Guide to Coverage and Configuration of ComplyAdvantage Screening

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1. Introduction

As part of the Collector product, Avallone offers screening for legal entities and private individuals. The default configuration is the standard configuration from ComplyAdvantage. This includes screening all data lists and sources with 40% fuzzy logic. However, customers have the opportunity to configure the engine to their own purpose and risk appetite.

2. Purpose

This guide gives customers and users insight into how to configure their ComplyAdvantage screening engine and puts them in a position to "deep-dive" into the configuration possibilities. The guide will not cover all details, but will contain an overview of the most important possibilities.

3. Definitions

3.1 Financial Crime

Financial crimes are defined as those related to money laundering (ML), terrorist financing (TF), sanctions breaches, tax evasion, and bribery & corruption.

3.3 Fuzzy Logic

Fuzzy matching relates to the rules used in screening solutions that allow for the identification of non-exact matches. With fuzzy logic, identifying non-identical matches, such as misspelled names, different ways of writing names, or incomplete ones, will be possible.
In ComplyAdvantage, the higher the fuzziness %, the broader the match.

3.4 KYC Data

KYC data is the information and documentation collected from the counterparties in the CDD and KYC process.

3.5 Match Status

This is the definition of screening match status:

- No Match: The screening has not identified any matches based on the screened name, identity type, and selected fuzzy logic. No further action is required.
- Potential Match: The screening has identified a possible match based on the screened name, identity type, and selected fuzzy logic. Alert handling is needed to determine whether this is a true positive or not.
- False Positive: If, based on the review, it is assessed that the potential match is not a true match, the status will be changed to "false positive." No further action is required.
- True Positive: If, based on the review, it is assessed that the potential match is a true match, the status will be changed to "true positive." When a true positive, the impact on counterparty relationships and risk scoring must be evaluated.

- Unknown: If, based on the review, it is not possible to determine if the potential match is a true match or not, the status will be changed to “unknown.” In this case, it must decide whether to accept the risk despite the inability to determine the potential match or to conduct further investigation, such as contacting the counterparty to confirm or disprove it.

3.6 Politically Exposed Persons (PEPs)

A Politically Exposed Person (PEP) is an individual who holds or has previously held a high political profile or a prominent public function, as well as their family members or close associates.

3.7 Screening

Screening is the process of checking a counterparty's name against sanctions lists, PEP lists, adverse media data, and different alert lists. The purpose of the screening is to identify well-known risks, avoid breaking international sanctions, and avoid doing business with unwanted counterparties.

3.8 Whitelisting

This action allows you to reduce the number of monitored matches after a single search is performed. The whitelisting flag can be applied to a specific match result only if the result on a search is identified as a clear False Positive.

4. ComplyAdvantage Coverage

Avallone has partnered with ComplyAdvantage to deliver screening capabilities, including screening lists, screening engines, and the user interface for alert handling.
ComplyAdvantage delivers the following high-level capabilities:

- **Sanction screening** - covers approximately 160 different international and national sanction lists. Sanction Related - persons or organizations with a direct or indirect link (through ownership, control, or other relationship) to a sanctioned entity, territory, or industry sector. These are labelled “sanction related” in the list name.
- **Politically Exposed Persons (PEPs)** - covers PEPs based on the FATF definition: PEPs divided into 4 different classes
- **Relatives and Close Associates (RCAs)**
- **Warning lists** - covering more than 1,000 different lists from law enforcement and regulatory bodies.
- **Fitness & Probity lists** - covering more than 160 international and national lists.
- **Adverse Media** - monitoring thousands of news sources, including business and trade journals and local, regional, and national newspapers. Monitor based on FATF and EU best practices.

It is possible to tailor the coverage to the company's needs, e.g., by selecting the relevant sanction lists, relevant PEP groups, and adverse media search perimeters.
The lists and sources used change over time; therefore, users can always request an overview of the sanction, warning, fitness, and probity lists. The overview is updated every month in Excel format.
ComplyAdvantage does not share the sources for adverse media and PEP screening.
Below is a description of the different categories of screening capabilities.

4.1 Sanction Screening

Governments and international organizations impose economic sanctions to influence the actions of other actors (state and non-state) that threaten their interests or violate international norms. As the UN explains, "Sanctions are meant to be a last resort when addressing massive human rights violations, curbing illegal smuggling, or stopping extremist groups… used to support peace efforts, ensure elections are held, or demobilize armed groups."

Entities sanctioned by the United States and other governments are legally prohibited from conducting business in or with the jurisdiction imposing the sanctions. For example, American citizens, businesses, and government bodies cannot engage commercially or financially with entities listed on US sanctions lists, such as those issued by the Office of Foreign Assets Control (OFAC). While a government's authority is technically limited to its own jurisdiction, the global reach of sanctions lists and the desire of businesses to maintain access to the US financial system make sanctions a powerful multilateral tool. UN members are also required by international law to enforce the UN's sanctions through their local laws.

ComplyAdvantage enables real-time monitoring of the full range of critical sanctions lists.

4.2 Politically Exposed Persons (PEPs)

A Politically Exposed Person (PEP) is someone who currently holds or has held a prominent role in a local, regional, national, or international government body. Given the global mobility of PEPs, the ComplyAdvantage database includes high-ranking government officials across every active jurisdiction. ComplyAdvantage offers a comprehensive and widely-used source of structured intelligence on PEPs, as well as individuals and organizations with heightened risk.

ComplyAdvantage aligns its PEP definition and categorization with guidelines from the Financial Action Task Force (FATF), an inter-governmental body established in 1989 by the Ministers of its member jurisdictions.

The FATF currently includes 37 member jurisdictions and 2 regional organizations, representing most major financial centers worldwide. Its objectives are to set standards and promote effective

implementation of legal, regulatory, and operational measures to combat money laundering, terrorist financing, and other threats to the international financial system's integrity.

As PEP requirements differ across jurisdictions, ComplyAdvantage takes national legislative requirements as a benchmark for PEP data coverage assessment. Currently, ComplyAdvantage has 43 jurisdictions with Enhanced PEP coverage.

Due to the risks associated with PEPs, FATF Recommendations require additional Anti-Money Laundering/Counter Financing of Terrorism (AML/CFT) measures for business relationships with PEPs. These requirements are preventive, not criminal, and don't imply that all PEPs are involved in criminal activity or necessarily pose a high money laundering risk. Further legislation, including the EU's 4th Money Laundering Directive, mandates enhanced due diligence when dealing with PEPs.

The ComplyAdvantage PEP Definition and ranking is based on the FATF version:

PEP CLASS 1

- Heads of state
- Members of the national executive
- Members of the national legislatures
- Senior officials of military and law enforcement
- Senior officials of national agencies
- Board members of central banks
- Senior judiciary officials (national level)
- Top-ranking officials of political parties

PEP CLASS 2

- Board members of International Organizations (HIOs) & International Sports Federations
- Ambassadors, high commissioners, and other top diplomatic positions
- Members of the regional executive
- Members of the regional legislatures
- Senior judiciary officials (regional level)

PEP CLASS 3

- Senior management and board of directors of state-owned businesses and organizations.

PEP CLASS 4

- Mayors and members of local government (sub-regional level)

Since many regulations and best practice guidelines define PEPs to include not only individuals currently holding relevant positions but also those who have left office, ComplyAdvantage follows the same approach. The ComplyAdvantage database includes individuals who previously held a PEP role but no longer do.

Additionally, family members and close associates of PEPs are considered PEPs and can be risk-ranked accordingly.

4.2.1 Relatives and Close Associates (RCAs)
The Financial Action Task Force (FATF) recommendations also apply to relatives and close associates of prominent entities, as they are seen as potential risks due to their connections with Politically Exposed Persons (PEPs).

ComplyAdvantage considers the following family members relevant for PEP screening (but not limited to):

- Spouse/partner (including anyone recognized as equivalent to a spouse under national law)
- Siblings/half-siblings
- Children/step-children and their spouses or partners
- Parents/step-parents

If an individual falls into any of these categories, they'll be ranked at the same risk level as the associated PEP unless the family member is a PEP in their own right. In that case, the political position of the spouse will determine their classification.

4.3 Warning Lists

These lists of individuals, legal entities, and vessels, issued by relevant law enforcement or regulatory bodies, highlight entities involved in law-breaking activities either internationally or within specific jurisdictions. They may be under investigation or found guilty of regulatory breaches within their industry, indicating significant financial, compliance, or reputational risks.

Unlike sanctions, these warnings aren't used as diplomatic or governmental tools to influence foreign policy or address threats to national interests. Instead, this information helps assess whether to engage in business relationships with potential customers, counterparties, or suppliers. It can also be useful when processing payments to determine if they may be furthering financial crimes, such as money laundering or insider trading.

4.4 Fitness & Probity Lists

ComplyAdvantage's fitness and probity dataset includes individuals who have committed transgressions that may not result in being denied access to funds or bank accounts but could still prompt a reassessment of a potential business relationship.

This category covers lists of individuals and legal entities disqualified or restricted from holding certain positions or participating in specific activities, such as publicly-funded contracts, due to regulatory or code of conduct breaches.

4.5 Adverse Media

The ComplyAdvantage adverse media dataset provides a cutting-edge, real-time data feed of companies and individuals flagged in adverse media. By monitoring thousands of news sources, business and trade journals, plus local, regional, and national newspapers, the feed identifies and highlights entities facing various types of adverse media.

Adverse media is categorized by risk type and includes coverage of accusations, arrests, trials, and exonerations. Risk types are broken down into 14 categories, 8 of which align with all Financial Action Task Force (FATF) or EU Money Laundering Directive predicate offenses. When available, adverse media profiles are further enhanced with identifying details like location, media text, date of birth, and publication date.

Overview of the 14 different adverse media categories that ComplyAdvantage covers

Category	Description	FATF	EU ML Directive
Property	Involves unlawful taking of property, including theft, burglary, embezzlement, and intellectual property infringement.	Yes	Yes
Fraud-Linked	Covers fraud-related topics, including corporate fraud, identity theft, scams, counterfeiting, and forgery.	Yes	Yes
Narcotics (AML/CFT)	Relates to drug production, trafficking, and distribution, excluding drug possession or use.	Yes	Yes
Financial (AML/CFT)	Financial crimes related to AML/CFT, including money laundering, tax offenses, and insider trading.	Yes	Yes
Violence (AML/CFT)	Covers serious violence with AML implications, such as human trafficking, illegal arms trading, slavery, and grievous bodily harm.	Yes	Yes
Terrorism	Involves terrorism-related topics, including attacks, financing, and membership.	Yes	Yes

Category	Description	FATF	EU ML Directive
Cybercrime	Crime related to illegal access, system interference, and data interference involving computers.	No	Yes
General (AML/CFT)	Covers general AML/CFT topics like smuggling, organized crime, bribery, and environmental crimes such as poaching and pollution.	Yes	Yes
Regulatory	Involves activity that contravenes regulations, including fines, disciplinary actions, antitrust issues, and illegal gambling.	No	No
Financial Difficulty	Mentions of bankruptcy, high debt, or fatal business issues.	No	No
Violence (Non AML/CFT)	Includes assault, domestic violence, harassment, rape, human rights abuses, and genocide, which are not predicate offenses under AML/CFT.	No	No
Other Financial	Non-AML/CFT financial issues like predatory lending, questionable billing, and creative accounting.	No	No
Other Serious	Serious non-AML/CFT topics such as perjury, arson, obstruction of justice, and espionage.	No	No
Other Minor	Minor topics not easily classified, such as drug possession, prostitution, vandalism, drink driving, labor disputes, and corporate litigation.	No	No

Adverse media sources related to individuals are available in 11 languages on ComplyAdvantage:

- English
- Portuguese
- Spanish
- French
- German
- Italian
- Dutch
- Chinese
- Arabic
- Japanese
- Russian

Adverse media sources related to organizations and companies are available only in English. This means organizations from non-English sources are not searched for or classified.

However, since every country has some English-language media, global coverage is still maintained, even outside English-speaking countries.

5. ComplyAdvantage Search Settings

5.1 Use of Avallone Data to Reduce False Positives

When screening individuals and legal entities, Avallone enhances the ComplyAdvantage matching logic by providing additional identifying information collected through the KYC process. This helps improve accuracy and reduces the number of false positives.

5.1.1 Individuals

- **Date of Birth**: If a date of birth is available in Avallone, ComplyAdvantage will use the "year of birth" to exclude any potential matches where the year of birth does not align.
- **Country**: If the country is available in Avallone, ComplyAdvantage will compare it against the country information on the profile (nationality for individuals) and exclude any potential matches where the country does not align.

5.1.2 Companies

- **Date of Incorporation**: If a date of incorporation is available in Avallone, ComplyAdvantage will use the "year of incorporation" to exclude any potential matches where the year of incorporation does not align.
- **Country of Incorporation**: If the country of incorporation is available in Avallone, ComplyAdvantage will use this information to exclude any potential matches where the country of incorporation differs.

These enhancements help ensure that screening results are more precise and relevant, reducing the number of potential matches that require manual review.

5.2 Fuzzy Logic

You can adjust the level of name matching fuzziness based on your own risk-based approach. This flexibility lets you fine-tune your screening and control how strict the system is when matching names.

ComplyAdvantage uses a technique called edit distance (also known as Levenshtein Distance) to catch small spelling mistakes or variations in names. ComplyAdvantage limits the maximum difference to one character to keep results accurate and reduce false positives. Notice that a shift of

two letters in a name will be two characters and therefore not be caught by fuzzy logic. By default, a spelling variation is only treated as a match if it is also phonetically equivalent (i.e. a likely transliteration variant rather than a random typo); purely non-phonetic typos are not matched unless specific options are enabled (see section 7).

Look under the chapter "7. System configuration for Search Optimization" if you want changes in the standard configurations.

If you choose 0% fuzziness, ComplyAdvantage stops allowing spelling variations (see the table below), but all other non-exact matching behaviours still apply – equivalent names, missing/additional words, initials and aliases (AKA) are still matched. Year-of-birth matching is also tightened so that only the exact year matches.

"Exact match" is a separate, much stricter setting (selectable as "Exact match" on the fuzziness dropdown). It disables almost all normalisation and non-exact matching – including case, punctuation and diacritic normalisation, equivalent names, honorifics, additional and missing words, spelling variations and year-of-birth tolerance – and additionally requires that no extra words appear in either the search term or the profile (so, for example, "John Smith" will not match "John Williams Smith"). Aliases (AKA) and glued-word matching still apply. Because it removes almost all inexact matching, Exact match carries a high risk of false negatives and should only be used for niche cases.

Fuzziness setting	Minimum word length to allow fuzziness
0%	None (no fuzziness allowed)
10%	25
20%	13
30%	9
40%	7 (Avallone standard)
50%	5
60%	5
70%	4
80%	4
90%	3
100%	3

5.3 Search Profile

When setting up the screening account, Avallone can help you configure a Search Profile to define how screenings are run through our integration with ComplyAdvantage.
By default, a broad profile that includes all available sources—sanctions, PEPs, warnings, fitness & probity, and adverse media is applied.

If you have specific requirements based on your products, jurisdictions, or risk appetite, Avallone can help you tailor the Search Profile to match your company's needs.

You don't manage the settings directly in ComplyAdvantage. Avallone handles the setup and configuration for you.

6. Monitoring

By default, all searches in Avallone are added to monitoring. This means they'll be automatically re-screened daily using the same parameters set at the time of the original search.

It is possible to deactivate the default monitoring.

It is possible to deactivate and activate the monitoring for single searches.

7. System configuration for Search Optimization

ComplyAdvantage screening accounts are delivered with a standard configuration. The standard configuration is based on a ComplyAdvantage decision, where they try to balance the need for not missing true positives and avoiding too many false positives. This will always be a tradeoff; in the end, the company's risk appetite determines if the standard configuration is sufficient.

ComplyAdvantage makes it possible to configure your screening engine to your company's risk appetite. In the Avallone knowledge base, you can find a spreadsheet with all the different configuration possibilities. The configuration can both adjust your screening result so you will get more or fewer potential matches. The spreadsheet is organised in two tabs – options that reduce false positives and options that reduce false negatives. Common examples include excluding deceased or delisted profiles, requiring all name words to match, and adjusting the PEP "out of office" period (for example, no longer treating someone as a PEP once they have been out of office for 1 or 5 years) to match your jurisdiction's PEP definition.

The configuration possibilities can be quite technical. Avallone is happy to assist you with understanding the different options.

For a detailed technical description of how the matching engine behaves (word order, equivalent names, initials, missing words, transliteration, and more), see ComplyAdvantage's "Search Algorithm Overview."

System configuration can only be done by request to ComplyAdvantage. Avallone will handle the direct dialogue with ComplyAdvantage.