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EXPORT CONTROLS RISK MANAGEMENT FOR FINANCIAL INSTITUTIONS

**A PRACTICAL GUIDE FOR
COMPLIANCE, LEGAL, AND
RISK PROFESSIONALS**

OCTOBER 2025

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Prepared by the ACSS Export Controls Taskforce

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Executive Summary

With increasing regulatory convergence between sanctions and export controls, financial institutions (FIs) face growing expectations to identify, assess, and mitigate risks related to trade restrictions. This guide provides a structured, practical framework to help financial institutions incorporate export controls compliance into their existing risk management programs.

Key Concepts Explained

Export controls encompass legal restrictions and prohibitions on the transfer of goods, technologies, services, and software across borders. While traditionally applied to manufacturing and trade entities, financial institutions are integral to the trade ecosystem and thus are exposed to trade controls risks via financing, payments, client relationships, and transaction processing.

Key Definitions:

- **Diversion:** Unauthorized change in the destination, user, or end-use of exported items, often bypassing licensing requirements.
- **Circumvention:** Deliberate evasion of export laws through documentation manipulation, misrepresentation, or other illegal methods.
- **Trade Controls:** A broad framework that includes export, import, transit, re-export, brokerage, and transfer restrictions, primarily concerning physical goods, technology, and services.

Note: This guidance adopts a focused scope on export controls, especially relating to US, EU, and UK regulations, emphasizing the export of controlled goods, technologies, and services.

Regulatory Landscape Overview

United States

- **Export Administration Regulations (EAR)** – Overseen by BIS, governs dual-use items.
- **International Traffic in Arms Regulations (ITAR)** – Overseen by DDTC, governs defense-related items.
- **Office of Foreign Assets Control (OFAC)** – Administers sanctions programs.
- **General Prohibition 10 (GP10)** – Prohibits facilitation of prohibited exports, even indirectly.

European Union

- **Regulation (EU) 2021/821** – Governs dual-use items.
- **Common Military List & National Lists** – Define controlled goods and technologies.

United Kingdom

- UK Export controls Order 2008 and sanctions regulations aligned with OFSI.

Implications for the Banking Sector

Financial institutions are exposed to export controls risk through:

- **Trade finance transactions**
- **Cross-border payments**
- **Client relationships in high-risk jurisdictions or sectors**
- **Intermediated services such as guarantees, loans, or crypto transactions**

Banks must ensure they are not inadvertently facilitating export controls violations, even where they are not the exporter.

Best Practices & Compliance Recommendations

Strategic Risk Assessment

A thorough understanding of current operations, risks, and regulatory obligations forms the foundation of effective compliance.

- **Map Customer and Product Risks:** Identify high-risk geographies, clients, and products, including those involved in sensitive industries such as defense, electronics, aerospace, or with known vulnerabilities.
- **Assess Transaction Flows:** Use macroeconomic data and trade flow analysis (pre/post sanctions scenarios e.g. sanctions against Russia following the invasion of Ukraine) to evaluate exposure.

Sample Questions for Assessment:

- Does the institution finance or facilitate transactions involving dual-use or restricted items?
- Are there high-risk clients or geographies that warrant increased scrutiny?
- What controls are currently in place, and what gaps exist?

Know Your Customer (KYC) & Due Diligence

- Implement enhanced due diligence for high-risk industries (e.g. defense, electronics, aerospace), jurisdictions, products or goods. (e.g. controlled goods or those on the Common High Priority List (CHPL), common third transshipment countries.
- Verify end users, end uses, and final destinations through questionnaires, documentation review, and direct inquiries.
- Understand Ownership and Structure: Conduct ownership and beneficial ownership (UBOs) analysis to assess indirect ownership risk, especially considering the BIS 50% (suspended) ownership rule.
- Incorporate export control clauses in client agreements and contracts.

Typologies & Red Flags:

- Vague or incomplete shipment info
- Routing through transshipment hubs with no commercial rationale
- Misclassification or inconsistent descriptions of goods

Ongoing Transaction Surveillance

- Integrate sanctions and export control screening into existing AML (anti-money laundering) and compliance systems.
- Use lists such as the BIS Entity List, OFAC SDN List, and EU Consolidated Lists.
- Employ behavioral analytics and anomaly detection tools to identify patterns suggestive of circumvention.

Red Flags in Transactions:

- Last-minute changes or complex routing
- Shipping to or from high-risk jurisdictions
- Discrepancies between declared goods and transaction patterns

Training & Awareness

- **Targeted Training:** Focus on 1LoD (line of defense) and 2LoD staff, supported by scenario-based learning. Establish ongoing training programs aimed at first-line staff involved in trade finance, payments, and client onboarding. Use case studies and industry collaboration to promote awareness.
- **Policies and procedures:** Incorporate export control obligations into overall compliance policies and internal controls. Clearly defined escalations and consistently applied.
- **Senior Management Involvement:** Ensure leadership engagement and approval of high-risk decisions.

Governance & Reporting

- **Formalize Oversight:** Regular updates to senior management and governance bodies.
- **Audit & Review:** Conduct periodic assessments to ensure ongoing compliance.
- **Remediation Planning:** Address gaps and document corrective actions.
- **Quantitative statistics:** Metrics related to customers, connected parties on export control list. Transaction true matches to export control list.

Case Examples & Red Flags

Trade Diversion Techniques

- **Outset Risks:** Vague shipping info, refusal to provide details, misclassification of goods.
- **En-Route Risks:** Circuitous shipping routes through transshipment hubs.
- **Destination Risks:** Shell companies, false declarations, lack of online presence.

Red Flags to Watch

- Transactions involving:
 - High-risk jurisdictions (e.g., UAE, Turkey, Hong Kong)
 - Last-minute changes in shipping instructions
 - Inconsistent end-use declarations
 - Affiliates or entities subject to the BIS 50% Rule (suspended)

Technology & Tools

- **Screening Platforms:** Integrate with BIS, OFAC, and EU data feeds. Deploy AI, machine learning, and data analytics tools for real-time screening.
- **Case Management:** Use workflow tools for investigation and documentation. Automate escalation and case management for suspicious activity.
- **Predictive Analytics:** Identify patterns and emerging risks using trend analysis.

Engagement with Industry and Regulators

- **Peer Collaboration:** Benchmark practices and share intelligence within the industry.
- **Regulatory Disclosures:** Promptly report suspicious activity to appropriate authorities.
- **Vendor Oversight:** Ensure third-party providers also comply with export controls requirements.

References & Resources

- G7 Joint Guidance on Preventing Russian EC and Sanction Evasion (24/09/2024)
- US BIS Guidance to Financial Institutions on Compliance with EAR (09/10/2024)
- US OFAC Guidance on Supporting Russia's Military-Industrial Base (12/06/2024)
- US ITAR and EAR regulations
- EU Regulation (2021/821) on Dual-Use Items
- EU Common Military List (25/02/2025)
- UK Export Control Orders

Author Insights and Notes

BIS 50% Rule (suspended)

- Extends restrictions to entities majority-owned by listed parties.
- Requires ownership-based due diligence and advanced screening.

GP10 Knowledge Standard

- "Knowledge" includes actual knowledge, willful blindness, or conscious disregard.
- FIs are directly liable for financing prohibited exports.

Horizon Scanning

- Monitor new regulations, geopolitical risks, and emerging trade control trends.
- Maintain flexible, scalable compliance frameworks.

Conclusion

Export controls is no longer just a concern for exporters. Financial institutions are gatekeepers in international trade and must embed export controls compliance into their core risk and compliance frameworks. This guide provides a foundation to build robust, risk-based programs that align with regulatory expectations and protect institutional integrity. Financial institutions must stay agile and proactive amidst the evolving sanctions landscape and international trade restrictions to minimize legal, operational, and reputational risks.

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