

ISSA

International Securities Services Association

Financial Crime Compliance

Bulletin July 2019

Welcome



Mark Gem
ISSA Working Group
co-Chair /
Chief Compliance
Officer Clearstream
International

Welcome to the July 2019 (and inaugural) ISSA Financial Crime Compliance Bulletin. ISSA is proud of its contribution to best practice across the securities services industry. ISSA's Financial Crime Compliance Principles aim to guide firms in applying financial crime compliance best practices to address the specific challenges of securities services.



Olivier Goffard
ISSA Working Group
co-Chair /
Head of Compliance &
Ethics
Euroclear Group

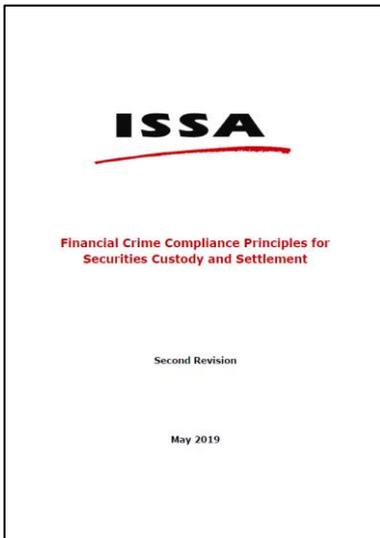
The ISSA Board has organised a Financial Crime Compliance Working Group under the leadership of Clearstream's Mark Gem, Euroclear's Olivier Goffard and Standard Chartered's Yannick ChereI to oversee the implementation of the Principles across our industry. The Working Group is composed of many of its leading firms: BIL, BNP Paribas, Citibank, Clearstream, Credit Suisse, Deutsche Bank, Deutsche Börse, DTCC, Euroclear, HSBC, RBC, SEB, SIX, Standard Chartered, SWIFT and UBS.



Yannick ChereI
ISSA Working Group
co-Chair /
Group Product Head
of Financial Crime
Compliance, Standard
Chartered Bank

It is our intention to brief you both on the progress and developments of the securities industry's implementation of the Principles but also to keep you informed of other news and developments occurring in the securities industry in respect of financial crime.

The Financial Crime Compliance Principles and Where to Find Them



The Financial Crime Compliance Principles (FCCP) govern how custodians should approach due diligence and KYC on their regulated FI account holders in a cross border context, especially when these are acting as intermediaries for the account of end investors or further downstream intermediaries.

The [Principles](#) aim to mitigate the risks posed by the lack of transparency that arises in intermediated account structures where the entitlements of many owners are commingled in the name of efficiency and scale.

ISSA's Principles are standards-driven and not data driven. That means that the standards and requirements of custodians as account providers should be contractually enforceable. ISSA has produced a starter kit ([Examples of Contractual Terms](#)) for in-house legal teams to prepare the way.

Due diligence on regulated account holders is key to the effectiveness of the ISSA Principles and supported by this Due Diligence [Questionnaire](#) (DDQ).

Financial Crime Compliance – Where are we now?



Lee R. Waite
ISSA Chairman
Country Officer for Japan
Citigroup

“Over a decade ago, our colleagues in the payments space introduced the so-called “Wolfsberg Principles”. Those Principles have since become the standard by which correspondent banks assess their customers.

In 2014, ISSA noticed that financial crime threats were becoming increasingly relevant for securities services. The result were the ISSA Financial Crime Compliance Principles, published in 2015. This first edition of the Financial Crime Compliance Working Group’s regular Bulletin looks at how the securities services industry is implementing the Principles.

The decision of the ISSA Board to focus on Financial Crime now looks increasingly prescient. Heightened geopolitical tensions have encouraged governments to roll out sanctions programmes that seek to restrict the access of both state and non-state actors to financing sources. That is pertinent to ISSA’s entire membership. We have all become more attentive to the use of securities in high value money laundering operations. The 1MDB affair and the numerous reports of corruption and embezzlement from Venezuela and other countries serve to remind us all that securities and funds remain attractive instruments for financial criminals.”

The Origin of the Principles – Future Proofing our Industry



Wolfsberg Castle
*The heart of the
Wolfsberg Conference Center
in Ermatingen, Switzerland*

Securities firms need to be more attentive to the use of client and omnibus accounts.”

Adam Szubin, SIBOS 2014

In November 2014, a group of ISSA sponsor firms gathered at the Wolfsberg Conference Center (which happened to give the name to the Correspondent Banking Principles mentioned before) to ponder the future. A few weeks earlier at SIBOS in Boston, Adam Szubin, the then Director of OFAC, the US government agency charged with sanctions enforcement, had said that securities firms needed to be more attentive to the use of client and omnibus accounts. The ISSA meeting at Wolfsberg aimed at figuring out what that meant for the industry.

“We were trying to protect how securities services worked. There was a very real sense that if we did nothing, the authorities would impose suboptimal solutions on us”, recalls Clearstream’s Mark Gem.

The choice confronting the ISSA group was whether to harness emerging big data and blockchain solutions to share end investor details across the custody chain or not. “The mood was against it”, remembers Bob Almanas, who became the Working Group’s first Chairperson. “We had to do something in the short term and something that we could be sure would be effective.” The group was worried not only about potential investment costs but also about whether a data-rich approach would be effective.

The resulting decision protected existing account structures, enabling omnibus, segregated and end-investor accounts.

The mandate to the Working Group that emerged was to reinforce the reliance principle by informed due diligence supported by contractual tools. The aim was to build on how the industry already worked.

Josef Landolt, ISSA CEO, sums up the experience: “This was the industry at its very best. We found a way forward that avoided significant investment, eliminated uncertainty and maximised effectiveness. I truly believe that we left Wolfsberg with the makings of a safer system.”

Current Working Group Focus

Wide adoption of the ISSA Principles is key!

The current agenda of the Working Group was set out at ISSA’s [2018 Symposium](#).

The application of the Principles by several of the larger member firms since 2016 and our dialogue with regulators has shown them to be largely fit for purpose. The challenge is to ensure that the Principles are adopted by all players involved in the securities services industry so that upstream and downstream actors alike apply compatible rules and know how to respond in the case of challenges.

“The way we think about it is: Wolfsberg DDQ for payments and ISSA DDQ for securities”

Emma Johnson, Deutsche Bank

The annual review of the Principles conducted in the first quarter of 2019 reinforced that. The few changes to them that the ISSA Board approved at its May 2019 meeting addressed a pain point that relationship managers and network managers have experienced in due diligence exercises: The different and inconsistent use of the term “beneficial owner” which can indicate variously the end investor and the owner of a legal entity. The Principles have been revised to avoid any confusion: The terms *Entity* and *Asset* beneficial owner have been used throughout. The main substantive change is that the Principles now encourage custodians to identify the asset beneficial owner (that is, the end investor) in accounts which are segregated for any single investor.

The Working Group also performed the annual review of the ISSA Due Diligence [Questionnaire](#). The changes reflected the experience of those ISSA member firms who are already using the DDQ and were generally aimed at replacing legalistic language with natural, although still unambiguous, terms. New questions have been introduced to address the use of smart sanctions, programmes that target specific capital market operations and which therefore have a particular impact on ISSA member firms.

Some ISSA members have custody customers who believe that the Wolfsberg Correspondent Banking Questionnaire (Wolfsberg DDQ - which is used to assess customers) should be sufficient to meet custodians’ due diligence requirements. ISSA believes that they address only the due diligence needs of cash correspondent banks carrying out correspondent clearing and payment operations. The ISSA DDQ, however, complements but is not replaced by the Wolfsberg DDQ because it addresses the specific financial crime related risks faced by actors in the securities space. “The way we think about it is: Wolfsberg DDQ for payments and ISSA DDQ for securities”, says Deutsche Bank’s Emma Johnson, member of ISSA’s Operating Committee.

Headlines and Highlights



James Freis
*Deutsche
Börse AG*

Network Forum, Athens, June 2019

Deutsche Börse’s Chief Compliance Officer and former FinCen Director, Jim Freis, presented ISSA’s work in the Financial Crime domain to the wider custody industry. He explained the background to the Principles and the approach that custodians should take to implement them to a wider audience of the leading relationship managers and network managers in our industry. He focused on the very real risk that the authorities hold intermediaries to account for the actions of downstream participants and explained how money can be laundered through securities custody networks. He also explained to the community the background to the latest round of changes to the ISSA Principles and the DDQ.

“We are blessed to have such a senior and experienced compliance professional to help pilot the securities industry through this period of geopolitical turbulence”, was one participant’s reaction to Jim’s presentation.



Sibos, London, September 2019

Financial Crime Compliance will once again be the subject of a securities panel community session hosted by ISSA and SWIFT.

The topic of financial crime in securities services will be discussed together with cyber risks. Advanced persistent threats in cybercrime often start as an attack on a bank in a higher risk location. Criminals then route payment instructions to the compromised bank's correspondent network. Defending the industry against these types of threat has much in common with building effective defences against financial crime more generally.