

Delivering Deep-Dive Data to Help Avoid Exposures to Sanctions Black Holes

In an ever more complex world where regulation and compliance are increasingly challenging, the global investment community faces an intensifying problem as the number and scale of sanctioned securities, companies and individuals continues to rise almost exponentially. This surging tide of directly or indirectly black-listed investments stems from the proliferating geopolitical problems the world faces, with rogue states publicly or clandestinely threatening social, economic and political stability around the world, and with some countries deliberately and visibly involved in acts of aggression and terrorism. Disguised beneficial ownership and the incessant efforts to hide true identities and connections make this an even more daunting challenge. Swiss financial exchange and global data provider SIX has some of the answers with its state-of-the-art data monitoring to support Pre-Trade sanctions compliance that goes way beyond classical KYC/AML. Their pre-trade and portfolio monitoring delivers coverage of over 37 million financial instruments, more than 400 million companies and entities, 65,000+ listed companies around the world, and 150 million-plus beneficial owners. Hubbis met recently with Oliver Bodmer, Senior Product Manager at SIX Financial Information in Switzerland, to discuss these immense challenges and the huge effort SIX is making to monitor these developments, which, almost like the universe itself, are constantly expanding. He explained that, ultimately, the mission for SIX is to mine out and deliver specialised data and strategies that will help compliance departments from being sucked into any black holes in any of these hidden galaxies.

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OLIVER BODMER
SIX Financial Information

In the past several decades, a world that many had hoped was heading towards greater stability has been exposed as increasingly unstable. There is no need to list the threats here, or indeed the growing list of sanctions from the growing list of nations (led by the US) or multinational bodies (for example the EU) that are imposing the sanctions. There is also no need to tell any serious licensed financial institution or institutional investor of the dangers of inadvertently supporting belligerent or rogue states, companies, or criminals or terrorists.

More weight on the compliance team shoulders

This all means that the responsibilities of compliance teams in this whole area of sanctions and beneficial ownership are simply immense and remarkably daunting. As a result, compliance around these areas has become an even more complicated and resource-intensive endeavour. Not only do they need to keep on top of the entire global sanctions landscape, but they also need to fully understand the ramifications of each new set of sanctions and the ensuing (and constant) amendments.

An opaque word that is becoming cloudier

Oliver has penned some thought-provoking articles for clients to highlight these issues. In one of them, he points out that failing to keep an eye on the implications of unpredictable geopolitical events due to a lack of compliance team bandwidth will serve as no excuse when a bank is caught flat-footed in formulating its response to future restrictions. And he warns that as more sanctions emerge, more and more beneficial owners are trying to conceal themselves.

The Panama Papers leaks highlighted the intricate and unclear ownership arrangements used by multinational corporations, with the lack of transparency regarding beneficial ownership serving as a significant loophole and facilitating the illicit movement of funds through offshore accounts. But those revelations were really just scratching the surface of a far deeper problem.

Caveat emptor – buyer beware

“One of the toughest requirements for compliance teams is to know how the investments in portfolios touch sanctioned entities or individuals,” Oliver explains. “By owning assets through a complex web of legal structures, subsidiaries and shell companies, sanctioned entities can taint securities that on the surface appear to be clean.”

Oliver reports that the SIX Sanctioned Securities Monitoring Service tracks the total number of sanctioned securities as having increased by 306% from January 2022 to the end of 2023.

He says that to keep up with these constantly evolving challenges,

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there must be evidence of diligent transaction monitoring to combat the changes in beneficial ownership. "And that," he states, "is precisely what the SIX Financial Information team provides to our clients. And we are differentiated by both detail and substance."

SIX drills deeper

Oliver explains that there are many data providers accounting for beneficial ownership, in particular in accordance with OFAC's 50% rule, which imposes sanctions on companies with combined ownership by sanctioned "blocked" parties of 50%. OFAC is the US Treasury's Office of Foreign Asset Control, which has been remarkably active in recent years.

"But at SIX we dig far deeper than any more cursory look into these matters," Oliver reports. "We mine down into the real nitty gritty detail, much of which is hidden in a myriad of entities, nominees and cross-shareholdings."

Widespread implications for financial investments

He says it is not only equities that are affected. He notes that there has been an increase in "blocked" entities using corporate bond issues to gain access to financial

markets in contravention of global sanctions. These include companies operating in the UK or Europe that are subsidiaries of sanctioned entities, funding apparently legitimately and then funnelling money back to the sanctioned entities.

"We are constantly and unerringly uncovering these types of situations via our highly sophisticated screening capabilities," he reports. "Banks and other financial institutions need to ensure they are doing everything in their power to gain the information they need to conduct their businesses compliantly. There is no excuse for being asleep at the wheel, and while the subterfuge is incessant, so too are the regulators. And that is why we deliver the pre-trade and portfolio monitoring capabilities that help prevent such exposures."

Hunting for anomalies, planting red flags

Oliver reports that armed with the SIX data, banks and other financial firms can spot those tainted entities and securities which might otherwise fall through the cracks of their KYC and AML processes, and in doing so, they can significantly minimise the risk of exposing themselves to financial

crime. "With more sanctions on the horizon, this puzzle will only get more complex, imposing even greater emphasis on compliance teams to take all necessary measures to avoid the traps."

Oliver explains that for heads of compliance already facing immense risk-mitigation complexities, grappling with potentially sanctioned individuals adds a further layer of complication.

An intensifying challenge

"Firms must take care to review their exposure to securities affected by the broadest set of names to ensure preparedness in the face of potential upcoming action as well as actual sanctions in place," he reports. "Banks and other financial entities therefore need to extend and strengthen the procedures. The universe of securities for which teams must now track beneficial ownership just keeps growing, meaning automation and the very latest technologies are no longer a luxury; this is an imperative."

SIX differentiation

Oliver explains that classic KYC/AML/Sanctions processes focus on the following areas: existing business relationships with

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individuals and legal entities, as well as incoming and outgoing domestic and foreign exchange transactions. But he reports that SIX takes this much further, with a hugely comprehensive approach covering over 37 million financial instruments, more than 400 million companies and entities, 65,000+ listed companies around the world, and 150 million-plus beneficial owners.

Sanctions Version 2.0 by SIX

“The key differentiating elements of our approach centre on linking sanctioned individuals and entities to financial instruments, securities and transactions,” he reports. “We call this advanced approach ‘Sanction 2.0’; it involves blocking these financial instruments if the companies are listed on the stock exchange, thereby complying with sanctions regulations more comprehensively. Other providers generally only focus on the individuals and the entities, but we link all that data to the financial instruments and transactions.”

As to the universe of clients who need this type of service, Oliver reports that it is the banks and, indeed, anyone selling investment products to clients. It is equally relevant for the buy side, including where exposed securities or entities might be bundled up into an ETF or other type of fund.

What lurks beneath the surface?

“You can screen for sanctions related to classical KYC and AML, for counterparty screening, and so forth, but you need to drill down further into the financial instruments themselves, including those that might be housed indirectly in instruments such as

ETFs, funds, structured products, options, and so forth.”

He adds that the sheer complexity and the immense volume of data that needs screening are expanding constantly. “It is all growing seemingly exponentially,” he states. “Since the Russian invasion of the Ukraine, we have seen a significant growth in the number and types of securities and financial products affected.”

Multiply all that by all the other events around the world, including Iran, Israel/Gaza, the Red Sea and numerous other countries involved in anything from terrorism to people smuggling to drugs to nuclear proliferation and the sheer scale of the problem is almost mind-boggling.

The proliferation of sanctions

Oliver explains that the sanction programmes themselves emanate from different authorities and regulators, both at a national level and multilateral or multinational levels. “We then link these sanction programmes to entities that are issuing financial instruments, and then, we put these financial instruments onto lists and redistribute all this to our clients,” he reports. “We have sanctions specialists for each of these regions that analyse the sanction programmes and then are preparing the business rules in order that we can prepare these lists that contain this data feed that we are sending out to the clients.”

He steps back from the analytical aspects of the SIX offering to point out that compliance departments also need to have a firm grasp of what sanctions are and how they



have evolved. “The US and the EU and for different reasons often, the United Nations, have been leading the sanctions journey,” he reports, “But individual countries have also taken their own approaches, usually in line with the US and the EU, or perhaps in line with the UN, but often with some key differences, either tougher or perhaps somewhat lighter.

Many challenges ahead

He remarks, for example, that countries such as Singapore, which traditionally have welcomed all-comers, might increasingly be drawn into some tough decisions. For example, what would Singapore’s response be as a major global financial gateway and also with strong links to China, if the US were to issue major

sanctions against China? And what about the UAE, where state policy seeks to placate both the US and what many see as rogue states, such as Russia?

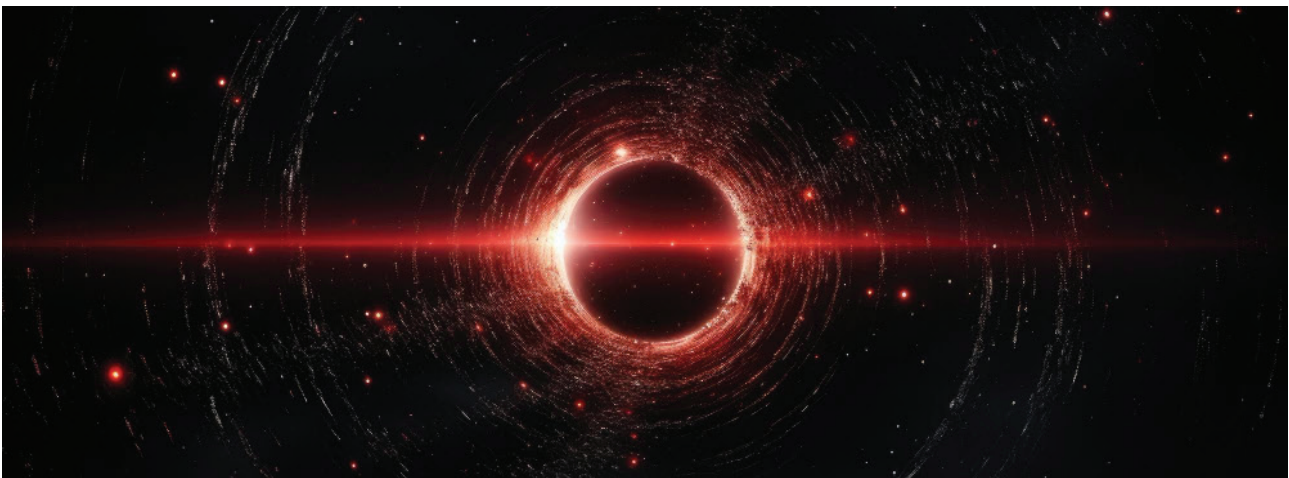
“Escalating and unforeseen tensions around the world will lead to some interesting challenges for governments and authorities in different jurisdictions,” Oliver remarks. “All these events and the outcomes will impact the financial world and present new challenges for compliance teams worldwide.”

Improving visibility and mitigating risks

His final word is on SIX and how sanctions monitoring fits neatly within their core offerings. SIX has four core business platforms. SIX is the third-largest stock exchange group in Europe. It provides post-

trade securities services in the form of clearing, settlement and custody, securities finance, and other services. The group has an extensive financial information offering. And it provides banking services to facilitate smooth payment flows. SIX has over 4,000 employees located in 20 countries on five continents.

“We are a comprehensive global and listed group, with the sanctions offering sitting ideally within the financial information group and linking to many of the clients across our other key businesses,” he reports. “Any and all of our clients need to address the implications of sanctions, and we are there to help compliance teams the world over lift their games.” ■



We’re looking forward to hearing more from Oliver at the upcoming Digital Dialogue discussion titled ‘[Helping Compliance Teams Stay One Step Ahead of Rising Regulatory Risks Around Sanctions](#).’

Kindly partnered by [SIX Financial Information](#), the webinar will drill down into the world of sanctions, the implications for financial institutions and investors, the increasing challenges facing compliance teams, and some of the sources of information and strategies they can adopt to help reduce their risks and potential regulatory liabilities.

[View the webinar homepage](#) to find out more.