



# 21<sup>st</sup> ISSA Symposium

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## Breakout Session 3: Challenges of Sanctions and Geopolitics - Outcome

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## Challenges of Sanctions and Geopolitics - Hypothesis

Sanctions and geopolitical concerns continue to be problematic for the Securities Services industry. This is particularly acute when looking at the different regulations and their interpretation.

Examples of the challenges currently faced by Securities Services providers, in relation to sanctions, include:

- Restrictions on CSD operations
- Restrictions on capital raising activity
- Dealing with countermeasures

The Financial Crime Compliance Working Group has created a Geopolitical Impacts Forum that is looking at the current challenges of sanctions and geopolitics. ISSA's hypothesis is that it is highly likely there will be future geopolitical events, which could involve the introduction of sanctions and other restrictions. It is therefore key that the Securities Services industry looks at how it can rise to the current challenges as well as future proof its response.

The objective of the Breakout Session will therefore be to debate the theme, consider if there are areas that the ISSA membership feel resonate and, where this is the case, review whether this is something further that should be taken forward by ISSA in some way.

## Challenges of Sanctions and Geopolitics – Ideas for Consideration

### **Practical challenges and consequences of countermeasures**

- Forced transfers of Russian securities
- Forced conversions of Russian-related ADRs
- Treatment of blocked securities-related cash (S-type accounts) and corporate action proceeds
- Income payments on Russian-related securities that disintermediate Western clearing systems and agent banks
- Conversions of Russian-related securities into domestic law instruments without the consent of Western CSD and custodian bank holders

### **Reconstruction considerations**

- Anticipated USD 1 – 1.5 Trillion required for Ukraine reconstruction
- Expected that around USD 350 Billion will need to come from private investors

## Challenges of Sanctions and Geopolitics – Ideas for Consideration

### **Use of Frozen Assets**

- The options being considered:
  - Confiscation of Russian Reserves
  - Pledging against Russian Reserves
  - Borrowing against frozen assets
- Impacts and implications for the securities services industry

### **Expectations in relation to future potential conflicts**

- Ideas for how organizations can best prepare for future geopolitical impacts
- Any actions that ISSA may consider, for example in communication with the authorities

## Challenges of Sanctions and Geopolitics – Summary Observations on Hypothesis

### Scope

- Effects of sanctions/countersanctions
- Leave use of proceeds for reconstruction out.

### Key observations

- Sanctions and countersanctions are not just about their implementation and the effects thereof.
- The entire post trade ecosystem is based on a number of rules and assumptions (eg contractual commitments, integrity of custody chain, accounting rules)
- They can be disrupted through an actor (eg a government) who chooses to unilaterally override the model and rules governing them
- The impacts are much wider, highlighting that long-held assumptions on the structure of post-trade systems and processes can be disrupted by geopolitical events

## Challenges of Sanctions and Geopolitics – Proposed next steps

### Approach

- Use actual experiences of recent events: preparation of a crisis centre
- Focus on actual lessons learned, use it for education/awareness
- Consider development of playbook/checklist:
  - Highlight key considerations, incl. operational, legal, regulatory, finance, compliance, tech, resourcing
  - Leverage it to help managing future crises
  - Refine as and when needed

### Next steps

Led by Geo- political impacts Forum

- Forum is under Financial Crime Compliance Group + add members of custody risks group

### Key deliverable

- Establish modalities for crisis centre (contacts details, membership etc)
- Develop Lessons learned doc (for securities services industry)
- Playbook: practical tool to be used for future crisis events
- Timing: End September