



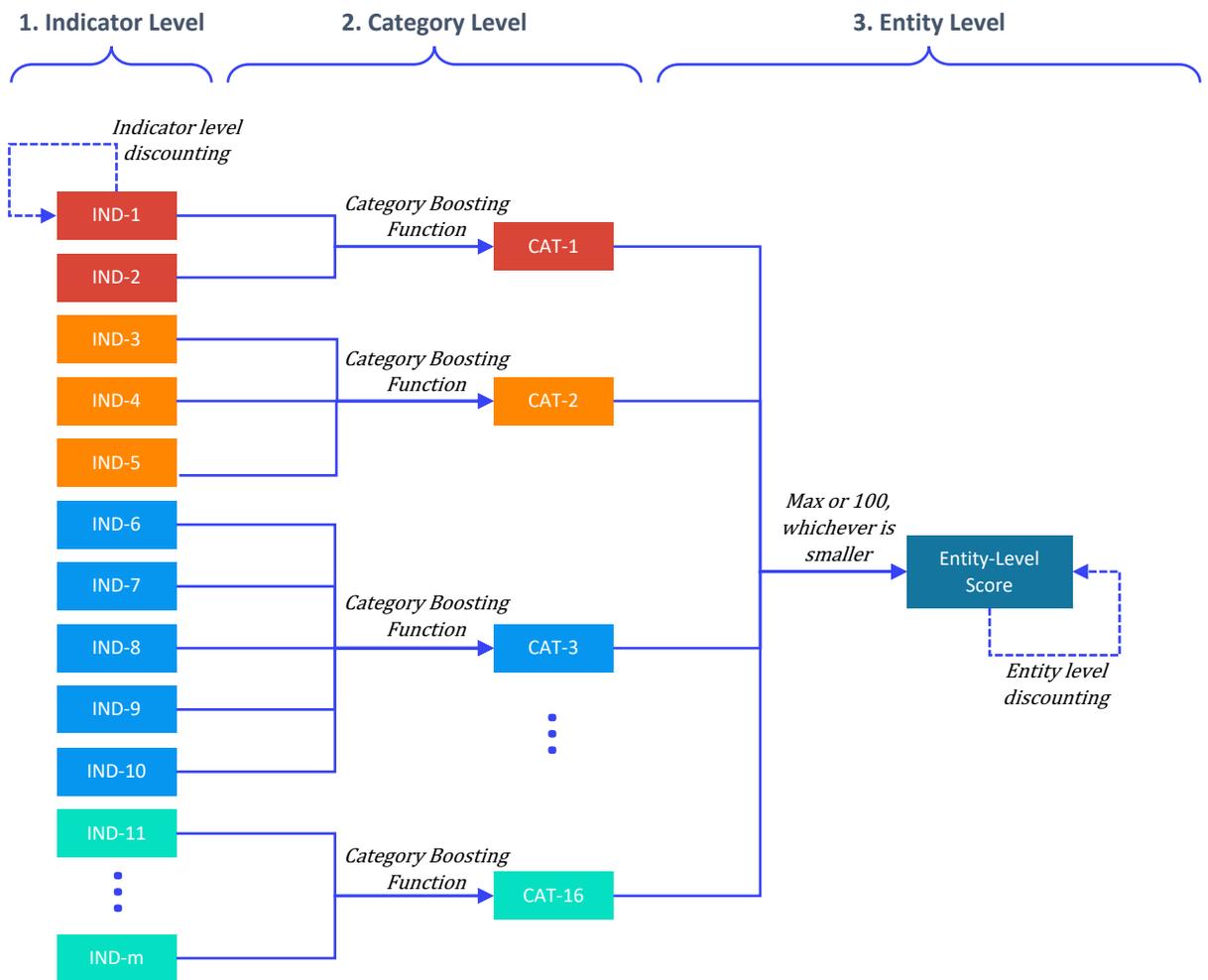
Sigma360 Risk Score

Each entity in Sigma360 is assigned a Risk Score on a scale of 0-100. The Score is based on the indicators computed for that entity, where each indicator is a unit of risk or information of interest from a compliance perspective and carries with it a score contribution value on the scale of 0-100. Please see page 3 for Sigma’s indicator categories and score ranges for underlying indicators.

Indicators are organized into one of sixteen indicator categories. When viewed in aggregate for an entity, the computed risk score represents the riskiness of the indicator category with the highest score contribution. The combined risk score for an entity is computed at three levels as described below.

In this document, we will walk through each of these steps to see how Sigma’s indicator-level scores are combined to create the entity level score, and how this can be configured¹ by our users.

Three Levels of Risk Score Computation



1. Configurability available in an upcoming release to select Sigma enterprise clients.



Risk Score Computation and Configurability

Level-1: Indicator Level

Sigma's indicator categories and score contribution value ranges for underlying indicators are detailed on page 3. At this level, aside from the pre-assigned score, a logic may be applied that allows specific indicators to be discounted based on the number of years since they were assigned or their effective date.

Sigma's users may modify the pre-assigned indicator level score contribution value for any indicator and may specify a discounting logic based on their compliance criteria.

Level-2: Category Level

At this level, the Category Boosting Function is applied to manage the effect of multiple indicators within the same category that have the same score. The challenge is to represent the additional risk when there are multiple indicators and do it differently for each category.

For example, an entity that operates in one high risk jurisdiction is riskier than an entity that operates in 5 high risk jurisdictions, but an entity appearing on any one credible sanctions list (such as OFAC or UN) is just as risky as an entity that appears on 5 lists because we know that most countries' sanctions programs rely heavily from the UN list.

The Category Boosting Function leverages a sigmoid function to essentially boost the score at the category level when there 2 or more indicators of the same category based on two parameters:

1. *Ramp rate*: the rate at which a higher number of indicators start boosting their collective score
2. *Magnitude*: the maximum boost available for a category

Sigma's proprietary risk model considers several data-driven and industry derived facts to configure these two parameters across the various categories. We welcome our users to provide values for the two parameters for their own custom scoring needs.

Level-3: Entity Level

The entity level score is the maximum score across all categories, capped at 100. The capping is required in case the category boosting function pushed the score over this upper limit.

Once the maximum is computed, the score can then be discounted based on predefined criteria. Sigma's proprietary score model discounts for publicly traded entities as this is one of the known entity groups exempt from FinCEN's final CDD rule.

Sigma's users are welcome to provide discounting logic at the entity level based on their compliance criteria.



Sigma's Indicator Categories and Indicator Score Ranges

Sigma's **Proprietary Indicators** are a unit of risk or information of interest from a compliance perspective. The indicators are generated when a search is performed and are classified into categories and sub-categories to aid filtering and monitoring. The categories are organized as follows:

Sanctions (SAN)

An entity listed on a sanctions watchlist. Score ranges from 100 for entities with current tier-1 watchlist to 70 for prior sanctions.

PEP (PEP)

Politically Exposed Person, organized into 3 levels. Score ranges from 40 for level 1 to 20 for level 3.

Enforcement Action (ENF)

Any hit on a legal, regulatory or enforcement action list. Score ranges from 70 to 40 depending on the regulatory or law enforcement body.

State Owned Entity (SOE)

An entity whose shareholders are a public authority, state, or government. Score assigned is 20.

Know Your Customer (KYC)

A container for key KYC fields such as name, aliases, locations, corporate identifiers, date of birth, industries, and operating status. There is no score assigned to KYC indicators.

News Media (MED)¹

News articles and events identified by Sigma's News, a mass media screening solution. Score assigned is 11 across all sub-categories.

Adverse Media (ADM)

News articles verified and determined to be risky & relevant to the entity from a financial crime & reputational risk perspective. Score ranges from 50 to 40 depending on the publisher.

Registration Status (REG)

Information about an entity's status with a corporate registry, regulator, or reputable task force. Score ranges from 70 to 0 depending on severity.

Line Of Business² (LOB)

Classification into high-risk industries (score = 40), or entity groups exempt from FinCEN's final CDD rule (score = 0).

Jurisdiction (JUR)

Four levels of risk classification based on Sigma's proprietary country risk model. Score ranges from 80-60.

Associations (ASR)

Any direct or indirect relationships with high-risk entities. Score ranges from 80 for a direct association with a sanctioned entity to 6 depending on number of hops and category of associated risk.

Internet Presence^{2, 3} (WEB)

Indication of strong or weak internet presence. Score ranges from 40 for weak to 0 for very strong presence.

Restricted Entity (RES)

Entities on special lists published by governments that may denote indirect nexus with sanctioned entities. Score assigned is 70 for all indicators.

Transparency (TRN)

Any risk related to bearer shareholder and the Offshore Leaks database. Score ranges from 80 for bearer share to 20 depending on severity..

Address (ADD)

Known risky addresses. Score ranges from 70 for sanctioned, shell company or bearer share addresses to 60 for corporate service providers or virtual office address.

Leadership (LEA)

Any risk specific to the people in leadership positions at a company (e.g CEO, management) as reported by Companies House (UK). Score ranges from 50 to 10 depending on severity.

1. Currently rolled under ADM, available separately in an upcoming release

2. Available only via premium data source Sigma Firmographic

3. Currently rolled under TRN, available separately in an upcoming release

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