

Financial crime – EU regulations & Law enforcement priorities - Opportunities and challenges

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Global developments and tangible policy priorities*

Financial Crime has emerged from the 'back-office' to the 'front-office'*











*Refinitiv's policy recommendations to the European Commission, here

Modern Day Slavery



Financial Stability



Green Crime*



*Refinitiv: Green crime & international case report or FATF environmental crime report (July 2021)



Common themes globally and regionally

Ongoing crises' has cemented the priority of enhancing collaboration



CONVERGENCE OF SUSTAINABILITY AND GREEN CRIME

'Sustainability' as a concept has shifted as stakeholder demands have evolved...

Sustainability isn't a new concept for financial services or Refinitiv, but the **underlying focus of sustainability has shifted**

Policy efforts to enable large-scale, transformational investments needed in business models at all stages of the value chain in order to meet international commitments

Focus on sustainability is evolving – **environmental and social factors are playing a more expansive role** as they intersect with concepts including the viability of future cash flows, investor motivation and asset valuations

Sustainability – the ability to maintain the provision of value adding services without compromising the ability of others, including future generations, to meet their needs

GREEN CRIME – data on companies, issuers and securities that are harmful to the environment, including subsidies. *'Implications not only to the Green Deal, but also on trade policy'* – Stefan Schepers, High Level Group*

*High Level Group comprised of EU Foreign Ministers, Supervisory authorities and the private sector. Refinitiv's Green Crime campaign have sparked an interest and we've been invited to this group ... and we believe capital markets can enable this evolution further. Green Crime priorities across the investment community, corporates, banks, FinTechs

Companies and jurisdictions are addressing challenges across the spectrum of UN SDGs – Financial Services can meaningfully enable near-term change in the following:

Resource Use & Environmental Impact (Environmental Crime)

- 1. Green Crime/Environmental impact
- 2. Sanctions

Equality, Fairness & Economic Prosperity (Social criteria)

- Human trafficking
- 6. Labour rights
- 7. Land rights

Values How do I demonstrate impact to stakeholders?

- How do I screen against sanctioned entities whose securities I'm investing?
- How do I quantify and report on this impact, and how do I build accurate benchmarks of performance?

Valuation

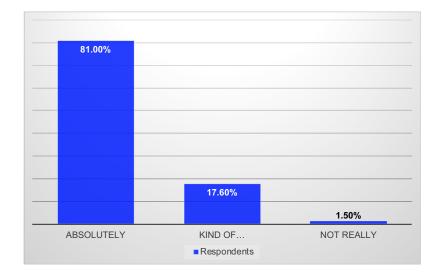
How do I quantify risks and opportunities related to Green Crime

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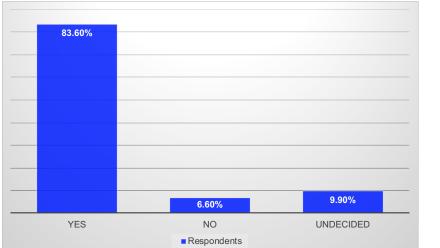
 What are the risks my investments / assets are exposed to (transitional, physical, reputational, prudential, etc.)?

Industry Surveys (2021-2023)

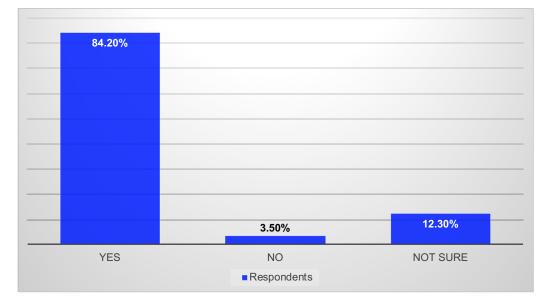
Including Buy-Side, Sell-Side & Corporates: Capital Markets, Supply Chain, Regulatory Reporting, Compliance



Do you agree that Green Crime is a threat to peace and security?



Should Green Crimes receive equal attention as money laundering and terrorism financing crimes?

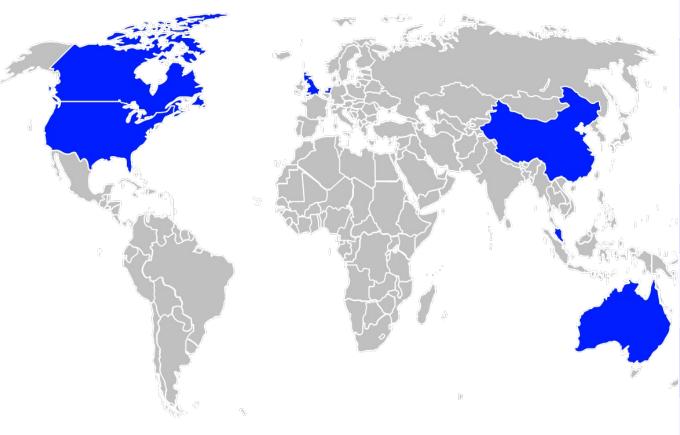


Should the ICC add "ecocide" to the list of international crimes?

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Promoting Public-Private Partnerships (PPP)

Now 23 information partnerships globally representing 41% of global GDP



Jurisdiction	Model	Led by
Canada – Project PROTECT	Typology co- development	Private sector
Netherlands – Terrorist Financing Taskforce	Analysts co-location & typology development	Prosecutor-led together with police
Hong Kong Fraud and Money Laundering Intelligence Taskforce	Tactical info sharing linked to typologies	Law enforcement
UK Joint Money Laundering Intelligence Taskforce	Tactical info sharing linked to typologies	Law enforcement
Australian Fintel Alliance	Secondment based & analyst co-location	FIU
US Financial Crimes Enforcement Network	Case briefing for tactical info sharing	FinCEN
Singapore AML/CFT Partnership	Typology co- development only	Supervisor
Europol Financial Intelligence PPP	Transnational typology development	Europol-led

Interpol – bringing about a step-change in its approach (1/2)

Expanding its partnership approach as it celebrates its centennial anniversary



• Support Interpol's efforts to continue to be the world-leading cooperative body

Objectives:Strengthen its global response

Support members & provide global leadership

Crime priorities

- Fraud and payment crime
- ML & asset recovery
- > Anti-corruption, e.g. sports
- Environmental crime

Interpol – bringing about a step-change in its approach (2/2)

Expanding its partnership approach as it celebrates its centennial anniversary

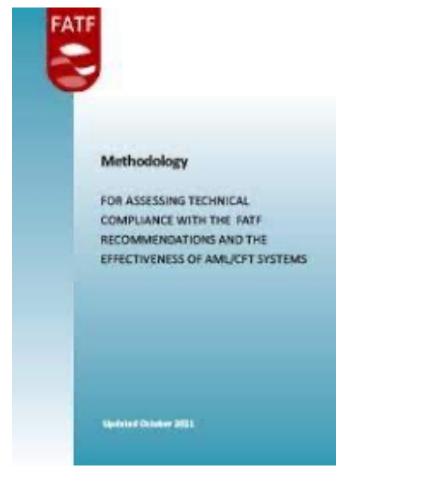


- Opportunities to collaborate
 - Use of data & case management tools
 - Analyst working groups: Risk typologies, trends
 - Joint-publications



FATF's Mutual Evaluation process – The Coalition's recommendations* (1/2)

On-going positive engagement on the recommendations with the FATF Presidency and Secretariat

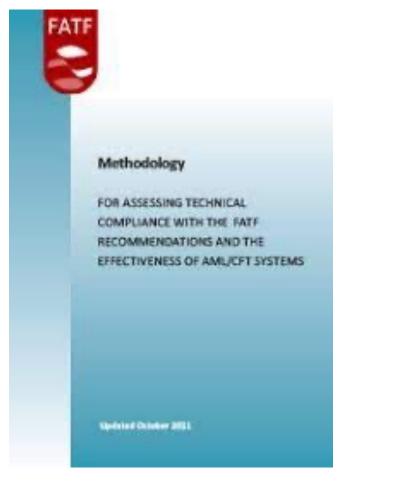


Key recommendations:

- 1. Clearer endorsement of PPPs and factored into the mutual evaluation process
- 2. Enabling information sharing without breaching data privacy
- 3. Strengthen collaboration between key stakeholders will inform national risk priorities
- 4. The 'usefulness' of information needs to considered, e.g. law enforcement feedback; prosecutorial action taken?

FATF's Mutual Evaluation process – The Coalition's recommendations* (2/2)

On-going positive engagement on the recommendations with the FATF Presidency and Secretariat



Key recommendations:

5. Develop an evidence-based approach on 'low value' activities, e.g. proportion of resources

6. Provide clear guidance around development and implementation of national risk priorities

7. Redouble its efforts to define and enforce set of minimum data standards across the AML ecosystem





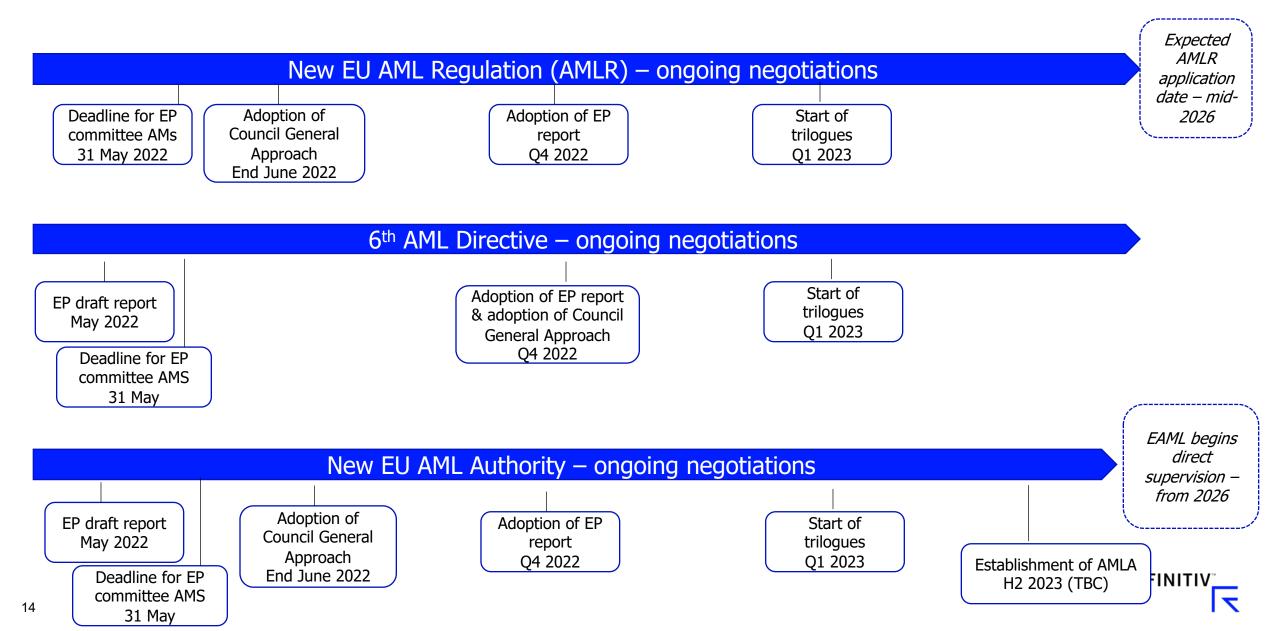
EU's AML Package

EU's AML legislative package (in summary) – for discussion

		rovisions likely to be moved under the egulation	Provisions likely to remain as part of the recast Directive			
<image/>	•	 Scope Obliged entities risk assessment – article 8 		Definitions EU and national risk assessments – articles		
	•	Third country policy (e.g. obligations for firms regarding the AML blacklist) – article 9		6 & 7		
				Beneficial ownership information registers – articles 30 to 31a		
		Customer due diligence – articles 10 to 24				
		Reporting obligations for firms Transactions where possibility of ML-TF is known Prohibition of disclosure – article 39		 Maintaining FIUs – articles 32 to 34 Supervision – articles 47 & 48 		
				National, cross-border and EU cooperation		
	•	Data protection – articles 40 to 44				
	•	Internal procedures, training, and feedback – articles 45 & 46				
	• • •	Transactions where possibility of ML-TF is known Prohibition of disclosure – article 39 Data protection – articles 40 to 44 Internal procedures, training, and feedback	•	Supervision – articles 47 & 48		

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AML Legislation Timeline (2022-2026)



<u>Bloomberg</u> [21 June): '<u>Crypto World Paid Billions in Penalties since Bitcoin's Birth</u>': \$2.5 billion in penalties in crypto-related violations by the US

Social media response: '*That's until everyone leaves for Europe*'

Principles in practice					
AML Trends	Data Privacy*				
Data pooling and/or information sharing					
Network mapping & risk identification					
Joint-typologies development					
More effective case-management					
More effective monitoring					

Bloomberg [21 June): 'Crypto World Paid Billions in Penalties since Bitcoin's Birth': \$2.5 billion in penalties in crypto-related violations by the US

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Principles in practice				
AML Trends	Data Privacy techniques*			
Data pooling and/or information sharing	<u>'Avoid</u> data processing'			
Network mapping & risk identification	' <u>Separate</u> data processing'			
Joint-typologies development	' <u>Limit</u> the detail on data (abstraction)'			
More effective case-management	gement 'Make data <u>incomprehensible</u> '			
More effective monitoring	'Break link between events, subjects and data'			

Russian Sanctions

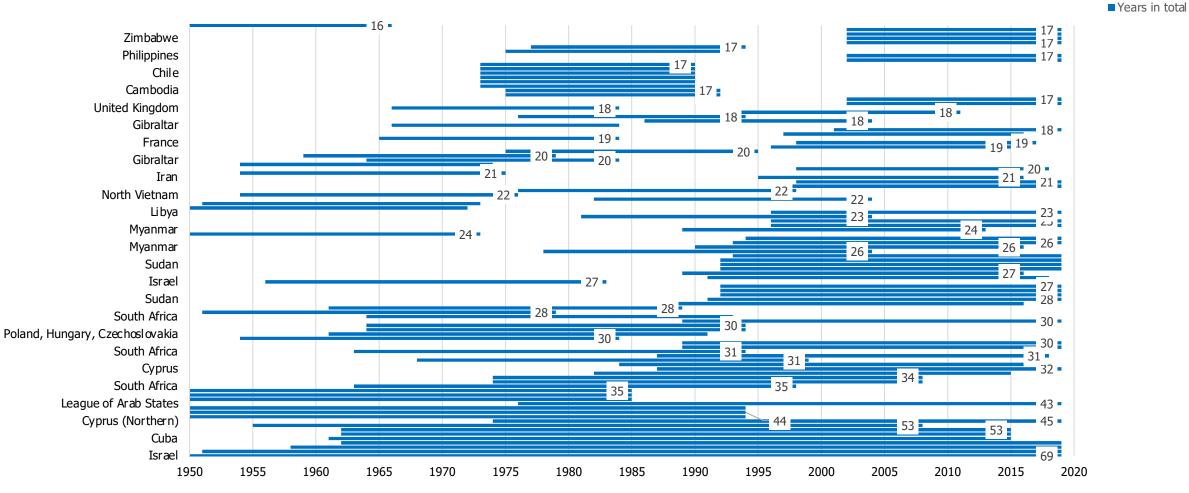
Challenges

- Volumes of additions / changes
- Timeliness of updates
- Accuracy of data
- Ownership and Control
- Sanctioned Securities



Sanctions can last for decades – up to 69 years

SAMPLE OF GLOBAL SANCTION PROGRAMMES ORGANISED BY YEARS IN TOTAL



SOURCE: Felbermayr, G., A. Kirilakha, C. Syropoulos, E. Yalcin, and Y.V. Yotov, 2020. "The Global Sanctions Data Base," *European Economic Review*, Volume 129.

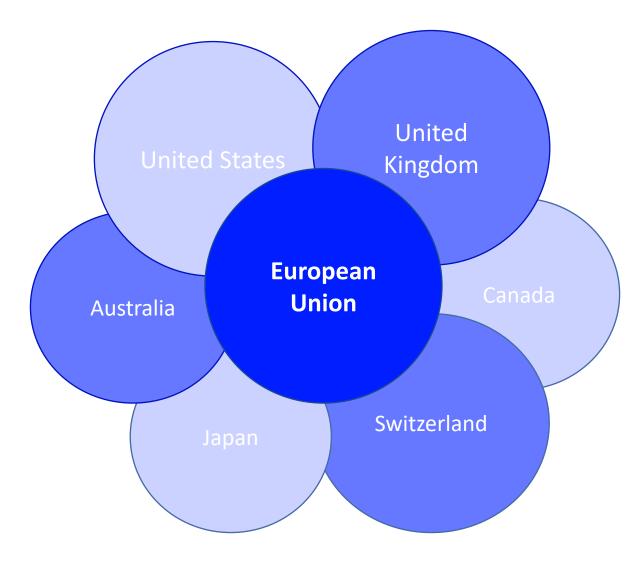
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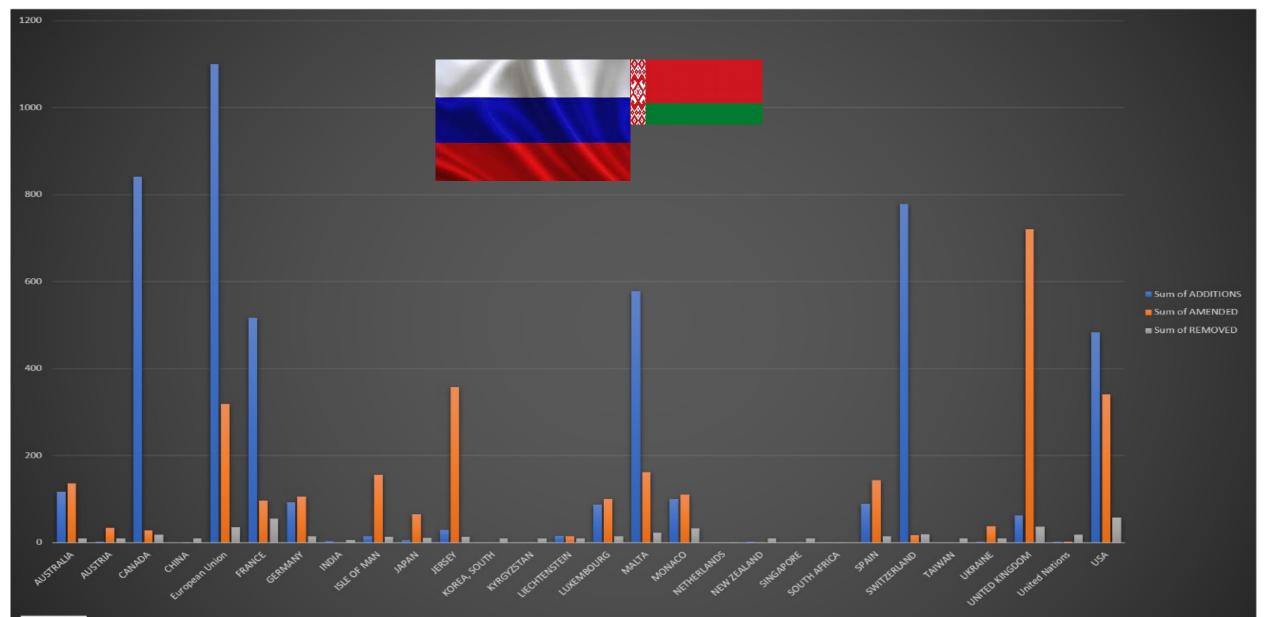
Overlap of sanctions' regimes – an overview of the new reality

.....

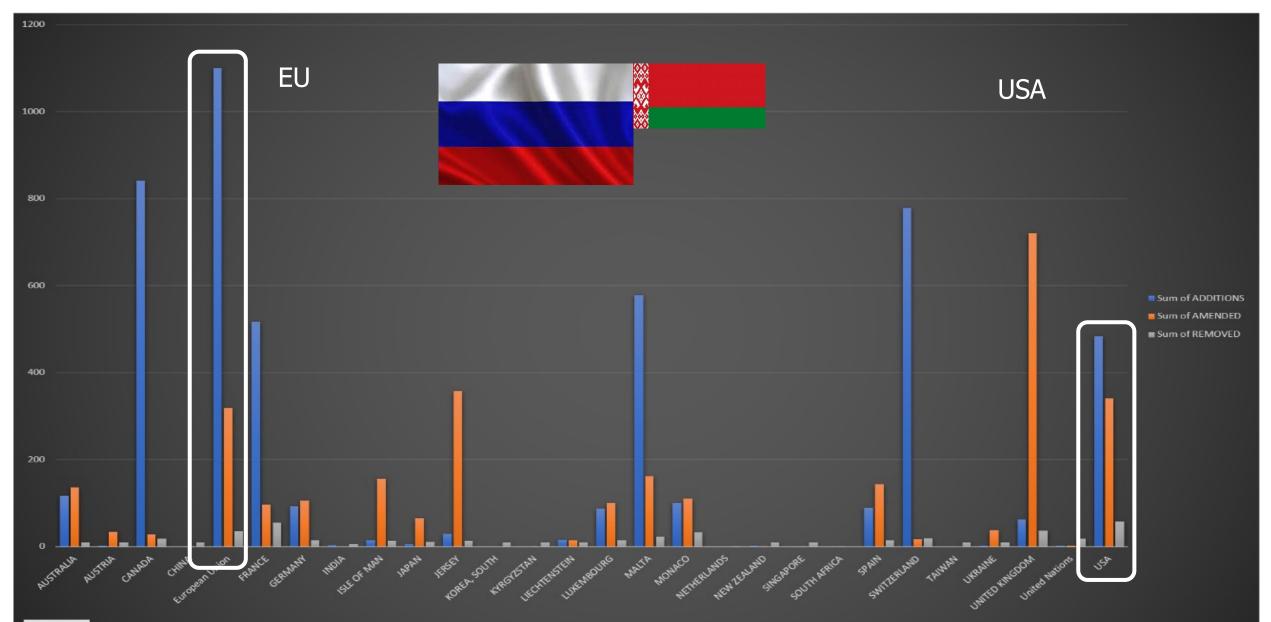
There are over 65 different sanctions authorities with hundreds of lists



2022 Sanctions activity (based on real data)



2022 Sanctions activity (based on real data)



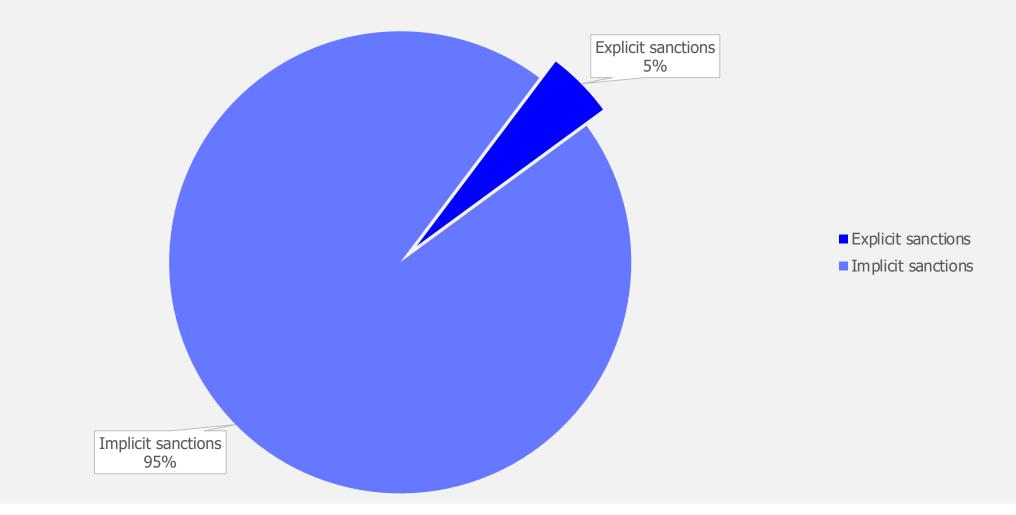
Russia-Ukraine: the new normal

	Australia	Canada	EU	Japan	Switzerland	UK	US
Restrictions on broadcasts by Russian state-owned media				Ø	0		
Restrictions on export of luxury goods to Russia							
Restrictions on export of metals to Russia		Ø	Ø	Ø	Ø	Ø	Ø
Restrictions on export of professional services (e.g. consulting, accounting services) to Russia	0				0		
Restrictions on export of technology to Russia	0						
Restrictions on import of luxury goods from Russia	\bigotimes		Ø	0	Ø		
Restrictions on Russian access to IMF & World Bank funds	0				0		
Restrictions on Russian banks' access to SWIFT	0						
Restrictions on Russian banks' correspondent banking accounts	0	0	Ø	Ø	0		
Restrictions on Russian coal imports	0	Ø			Ø		
Restrictions on Russian gas imports		Ø	Ø	0	0	0	
Restrictions on Russian metals imports	\bigotimes	Ø		Ø		Ø	Ø
Restrictions on Russian oil imports					Ø		
Restrictions on sovereign debt				\checkmark			\checkmark
Revocation of Most Favored Nation status					0		

Source: :<u>The Castellum.AI dashboard provides consolidated Russia sanctions data. The page is updated daily. — Castellum.AI</u> 22



Ratio of numbers of Explicit and Implicit sanctions records Sectoral sanctions against Russian Federation





Newest package targets

Trusts

Accounting, auditing and consulting services

Prohibition on acting as, or arranging for another person to act as, a trustee, nominee shareholder, director, secretary or a similar position, for such trusts or similar legal arrangements. Prohibition on providing, directly or indirectly, accounting, auditing, bookkeeping, tax consulting, business and management consulting or public relations services to the Russian government or legal persons, entities or bodies established in Russia. Oil

Prohibition on purchasing, importing or transferring, directly or indirectly, certain listed crude oil or petroleum products if they originate in Russia or are exported from Russia.

Prohibition also applies to the provision of related technical assistance, brokering services and other services as well as of related financing or financial assistance.

Enforcement of sanctions: new set of proposals



• Sanctions evasion as an EU crime;

- Common criminal standards (a single mens rea standard);
- Reinforced asset recovery;
- Confiscation options.

Industry challenges...

- Difficult to identify sanctioned entities (explicit) and entities owned and controlled by sanctioned parties (implicit) and uncovering their domestic or foreign subsidiaries (or other holdings)
- Hard to determine the financial instruments issued or linked to the explicit or implicit sanctioned entity particularly with the emergence of the Executive Orders and EU sectoral sanctions
- Ascertain the type of sanction (explicit or implicit/sectoral) placed on the company and any financial instruments that are therefore restricted from trading or investment.
- Verify whether sanctioned individuals have majority ownership (50% Rule) or (beneficial ownership 25% or less)

- Understand and by mindful of the issue date, maturity date and the tenors - longer than 14 / 30 / 90 days maturity. In addition, some instruments issued prior to the sanctions taking effect date may be held and served, whilst securities issued after the application date may not.
- Watch for status change as financial instruments that are currently not sanctioned may become so during corporate actions such as capital increases or tap issues
- Compliance with extra-territorial regulations on financial instruments





Thank you

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Appendix

References (hyperlink in blue)

South African AML Integrated Taskforce (SAMILT)/Refinitiv report on Human Trafficking	<u>Report</u>
Global Risk and Compliance Report 2021: How data, technology and collaboration are reshaping risk	<u>Report</u>
Green Crime paper and case-study	 Che Sidanius, '<u>Green Crime</u>: a threat to global financial stability & sustainability' Case-study <u>paper</u> Data <u>visualization</u> <u>Perspectives</u> & Interpol Pandemic fuels <u>poaching</u>
United for Wildlife/Refinitiv information sharing partnership to tackle illegal wildlife trade	Announcement
The Sentry/Refinitiv partnership to prevent war criminals abusing the financial system	Announcement
The Freedom Seal/Refinitiv partners to help stamp out modern-day slavery from supply chains	Announcement
Global Coalition to Fight Financial Crime	<u>Website</u>
FATF's report on Money Laundering and Environmental Crime	Report and message to the G7

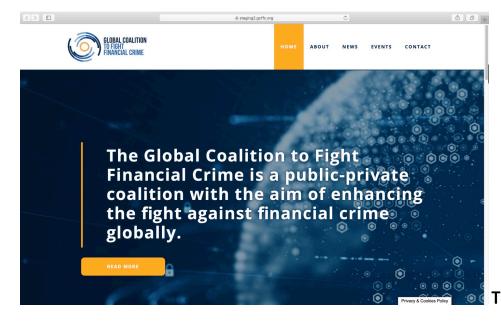
Europol, World Economic Forum and Refinitiv formed the Global Coalition to Fight Financial Crime*

Global scope

to raise awareness and create a global standard of cooperation to replace regional safeguards

Representing different parts of the antifinancial crime ecosystem, the Coalition has the expertise to advocate for more effective allocation of resources by promoting best-in-class approaches to:

- Financial crime management
- Risk intelligence
- Law enforcement capabilities
- Public-private information sharing
- Thought leadership



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*More on the Coalition, Members, policy engagements and papers, here



Executive Committee



Alison Clew Citigroup Former Group AML Head **Caroline Malcolm**

Chainalysis

Head International Policy

Clifford Chance

Counsel Clifford Chance

Former Deputy Head FinCEN

Data Privacy Expert - Formerly

Director FCC at Moodys & Lexis

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John Scanlon **Global Initiative to End Wildlife**

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Chair



ING Group

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