
Financial Crime Compliance

ISSA QUESTIONNAIRE (FCC DDQ)

BULLETIN Q4 2021



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WELCOME TO ISSA

Welcome to the Q4 2021 ISSA Financial Crime Compliance Bulletin. In this edition, the Financial Crime Compliance (FCC) Working Group will brief you about the recent changes made to the ISSA Questionnaire (FCC DDQ). The Working Group have also been collaborating with SWIFT, who are now developing functionality so that the Questionnaire can be added to the SWIFT KYC Registry.

INTRODUCTION

In 2020, the ISSA Financial Crime Compliance (FCC) Working Group established a subgroup to review and, where necessary, update the ISSA Questionnaire. With the Questionnaire having already been utilized by the securities services industry for over three years, the subgroup participants had received some important feedback about what worked well and where changes were required. This News Bulletin outlines the background to the ISSA Principles and Questionnaire, summarises the key revisions made during the recent review of the Questionnaire as well as provides an overview of the plans to embed the questions into the SWIFT KYC Registry.

BACKGROUND

In August 2015, ISSA released 17 Principles which it recommended be implemented by the securities services industry in order to address the critical challenges posed by financial crime, particularly where omnibus and commingled account structures are used. This decision was taken in response to three principal drivers:

- To provide a meaningful and substantive framework to guide entities providing securities settlement, custody, funds distribution or similar services (Entities) in the application of the “IOSCO Principles on Client Identification and Beneficial Ownership for the Securities Industry of 2004”
- To address issues raised by enforcement actions with a view to minimizing any gaps between market practice and the expectations of regulatory and enforcement authorities
- To articulate standards in securities custody and fund distribution that address those specific characteristics of conduct risk in the securities field which are otherwise absent in correspondent banking services.

Using these Principles as the framework, the FCC Working Group then devised a questionnaire. Known as the ISSA Questionnaire - or FCC DDQ (Financial Crime Compliance Due Diligence Questionnaire) - the document is designed to be completed by all Entities providing securities settlement, custody, funds distribution or similar services and which intend to open (for prospects), or already have opened (for existing clients), accounts at their Custodian(s) to deposit their own or Client assets.

Originally implemented in 2016, the first material revision of the ISSA Questionnaire took place in 2019 on the basis of feedback received from user who had already started using the Questionnaire. A further review commenced in 2020, based on additional user and market feedback, which has resulted in the 2021 ISSA Questionnaire now being published.

REVIEW APPROACH

The subgroup focussed on the following key objectives when reviewing the ISSA Questionnaire:

- To refine and simplify the structure and wording
- To remove items which overlapped with the Wolfsberg DDQ
- To take out questions which had been shown to be unworkable in practice
- To add guidelines within the Questionnaire to aid completion, especially around the use of common terminology with the Wolfsberg Questionnaire

There were five key areas of discussion:

Clean Cash Payments

- Retention of question regarding controls being in place to ensure cash accounts are not used to facilitate unauthorized non-securities related transactions

Obligation of notification in case of sanctioned issue

- Rewording of questions requiring Account Holder to notify Custodian should it detect a sanctioned issue linked to specific deposited assets

Segregated Account Holder Identification

- Amendment of question on Account Holder disclosing the identify of its clients for whom it has opened a segregated account at the Custodian

25% Threshold in Omnibus Accounts

- Removal of questions relating to prohibition on an omnibus holding >25% of an asset, as technically too challenging to achieve

Crypto Assets

- Exclusion of Crypto assets, at this stage, from the Questionnaire

ISSA versus Wolfsberg

In a broad sense, the ISSA Questionnaire - jointly with the Wolfsberg Due Diligence Questionnaire (DDQ) - aims to provide Custodians with a sufficient degree of assurance with regard to their clients' (the Account Holders) Financial Crime Compliance Frameworks. Where an Entity is providing securities settlement, custody, funds distribution or similar services which intends to open (for prospects), or already has opened (for existing clients), accounts at its Custodian(s) to deposit its own or Client assets, the ISSA Questionnaire needs to be completed.

In summary:

- The Wolfsberg DDQ is designed for correspondent banking relationships
- The ISSA Questionnaire addresses those elements of a due diligence programme that are specific to securities services

SUMMARY OF THE REVISIONS

The key revisions that were made to each part of the ISSA Questionnaire are outlined below:

General:

- Addition of an introductory section and an appendix of explanatory notes
- Amendments to the appendix of Glossary of Terms
- Introduction of the term 'Entity' and coverage of two distinct scenarios: a new (prior to account opening) and an existing client

Part 1 - Entity Identification:

- Clarification of which Entity should complete the Questionnaire
- Amendment of instructions, for a Company Group, to enable one Questionnaire covering headquarters and branches, except where differences in approach

Part 2 - FCC Questions:

- *A- Entity's Compliance Policies and Framework*
 - Simplification, with just one question focussing on securities compliance policies
- *B- Entity's Due Diligence Programme*
 - Grouping of all due diligence questions in one section, covering both client and sanctions due diligence
 - For client due diligence, a move towards a generic list of risk factors
- *C- Entity's Transaction Monitoring System*
 - No material change
- *D- Entity's Assets Sub-deposited with its Custodian(s)*
 - Introduction of a new structure to simplify this section
 - Amended question on blocking / excluding certain assets
 - Amended question on informing Custodian where sees a sanctioned asset that has not been picked up

- *E- Client's Omnibus and Commingled Accounts*
 - Merger of previous third section on segregated accounts for greater consistency
 - Introduction of a question on misuse of omnibus accounts to disguise ownership
- *F- Entity's Clients acting as Sub-Custodians*
 - No material change



SWIFT KYC REGISTRY

As well as revising the ISSA Questionnaire, the subgroup has been working in collaboration with SWIFT to arrange for the Questionnaire to be embedded in the SWIFT KYC Registry. The format and approach adopted is consistent with that used throughout the SWIFT KYC Registry modules and questions. The subgroup has worked closely with SWIFT to ensure the ISSA Questionnaire is complementary to the Wolfsberg CBDDQ and FCCQ.

The development is currently taking place and it is anticipated that the Questionnaire will be available for completion in the SWIFT KYC Registry early in 2022.