telecommunications Equipment Corporation (ZTE), a telecommunications corporation established in the People’s Republic of China, and its subsidiaries and affiliates, agreed to settle their potential civil liability for 251 apparent violations of the Iranian Transactions and Sanctions Regulations in the amount of $100,871,266. ZTE engaged in the exportation, sale, or supply, directly or indirectly, from the United States of goods to Iran or the Government of Iran and engaged in activity that evaded or avoided, attempted and/or conspired to violate, and/or caused violations of the OFAC prohibitions. Specifically, ZTE appears to have engaged in 251 transactions, of which the total value of the transactions constituting the apparent violations was $39,622,972. OFAC determined that ZTE did not voluntarily self-disclose the apparent violations to OFAC and that the apparent violations constitute an egregious case. Both the base civil monetary penalty and statutory maximum civil monetary penalty amounts for the apparent violations was $106,180,280.

Barclays Bank (2016)

Barclays Bank Plc (“Barclays”), a financial institution headquartered in London, United Kingdom, has agreed to remit $2,485,890 to settle its potential civil liability for 159 apparent violations of the Zimbabwe Sanctions Regulations. From July 2008 to September 2013, Barclays processed 159 transactions totaling approximately $3,375,617 to or through financial institutions located in the United States—including Barclays’ New York branch (“Barclays NY”)—for or on behalf
Office of Foreign Assets Control (OFAC)

of corporate customers of Barclays Bank of Zimbabwe Limited (“BBZ”) that were owned 50 percent or more, directly or indirectly, by a person identified on the U.S. Department of the Treasury’s Office of Foreign Assets Control (OFAC) List of Specially Designated Nationals and Blocked Persons (the “SDN List”). OFAC has determined that Barclays did not voluntarily self-disclose the apparent violations to OFAC, and that the apparent violations constitute a non-egregious case. The total base penalty amount for the apparent violations was $5,029,000.
Penalties for Noncompliance

Question
What is the primary reason for the majority of fines imposed on banks by OFAC?

Answer
Banks’ failure to block illegal transfers by a targeted person or entity.
Office of Foreign Assets Control Overview

Penalties for Noncompliance

Self Check Quiz
Which statement regarding OFAC penalties is true?

> Select the correct answer and click Submit.

A) OFAC allows for civil penalties but not criminal ones
B) OFAC allows for criminal penalties but not civil ones
C) If a bank is found to have violated OFAC sanctions, only the bank will be fined
D) OFAC allows for both civil and criminal penalties against both the bank and against individuals

D is correct.

A and B are incorrect because OFAC allows for both civil and criminal penalties. C is incorrect because penalties may be assessed against both the company and any responsible individuals.
In this module you learned about the background of OFAC and the purpose of economic and trade sanctions. You are able to describe who must comply with OFAC regulations and why compliance is essential. You can also explain the bank’s compliance obligations and the penalties for noncompliance.
Office of Foreign Assets Control Reporting

Introduction
Complying with OFAC sanctions is everyone’s responsibility.

This part of the course will describe the basic mechanics of OFAC compliance. However, it is essential that you understand your bank’s OFAC policy, procedures, and processes for ensuring that transactions are not processed for individuals and entities subject to OFAC sanctions.

Objectives
By the end of this module, you will be able to

- Describe the purpose and use of OFAC sanctions lists, including the Specially Designated Nationals and Blocked Persons List (SDN List)
- Describe how to handle a matched name
- Describe how to handle blocked or rejected transactions
- Identify reports that must be made to the United States Treasury
Office of Foreign Assets Control Reporting

Introduction

Note: Before discussing the basic steps most banks follow to ensure that the bank does not engage in a transaction on behalf of a designated individual, entity, or country, it is important to understand that OFAC does not prescribe specific procedures that banks must follow.

OFAC identifies individuals and entities subject to the sanctions programs (the SDN List). If a prohibited transaction is processed, OFAC will impose appropriate penalties. To comply with OFAC restrictions and U.S. sanctions programs, each bank develops its own risk-based policies, procedures, and processes for ensuring OFAC compliance. While OFAC is separate from Bank Secrecy Act compliance, the federal bank regulatory agencies review these policies and procedures as part of a bank’s Bank Secrecy Act examination.
Sanctions Lists

OFAC prepares and provides sanctions lists. These are countries, individuals, and entities that basically are off-limits to anyone who is subject to the jurisdiction of the United States. Detailed information about the OFAC sanctions and the SDN List is published on the OFAC section of the Treasury Department’s website.

OFAC does not maintain a specific list of countries with which U.S. persons cannot do business. This is because U.S. sanctions programs vary in scope. Some are broad-based and oriented geographically (i.e., Cuba, Iran). Others are “targeted” (i.e., counter-terrorism, counter-narcotics) and focus on specific individuals and entities. These programs may encompass broad prohibitions at the country level as well as targeted sanctions. That is why financial institutions should always check the OFAC website and not assume anything concerning sanctions.

Currently, although subject to change, sanction programs include The Balkans, Belarus, Central African Republic, Democratic Republic of the Congo, Burma, Cuba, Iran, Lebanon, Iraq, Libya, Somalia, Sudan, Ukraine, Venezuela, Yemen, Zimbabwe, Syria, Burundi, and North Korea. (The comprehensive sanctions against Cuba have been amended, but the Cuba embargo remains in place. Many transactions between the United States, or persons subject to U.S. jurisdiction, and Cuba continue to be prohibited, and OFAC continues to enforce the prohibitions. As it stands in October 2016, changes are being made to further engage and empower the Cuban people by facilitating authorized travel to Cuba by U.S. persons, certain authorized commerce, and the flow of information to, from, and within Cuba.)

OFAC also administers other non-comprehensive programs targeting individuals and entities located around the world. Those non-comprehensive programs currently relate to foreign narcotics traffickers, foreign terrorists, transnational criminal organizations, and WMD proliferators.

It is important to note that in non-comprehensive programs, there are no broad prohibitions on dealings with countries, but only against specific named individuals and entities. The names are incorporated into OFAC’s list of Specially Designated Nationals and Blocked Persons (“SDN List”) includes over 6,000 names of companies and individuals who are connected with the sanctions targets.

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Sanctions Lists

The Specially Designated Nationals (SDN) and Blocked Persons List (SDN List) includes the names of entities owned or controlled by, acting for, or on behalf of targeted countries. It also lists individuals, groups, and entities believed to be terrorists and narcotics traffickers designated under programs that are not country-specific.

The assets of all those enumerated on the SDN List are blocked and U.S. persons and entities are generally prohibited from dealing with them.

OFAC frequently updates the SDN List so each bank must have procedures for ensuring that the most up-to-date lists are used. You should ask your supervisor how your bank screens accounts against the OFAC lists and how it ensures that its employees have access to the current sanctions lists. For example, many banks use automated filters to screen customers against the SDN List.

Glossary term

Specially Designated Nationals (SDN) and Blocked Persons List
Individuals and entities that are owned or controlled by, or acting for or on behalf of, the governments of target countries or are associated with international narcotics trafficking or terrorism. These individuals and entities are listed on the U.S. Treasury Department's Specially Designated Nationals and Blocked Persons List so persons subject to the jurisdiction of the United States will know they are prohibited from dealing with these individuals and entities and that they must block all property within their possession or control in which these individuals and entities have an interest.
Sanctions Lists

SDN and Blocked Persons List
When processing a transaction, the names of all parties involved could be on the SDN List. The decision about when and how to compare names to an OFAC sanctions list is a risk-based decision made by each bank. You must recognize that virtually every transaction a bank processes could result in an OFAC violation but checking every transaction against the SDN List would grind bank operations to a halt. Therefore, each bank designs its OFAC policy and procedure to mitigate the risk presented by its customer base and operations while allowing bank operations to proceed efficiently.

It is very important that you understand and confidently follow your bank’s OFAC procedures. As a general rule, banks have procedures specifically describing when and how names connected with certain transactions are compared to the SDN List.

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Sanctions Lists

The following list of transactions are usually checked against the SDN List:

- Deposit account opening
- Loan applications and letters of credit
- Sale of a cashier’s check
- Sale of an investment product
- Rental of a safe deposit box
- Cashing a check for a noncustomer
- Initiation and receipt of a wire transfer
- Currency exchanges
- Sale of pre-paid cards and gift cards to non-customers

NACHA, the Electronic Payments Association, requires all international ACH transactions (IATs) to have additional information included with each IAT, enabling institutions to check ACH transactions against OFAC lists. If you work in your bank’s ACH department, you should learn about these requirements and how your bank will comply.

In addition, most banks conduct periodic reviews of their entire customer base against the most recent SDN List. The bank’s review may include not only named account holders and borrowers, but also beneficiaries, guarantors, and cosigners.
Sanctions Lists

Self Check Quiz

Bank procedures generally require that customers be checked against the Specially Designated Nationals and Blocked Persons List. What is the general recommended timing this list should be checked?

Select the correct answer and click Submit.

- A) With every new customer account
- B) Before the relationship is established and periodically thereafter
- C) Annually for all deposit accounts and loan customers as required by OFAC
- D) Periodically after the relationship has been established

B is correct.

A and D are incorrect because they are incomplete answers. C is incorrect because banks generally do a periodic review but it is not an OFAC requirement.
Office of Foreign Assets Control Reporting

Sanctions List

Self Check Quiz

Which are two correct answers to the question; does OFAC itself require that banks set up a certain type of compliance program?

» Select the correct answers and click Submit.

- A) Yes. Compliance with the sanctions is very specific
- B) No. There is no single compliance program suitable for every financial institution
- C) Yes. OFAC is a bank regulator and requires banks not violate the laws that it administers
- D) No, but financial institutions should check with their regulators regarding the suitability of specific programs to their unique situations

B and D are correct.

A is incorrect because banks may set up their programs based on risk. C is incorrect because OFAC is not a regulatory agency.
Office of Foreign Assets Control (OFAC)

Match Name

When you compare names of new or existing customers to the most recent SDN List, you will occasionally have a match. If this occurs, you must follow your bank’s OFAC procedures or consult with your bank’s OFAC officer. Generally, the procedure will be to carefully check the identifying information that you have about your customer against the additional information provided on the SDN List. (In addition to a name, the SDN List usually includes aliases, birthdates, passport numbers, or address information that you can review to determine whether your customer is actually the person or entity on the list.) This review is important because sometimes an initial review leads to a false positive where it looks like a match but further investigation reveals it is not a match.

If you can determine that there is no match, you can proceed with the transaction. However, you should follow your bank’s internal procedures for dual verification, or second review, before you make a final decision and ensure that all decisions are appropriately documented and retained.
Office of Foreign Assets Control Reporting

Match Name

If the information you have is insufficient to make a determination, or if you have confirmed that you have a positive match, the bank must contact the OFAC compliance hotline by phone for further instructions. The OFAC representative will need very specific information about the transaction and will give you instructions that must be followed.

Once you receive instructions, follow the bank’s policies and procedures to notify the customer that his or her transaction cannot be processed due to an OFAC match and document the actions you take. The notification should include information about the OFAC sanctions, as well as how to contact OFAC if the customer believes the match is an error.

Note: Many vendors who perform OFAC checks for banks screen against lists other than the SDN List. Before contacting OFAC, you should ensure that the name is not "hitting" against some other list or for some other reason (i.e., "Control List" or "PEP," "CIA," "Non-Cooperative Countries and Territories," "Canadian Consolidated List (OSFI)," "World Bank Debarred Parties," "Blocked Officials File," or "government official of a designated country").
Office of Foreign Assets Control Reporting

Match Name

Question
You enter a customer’s name into the bank’s OFAC software. A message indicates a possible match. What should you do?

Answer
If there is no true match, you can proceed with the transaction. If there is a match, the bank must contact the OFAC compliance hotline. Specific instructions on how to contact OFAC and the process for reporting a suspected match can be found here: https://www.treasury.gov/resource-center/faqs/Sanctions/Pages/faq_compliance.aspx

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Office of Foreign Assets Control Reporting

Blocked or Rejected Funds

There are two possible actions a bank can take when it has discovered an OFAC match. It can reject or block the transaction. The action you take depends on the nature of the transaction and the particular OFAC sanction involved.

> Click each action below to see the explanations.

Rejecting transaction
Sometimes an underlying transaction may be prohibited but there is no blockable interest in the transaction. The transaction is simply rejected or not processed.

For example, a U.S. bank will reject a wire transfer between two non-U.S. companies (that are not on the SDN List) involving an export to a non-SDN company in Sudan. Because there is no interest of the Government of Sudan or an SDN, there is no blockable interest in the funds. However, a U.S. bank cannot process the transaction because that would constitute a transaction in support of a commercial activity in Sudan, which is prohibited by the Sudanese Sanctions Regulations.

If a transaction is rejected, that must be reported to OFAC within 10 business days. If it is not clear whether a transaction should be rejected or blocked, questions should be directed to your bank’s OFAC compliance officer who is likely to contact OFAC.

Similarly, a U.S. bank cannot finance a transaction involving a listed person, entity or country. For example, a U.S. bank cannot issue a letter of credit if the underlying transaction is in violation of OFAC regulations.

Blocking transaction
Most OFAC-related transactions that you will encounter will involve “blocking.” Blocking a transaction means the bank freezes the funds in its possession.

Note: Questions about whether a transaction should be blocked or rejected should be directed to OFAC’s Compliance Division.
Blocked or Rejected Funds

When a bank must block funds because one of the parties to the transaction is on the SDN List, there are certain rules that must be followed.

When funds are blocked, ownership of the blocked property remains with the designated individual or entity. However, the exercise of the powers and privileges associated with ownership is prohibited without authorization from OFAC.

If you have a blocked account, the funds must be maintained in an interest bearing account. If it is a time deposit account, the term of the time deposit must be the shortest term offered by the bank and may not exceed six months. If the bank offers multiple time deposits of the same short term, the product that pays the highest interest rate must be chosen.

For loans, the bank’s right of offset is prohibited if the deposit account is blocked.

The bank is also required to make certain reports about blocked accounts and rejected transactions. To accurately block the accounts and ensure accurate reporting, you should be aware of your bank’s internal policies and procedures for appropriately coding and handling the accounts that have been blocked. Blocked funds must be reported to OFAC within 10 business days. Any questions about a transaction or party to a transaction, such as whether the transaction should be blocked or rejected should be directed to your bank’s OFAC compliance officer who is likely to contact OFAC.

Glossary terms

Blocked property
Anything of value. Examples of property include money, checks, drafts, debts, obligations, notes, warehouse receipts, bills of sale, evidence of title, negotiable instruments, trade acceptance, contracts, and anything else real, personal, or mixed, tangible or intangible, “or interest or interests therein, present, future, or contingent.”
Office of Foreign Assets Control (OFAC)

Right of offset
Exercise of the right to net out debt owed to the institution holding the funds. In other words, the right to pay a debt owed to the bank by an individual or entity from any funds the bank holds which belong to that individual or entity. When funds have been blocked or frozen under OFAC sanctions, an offset is a prohibited transfer of the frozen assets.

Blocked accounts
A blocked account is an account where payments, transfers, withdrawals, or other dealings are prohibited unless licensed by OFAC or otherwise authorized by the U. S. Treasury. All debits are prohibited; however, credits are authorized.

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Blocked or Rejected Funds

Here are two examples to help you understand the difference between transactions that must be rejected and those that must be blocked.

Note that often the requirement to block or reject a transaction is based on the underlying sanctions program.

Examples

Rejected transaction
A U.S. bank identifies a transfer that one of its commercial customers wants to make by wiring funds to a French bank branch in Paris. The payee is Tehran Computer Corporation. After an investigation, the bank confirms that the proposed payee is a company in Iran. The transfer must be rejected. In this example, the funds still belong to a non-listed entity (your bank’s customer) but they cannot be transferred to a company on the SDN List.

Blocked transaction
A U.S. bank intercepts a wire transfer from the Syrian government to one of the bank’s commercial customers. In accordance with Syrian sanctions, all property and interests in property of the Government of Syria, which includes its agencies, instrumentalities, and controlled entities, which are in the United States or within the possession or control of U.S. persons, are blocked. As a result, this payment must be blocked and not deposited to the bank’s customer’s account.
Once a bank determines that a transaction must be blocked, what two things must happen?

Select the correct answers and click Submit.

- A) The funds must be placed into an interest-bearing account from which only OFAC-authorized debits may be made
- B) The blocking must be reported to OFAC Compliance within 10 business days
- C) The funds must be escheated to the state where the bank is located
- D) The funds must be sent to OFAC

A and B are correct.

C and D are incorrect because blocked funds should remain on the bank’s books until the bank is instructed by OFAC to release them.
When the bank has blocked or rejected a transaction, two types of reports must be made. The first is an initial report that must be filed when funds are blocked or rejected. The second report is an annual report of all blocked funds. Both reports are filed with the Washington, D.C. office of OFAC.

An initial report must be filed within 10 business days of the date the blocking or rejection of the funds occurred. While there is not a specific reporting form for this information, the report must include the following information:

- Customer name
- Date funds were blocked
- Name and address of the bank
- Confirmation that payments received have been deposited into a new or existing blocked account
- Amount of funds deposited or on deposit
- Any existing or new account numbers
- Name and telephone number of a contact person at the bank
- Photocopy of relevant information (payment order, signature card, identification, and so forth)

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Office of Foreign Assets Control Reporting

Treasury Reports

Self Check Quiz

Your manager asked you to explain to a new employee the appropriate report items needed in the initial OFAC report filed when funds are blocked or rejected. Which five items should be included in the initial report?

› Select the correct answers and click Submit.

- A) All bank locations and fax numbers
- B) Phone number and contact person at the bank
- C) Bank name and address
- D) Customer name
- E) Customer's automobile license number
- F) Amount of funds deposited or on deposit
- G) Date funds were blocked

B, C, D, F, and G are correct.

A and E are incorrect because they are not needed in the initial OFAC report filed when funds are blocked or rejected.

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Office of Foreign Assets Control Reporting

Wrap Up

In this module you learned the purpose and use of OFAC sanctions lists, including the Specially Designated Nationals and Blocked Persons List. You can describe how to handle a matched name and blocked funds. You can also identify reports that must be made to the United States Treasury.

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Course Conclusion

Wrap Up

By completing the Office of Foreign Assets Control (OFAC) course, you are now able to explain the background of OFAC and the purpose of economic and trade sanctions. You can also describe who must comply with OFAC regulations. You are now able to describe the penalties for noncompliance, the purpose and use of OFAC sanctions lists, and how to handle a matched name and blocked or rejected transactions. Finally, you can now identify reports that must be made to the United States Treasury.

> Click Exit to close this course.

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