

**HELPING COMPLIANCE
TEAMS IN ASIA
STAY ONE STEP AHEAD**

**OF RISING REGULATORY
RISKS AROUND
SANCTIONS**



 **hubbis**

SIX

SUMMARY

- On March 19, Hubbis hosted a fascinating webinar on the vital and growing importance of sanctions and their implications for investors and wealth management compliance teams in Asia. Swiss stock exchange and information specialist SIX was the sponsor, and Oliver Bodmer, Product Management Director, gave a presentation to open the proceedings. After that, the panel engaged in an open dialogue to discuss some of the key issues, offer their own insights and quiz Oliver further on some key points.

The event was sponsored by SIX to publicise what the firm recognises as the ongoing and increasing struggle to combat efforts by sanctioned entities and individuals and indeed nations to conceal identities and motives. Clearly, these dangers are significant for any party involved in wealth management, either as an advisor or as a fund manager of funds platform or investor.

Oliver's mission was to explain why SIX believes it possesses the tools and optimal data aggregation and assessment approaches to enhance client outcomes, with pre-trade protocols and portfolio monitoring covering thousands of global companies and also to identify off-limit financial instruments for increased scrutiny.

SPEAKERS



ANU PHANSE
Coinbase



ANDREAS WENGER
Finalix



OLIVER BODMER
SIX



SINYEE KOH
Integrity Consulting



GRACE THEN
Moody's Analytics

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Key Observations & Insights

THE TOPICS COVERED INCLUDED:

- » What are sanctions, why are they proliferating, and what does it all mean for the world of wealth management and compliance?
- » Who are the parties that need this data and these insights, and why?
- » What are the dangers of not elevating compliance efforts around actual or potential sanctions exposures?
- » What unique approach does SIX Financial Information provide around sanctions monitoring and risk mitigation for the wealth management industry?

A BRIEF INTRODUCTION TO OLIVER'S PRESENTATION

Amidst the ever-more complex landscape of global regulation and compliance, the investment community is grappling with the escalating challenge of navigating an increasing array of sanctioned securities, entities, and individuals. This challenge is amplified by growing geopolitical tensions, acts of aggression, and terrorism, coupled with the sophisticated concealment of beneficial ownership and spider's web of often-disguised connections.

Swiss financial exchange and data provider SIX addresses this challenge with advanced data monitoring solutions designed to enhance Pre-Trade sanctions compliance, extending well beyond traditional KYC/AML measures.

Offering comprehensive coverage across a vast network of financial instruments, companies, and beneficial owners, SIX equips compliance departments with the tools needed to avoid potential pitfalls in a world of proliferating sanctions and, therefore, an ever-increasing universe of sanctioned assets, financial instruments, issuers and investors.

Oliver Bodmer, Senior Product Manager at SIX Financial Information and sponsor of the Webinar, presented to the assembled speakers and delegates on the scale of this endeavour, highlighting SIX's commitment to providing specialised data and strategies to navigate the ever-expanding universe of regulatory challenges.

See also the SIX presentation document from the event, titled 'Building Smart Sanctions Strategies for Financial Institutions Active in the APAC Market': <https://pdf.hubbis.com/pdf/hdds-six-building-smart-sanctions-strategies.pdf>

For further reading on SIX, see also this recent Hubbis article: <https://hubbis.com/article/delivering-deep-dive-data-to-help-avoid-exposures-to-sanctions-black-holes>

A SUMMARY OF OLIVER'S KEY OBSERVATIONS & INSIGHTS

Hubbis has summarised below some of the key observations and insights Oliver Bodmer made in his talk, interspersed with some on-the-record comments from the experts attending the event and participating in a panel discussion that followed Oliver's talk.

SIX and Its Approach to Global Sanctions Compliance

Oliver explained: "The focal point of our conversation today is to address a pertinent question: Why is an exchange group like SIX engaging in a webinar focused on sanctions? The answer lies in the changing regulatory environment and the critical need to adeptly navigate the challenges posed by sanctions within the financial markets.

The surging tide of directly or indirectly black-listed investments as a result of sanctions 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.

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, criminals or terrorists.

A Global and Diversified Business

Faced with such challenges, SIX is ideally placed to help. SIX

is well-known as a listed and major Swiss Infrastructure and Exchange group. We have been expanding organically and through acquisition, for example, buying the Spanish exchange group BME and entering the dynamic world of cryptocurrencies with the establishment of the SIX Digital Exchange SDX in Singapore. We have also been expanding our data and information business, where I work, and from where we cover this expanding universe of sanctions.

The firm's global presence includes a workforce of 4,000 spread across 19 countries, underscoring our commitment to financial innovation and service excellence on a worldwide scale. This includes a significant presence in the Asia-Pacific region, with offices in Singapore and Japan, underpinning the firm's status as a global player in the financial markets.

As a comprehensive global and listed group, the sanctions offering sits ideally within the financial information group and links ideally to many of the clients across our other key businesses. 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.

I should say briefly here that our strategy diverges from the traditional focus on Know Your Customer (KYC) and Anti-Money Laundering (AML) regulations. While these areas have become highly competitive and somewhat mainstream, SIX has chosen

to adopt a distinctive stance, particularly in response to the geopolitical developments that led to the implementation of sectoral sanctions following the invasion of Ukraine by Russia.

Sanctions targeting the financial markets specifically prohibit investments in many new or existing securities across the globe. In this context, SIX offers our clients comprehensive lists of tainted securities affected by any particular sanctions. This effort highlights our dedication to ensuring compliance and regulatory adherence, distinguishing us in the financial sector and showcasing our proactive approach to protecting clients from regulatory risks and challenges.

Sanctions Proliferate since the Ukraine Crisis

Sanctions can include individuals as well as countries and, of course, the entities they might openly or clandestinely control. The complexity of compliance challenges deepened with the introduction of the 'oligarch' sanctions after the Ukraine invasion, necessitating the linkage of individuals to ownership through the 50% rule, a challenge that has grown increasingly relevant in recent years.

A notable instance illustrating the acute relevance of securities compliance occurred recently with the settlement between a Swiss private bank, and the Office of Foreign Assets Control (OFAC) in the US due to breaches in sanctions related to dividend payments on certain accounts. This marked the

first sanctions enforcement case directly targeting securities, and clearly underscored the critical importance of sanctions compliance.

At SIX, we navigate the intricate landscape of global sanctions with a comprehensive and innovative approach, necessary due to the multitude of regulators worldwide and the varying strengths of sanction programs, from those of China, the European Union, and Switzerland to the more stringent ones of the US.

The challenges are formidable, but we have evolved our response rapidly due to the escalating complexity and volume of data. To manage this, we developed a sanctions matrix, a tool that aligns regulators vertically and sanction programs horizontally, allowing us to normalise and simplify the compliance process. This strategy enables us to source sanction lists from multiple regulators without political bias, reflecting our Swiss perspective of neutrality.

Our sanctions matrix carefully links sanctions lists from 11 independent regulators directly to securities. This approach includes monitoring grandfathered securities and flagging indirect instruments like structured products, options, futures, and ETFs that may have exposure to sanctioned securities.

Data as the Catalyst for Proactive Sanctions Compliance

The sheer volume of sanctions data makes compliance a highly data-intensive endeavour. Addressing the 50% ownership rule, for instance, requires precise identification of ownership or control relationships, necessitating robust data points.

Expert Perspectives from the Panel Members:

GRACE THEN, Financial Crime Practice Lead (APAC), Moody's Analytics

"My sustained interest and growing understanding in this field are anchored in my solid background in Compliance, further enriched by my experience in banking. This unique perspective aids in my role as a bridge between traditional finance and the fast-changing world of regulations. Having interdisciplinary knowledge helps in tackling emerging challenges."

ANDREAS WENGER, Partner, Finalix

"The evolving nature of financial crime threats, including new sanctions regimes, emerging risks, and sophisticated evasion tactics, requires wealth managers to continuously adapt and enhance their sanction screening practices to stay ahead of evolving threats."

"The significant fines against companies in 2023 should serve as a wake-up call. A comprehensive approach, including next-generation sanction screening of data, advanced algorithms (maybe AI), and a robust compliance framework, is necessary to combat financial crimes and sanctions violations effectively."



"Remediation efforts should involve critically assessing legacy infrastructure, reviewing the data providers, analysing collateral sanction exposure, and implementing backup policies to mitigate blind spots."

In collaboration with Moody's Analytics, our data partner, we leverage our comprehensive databases. With access to information on over 400 million companies and 150 million beneficial owners, we can swiftly identify sanctioned individuals or entities. This capability is crucial, especially when sanctions are imposed unexpectedly, and compliance needs to be ensured by the next business day.

The challenge is heightened by the necessity for human oversight to minimise false positives

in an environment where we observe over 25 significant data movements, highlighting the complexity and demanding nature of sanctions compliance.

As I mentioned, the sanctions universe just keeps expanding. In fact, sanctions have grown over 300% since before the Ukraine crisis by the end of 2023. This surge is particularly pronounced in the US, driven by Executive Order 14071, which imposes domicile-based sanctions preventing US persons from investing in Russian securities.

The complexity increases because while there appears to be a political consensus among the G7 nations regarding sanctions against Russia, practical implementation reveals disparities that allow for arbitrage opportunities. For example, there are various effective or application dates for new debt issuance prohibitions across the US, EU, Switzerland, and Singapore. These differences, particularly notable around significant anniversaries and events related to the Ukraine conflict, underscore the challenges in achieving a unified sanctions approach.

Additionally, there are grey areas. For example, I can reference a letter from the US Senate Committee concerned about US pension investments in China. This indicates a shift towards a greyer area in sanctions, where the line between permissible and prohibited investments becomes blurred. There are many such instances, so any compliance teams need to be alert to all these wrinkles and nuances.

Drilling Down to Indirect Exposures

Disguised beneficial ownership and the incessant efforts to hide true identities and connections make all this an even more daunting challenge. As yet 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

Expert Perspectives from the Panel Members:

SINYEE KOH, Director, Integrity Consulting

“The AML/CFT controls that independent wealth managers such as EAMs must perform, namely customer due diligence (including screening), ongoing transaction monitoring and suspicious transaction reporting, do not serve only to combat money laundering and terrorism financing; they also serve to detect sanctions evasion. For the first time, the MAS issued a Notice to financial institutions in March 2022 imposing sanctions around events in Ukraine without a United Nations Security Council resolution. As a firm, we now take great care to highlight to clients: first, the need for them to comply with Singapore’s unilateral sanctions by checking that Singapore’s sanction is within the scope of screening that they conduct; and second, that screening is necessary but in itself insufficient to ensure that the EAM is not dealing with a sanction evader. EAMs need to understand that sanctions are not complied with just because no designated individuals or entities that are flagged up in name screening, as there may be fronts for sanctioned parties not on designated lists that FIs need to keep watch out for, through changes in customer due diligence information or account behaviour.”



just scratching the surface of a far deeper problem.

Furthermore, there is the complex issue of indirectly linked securities, such as options or structured products with components that might be subject to sanctions, highlighting a significant increase in the complexity and volume of, for example, ETFs affected by sanctions.

These complexities extend to the practical levels of sanctions enforcement. Despite a seeming political alignment on sanctions against Russia, the actual application and timing of these sanctions can vary significantly among G7 countries, leading, as I said, to all sorts of anomalies, pitfalls or arbitrage opportunities.

Moreover, the EU’s stance foregoes the 50% rule in favour of a total prohibition, marking a very stringent approach to preventing investments in sanctioned entities or securities.

These evolving sanctions and regulatory landscapes underscore the growing importance of robust securities compliance in navigating the complexities of global sanctions.

Challenges related to ‘Grandfathered’ Securities

In today’s global financial landscape, marked by an intricate web of regulations and sanctions, navigating compliance has become a Herculean task for financial

institutions. This is complicated further by the complex topic of ‘Grandfathered’ securities that were issued prior to the implementation of sanctions.

Unlike their newly issued counterparts, these securities inhabit a grey area, demanding a nuanced approach to oversight, requiring methodical tracking of capital inflows into these securities with great precision and diligence. This involves a detailed analysis of fund movements, ensuring that each capital increase in grandfathered securities is meticulously flagged and documented. Such vigilant monitoring acts as a bulwark against inadvertent breaches, ensuring that financial institutions navigate the tightrope of compliance with the utmost care.

SIX’s Cutting-Edge Response in the Face of the Expanding Universe of Sanctions

As the global investment community faces an intensifying problem as the number and scale of sanctioned securities, companies, and individuals continue to rise almost exponentially, so too our SIX Sanctioned Securities Monitoring Service is facing an ever-greater challenge as well. But we are innovating all the time, and SIX has many important answers to the proliferating challenges of sanctions with our state-of-the-art data monitoring to support Pre-Trade sanctions compliance that goes way beyond classical KYC/AML.

As to our approach, the primary focus for SIX does not lie within the traditional realms of KYC and AML, which deal directly with client relationships. Instead, SIX specialises in linking sanctions compliance to securities, a niche yet crucial area in today’s regulatory landscape.

Expert Perspectives from the Panel Members:

SINYEE KOH, Director, Integrity Consulting

“Sanctions regulations are a very complex area of law to understand, even for me, as a former litigation lawyer who is called to the bar in Singapore, Hong Kong, England and New York. The complexity is in understanding what sanctions a firm is subject to. In Singapore, what are the sanctions that a firm regulated by the MAS is subject to? What about unilateral sanctions imposed by other jurisdictions? Is the scope of all sanctions the same? What do firms need to do to ensure that their AML/CFT systems comply with sanctions rules? What are the likely typologies of sanctions evasion that are relevant to the firm? As I see it, firms are not yet proactive enough in getting experts like law firms and consultants to advise them on what more they need to do to understand and better uphold sanctions and protect themselves from these risk exposures.”



Our 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.

Ultimately, SIX’s mission is to mine out and deliver specialised data and strategies that will help compliance departments avoid inadvertently involving themselves, directly or indirectly, with sanctioned entities, parties, assets, or financial instruments. That is why we deliver such comprehensive pre-trade and portfolio monitoring capabilities that help prevent such exposures.

To expand on this, the key differentiating elements of our approach centre on linking sanctioned individuals and entities to financial instruments, securities and transactions. 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.

Supported by our comprehensive SIX data, banks and other financial firms can spot tainted entities and securities that might otherwise slip through the cracks of their KYC and AML processes. 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.

Challenges around Cryptos and ESG

All this is even more important in the context of the emergence of digital assets and cryptocurrencies, as well as the generally increasing complexity of associated investment vehicles. I would point, for example, to the Basel standards and the upcoming Markets in Crypto-Assets (MiCA) regulation as examples of efforts to enhance investor protection and transparency, especially regarding investments in volatile crypto assets. At SIX we are also addressing this area, but we recognise also that the scope of digital assets sanctions compliance and its integration with broader financial regulations remains a critical and evolving challenge.

I should also touch on the significance of ESG (Environmental, Social, and Governance) considerations in investment strategies, given the lack of uniformity in ESG ratings and assessment methodologies. With different entities such as Sustainalytics and Moody's employing various approaches to ESG ratings, parties must be careful to ensure that investments they promote to any investors, or that investors buy, avoid the taint of sanctions, helping to make sure that ethical and financial objectives align correctly.

An Uncertain Future

I should stress that nothing is certain on the road ahead, as we cannot predict what might happen around the world and what new sanctions might arise, even with the help of AI. Indeed, AI is more useful in processing data rather than predicting sanctions, and that means that the real sources of core sanctions information from which we can create and refine

Expert Perspectives from the Panel Members:

SINYEE KOH, Director, Integrity Consulting

"I think financial institutions (FIs) and their compliance teams must pay equal attention to sanctions evasion as they do money laundering and terrorism financing. However, I don't believe financial institutions and their compliance teams are generally taking sanctions evasion seriously enough. FIs must go back to "first principles", ensuring that they have in place the basics of AML/CFT controls, in other words, performing proper customer due diligence, ongoing transaction monitoring & suspicious transaction reporting.

Although AML rules are not new, FIs still have room to work on their "basics", to perform proper customer due diligence (including screening), ongoing transaction monitoring & suspicious transaction reporting. We often underestimate how much time and work goes into proper AML/CFT, in obtaining a customer's complete due diligence information, refreshing it, assigning customer risk ratings, monitoring transactions and keeping abreast of the latest risks, typologies in terms of money laundering, terrorism financing and sanctions evasion, then updating the firm's policies and training staff.

I have been a compliance consultant for almost a decade, and each time I conduct a mock inspection of a customer's AML/CFT systems, I am always surprised by how many lapses there are, even with firms that have been established for many years where there are one or two in-house compliance officers."



our lists is the governments and regulatory bodies themselves.

Simply put, the responsibilities of compliance teams in the area of sanctions and beneficial ownership are immense and remarkably daunting. As a result, compliance in 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.

Banks and other financial and wealth management institutions of all sizes 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 also are the regulators. Thank you all for listening and participating today." ■