

SETTLEMENT AGREEMENT

This settlement agreement (the “Agreement”) with respect to case COMPL-██████████ is made by and between the U.S. Department of the Treasury’s Office of Foreign Assets Control (OFAC), Charles River Systems, Inc. (d/b/a Charles River Development) (“Charles River”), a subsidiary of State Street Bank and Trust Company (“State Street”), State Street, and their subsidiaries and affiliates worldwide (collectively referred to hereafter as “Respondent”).

I. PARTIES

OFAC administers and enforces economic sanctions against targeted foreign countries, regimes, terrorists, international narcotics traffickers, and proliferators of weapons of mass destruction, among others. OFAC acts under Presidential national emergency authorities, as well as authority granted by specific legislation, to impose controls on transactions and freeze assets under U.S. jurisdiction.

Charles River is a non-bank U.S. financial technology company based in Burlington, Massachusetts that specializes in software products that enable clients to communicate trading information. Charles River was acquired in October 2018 by State Street, a global financial institution based in Boston, Massachusetts. At the time of its acquisition, Charles River primarily sold software that investment managers used to analyze their investment portfolios and offered access to a “point-to-point” communications network (the “FIX Network”) that allowed Charles River’s customers (buy-side firms) to privately exchange trade information with their brokers (sell-side firms). Charles River also sold consulting services related to the implementation and maintenance of its software and network products.

II. APPARENT VIOLATIONS

From approximately December 2016 to May 2020, Respondent appears to have violated section 589.202 of the Ukraine-/Russia-Related Sanctions Regulations (“URSR”), 31 C.F.R. part 589, by engaging in at least 38 dealings in new debt prohibited by Directive 1 of Executive Order (E.O.) 13662, as amended.¹ These dealings occurred after Sectoral Sanctions Identification (SSI) entities failed to remit invoice payments to Charles River, as a result of which Charles River redated and reissued invoices and accepted payments after the expiration of the applicable debt tenors in apparent violation of Directive 1 (the “Apparent Violations”).

Under Directive 1, the following activities by a U.S. person or within the United States are prohibited, except to the extent provided by law or unless licensed or otherwise authorized by OFAC:

¹ Directive 1 under E.O. 13662 was originally issued on September 12, 2014, and was subsequently amended twice—first on July 16, 2014, and again on September 29, 2017. For the purposes of case no. COMPL-██████████, OFAC examined each of Respondent’s apparent violations against the version of Directive 1 that was operative at the time of the conduct at issue. Each version of Directive 1 is available on OFAC’s website, <https://ofac.treasury.gov/sanctions-programs-and-country-information/ukraine-russia-related-sanctions>.

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1. For new debt or new equity issued on or after July 16, 2014 and before September 12, 2014, all transactions in, provision of financing for, and other dealings in new debt of longer than 90 days maturity or new equity of persons determined to be subject to Directive 1, their property, or their interests in property;
2. For new debt or new equity issued on or after September 12, 2014 and before November 28, 2017, all transactions in, provision of financing for, and other dealings in new debt of longer than 30 days maturity or new equity of persons determined to be subject to Directive 1, their property, or their interests in property; and
3. For new debt or new equity issued on or after November 28, 2017, all transactions in, provision of financing for, and other dealings in new debt of longer than 14 days maturity or new equity of persons determined to be subject to Directive 1, their property, or their interests in property.

Each of Respondent's Apparent Violations corresponds to a dealing in new debt outside the applicable debt tenors established under Directive 1 for customers listed on OFAC's Sectoral Sanctions Identification List (SSI List). The transactions giving rise to these Apparent Violations of the URSR are valued at approximately \$1,270,456.

III. FACTUAL STATEMENT

Beginning in approximately 2008, Charles River established and maintained business relationships with at least five subsidiaries of two separate parent SSI entities that purchased regular access to the FIX Network as well as certain other network-related services provided by Charles River. Charles River administered this access in accordance with at least five long-term multilayered contracts ("Master Service Agreements") that established the overarching service terms between each SSI entity and Charles River. One Master Service Agreement was signed by an SSI entity prior to the issuance of Directive 1 on July 16, 2014, and four Master Service Agreements were signed by SSI entities in March and October of 2017. Charles River issued invoices, generally on a monthly basis, to the SSI entities pursuant to these Master Service Agreements while Directive 1 was in force. The issuance of an invoice is a debt-related transaction for the purposes of Directive 1, and is permissible if the invoice's payment terms and the receipt of payment conform to the applicable debt tenor.

U.S. persons are permitted to deal in debt with a maturity period longer than the applicable period outlined in Directive 1 if the relevant contract was established prior to the sanctions effective date(s) and was not modified on or after the sanctions effective date(s). Here, however, Charles River and the SSI entities executed multiple amendments to the terms of the Master Service Agreements at issue. As a result, the Master Service Agreements became subject to the terms of Directive 1 that were operative at the time of the contract amendments.

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Charles River committed the Apparent Violations when it redated invoices as many as six times and reissued other invoices under new identifiers to prevent at least one U.S. financial institution from rejecting late payments from SSI customers under the then-applicable tenor. Charles River also accepted more than a dozen invoice payments from SSI entities after the relevant Directive 1 debt tenors had expired. As indicated above, these activities resulted in 38 dealings in new debt prohibited by Directive 1.

In doing so, Charles River appeared to at least recklessly violate E.O. 13662 between 2016 and 2020, by knowingly engaging in activities that it should have known were in violation of or were likely to violate U.S. sanctions.

As early as 2014, Charles River was aware that payments made by an SSI customer through a U.S. financial institution were being scrutinized and/or delayed because they were subject to U.S. sanctions. Since at least 2016, a U.S. financial institution directly and repeatedly informed Charles River that it had rejected and reported late payments pursuant to E.O. 13662. It also provided Charles River with guidance and considerations for customers making sanctions-related payments, and instructed Charles River to seek additional related information from the U.S. government.

In December 2016, at least one SSI customer contacted Charles River staff regarding payments that were being rejected by a U.S. financial institution due to the length of time between the invoice date and date of the associated payment. Citing sanctions difficulties, the SSI customer requested that Charles River redate an invoice that was more than 30 days old to prevent associated payments from being stopped by the beneficiary or correspondent banks. Charles River repeatedly redated invoices following such requests from SSI entities. At least 18 State Street staff members from multiple internal offices (including accounting, collections, and client management) were involved in, or aware of, the reissuance or redating of invoices for SSI entities.

The pattern of activity that formed the basis of the Apparent Violations occurred over the course of at least four years from December 2016 until May 2020, including 19 months following State Street's acquisition by State Street in October 2018. Altogether, OFAC identified 38 Apparent Violations associated with State Street's invoicing and payment practices for the SSI entities that were party to the Master Service Agreements.

Respondent notified OFAC of this activity in August 2020, five months after it concluded that State Street's conduct raised questions regarding compliance with the URSR. At that time, Respondent implemented improved controls on relevant processes, provided training to in-scope staff, and determined not to renew any existing contracts with SSI customers. Respondent terminated the relationship with the SSI entities in 2022 following Russia's invasion of Ukraine.

After evaluating this case pursuant to the Economic Sanctions Enforcement Guidelines, 31 C.F.R. part 501, Appendix A (the Guidelines), OFAC concluded that the case was egregious and not voluntarily self-disclosed.

IV. TERMS OF SETTLEMENT

OFAC and Respondent agree as follows:

1. In consideration of the undertakings of Respondent in paragraph 2 below, OFAC agrees to release and forever discharge Respondent, without any finding of fault, from any and all civil liability in connection with the Apparent Violations arising under the legal authorities that OFAC administers.
2. In consideration of the undertakings of OFAC in paragraph 1 above, Respondent agrees and represents:
 - A. Within seven (7) days of the date Respondent signs this Agreement, to:
 - (i) Sign, date, and email a copy of the signed Agreement to: [REDACTED], Office of Foreign Assets Control, Freedman's Bank Building, U.S. Department of the Treasury, 1500 Pennsylvania Avenue, NW, Washington, DC 20220; and
 - (ii) pay or arrange for the payment to the U.S. Department of the Treasury the amount of **\$7,452,501**. Respondent's payment must be made either by electronic funds transfer in accordance with the enclosed "Electronic Funds Transfer (EFT) Instructions," or by cashier's or certified check or money order payable to the "U.S. Treasury" and referencing **COMPL- [REDACTED]**. Unless otherwise arranged with the U.S. Department of the Treasury's Bureau of the Fiscal Service, Respondent must either: (1) indicate payment by electronic funds transfer, by checking the box on the signature page of this Agreement; or (2) submit to OFAC payment by cashier's or certified check or money order within five days of the execution of this Agreement.
 - B. To waive (i) any claim by or on behalf of Respondent, whether asserted or unasserted, against OFAC, the U.S. Department of the Treasury, or its officials and employees arising out of the facts giving rise to the enforcement matter that resulted in this Agreement, including but not limited to OFAC's investigation of the Apparent Violations and (ii) any possible legal objection to this Agreement at any future date.
 - C. **Compliance Commitments:** Respondent has terminated the conduct described above and has established and agrees to maintain for at least five years following the date this Agreement is executed, sanctions compliance measures that are designed to minimize the risk of recurrence of similar conduct in the future. Specifically, OFAC and Respondent understand that the following compliance commitments have been made:

a. Management Commitment:

- i. Respondent commits that senior management has reviewed and approved Respondent's sanctions compliance program.
- ii. Respondent commits to ensuring that its compliance unit(s) is (are) delegated sufficient authority and autonomy to deploy its policies and procedures in a manner that effectively controls Respondent's sanctions risk.
- iii. Respondent commits to ensuring that its compliance unit(s) receives (receive) adequate resources—including in the form of human capital, expertise, information technology, and other resources, as appropriate—that are relative to Respondent's breadth of operations, target and secondary markets, and other factors affecting its overall risk profile.
- iv. Respondent commits to ensuring that senior management promotes a "culture of compliance" throughout the organization.
- v. Respondent's senior management recognizes the seriousness of apparent violations of the laws and regulations administered by OFAC and acknowledges its understanding of the Apparent Violations at issue, and commits to implementing necessary measures to reduce the risk of recurrence of apparent violations in the future.

b. Risk Assessment:

- i. Respondent conducts an OFAC risk assessment in a manner, and with a frequency, that adequately accounts for potential risks. Such risks could be posed by its clients and customers, products, services, supply chain, intermediaries, counterparties, transactions, or geographic locations, depending on the nature of the organization.
- ii. Respondent has developed a methodology to identify, analyze, and address the particular risks. The risk assessments will be updated to account for the conduct and root causes of any apparent violations or systemic deficiencies identified by Respondent during the routine course of business, for example, through a testing or audit function.

c. Internal Controls:

- i. Respondent has designed and implemented written policies and procedures outlining its sanctions compliance program. These policies and procedures are relevant to the organization, capture Respondent's day-to-day operations and procedures, are easy to follow, and designed to prevent employees from engaging in misconduct.

- ii. Respondent has implemented internal controls that adequately address the results of its sanctions risk assessment and profile. These internal controls should enable Respondent to clearly and effectively identify, interdict, escalate, and report to appropriate personnel within the organization transactions and activity that may be prohibited by OFAC. To the extent information technology solutions factor into Respondent's internal controls, Respondent has selected and calibrated the solutions in a manner that is appropriate to address Respondent's risk profile and compliance needs, and Respondent routinely tests the solutions to ensure effectiveness.
 - iii. Respondent commits to enforcing the policies and procedures it implements as part of its sanctions compliance internal controls through internal or external audits.
 - iv. Respondent commits to ensuring that its OFAC-related recordkeeping policies and procedures adequately account for its requirements pursuant to the sanctions programs administered by OFAC.
 - v. Respondent commits to ensuring that, upon learning of a weakness in its internal controls pertaining to sanctions compliance, it will take immediate and effective action, to the extent possible, to identify and implement compensating controls until the root cause of the weakness can be determined and remediated.
 - vi. Respondent has clearly communicated the sanctions compliance program's policies and procedures to all relevant staff, including personnel within the sanctions compliance function, as well as relevant gatekeepers and business units operating in high-risk areas (e.g., customer acquisition, payments, sales, etc.) and to external parties performing sanctions compliance responsibilities on behalf of Respondent.
 - vii. Respondent has appointed personnel to integrate the sanctions compliance program's policies and procedures into Respondent's daily operations. This process includes consultations with relevant business units and confirms that Respondent's employees understand the policies and procedures.
- d. **Testing and Audit:**
- i. Respondent commits to ensuring that the testing or audit function is accountable to senior management, is independent of the audited activities and functions, and has sufficient authority, skills, expertise, resources, and authority within the organization.

- ii. Respondent commits to ensuring that it employs testing or audit procedures appropriate to the level and sophistication of its sanctions compliance program and that this function, whether deployed internally or by an external party, reflects a comprehensive and objective assessment of Respondent's sanctions-related risks and internal controls.
 - iii. Respondent commits to ensuring that, upon learning of a confirmed negative testing result or audit finding pertaining to its sanctions compliance program, it will take immediate and effective action, to the extent possible, to identify and implement compensating controls until the root cause of the weakness can be determined and remediated.
- e. **Training:**
- i. Respondent commits to ensuring that its OFAC-related training program provides adequate information and instruction to employees and, as appropriate, stakeholders in order to support Respondent's sanctions compliance efforts.
 - ii. Respondent commits to providing OFAC-related training with a scope that is appropriate for the products and services it offers; the customers, clients, and partner relationships it maintains; and the geographic regions in which it operates.
 - iii. Respondent commits to providing OFAC-related training with a frequency that is appropriate based on its OFAC risk assessment and risk profile and, at a minimum, at least once a year to all relevant employees.
 - iv. Respondent commits to ensuring that, upon learning of a confirmed negative testing result or audit finding, or other deficiency pertaining to its sanctions compliance program, it will take immediate and effective action to provide training to relevant personnel.
 - v. Respondent's training program includes easily accessible resources and materials that are available to all applicable personnel.
- f. **Annual Certification:** On an annual basis, for a period of five years beginning 180 days after the date this Agreement is executed, a senior-level executive of Respondent will submit to OFAC a written explanation that provides substantive details regarding how Respondent is meeting all the Compliance Commitments detailed in this Subparagraph 2.C of this Agreement.
- D. Should OFAC determine, in the reasonable exercise of its discretion, that Respondent appears to have materially breached its obligations or made any material misrepresentations under Subparagraph C (Compliance Commitments) above, OFAC shall provide written notice to Respondent of the alleged breach or misrepresentations

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- and provide Respondent with 30 days from the date of Respondent's receipt of such notice, or longer as determined by OFAC, to determine that no material breach or misrepresentations has occurred or that any breach or misrepresentation has been cured.
- E. In the event OFAC determines that a material breach of, or misrepresentation in, this Agreement has occurred due to a failure to perform the Compliance Commitments, OFAC will provide notice to Respondent of its determination and whether OFAC is re-opening its investigation. The statute of limitations applying to the Apparent Violations shall be deemed tolled until a date 180 days following Respondent's receipt of notice of OFAC's determination that a breach of, or misrepresentation in, this Agreement has occurred.
- F. Should the Respondent engage in any violations of the sanctions laws and regulations administered by OFAC—including those that are either apparent or alleged—OFAC may consider Respondent's sanctions history, or its failure to employ an adequate sanctions compliance program or appropriate remedial measures, associated with this Agreement as a potential aggravating factor consistent with the Guidelines.
3. This Agreement does not constitute a final agency determination that a violation has occurred and shall not in any way be construed as an admission by Respondent that Respondent engaged in the Apparent Violations.
4. This Agreement has no bearing on any past, present, or future OFAC actions, including the imposition of civil monetary penalties, with respect to any activities by Respondent other than those set forth in the Apparent Violations.
5. OFAC may, in its sole discretion, post on OFAC's website this entire Agreement and/or issue a public statement about the factors of this Agreement, including the identity of any entities involved, the settlement amount, and a brief description of the Apparent Violations.
6. The certifications to OFAC required under this Agreement shall be submitted to OFAC by email at [REDACTED], addressed to Assistant Director, Enforcement Division, Office of Foreign Assets Control, Freedman's Bank Building, U.S. Department of the Treasury, 1500 Pennsylvania Avenue, NW, Washington, DC 20220.
7. This Agreement consists of nine pages and expresses the complete understanding of OFAC and Respondent regarding resolution of OFAC's enforcement matter involving the Apparent Violations. No other agreements, oral or written, exist between OFAC and Respondent regarding resolution of this matter.
8. This Agreement shall inure to the benefit of and be binding on each party, as well as its respective successors or assigns.

Respondent accepts the terms of this Agreement on this 07 day of June, 2024

Yvette Hollingsworth Clark Digitally signed by Yvette Hollingsworth Clark
Date: 2024.06.07 09:18:00 -04'00'

Signature

Yvette Hollingsworth Clark

Respondent's Printed Name (or in the case of an entity, the name of Respondent's Duly Authorized Representative)

Chief Compliance Officer

Printed Title of Respondent's Duly Authorized Representative and Name of Entity (if applicable)

- Please check this box if you have not enclosed payment with this Agreement and will instead be paying or have paid by electronic funds transfer (see paragraph 2(A)(ii) and the EFT Instructions enclosed with this Agreement).

Date: _____

Bradley T. Smith Digitally signed by Bradley T. Smith
Date: 2024.06.07 13:52:21 -04'00'

Bradley T. Smith
Director
Office of Foreign Assets Control