

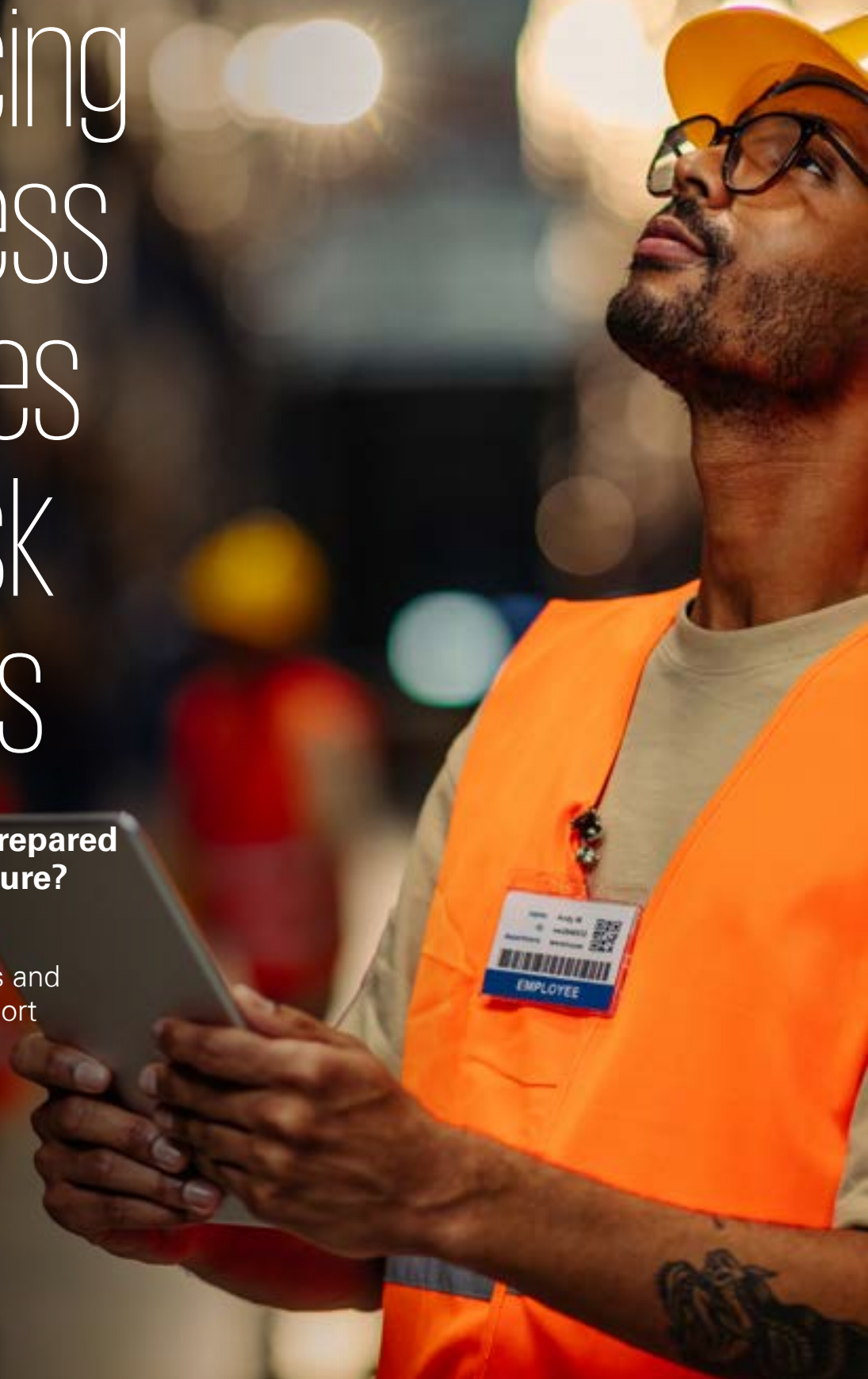


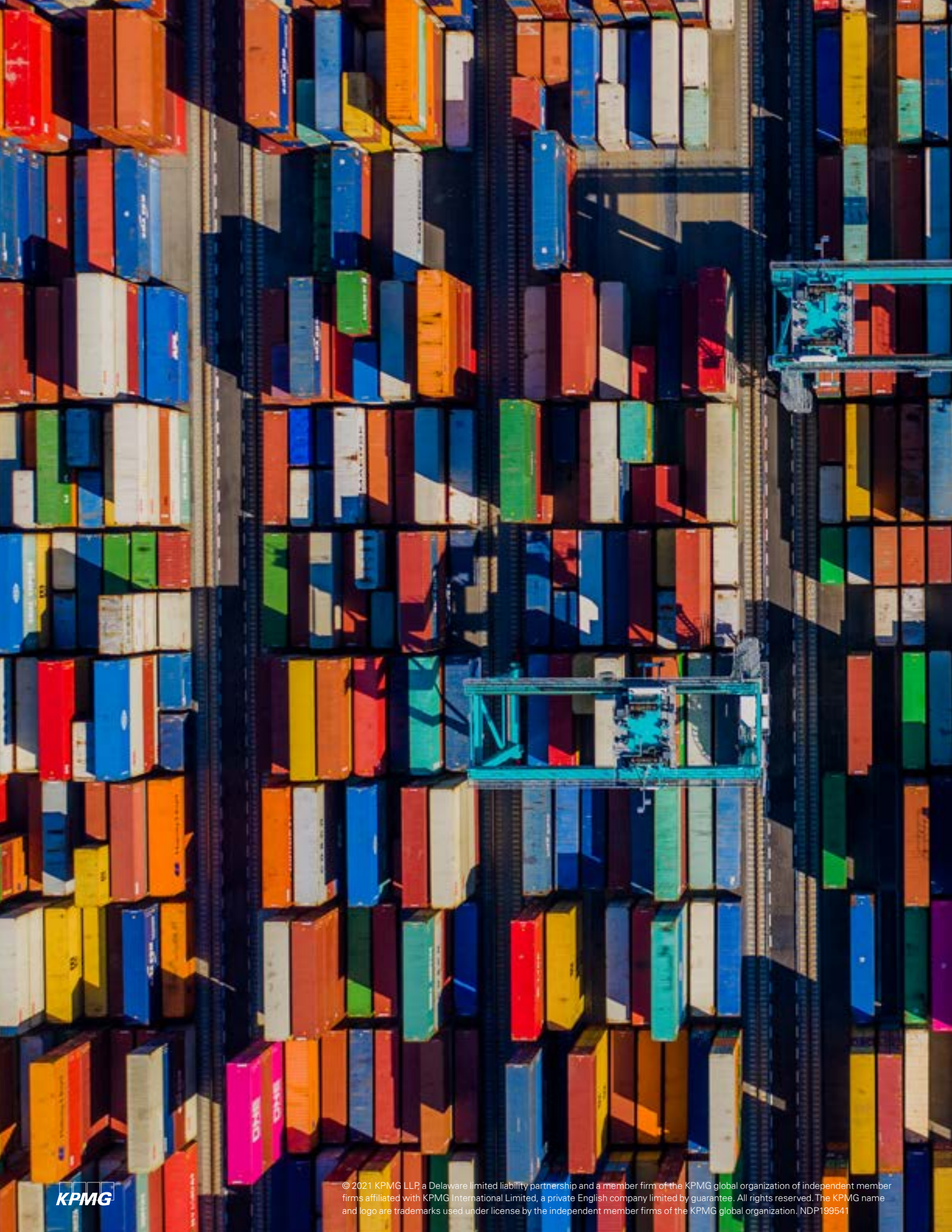
# Balancing business priorities and risk realities

**Are companies prepared  
for a complex future?**

2021 Export Controls and  
Sanctions survey report

[kpmg.com](https://www.kpmg.com)







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There's a lot  
happening in  
export controls and  
sanctions right now

U.S. regulations are becoming stricter. The EU is expanding and solidifying controls. India and China each have emerging export regimes. The use of sanctions is becoming more prevalent and nuanced. The issue today is that many companies' business models are multinational, exposing them to a multitude of country- and region-specific export controls and sanctions rules and regulations that have to be managed. Companies must continually evolve their compliance programs to stay ahead of this ever-fluid scenario.

Export controls quickly become complex because they often require a technical understanding of sophisticated products as well as knowledge of all the parties in the transaction. Combined with the extraterritoriality of the U.S. and China regimes, export compliance professionals are often forced to manage, or at minimum be aware of, regulations they don't fully understand. U.S. sanctions pose similar management challenges, as they prevent U.S. persons and entities from conducting business with a designated individual or entity anywhere in the world and can require a deep understanding of the related flows of goods and funds.

Additionally, although once an almost exclusively U.S. concern, sanctions are quickly being adopted by other countries as a foreign policy tool. The risk for violating either export controls or sanctions can be steep fines, loss of export privileges, and even loss of access to the U.S. financial system.

The objective of this survey is to provide insight into the export controls and sanctions landscape and an analysis of the state of compliance programs across industries, from regulations and audit to training and technology.

Through these results we hope to help companies maximize the effectiveness of existing export controls and sanctions compliance programs by getting a better handle on their current and future risks, identifying program gaps, setting a benchmark against their peers, and charting a path forward.

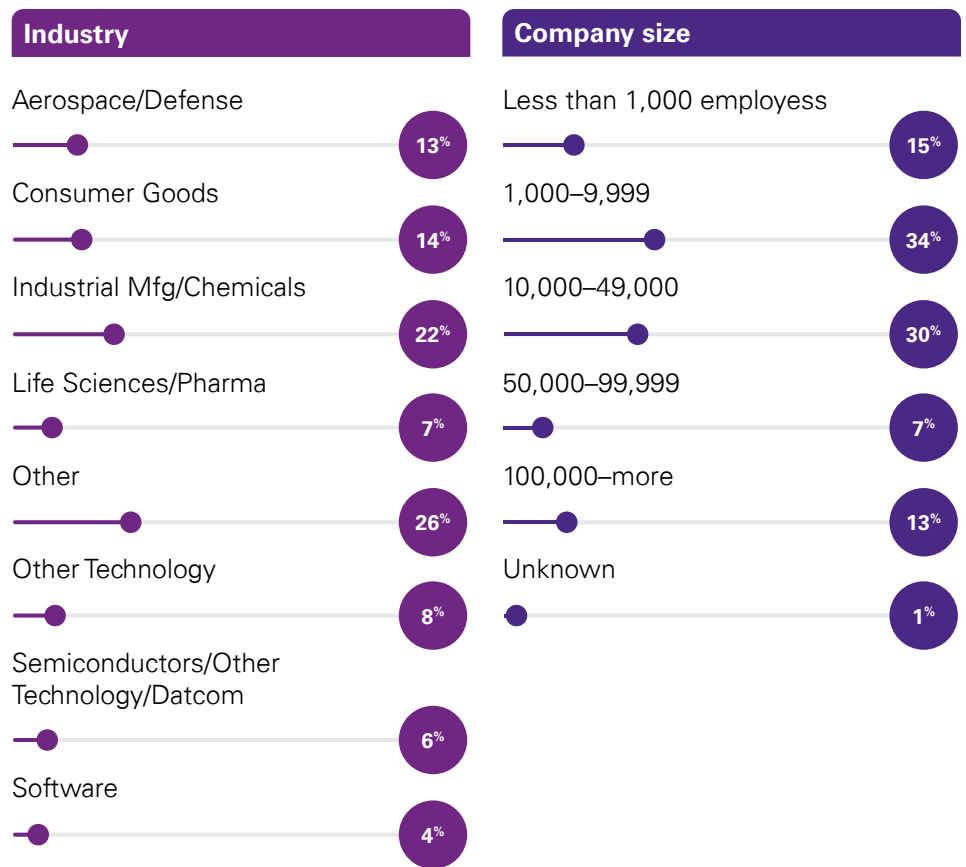


## About the survey

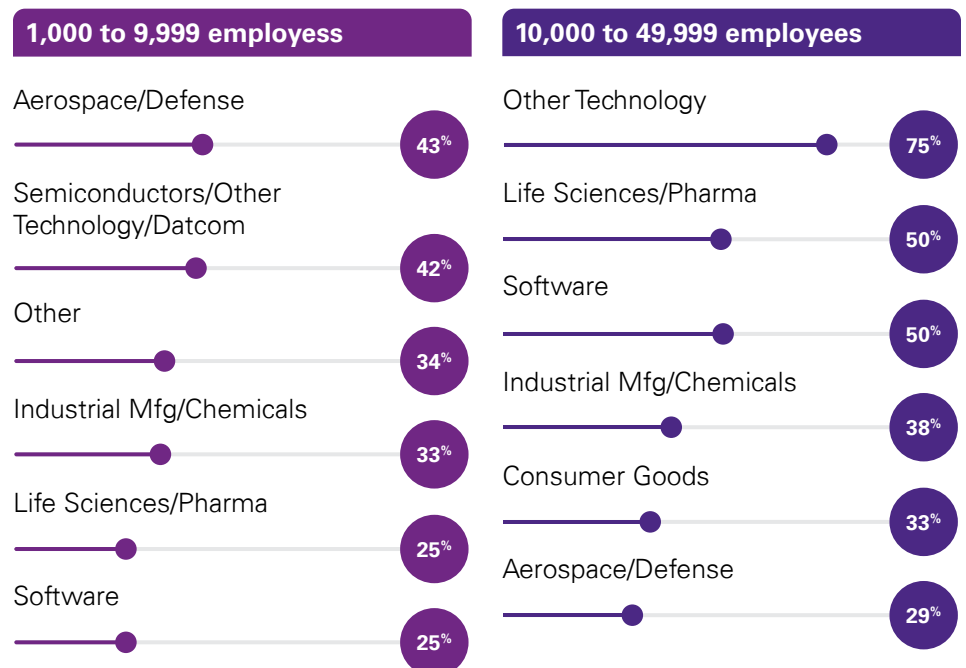
In February 2021, KPMG engaged export controls and sanctions professionals at more than 100 multinational firms to gather their input on a variety of business-critical issues.

Spanning a broad range of companies in terms of size and industry, the survey focused on understanding how export controls and sanctions programs are organized, the most relevant global regulations with which they must comply, the regions/countries they export from and to, and their primary exports, among other items.

## Demographic details

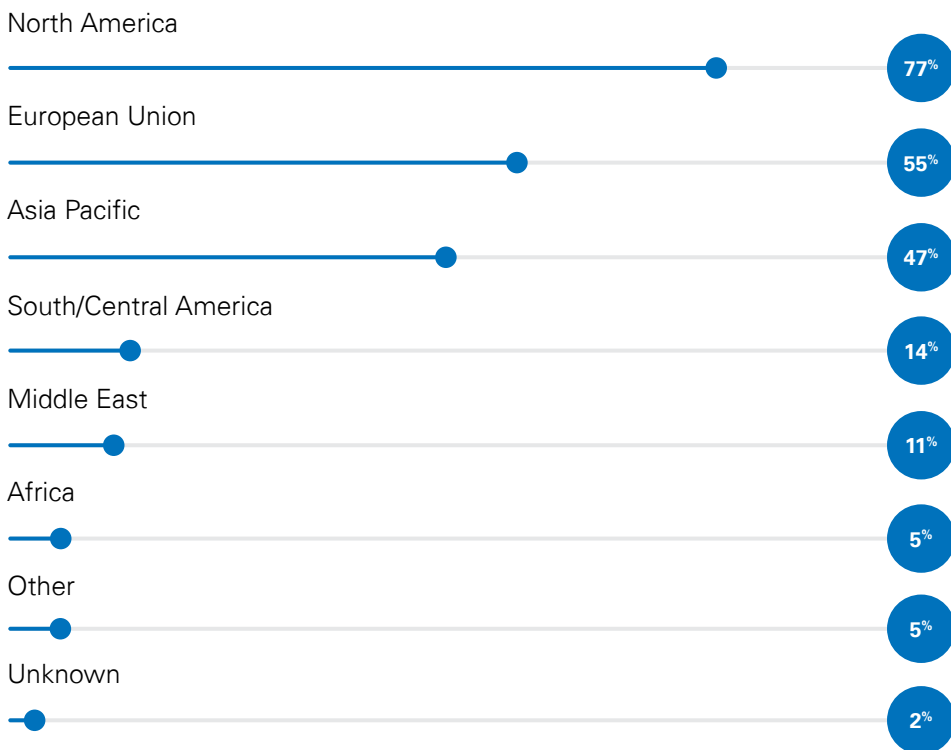


Global size by industry varied slightly, with the strongest representation in the 1,000-9,999 and 10,000-49,999 categories:



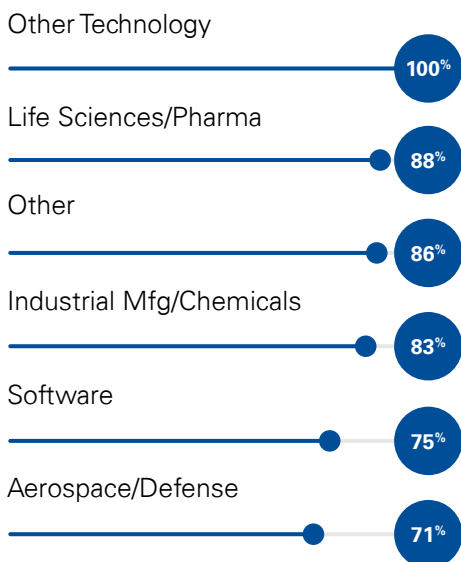
Based on the industry type, compliance professionals are juggling multiple origination and destination points:

### Primary export origination market

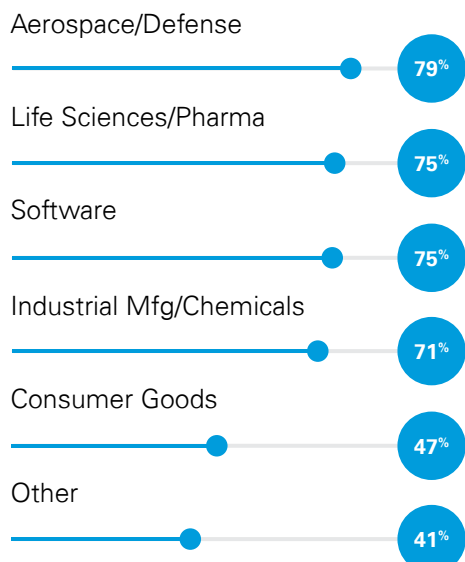


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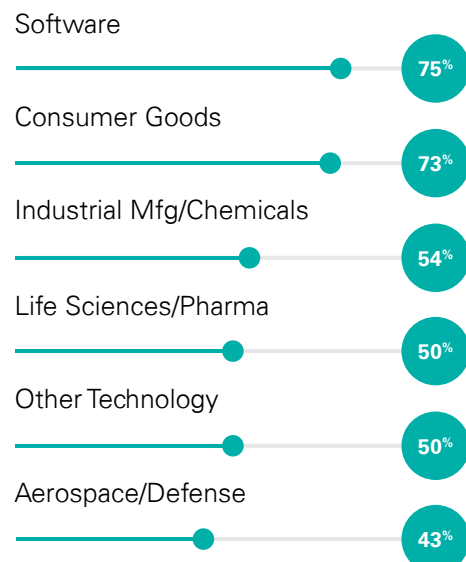
### North America (origination)



### European Union (origination)

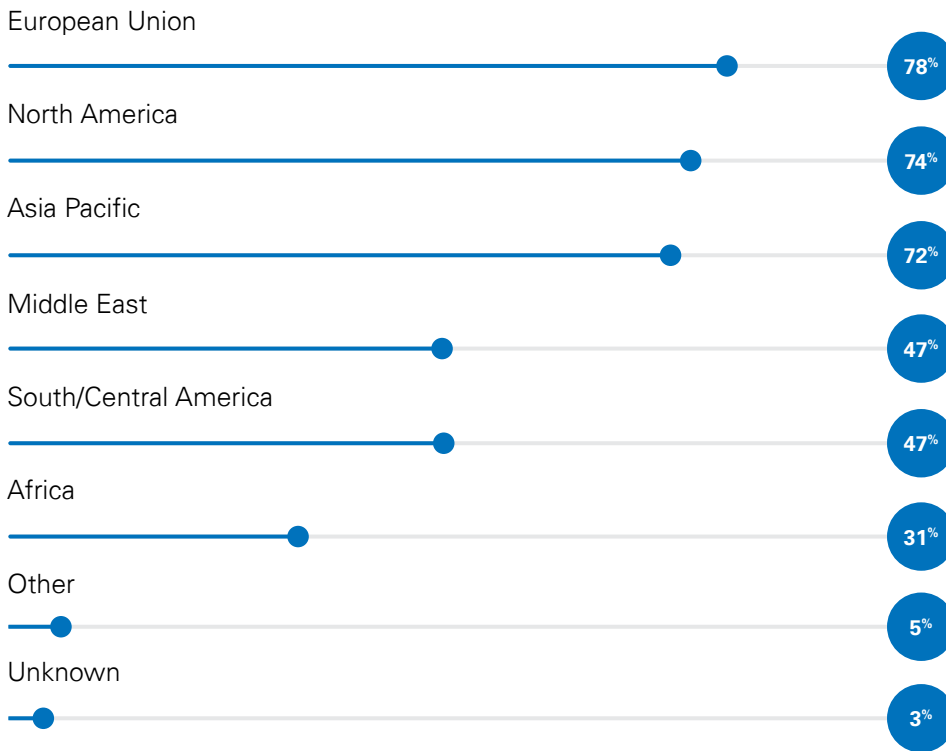


### Asia Pacific (origination)



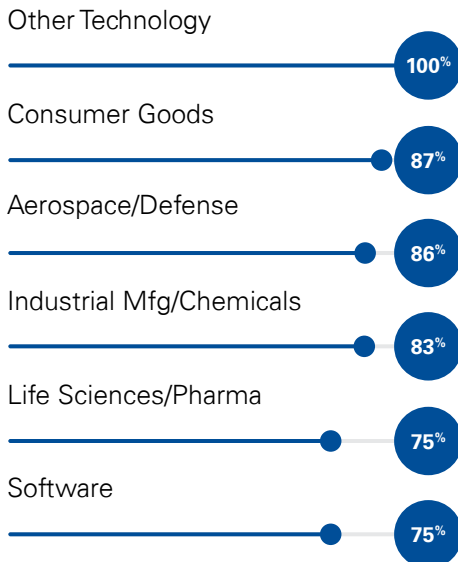
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## Primary export destination

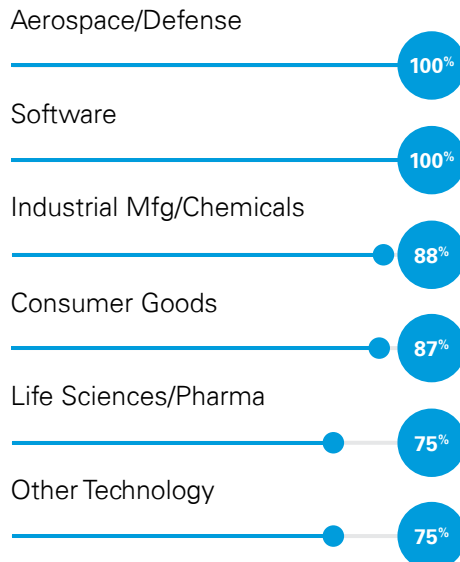


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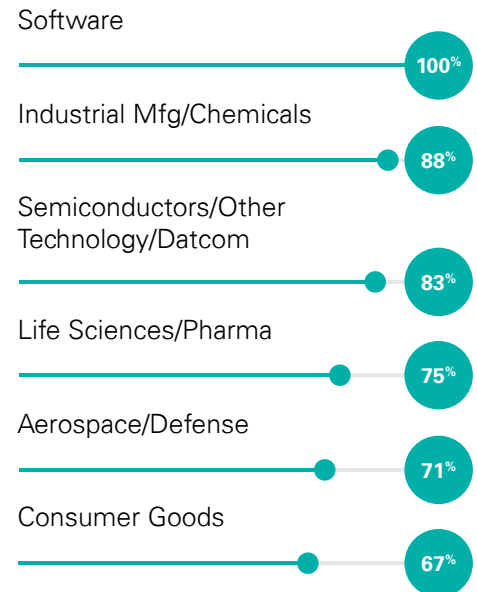
## North America (Destination)



## European Union (Destination)



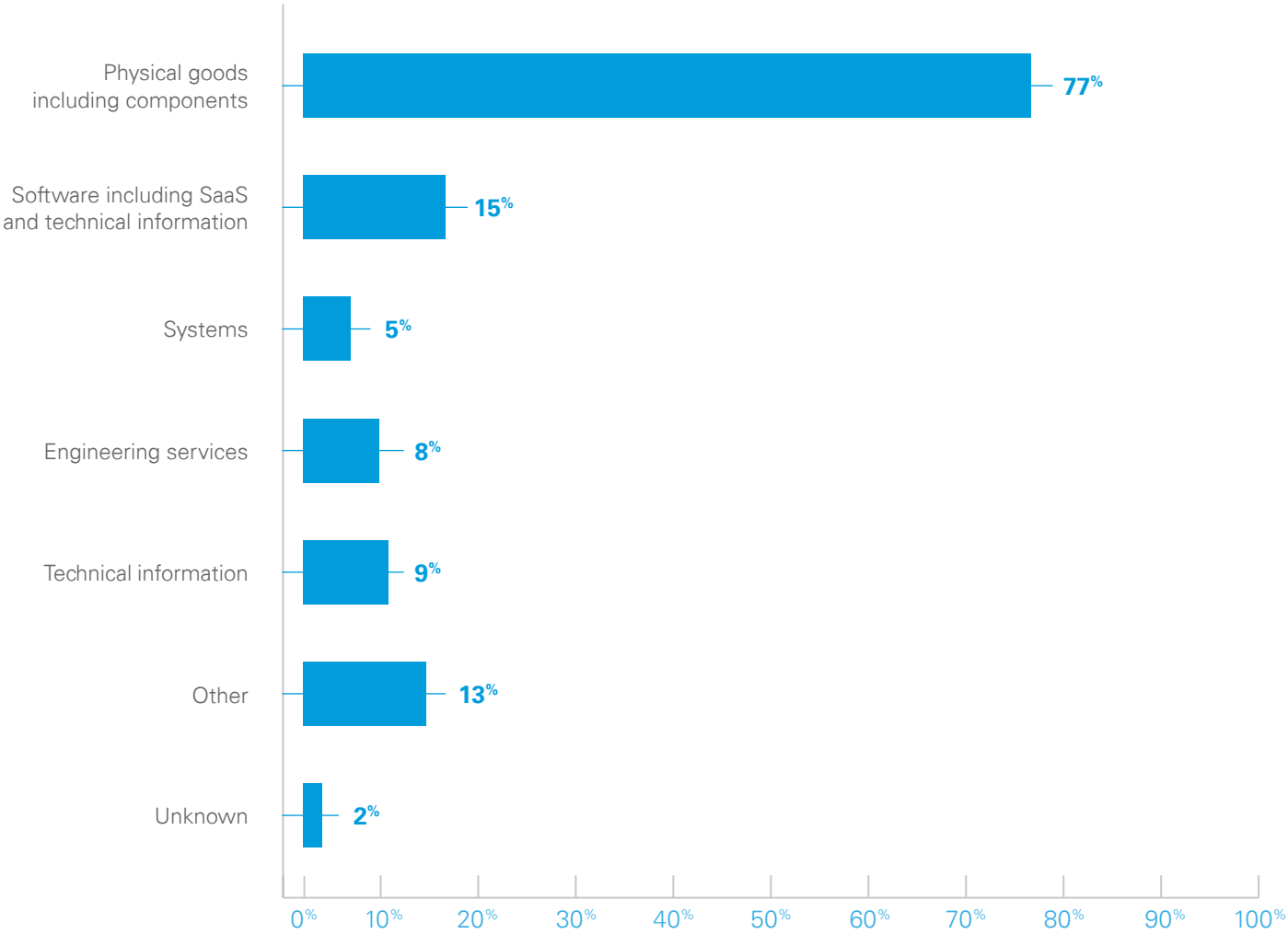
## Asia Pacific (Destination)







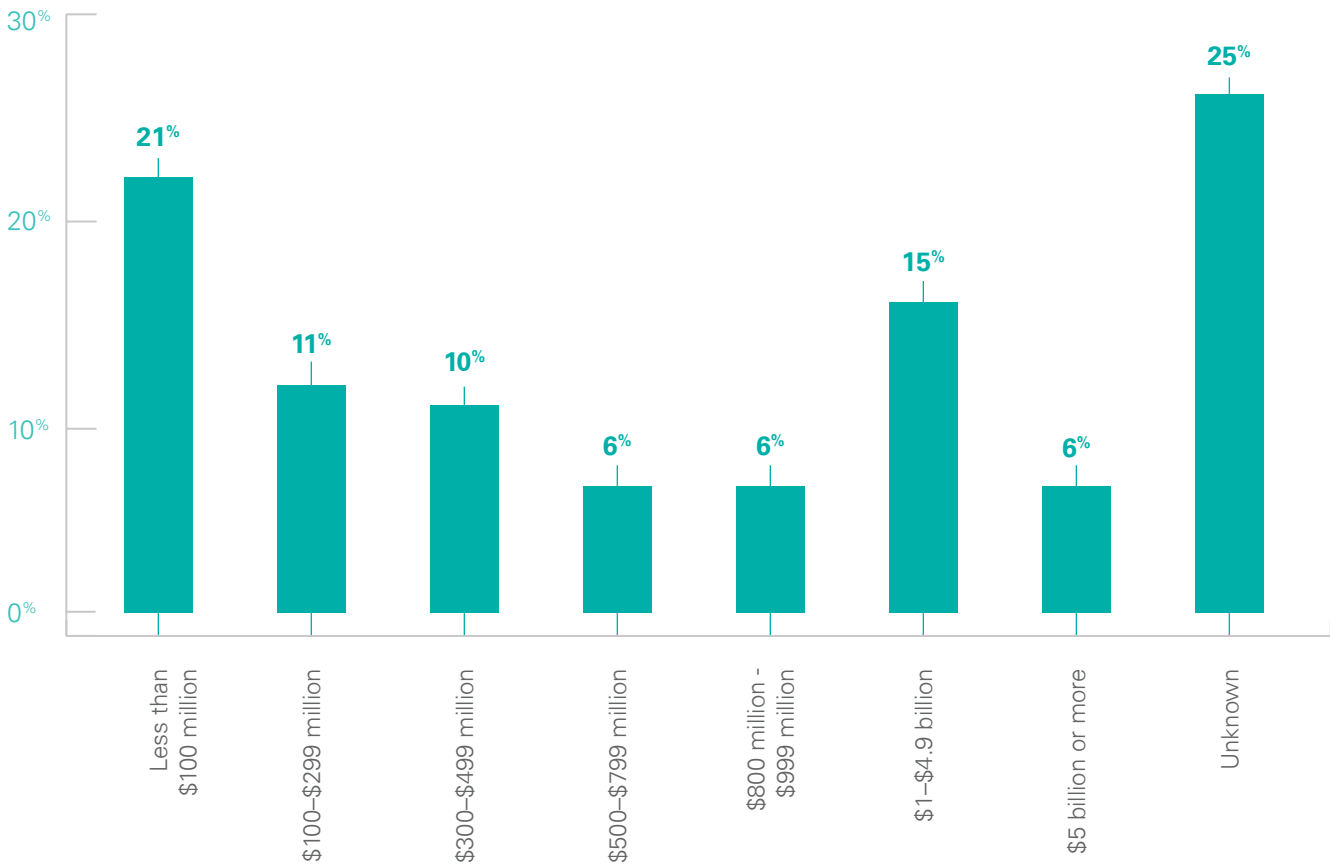
Unsurprisingly, the primary export based on sales revenue is physical goods, with software a distant second.



Respondents were instructed to choose all applicable responses.



What was surprising was that the annual total estimated sales revenue of all exports from the U.S. was not concentrated at a specific amount, but rather reflects a range in values.



### What did we learn about our respondents?

Transactions in North America, the EU and Asia Pacific are driving export activity. This means that compliance professionals are managing multiple export regimes—and we anticipate that regulations in these jurisdictions will be tightening.





## About the authors



**Steven Brotherton**  
**Principal**  
**U.S. & Global Export Controls  
& Sanctions Leader**  
T: 415-963-7861  
E: sbrotherton@kpmg.com

Steven is a Principal in KPMG’s San Francisco office and leads the firm’s Global Export Controls and Sanctions services, and also leads the Bay Area Trade & Customs practice. He has extensive experience in developing solutions to complex trade compliance issues, the design and implementation of export controls and sanctions compliance programs, audits, training, and innovative technology solutions. As a leading export controls and sanctions authority, he is regularly involved in the latest challenges impacting multinational companies. Further, Steven served two terms on the BIS Regulations and Procedures Technical Advisory Committee. Prior to joining KPMG, Steven led the export compliance practice at a leading international law firm.



**Elizabeth Shingler**  
**Manager, Trade  
& Customs**  
T: 267-256-2691  
E: eshingler@kpmg.com

Elizabeth is a Manager in the Global Export Controls and Sanctions services, located in KPMG’s Philadelphia Office and is also the Trade & Customs Knowledge Leader. As Knowledge Leader, Elizabeth stays abreast of regulatory changes impacting trade and customs across topical compliance areas to assist clients in understanding the trade landscape. Elizabeth has assisted clients with a broad spectrum of trade related challenges including export compliance and sanctions matters, import valuation, trade transformation, and duty-savings optimization.



## Key findings

87%

of respondents say there is a person or team at their organization specifically dedicated to managing export compliance.

66%

don’t have a separate team for sanctions compliance.

73%

report that their export controls and sanctions function sits within a centralized global corporate compliance team.

25%

don’t have, or don’t know if they have, a documented export controls or sanctions program with formal policies, processes and procedures.

99%

say the laws and regulations of the U.S. impact their program, but only 72% and 46%, respectively, say the laws of the EU and China impact their program.

39%

say they don’t perform regular audits of their export controls and sanctions program, or don’t know, if they do.



61%

report that their internal audit function conducts their export controls and sanctions audits, which may be problematic if they are unfamiliar with export rules and regulations.

30%

outsource export related activities.

46%

say their company has made export controls and sanctions violation disclosures within the last five years to a government agency.

82%

say their company provides export controls and sanctions compliance training.

59%

say their export controls and sanctions professionals are not required to obtain a certain number of training hours or attend specific training.

89%

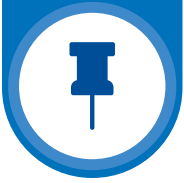
conduct restricted party screening (RPS).

72%

say they don't or don't know if they use translation tools for non-Latin alphabet text.

45%

are obtaining licenses for deemed exports.



# The current state of export controls and sanctions compliance programs

In a fluid and complex global trade environment, companies with multinational business models need a clear line of sight into an ever-expanding collection of domestic and international export controls and sanctions laws and regulations.

From broad “knowledge” requirements to technology-specific regulations, there’s a growing burden on companies to more closely monitor all aspects of potential international transactions and ensure they are positioned to comply with the prevailing rules.

We are encouraged that three-quarters of survey respondents said they have a robust export controls and sanctions compliance program in place. What’s more, the vast majority (87 percent) say they have an

individual or department—59 percent said one to five professionals—specifically dedicated to managing export compliance, with 73 percent reporting that the function sits within a centralized global corporate compliance team. As for reporting structure, 60 percent told us that these professionals either report to legal (39 percent) or trade compliance (21 percent)—the areas most likely to have perspective on this important function. All positive, but 25 percent told us they either don’t have a formal program or don’t know whether or not they do. That’s a concern.

## Does your company have a documented export controls and sanctions program with formal policies, processes and procedures?



Simply stated, the depth and breadth of your company’s program will provide the guardrails to keep you compliant. However, we’re seeing many companies focus too much—often inadvertently to be fair—on the daily operational grind at the expense of strategy. Developing policy, establishing and monitoring key controls and ensuring export compliance personnel are trained should be a top priority.

Unfortunately, respondents said only about a quarter of their team’s time is devoted to these strategic activities. It’s interesting to note that a significant number of respondents (44 percent) also told us their export controls and sanctions programs do in fact feature roles that focus exclusively on strategy, a disconnect that hopefully suggests more time is actually being spent on these endeavors.

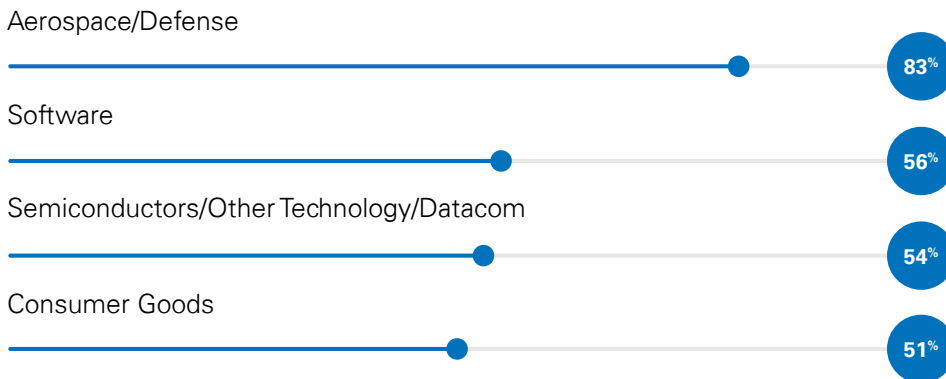
## What is the approximate percentage of time your export controls and sanctions function spends on operational and strategic responsibilities?



The trend away from strategic work—whatever the reason—gets even more pronounced across several industries. Digging deeper into the data around companies that report spending nearly half their time on day-to-day, transactional export responsibilities, four industries spend even more time, on average, on non-strategic

activities than the entire respondent pool. As the spotlight on export controls and sanctions continues to grow brighter, we encourage multinationals to place greater emphasis on strategy—of course, without compromising daily operations.

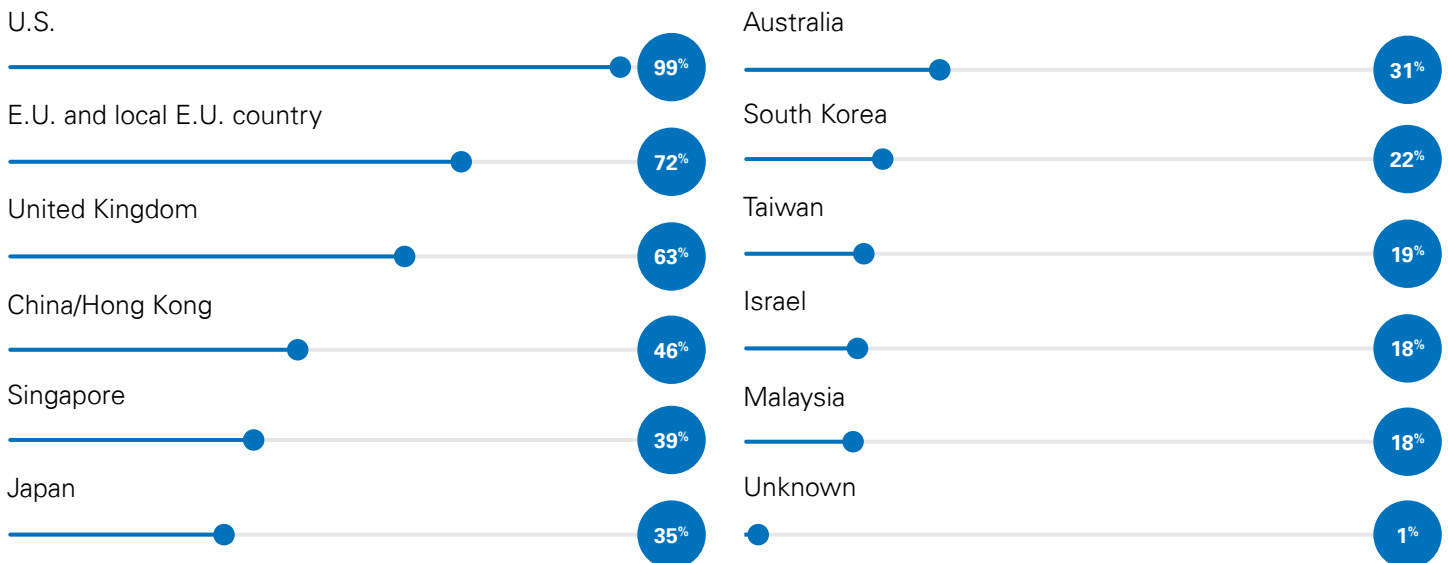
### Percentage of time spent on day-to-day transaction management by industry



From a country-specific perspective, survey responses regarding the relevant laws and regulations they must be aware of and comply with are noteworthy. It's not surprising that virtually all respondents (99 percent) cited

they are subject to U.S. regulations and nearly three-quarters indicated the EU. That less than half (46 percent) mentioned China/Hong Kong, however, is revealing.

### The laws and regulations of which countries most impact your export controls and sanctions program?



Respondents were instructed to select all applicable responses.



Survey data indicates Asia Pacific plays an important role in many supply chains. Presumably, China features prominently in many of those transactions. Multinationals that export from China or import to China and then subsequently re-export—a common practice today—but don't have a formal China-focused export compliance program put themselves at a disadvantage and we would encourage them to address that gap.

In today's international business climate, export compliance must be top of mind. This will become particularly true as China's export control regime continues to evolve. In the last year, the Chinese government has taken measures to better codify and define its requirements, including issuing new laws around cryptography. Although these laws are still evolving, they will significantly complicate the compliance landscape for many exporters.

### Export controls and sanctions audit frequency

Unquestionably, it's a positive for trade compliance as a function that 75 percent of survey respondents report that they have an export compliance program in place and a formal set of policies and procedures. However, are those programs audited regularly to detect compliance failures, identify risks, and develop recommendations for remediation? According to the survey, nearly 40 percent either said they do not or don't know.

### Does your company perform regular audits of its export controls and sanctions program?



We've already established that export compliance is complicated. In the U.S. alone, there are multiple agencies that regulate export controls, from the Commerce Department's Bureau of Industry and Security (BIS) and the Department of the Treasury's Office of Foreign Assets Control (OFAC) to the Department of State's Directorate of Defense Trade Controls (DDTC), among others. If the worst should happen and an investigation is opened, these agencies will want to review the company's policies and procedures to establish not only their existence, but that they are relevant, effective and valid. It's not enough to simply have a pro forma compliance program. It must be

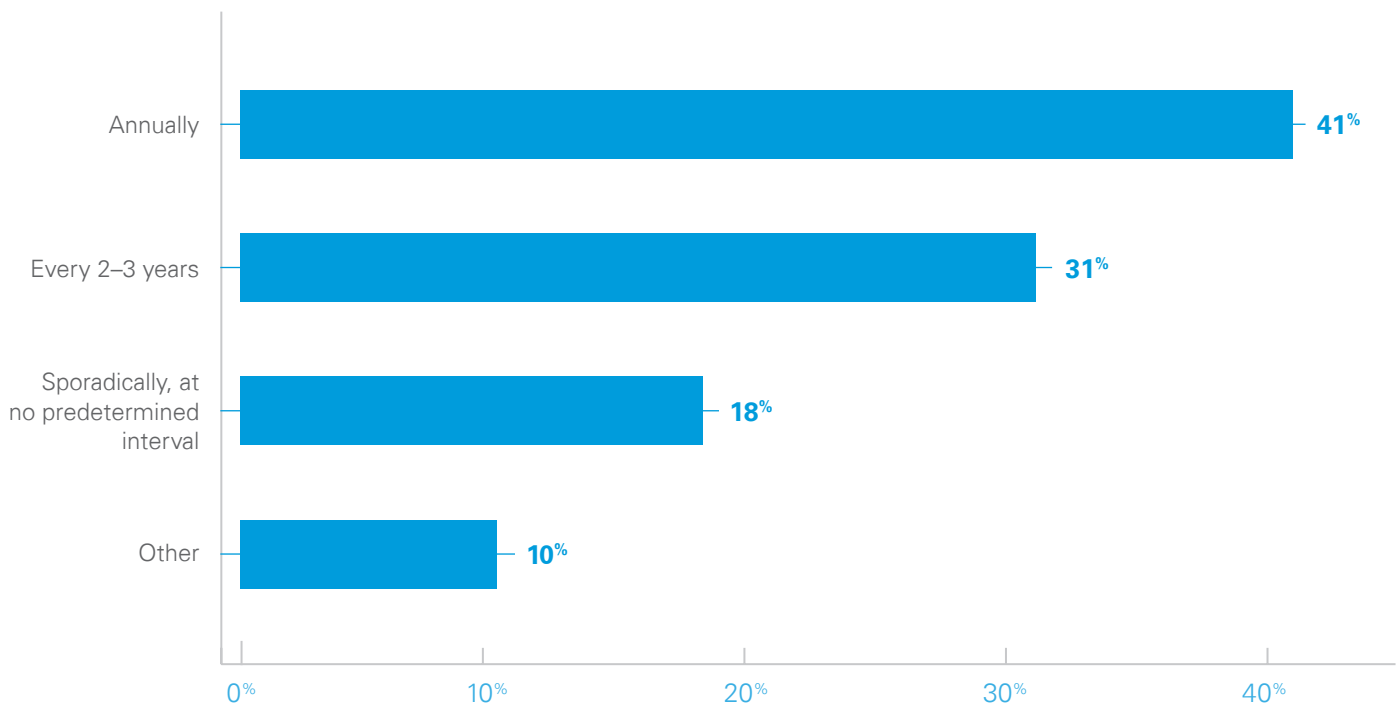
a living, evolving component of a company's operating model. It is not a "set it and forget it" undertaking.

Audit frequency is similarly vital. Although 41 percent and 31 percent of respondents report that their programs are audited annually or every two to three years, which might sound robust, when the alternative is potentially substantial fines, we take a more cautious view. Indeed, depending on the sensitivity of the industry—aerospace and defense or chemicals, for example—an annual audit may not be enough given the fluid nature of the exported products and the relevant regulations.





### How often are export controls and sanctions audits performed?



Then there's the matter of who conducts the audit. A significant proportion of respondents (67 percent) said their export or trade compliance function, but 61 percent also said internal audit is involved. Export compliance typically is not within internal audit's skill set. It could work if the trade and export team develops materials and internal audit does the testing, but we would caution companies against relying solely on the results of these reviews. Even export compliance professionals can struggle with assessing more nuanced risk—for a group that does not work with the technical requirements regularly, uncovering violations can be challenging.



### Outsourcing: Another set of eyes

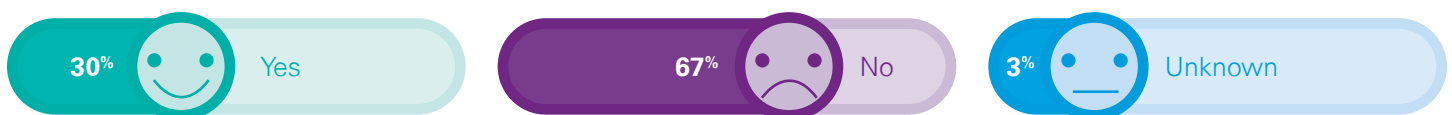
Given the complexities of the global environment, third parties can provide a set of highly-trained eyes—making an existing export compliance team even stronger. Third parties often have the specific export-related expertise that companies, especially smaller enterprises, just can't match. From jurisdiction and classification determinations and deemed exports to restricted party screening, these service providers can be a powerful partner.

The majority of survey respondents (67 percent), however, report that their company does not outsource

these activities. Regarding commodity jurisdiction and classification specifically, it's worth noting that nearly 80 percent of respondents said they're doing this work in-house. A third party can provide an unbiased, yet highly skilled review, ensuring methodologies and validating determinations.

Again, for organizations that can devote budget to third-party assistance, it can be advantageous to utilize an outside resource for critical, yet specialized needs such as audit, export license applications and training, to name just several.

### Does your company outsource any export controls and sanctions activities



### Key takeaway

With only 41 percent of companies indicating that they are auditing their export compliance program annually, there may be unidentified risks that could not only change a company's risk profile but undermine existing compliance activities.



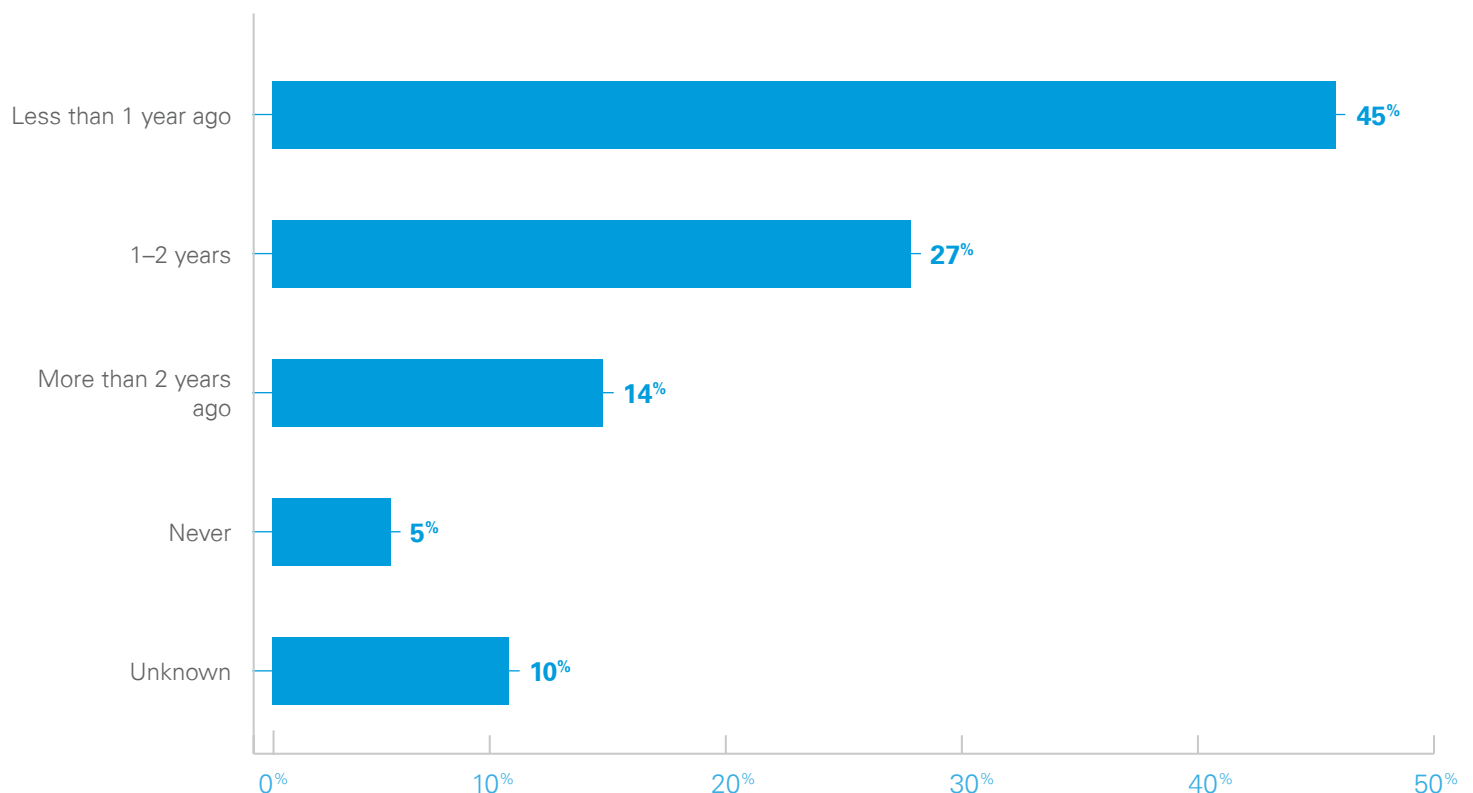
# Risk assessments and key controls

Often companies focus on conducting audits—but audits will not be effective unless the company understands what’s driving their risks. Regular, robust risk assessments coupled with key control identification and management can help compliance professionals establish meaningful audit plans. Key controls are the glue for the entire compliance program. Every export compliance program has core controls from which other compliance determinations are made.

Think of key controls like a building’s structural support. If those supports fail the entire structure will collapse. Establishing and continually assessing the key controls within the relevant processes and procedures strengthens the underpinnings that make and keep those measures effective.

By definition, risk assessments reflect the unique considerations of that particular industry and business, so that risk-drivers are properly identified and prioritized. In fact, risks may even vary among business units. Failing to regularly perform risk assessments can lead to material errors.

## When was the last time your company conducted an export controls and sanctions risk assessment?





Similarly, key control management is not cookie-cutter or generic. Assessing whether a procedure is effective is closely aligned with the objective the company is trying to achieve, which will change as the organization evolves. Failing to keep a finger on the pulse of compliance processes can result in material errors. Ultimately, if these mistakes go undetected a violation may result.

While key controls are a vital component of audit and compliance programs overall, we find that they are not given adequate attention. As a result, many companies are caught off guard when errors occur because they assumed a robust compliance program was in place, when in reality the controls they relied on did not function properly. Identifying the right key controls is critical, but no less so than documenting them in a formal, regularly monitored matrix.

### Does your company have a matrix for identifying and monitoring the key controls within your export controls and sanctions procedures and processes?



The logical starting point for companies in connection with the identification of relevant key controls is a robust risk assessment. This entails a holistic, regularly updated evaluation of the company's business profile, product line, internal dynamics and vendor and third-party relationships.

For a more in-depth look at identifying, documenting and testing key controls, please see our publication [Key controls for export compliance programs](#).

#### Key takeaway

Risks evolve in response to business decisions or regulatory changes. But they can't be prioritized if they are not fully understood—risk assessments provide the transparency needed to develop a compliance plan that will enable compliant transactions. Key controls are the guardrails in an effective program, so actively monitoring and validating them will help ensure risks are appropriately managed.



# Training is key

While 99 percent of survey respondents said their export compliance program is impacted by U.S. laws and regulations—far outpacing all other regions and countries—95 percent of the world’s consumer base is located outside the United States<sup>1</sup>, demonstrating the importance of ensuring personnel remain educated through comprehensive ongoing training.

Whether it’s reviewing existing Export Administration Regulations (EAR) or International Traffic in Arms Regulations (ITAR), or fostering awareness of potential new changes, a robust training regimen is a vital practice and in the best interests of the business. And while we’re

encouraged that more than 8 in 10 respondents say their company has an export controls and sanctions compliance training program, the fact that nearly 20 percent say they don’t, or don’t know if they provide training, is a deficiency that should be addressed.

## Does your company provide export controls and sanctions compliance training?



The survey also revealed that economic and trade sanctions (86 percent) and dual-use regulations (81 percent) are by far the top training topics, which makes sense in the current international business environment. However, nearly 60 percent of respondents said export compliance professionals at their company don’t need a certain number of training hours, nor are there any specific training courses required. Given the high-profile nature of export violations, we would urge companies to hold their teams to a higher educational standard.

Establishing documented training programs is no guarantee that violations will not materialize, but it certainly reduces the risk, minimizes export business delays, and can lessen the costs of compliance.

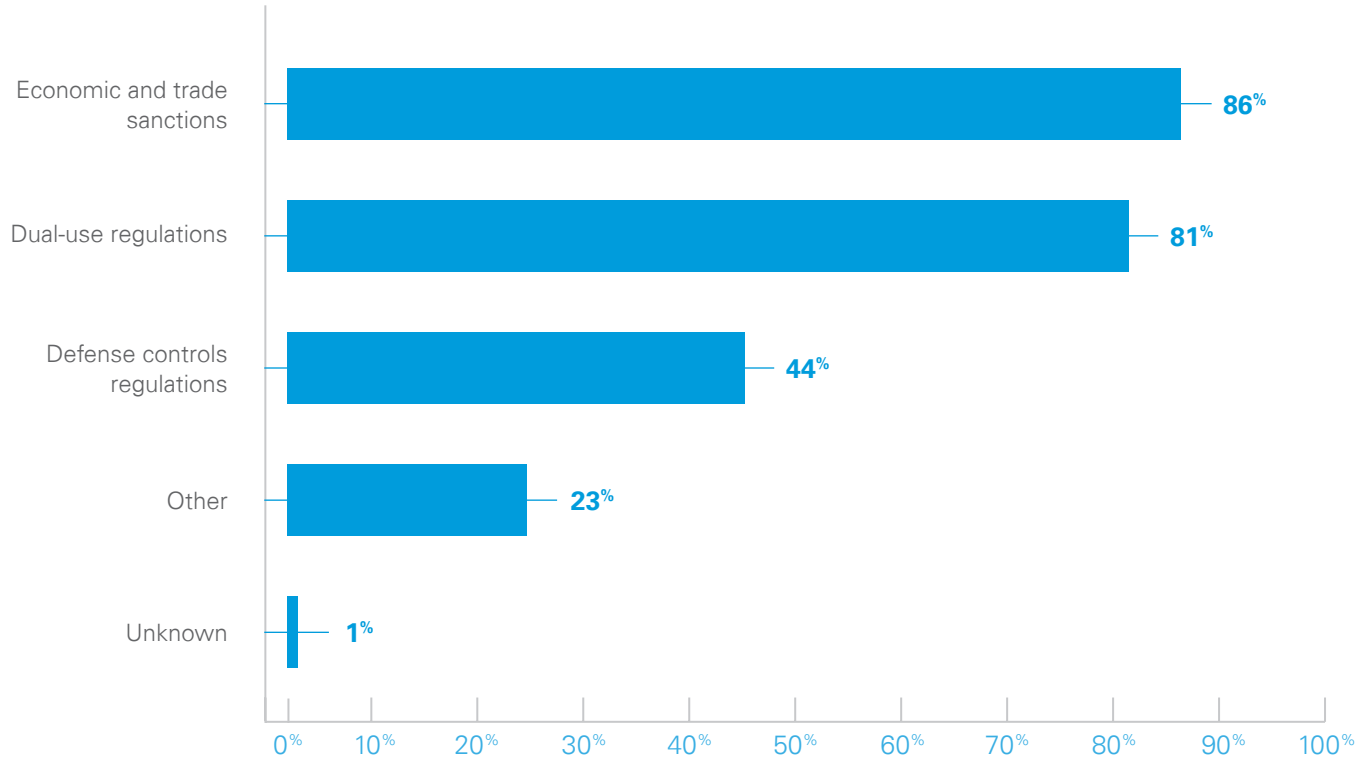
Considering these complexities, it’s not surprising that many export controls and sanctions professionals feel that knowledge of the topic is lacking at their company. Indeed, 44 percent of survey respondents said it is inadequate; another 10 percent said they simply don’t know.

## Do you believe there is an adequate understanding of export compliance within your company?



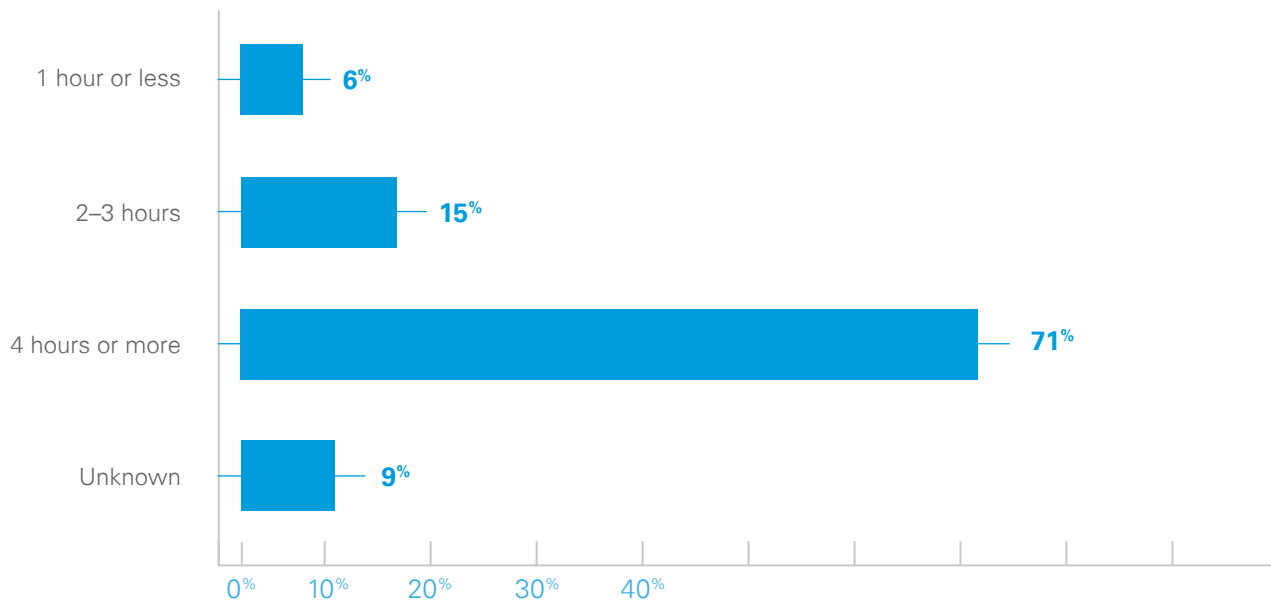
<sup>1</sup> Source: Export-Import Bank of the United States.

## On what topics does your company provide export controls and sanctions compliance training?



Respondents were instructed to select all applicable responses.

## How many hours of export controls and sanctions training are required?



### Key takeaway

Getting executive buy-in and ensuring the export compliance team has a seat at the table is critical in developing a compliance program that is integrated into the business and provides relevant and timely guidance. One of the most effective ways to put a program on this path is to make sure all stakeholders are aware of their export-related obligations, regardless of where they sit.





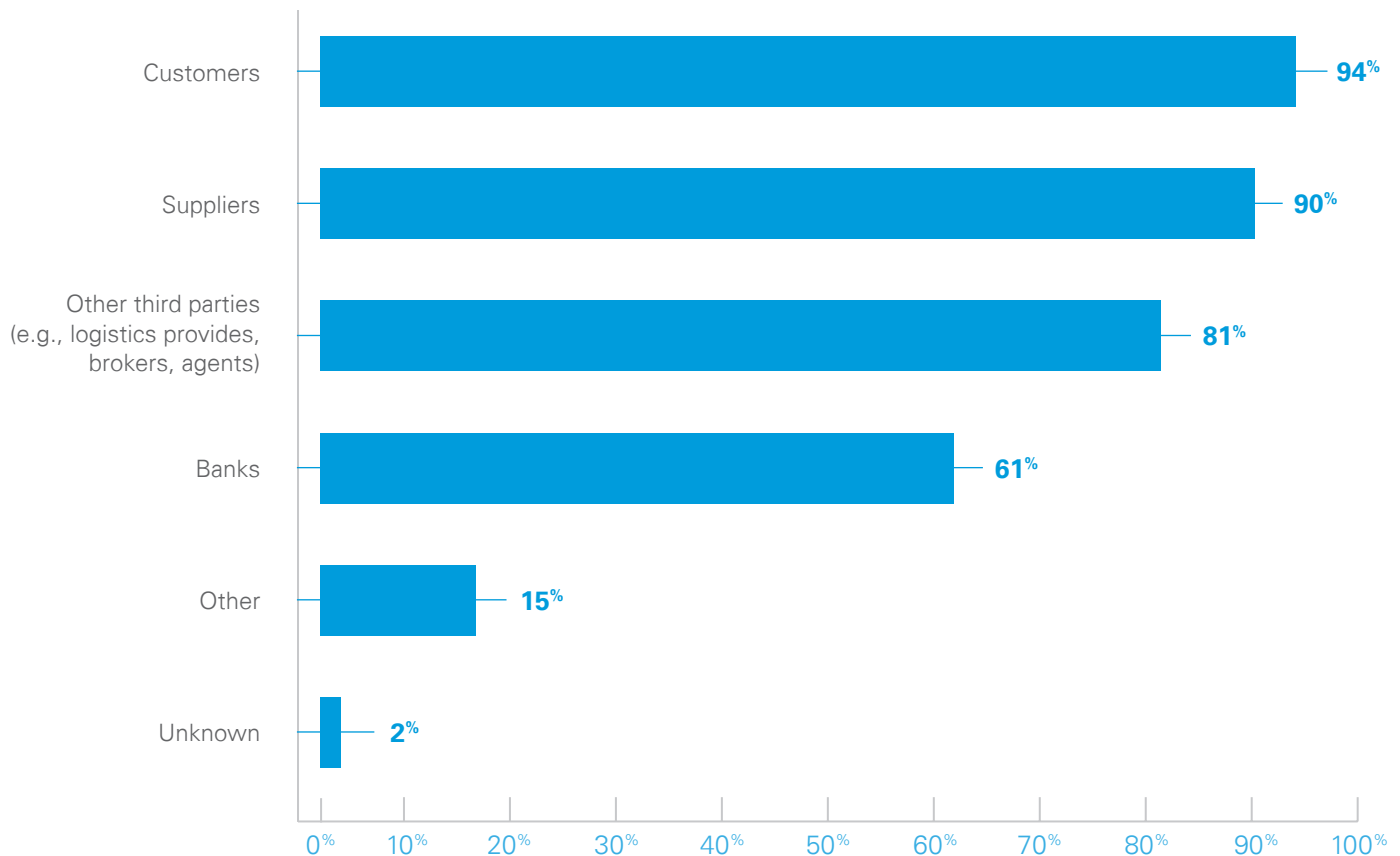
# Sanctions and restricted party screening

There are certain parties, countries and entities with which U.S. individuals and companies are not permitted to transact business. In cases where economic and trade sanctions are imposed, OFAC administers and enforces these programs in accordance with national security and foreign policy goals and objectives. It is imperative that companies who conduct business with entities outside of the U.S. be aware of and comply with these regulations.

Sanctioned parties change frequently, making regular compliance monitoring a must. Most companies manage this through restricted party screening (RPS)—not surprisingly, 89 percent of survey respondents said they conduct RPS. While some industries have more inherent sanctions risks than others, all third-party touchpoints should be identified and evaluated using a risk-based

approach when it comes to determining who will be screened and when. Survey respondents cited a fairly broad array of screened entities, but we find it particularly interesting that banks aren't being screened at a higher rate, particularly since a substantial number of international banks have been sanctioned.

## What entities undergo RPS?

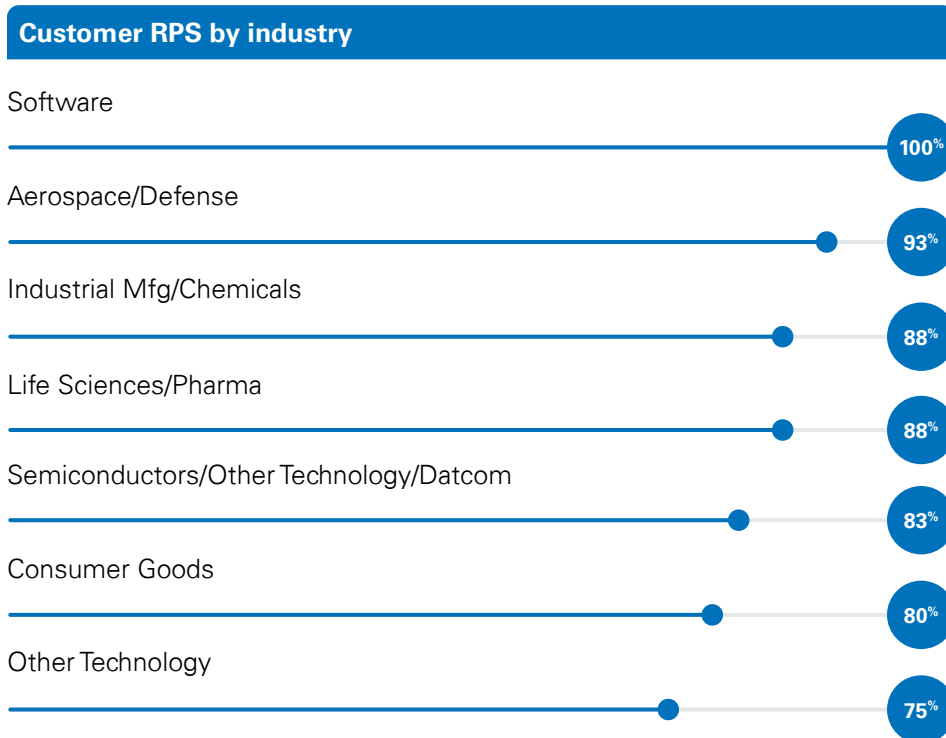


Respondents were instructed to select all applicable responses.



We also noted some telling screening gaps when looking at the data by industry. Only 60 percent of consumer goods respondents are screening banks but given the prevalence of e-commerce and the global nature of this industry, banks pose a considerable risk. Additionally, among industrial manufacturing/chemicals industry respondents, only 71 percent screen third parties like logistics providers. This presents a major gap. As OFAC makes clear in [A Framework for OFAC Compliance Commitments](#), parties in a supply chain should receive due diligence—this includes third-party service providers.

Interestingly, customer screening poses a gap for some industries:



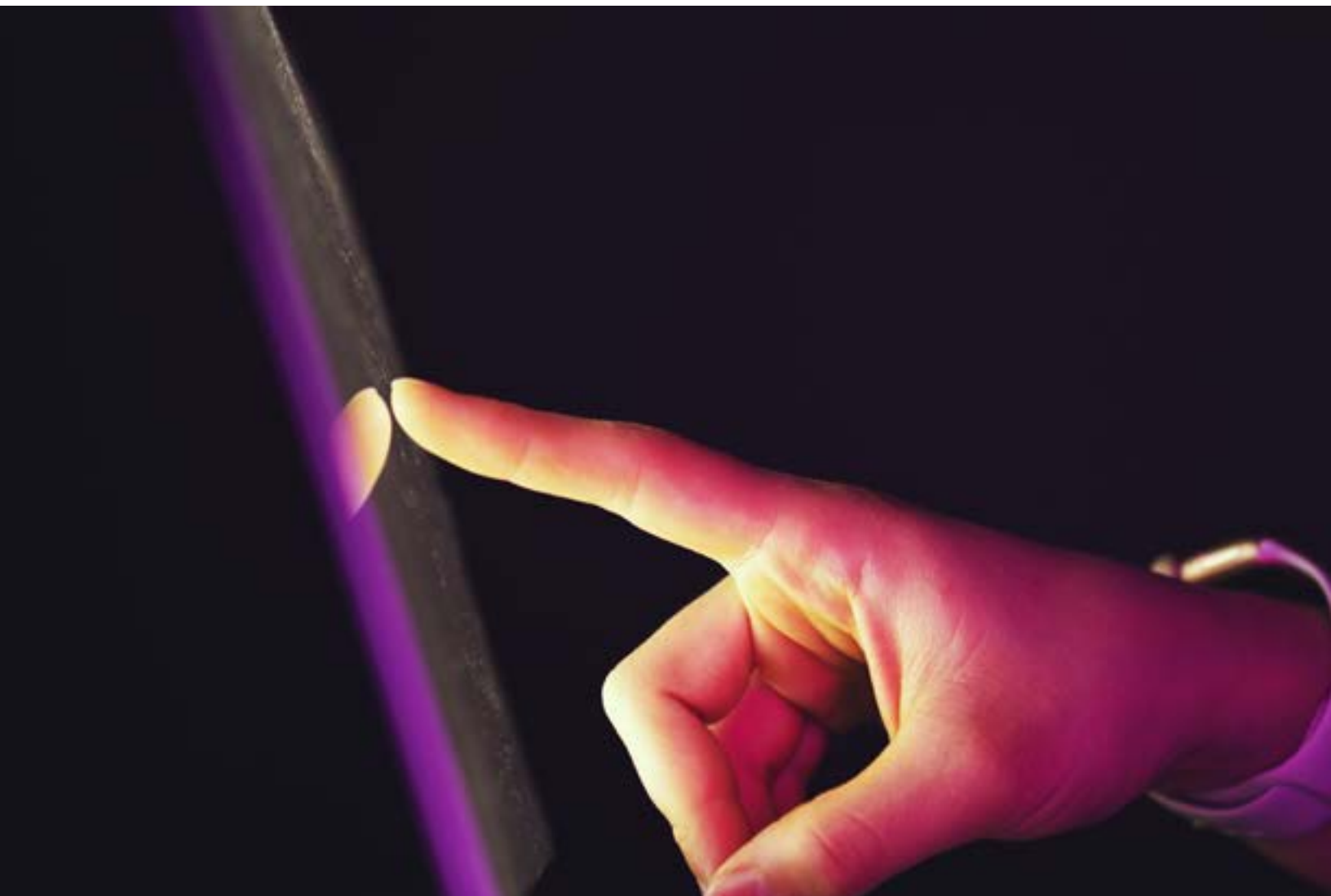
Ideally, RPS should occur at multiple points, if not continuously: When customers are on-boarded, before orders are executed, before shipment, and before payment. Consider this brief scenario: A company sets up a new customer and an initial screening indicates the entity is not restricted. The company then moves forward with a product shipment. Shortly thereafter, but before shipment, the customer is placed on a restricted-party list. If the customer sends payment that is accepted, the company has inadvertently transacted with a restricted entity in violation of OFAC regulations. If the company was conducting continuous screening, they would have been alerted and could have taken steps to disclose and unwind the transaction.

If RPS is a priority for your company, see our webcast entitled [Sanctions screening: How recent enforcement actions will impact your compliance program](#).

There are many automated, and sometimes artificial intelligence-powered, solutions that enable companies to optimize their compliance systems for maximum efficiency and effectiveness. These tools check entity names against hundreds of global lists and, when screening parameters are calibrated appropriately, come back with more accurate “hits,” reducing false positives. The vast majority of survey respondents who conduct RPS (87 percent) said they use an automated system.

In the current environment, there are many names in the U.S. Government’s Consolidated Screening List (CSL)—a database that aggregates restricted parties compiled by the Commerce, State and Treasury Departments—that are derived from non-Latin alphabet languages. The recent increase in sanctions on Chinese, Russian and Middle Eastern entities, in particular, might suggest a heightened need for translation solutions. However, nearly three-quarters of respondents (72 percent) said they don’t use, or don’t know if they use, these tools to translate non-Latin alphabet text.

**Does your RPS system use translation tools to translate non-Latin alphabet text?**



**Key  
takeaway**

Having an automated system in place that is appropriately calibrated to meet your needs is integral to maintaining compliance. Of course, this should be supplemented by ensuring that screening is occurring during multiple points in the transaction and there are clear procedures for reviewing potential hits.



# Export licensing

There are a number of factors that can determine whether an export license is required, from the product type and its destination to end-user. A change in any of these aspects of the transaction can alter the license requirement. Companies should pay close attention to this process to ensure they obtain proper export authorization.

When it comes to export licenses, complying with the U.S. Export Administration Regulations, for dual-use products and services, and ITAR for defense-related exports, typically covers the majority of instances. With that in mind, responses on this topic were not unexpected. However, a substantial number of respondents (44 percent), cited having licenses for EU-controlled products.

This is noteworthy because the EU is implementing an export control regime covering dual-use items (products and services that can have both civilian and military applications), as well as cyber-surveillance technology. From a programmatic perspective, it's encouraging to see that multinational companies have an export compliance plan both inside and outside the U.S.

For more on the modernization of EU export controls, see our article entitled [EU: Agreement on dual-use goods and technologies](#).

## Which of the following export licenses have been obtained?



Respondents were instructed to select all applicable responses





The responses regarding deemed exports are similarly interesting. Regulated or controlled information or technology shared with or released to a foreign national in the U.S. is deemed to be an export to that individual's home country. In these instances, which typically relate to research or product development, the institution or company may be required to obtain a license.

Without a license, it could be an unauthorized export. Forty-five percent of survey respondents said they are obtaining these licenses, which suggests one or more foreign nationals in their facility or office has access to controlled information. Certain industries face higher risks of deemed exports than others—such as semiconductor or aerospace and defense—but in those instances, close coordination with HR during interviewing and on-boarding is the first step in preventing a violation.

#### Is your company obtaining licenses for deemed exports?



#### Key takeaway

The first step in determining whether a product is controlled is implementing a robust classification and jurisdiction process. Once licenses are obtained, stakeholders should understand their scope and closely monitor compliance. Obtaining a license is only one step to achieving export compliance.



## Take action

The current global trade climate represents an opportunity for multinational organizations to examine and strengthen their export compliance programs in an effort to protect, enable and sustain the business. Developing a flexible compliance plan that supports the enterprise's goals will help break down silos that impede compliance. Organizations should work toward a broad, coordinated export compliance blueprint that works for today and tomorrow. A few points to pay particular attention to include:

**1 Have a seat at the table.** Considering the prominence of export controls and sanctions and the possibility of substantial penalties for violations, export compliance professionals know they're not just a back-office function anymore. Failure to adequately manage your export controls and sanctions risks can lead to substantial penalties and unwanted publicity. In egregious cases, you can lose your right to export. The tone must be set from the top—the team must be committed, experienced, adept at prioritizing risks, employ technology that is tailored and effective, and develop flexible policies and procedures that are applicable to the business. Additionally, the export compliance team should be included in the business discussions so potential obstacles can be identified and remediated early. Export controls and sanctions management is a core part of the business and treating the compliance team accordingly will streamline compliance considerations down the road.

**2 Team with the business.** Having a seat at the table is a tough lift if the export compliance team is not building a relationship with the business. Not only will this enable better visibility into how transactions are actually occurring so processes can be better tailored, but creates a collaborative environment. Compliance professionals will then be looped into discussions early allowing them to proactively manage concerns before they become a problem. Further, the export compliance team can provide continuous, informal training to the business so they understand how their responsibilities overlap with export controls.

**3 Key controls are key.** As the enterprise evolves, key controls may decline in effectiveness as they lose relevance to daily operations. Ongoing testing is important not just to identify a gross failure, but also a gradual decline. If it is determined that a control must be modified action should be taken expeditiously. Further, an escalation strategy should be developed that can be quickly executed if a key control fails. Key controls are pivotal to ensuring the integrity of the program, as well as being an indicator of when changes are necessary.

**4 Know your technology and its limitations.** Technology should be used appropriately and thoughtfully. With many multinationals, their data is fragmented, not well organized or readily accessible. How are you going to be compliant if you can't access the right information at the right time? If you don't have access, do you know who does or can provide you the required information. Similarly, if you're managing multiple controlled products, but the data is disaggregated across a number of different systems, you need to know where those systems are located and what applications are in use in order to properly assess and track your risks.

**5 Make training relevant.** Training is central to sensitizing people to export compliance. But the training should be tailored to the appropriate level and topic and provided in a real-world context. This may mean segmenting training so the right detail can be provided. Additionally, export compliance professionals should receive regular training – to shore up their existing knowledge, help them understand new requirements and to set them up to provide enterprise training. The experts in the area should be given the opportunity to learn from other professionals so they are deeply substantive both in the technical topics and how their peers are applying the regulations and managing complexities.



## How KPMG can help

At KPMG, our commitment to our clients inspires everything we do. It's what enables us to deliver innovative and practical solutions to the most difficult export controls and sanctions challenges—whether it's assistance in the design and management of compliance programs or supporting every day operational needs.

The KPMG Global Export Controls and Sanctions practice provides support on a wide range of global regulations, including those administered by the U.S. Department of Commerce, Bureau of Industry and Security, U.S. Department of State, Directorate of Defense Trade Controls, U.S. Department of Treasury, Office of Foreign Assets Control, and other government agencies.

Our services are tailored around your unique business needs, helping you comply with export controls and sanctions regulations while facilitating business. We evaluate business activities and internal controls to identify and mitigate risks related to global trade. When potential violations occur, we assist investigations through our advanced forensic technology solutions and global reach to help identify issues that may otherwise go undiscovered, especially as it relates to complex global trade and financial networks.

The daily volume of international trade transactions can distract compliance professionals from strategy and high-priority issues. Our professionals perform critical tasks including classification, export and deemed-export license management, and restricted party screening "hit" resolution, with our help-desk services addressing your day-to-day challenges. Our ability to scale-up or down according to your changing needs reduces the costs of maintaining idle resources or overwhelming existing resources in times of increased activity.





# Contact us

To further discuss this report's findings or to learn more about KPMG Trade & Customs, please contact your local tax adviser or either of the professionals listed below:

**Steven Brotherton**

**Principal**

**U.S. & Global Export Controls & Sanctions Leader**

**T:** 415-963-7861

**E:** sbrotherton@kpmg.com

**Elizabeth Shingler**

**Manager, Trade & Customs**

**T:** 267-256-2691

**E:** eshingler@kpmg.com

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