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Question: 1

A sanctions analyst reviews payment requests from a sanctioned country. After investigation, it appears that the request represents a medicine export from a pharmaceutical company to a sanctioned country. Which step should the analyst take next?

- A. Review the counterparty.
- B. Demand a specific license.
- C. Check for applicable general licenses or exemptions.
- D. Reject the payment.

Answer: C

Explanation:

In sanctions compliance frameworks applied globally by bodies such as OFAC, the EU, the UN, the UK, Canada, and Australia, transactions involving humanitarian goods, including medicine and medical supplies, are treated under specific regulatory categories. These frameworks include humanitarian exemptions, general licenses, and permitted transactions for medical or health-related items. The standard compliance expectation requires an analyst to determine whether the activity is already authorized before taking restrictive action.

The Sanctions and Compliance Domains specify that when a transaction involves potential humanitarian goods, the analyst must confirm whether a general license or exemption applies. General licenses commonly authorize exports of medicines, medical devices, and humanitarian materials to sanctioned jurisdictions. The rule requires verification of these authorizations prior to escalation, rejection, or requesting a specific license.

If a general license exists for the type of goods or activity, the transaction may proceed in accordance with regulatory conditions. Only when no exemption or general license applies should a specific license be sought. Therefore, the correct immediate step for the analyst is to check applicable general licenses or exemptions related to medical exports.

Reference from Sanctions and Compliance Domains:

Regulatory requirements relating to humanitarian exemptions under sanctions programs.

General license structures for medical and humanitarian goods in sanctions regimes.

Compliance procedures directing analysts to verify authorizations or exemptions before rejecting or escalating transactions.

Standard sequencing: determine applicability of general licenses or exemptions prior to requesting a specific license.

Question: 2

Which unit function has been identified as critical to managing sanctions risks?

- A. Third-party due diligence firms
- B. Credit risk management
- C. Audit and testing
- D. Human resources

Answer: C

Question: 3

Which unit function has been identified as critical to managing sanctions risks?

- A. Third-party due diligence firms
- B. Credit risk management
- C. Audit and testing
- D. Human resources

Answer: C

Explanation:

Within sanctions compliance programs, one of the core components identified as essential for effective management of sanctions risks is audit and testing. The Sanctions and Compliance Domains describe that sanctions programs require independent review, periodic testing, and validation to assess whether internal controls, screening systems, and escalation processes operate effectively. Audit and testing units provide the independent assurance needed to detect program weaknesses, evaluate the adequacy of controls, and confirm compliance with regulatory requirements.

Sanctions frameworks emphasize that the ability to identify deficiencies, monitor adherence to procedures, evaluate risk-control effectiveness, and ensure continuous improvement is fundamental to maintaining a sound sanctions compliance environment. Audit and testing functions are responsible for reviewing the design and effectiveness of sanctions policies, validating the performance of screening tools, and ensuring corrective action is taken where deficiencies are found. For this reason, the function is identified as critical for managing sanctions risks across financial institutions and regulated entities.

Reference from Sanctions and Compliance Domains:

Requirements for independent auditing and testing as a core component of an effective sanctions compliance program.

Expectations for regular review of sanctions controls, screening performance, and risk assessment processes.

Emphasis on independent validation to ensure ongoing compliance with regulatory obligations and to detect gaps in sanctions controls.

Question: 4

If a financial institution's filtering system generates an alert matching a client to an individual on the Specially Designated National List, which investigation process should the financial institution follow?

- A. If the customer is an individual whose last name matches the alert, but whose first name does not match, the investigation should continue by contacting the customer for more information.
- B. If the customer is an individual with a match on the first and last name, and the country of birth, but not on the country of residence, then there is no need to proceed further with the investigation.
- C. If the customer is an unrelated company with the same name, there is no need to proceed further with an investigation.
- D. If the customer is a vessel with the same name, the investigation should continue to establish who is the owner of the vessel.

Answer: D

Explanation:

Sanctions screening standards require that when a hit is produced by the filtering system, the institution must determine whether the alert is a true match or a false positive through a structured escalation and investigation process. The Sanctions and Compliance Domains emphasize that financial institutions must evaluate all relevant identifiers, including entity type, name, ownership, vessel IMO numbers, and additional attributes.

In the case of vessels, sanctions regulations often target vessels by name and ownership, meaning that a vessel with an identical name requires deeper investigation. Authorities such as OFAC, the EU, and the UK regularly designate vessels because of their involvement in sanctioned activities, and vessel names frequently overlap with commercial entities. Therefore, the correct investigative approach is to continue the investigation to determine the true ownership, IMO number, and whether the vessel is the sanctioned party.

Options A, B, and C describe scenarios typically associated with clear mismatches or cases where additional investigation is unnecessary because essential identifiers do not match. However, vessels require continued review due to the regulatory emphasis on vessel ownership, registration, and operational control as determining factors in sanctions risk.

Reference from Sanctions and Compliance Domains:

Requirements for detailed matching processes in sanctions screening.

Guidance on evaluating entity type, ownership, and identifiers when reviewing alerts.

Rules relating to vessel sanctions, ownership determination, and verification steps.

Procedures for identifying true matches versus false positives in sanctions screening.

Question: 5

The EU–Iran Instrument in Support of Trade Exchange (INSTEX), which allowed EU purchases of Iranian oil after 2018, is an example of:

- A. sanctions evasion.
- B. a special purpose vehicle.
- C. a general license.
- D. a blocking statute.

Answer: B

Explanation:

INSTEX was established by EU member states as an operational mechanism designed to facilitate limited and compliant trade with Iran after the re-imposition of U.S. secondary sanctions in 2018. According to the Sanctions and Compliance Domains, INSTEX is categorized as a special purpose vehicle, created specifically to permit trade transactions without reliance on traditional cross-border payment routes exposed to U.S. sanctions risk.

Special purpose vehicles are defined within sanctions frameworks as structured entities created to conduct or support specific categories of trade or payments where direct financial transfers are restricted or exposed to sanctions risk. INSTEX was designed to match European exporters and importers with Iranian counterparts through a barter-style internal clearing arrangement, avoiding external USD payment flows.

It is not a general license, nor is it a blocking statute. It also does not constitute sanctions evasion because it was formally established, publicly announced, and structured within EU legal parameters. Its purpose was to ensure compliance while maintaining limited humanitarian and permitted trade channels.

Reference from Sanctions and Compliance Domains:

Definitions and characteristics of special purpose vehicles in sanctions environments.

Description of EU mechanisms facilitating compliant trade with sanctioned jurisdictions.

Distinction between SPVs, blocking statutes, and licensing frameworks.

Regulatory context regarding INSTEX as an EU-created structured trade mechanism.

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