



U.S. DEPARTMENT OF THE TREASURY
OFFICE OF FOREIGN ASSETS CONTROL



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**State Street Bank and Trust Company Settles with OFAC for \$7,452,501
Related to Apparent Violations of the Ukraine-/Russia-Related Sanctions Regulations**

State Street Bank and Trust Company (State Street), a Massachusetts-based financial institution, on behalf of itself and its subsidiary, Charles River Systems, Inc. (Charles River), a Massachusetts-based non-bank technology company acquired by State Street in 2018, has agreed to pay \$7,452,501 to settle their potential civil liability for apparent violations of OFAC's Ukraine-/Russia-Related Sanctions Regulations (URRSR). The apparent violations involved invoices that were redated or reissued by Charles River for certain customers who were subject to Directive 1 of Executive Order (E.O.) 13662, as well as certain payments accepted by Charles River from these customers. The 38 apparent violations occurred between 2016 and 2020, and involved invoices totaling approximately \$1,270,456.

The settlement amount reflects OFAC's determination that the apparent violations were egregious and not voluntarily self-disclosed. It also takes into account State Street's cooperation with OFAC's investigation (including its proactive notification to OFAC of its internal findings), and the remedial measures implemented by State Street upon discovery of the apparent violations.

Settlement Background

Directive 1 under E.O. 13662

Directive 1 under E.O. 13662 is a "less-than-blocking" measure that prohibits U.S. persons from certain dealings in new debt of entities identified under the directive, beyond certain specified periods of maturity. Specifically, Directive 1 prohibits, among other things, all transactions in, provision of financing for, and other dealings in new debt of longer than 90, 30, or 14 days maturity (or "tenor") for such entities, depending on when the debt was issued.¹ As relevant here, dealings in new debt of longer than 30 days maturity are prohibited for debt issued on or after September 12, 2014 and before November 28, 2017. Dealings in new debt of longer than 14 days maturity are prohibited for debt issued after November 28, 2017.

¹ See [Directive 1 \(as most recently amended on September 29, 2017\)](#) under [E.O. 13662](#). Directive 1 was initially issued on [July 16, 2014](#), and prohibited U.S. persons from transacting in, providing financing for, or otherwise dealing in new debt of longer than 90 days maturity (among other prohibitions). Directive 1 was amended on [September 12, 2014](#) to prohibit transacting in, providing financing for, or otherwise dealing in new debt of longer than 30 days maturity. On September 29, 2017, in accordance with the Countering Russian Influence in Europe and Eurasia Act of 2017 (CRIIEA) (see Title II of the Countering America's Adversaries Through Sanctions Act), Directive 1 was again amended (with a delayed effective date of November 28, 2017) to prohibit transacting in, providing financing for, or otherwise dealing in new debt of longer than 14 days maturity.

Persons identified by OFAC under Directive 1 are included on OFAC’s Sectoral Sanctions Identifications (SSI) List.² Directive 1 applies to entities owned 50 percent or more by one or more persons identified under the directive.³

Charles River’s SSI Customers

Between approximately 2008 and 2022, Charles River initiated and maintained various business relationships with subsidiaries owned 50 percent or more by Sberbank or VTB Bank. Both Sberbank and VTB Bank are Russian financial institutions that OFAC listed under Directive 1 in 2014, and whose majority-owned subsidiaries (the “SSI customers”) are also subject to the Directive 1 prohibitions.⁴

As part of its relationships with these entities, Charles River sold continuous access to a proprietary “point-to-point” communications network (the “FIX Network”) that allowed customers to privately exchange trade information with their brokers. To utilize the network, each SSI customer signed its own master contract with Charles River that established general service and invoicing terms related to access and usage; subsequently, Charles River would bill the SSI customers through invoices issued pursuant to each customer’s contract.

For purposes of Directive 1, the issuance of an invoice represents a dealing in debt.⁵ Accordingly, payment on an invoice involving an SSI entity must be made within the applicable 90, 30, or 14-day limit imposed by Directive 1, depending upon the time period in which the invoice was issued. As a U.S. person, Charles River was prohibited from accepting payments from SSI customers outside the applicable debt tenor of a given invoice. Under Directive 1, U.S. persons are required to reject invoice payments beyond the applicable 90, 30, or 14-day limit.⁶

Description of the Apparent Violations

Between 2014 and 2020, Charles River received invoice payments from its SSI customers through at least one U.S. financial institution. As early as 2014, Charles River was aware that payments were being scrutinized and delayed by the U.S. financial institution due to U.S. sanctions. During its reviews of payments subject to Directive 1, the U.S. financial institution requested copies of related payment documentation from Charles River, including applicable invoices and underlying customer contracts.

² The most recent version of the [Sectoral Sanctions Identifications List](#) is available on OFAC’s [Additional Sanctions Lists webpage](#).

³ See [OFAC Frequently Asked Question 373](#).

⁴ See Federal Register Notice, *Sanctions Actions Pursuant to Executive Orders 13660, 13661 and 13662*, 79 Fed. Reg. 63021-29 (Oct. 21, 2014). In addition to being subject to Directive 1 under E.O. 13662, VTB and Sberbank are also subject to other OFAC sanctions that are not at issue in this case. On February 24, 2022, VTB Bank was identified as a blocked person under E.O. 14024 and Sberbank was identified as an entity subject to Directive 1 under E.O. 14024, “Prohibitions Related to Correspondent or Payable-Through Accounts and Processing of Transactions Involving Certain Foreign Financial Institutions” (the “Russia-related CAPTA Directive”). On April 6, 2022, Sberbank also was identified as a blocked person under E.O. 10424. Both VTB Bank and Sberbank remain listed as entities subject to Directive 1 under E.O. 13662.

⁵ See [OFAC Frequently Asked Question 419](#).

⁶ See [OFAC Frequently Asked Question 370](#).

By at least 2016, two years before State Street acquired Charles River, the abovementioned U.S. financial institution had rejected two payments that were remitted by SSI customers outside of applicable debt tenors based on Charles River's invoice dates. Correspondence indicates that Charles River reached out directly to these SSI customers to inquire about their failure to pay outstanding invoices. Citing what it described as "sanctions difficulties," at least one SSI customer asked Charles River to redate invoices that were more than 30 days old (the applicable debt tenor at the time) to prevent associated payments from being rejected when they reached correspondent and beneficiary financial institutions in the United States.

Following internal deliberation and requests from its SSI customers, Charles River staff began regularly redating or reissuing "old" invoices—redating at least one invoice as many as six times—which disguised their original dates of issuance and made them appear more recent. As a collections manager stated on one occasion, she would, "do whatever it takes to get this invoice paid." Ostensibly "new" invoices were manually created by Charles River, which kept records of the original invoices and dates in its internal systems and then submitted the altered invoices to at least one U.S. financial institution to prevent it from rejecting late payments from SSI customers under the then-applicable tenor. Throughout this time, Charles River also accepted multiple late payments from SSI customers that occurred outside of the payment windows established by Directive 1.

At least 18 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. Despite its status as a mid-sized company that provided finance-related technology services to clients in more than 30 countries, Charles River maintained minimal compliance procedures prior to its 2018 acquisition by State Street. Charles River staff demonstrated a varying, but limited, understanding of Charles River's sanctions-related obligations (including Directive 1), and engaged in a pattern of disregarding the sanctions implications of payment rejections during this time period, despite receiving general sanctions-related payment guidance from the company's U.S. financial institution.

Indeed, on multiple occasions, the U.S. financial institution that routinely rejected late SSI customer payments provided Charles River with a guidance document for customers engaged in sanctions-related transactions, including Ukraine/Russia-related payments. In at least one instance, the financial institution provided Charles River with a second guidance document concerning economic sanctions policies and enforcement, as well as the financial institution's sanctions obligations and internal controls. The guidance noted that the financial institution's status as a U.S. company required it to comply with OFAC sanctions laws and advised that attempts to evade a bank's controls (including the manipulation of information related to a transaction) could be considered a serious offense by government authorities. The financial institution further advised Charles River to seek additional information about E.O. 13662 from government-published sources.

The apparently violative activity addressed in this settlement occurred over the course of at least four years between December 2016 and May 2020, including 19 months following Charles River's acquisition by State Street in October 2018. Although State Street

performed a post-acquisition onboarding analysis in which it correctly identified certain Charles River clients as entities that were subject to Directive 1, this analysis did not consider the Directive's applicability to late invoice payments; subsequent screening alerts concerning payments from SSI customers were manually dismissed without accounting for these restrictions.

As a result of the conduct described above, Charles River appears to have violated E.O. 13662 by engaging in activities that it should have known violated or were likely to violate U.S. sanctions. This conduct resulted in 38 apparent violations of the URRSR, 31 C.F.R. § 589.202 (the "Apparent Violations") that occurred when Charles River staff either redated and reissued invoices or accepted invoice payments after the expiration of an applicable Directive 1 debt tenor. [The Settlement Agreement for this action can be found here.](#)

Penalty Calculations and General Factors Analysis

The statutory maximum civil monetary penalty applicable in this matter is \$13,550,002. OFAC determined that neither State Street nor Charles River voluntarily self-disclosed the Apparent Violations and that the Apparent Violations constitute an egregious case. Accordingly, under OFAC's Economic Sanctions Enforcement Guidelines ("Enforcement Guidelines"), 31 C.F.R. Part 501, app. A, the base civil monetary penalty applicable in this matter equals the statutory maximum, which is **\$13,550,002**.

The settlement amount of **\$7,452,501** reflects OFAC's consideration of the General Factors under the Enforcement Guidelines.

OFAC determined the following to be **aggravating factors**:

- (1) Charles River appeared to at least recklessly violate Directive 1 of E.O. 13662 on 38 occasions by reissuing or redating invoices and accepting invoice payments outside of applicable Directive 1 debt tenors over the course of four years, despite being aware as early as 2014 that certain customer payments were subject to sanctions-related limitations. In doing so, Charles River failed to institute or conduct internal compliance procedures to address the risks posed by its relationships with its clients. Instead, Charles River staff sought payments for previously rendered services by reissuing and redating invoices and submitting them to at least one U.S. financial institution to prevent it from rejecting late payments from SSI customers under the then-applicable tenor.
- (2) Charles River's apparently violative activity continued despite multiple rejection notices from a U.S. financial institution that referenced E.O. 13662, and both U.S. sanctions authorities generally and OFAC specifically. The financial institution also provided Charles River with follow-up guidance for sanctions-related payments, and instructed Charles River to seek additional related information from the U.S. government.
- (3) At least 18 Charles River 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 customers. Charles River's activity also continued for 19 months after its acquisition by State Street in 2018, during which Charles River's customers were onboarded and integrated into State Street's existing compliance program. Throughout this post-acquisition period, State Street's staff dismissed multiple automatic screening alerts concerning payments from Charles River's SSI customers without considering the application of Directive 1 to the activity at issue.

- (4) Charles River is a commercially sophisticated company that employed more than 750 people and served clients in more than 30 countries at the time of the apparently violative activity. Although Charles River is a non-bank entity, its provision of investment-related technology services to banking entities indicated an institutional familiarity with the financial sector. State Street is a large and sophisticated global financial institution.

OFAC determined the following to be **mitigating factors**:

- (1) Neither State Street nor Charles River has received a penalty notice from OFAC in the five years preceding the earliest date of the transactions giving rise to the Apparent Violations.⁷
- (2) State Street implemented remedial measures to its compliance program following an internal investigation into Charles River's conduct, including: (i) amendments to its global sanctions policies; (ii) onboarding prohibitions for all Directive 1 and Directive 1-owned entities; (iii) updates to its alert disposition processes; (iv) training for certain Charles River staff members; and (v) increased monitoring of sanctions issues within State Street management. State Street ultimately terminated all relationships with SSI entities (including Directive 1 entities) that were previously Charles River clients by February 2022. State Street also increased the size of its sanctions compliance review team by 25 percent in 2022.
- (3) Although OFAC had previously received reject reports from Charles River's U.S. financial institution, State Street fulsomely reported on the matter to OFAC and during the investigation by disclosing additional apparent violations, submitting detailed documentation, responding quickly and fully to OFAC's requests, and entering into tolling agreements.

Compliance Considerations

This enforcement action highlights the importance of establishing and maintaining effective sanctions compliance policies, procedures, and controls that are commensurate with a company's business operations and customer base. In addition to accounting for blocking, jurisdictional, and other standard prohibitions, these policies should be sure to convey the importance of and institute controls for examining clients and activities that may be subject to "less-than-blocking" sectoral sanctions, including debt- and equity-related limitations. Such comprehensive compliance policies and training can also help foster an internal culture of compliance to assist staff in effectively responding to warning signs regarding potential violations, including transactions that have been

⁷ A [Finding of Violation](#) issued to State Street on April 30, 2019 was not substantially similar to the subject case, as it addressed violations related to pension payments processed by State Street to the U.S. bank account of a resident of Iran.

blocked or rejected by their financial institutions in accordance with OFAC regulations. Companies should further consider any compliance needs that may arise when new clients are onboarded following mergers or acquisitions. Even after onboarding is complete, companies should closely monitor their new business relationships for sanctions-related issues that may require preventative or remedial measures.

Companies should also be prepared to adequately address scenarios where the activities of certain customers (including entities subject to sectoral sanctions) may trigger internal compliance concerns. Such scenarios could include instances where counterparties routinely fail to pay invoices within applicable payment windows, resulting in the rejection of payments by U.S. financial institutions. As noted in OFAC Frequently Asked Question 419, if a U.S. person believes that it may not receive payment in full by the end of the relevant payment period, the U.S. person should contact OFAC.⁸ Companies should also exercise extreme caution if entities subject to sectoral sanctions ask U.S. parties to engage in deceptive or unorthodox business practices, particularly those involving accounting and recordkeeping standards. Companies should never falsify payment-related supporting documentation to facilitate the processing of transactions that would otherwise be prohibited by U.S. sanctions.

Finally, this enforcement action further emphasizes the importance of understanding and adhering to the prohibitions set forth in OFAC's sectoral sanctions programs. Sectoral sanctions are an important element of OFAC's foreign policy and national security goals, and OFAC is committed to enforcing against these programs. Companies that onboard or otherwise do business with non-blocked entities that are subject to sectoral sanctions, including entities owned more than 50 percent by SSI entities under E.O. 13662, must ensure that they comply with all aspects of these sanctions.

OFAC Enforcement and Compliance Resources

On May 2, 2019, OFAC published [A Framework for OFAC Compliance Commitments](#) (Framework) in order to provide organizations subject to U.S. jurisdiction, as well as foreign entities that conduct business in or with the United States or U.S. persons, or that use goods or services exported from the United States, with OFAC's perspective on the essential components of a sanctions compliance program. The Framework also outlines how OFAC may incorporate these components into its evaluation of apparent violations and resolution of investigations resulting in settlements. The Framework includes an appendix that offers a brief analysis of some of the root causes of apparent violations of U.S. economic and trade sanctions programs OFAC has identified during its investigative process.

Information concerning the civil penalties process can be found in the OFAC regulations governing each sanctions program; the Reporting, Procedures, and Penalties Regulations, 31 C.F.R. part 501; and the Enforcement Guidelines. These references, as well as recent civil penalties and enforcement information, can be found on OFAC's website at <https://ofac.treasury.gov/civil-penalties-and-enforcement-information>.

⁸ See [OFAC Frequently Asked Question 419](#).

Whistleblower Program

The U.S. Department of the Treasury's Financial Crimes Enforcement Network (FinCEN) maintains a whistleblower incentive program for violations of OFAC-administered sanctions, in addition to violations of the Bank Secrecy Act. Individuals located in the United States or abroad who provide information may be eligible for awards, if the information they provide leads to a successful enforcement action that results in monetary penalties exceeding \$1,000,000. FinCEN is currently accepting whistleblower tips.

For more information regarding OFAC regulations, please go to: <https://ofac.treasury.gov/>.