

HORIZON

from
SKADI

Martin Anthony 
Business Development
Director

David Bridges 
Product Development
Analyst

Josh Richardson 
Financial Crime
Analyst

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HIGHLIGHTS

- April's 'Spotlight' feature takes an in-depth look at how *Crypto* regulations are developing in different regions around the world (page 4).
- As *Sanctions* continue to disrupt global markets and supply chains, the ramifications on Russian ADRs and Russian Bonds are explored and explained (pages 2 & 3).
- *AML* related articles fell significantly during April, after the topic came firmly under the microscope in March.

CATEGORY OVERVIEW

The month of April saw a similar breakdown of categories covered in the financial press, to the long-term monthly averages. The four largest categories accounted for 94% of the articles in the financial press, relevant to risk and control functions. Of these four, only *Compliance Focus* articles deviated by more than 3% from its HORIZON monthly average. This deviation was largely a result of the increase in articles concerning the compliance implications of sanctions being imposed. This included calls for stronger controls in the commodities markets, following last month's nickel trading spike, as well as several articles focusing on the increasing default risk on Russian debt.

Whilst March was a record month for *AML* related articles, we note this month that the emphasis placed on money laundering risks in the wake of the Russian invasion of Ukraine has somewhat dissipated. *Regulatory Updates* remained the biggest category this month, with many headlines referring to the crypto industry, as discussed in greater detail on page four.

Figure 1: SKADI Sammendrag Articles by Category

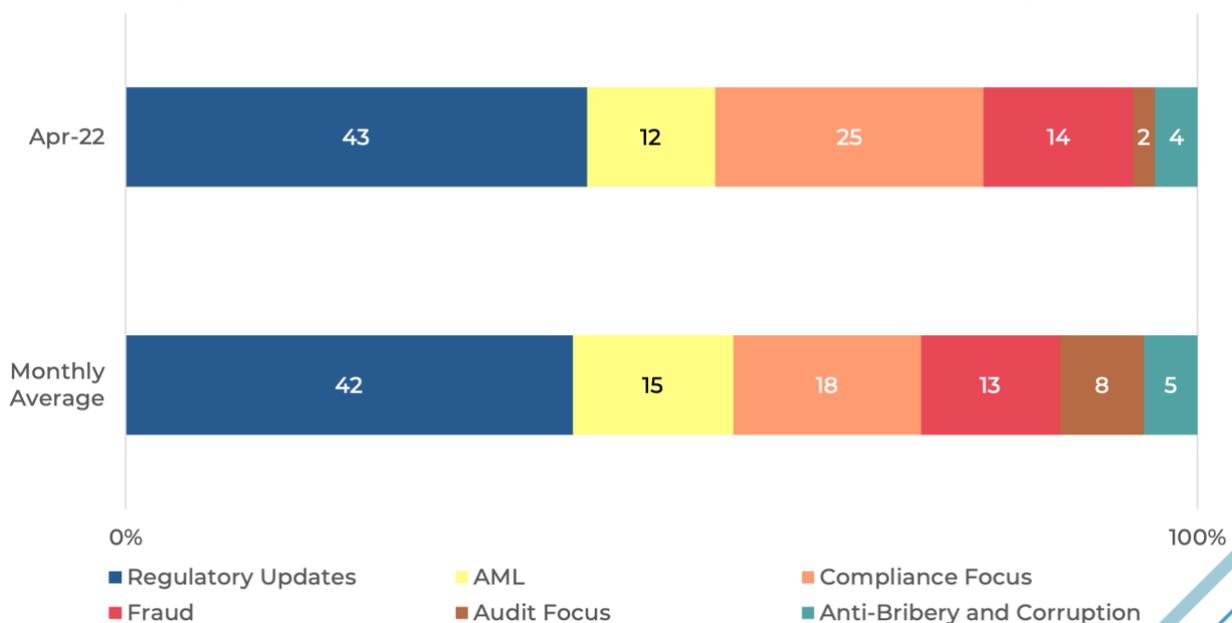
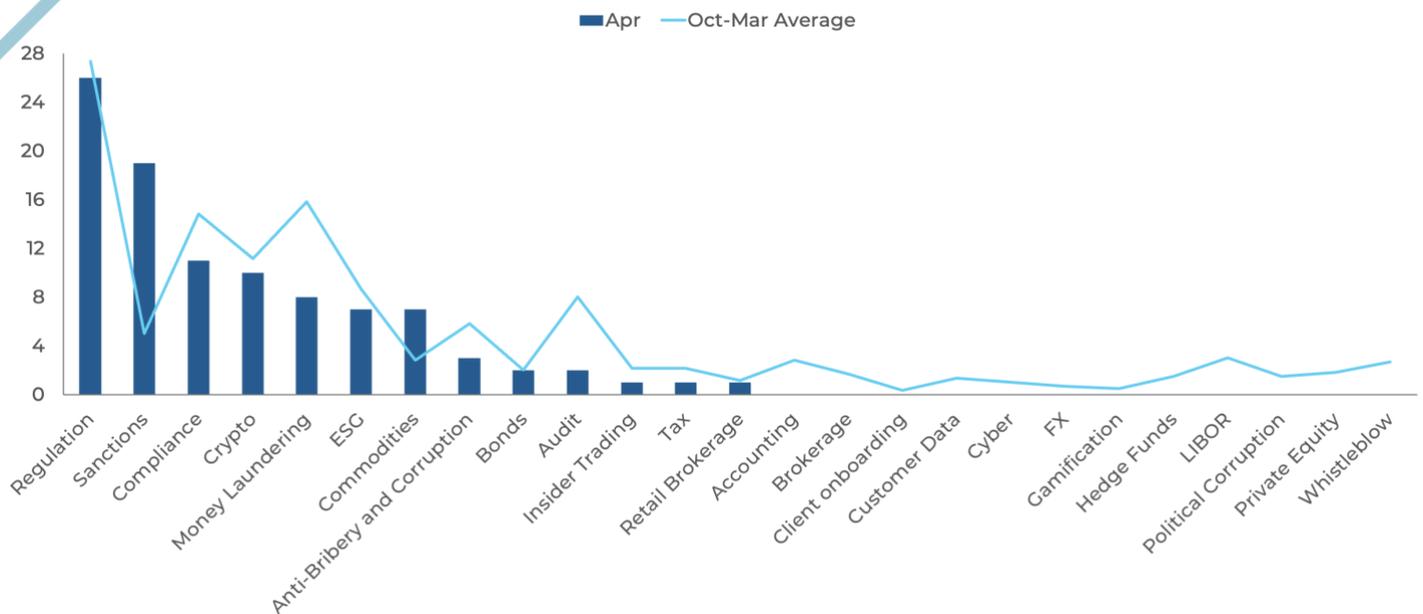


Figure 2: SKADI Sammendrag Articles by Topic



TOPIC DETAILS

April articles included in the SKADI Sammendrag covered less topics, resulting in significantly fewer data points being tracked than usual. There were also twelve topics out of the twenty-five covered by HORIZON with no articles at all in April. Only **Sanctions** (which averaged one article a month from October to January) and **Commodities** were above their long-term averages. The latter's prominence is clearly caused by the former, with April's commodities articles falling into two broad categories: shortages caused by sanctions and the need for further regulations in the market after the sanctions caused major disruptions, most notably at the London Metal Exchange. As the devastation in Ukraine continues, we expect both these issues to continue to occupy headlines in the coming months.

Russian ADRs

Several headlines in April related to Russian Depository Receipts (DRs), assets that enable foreign investors to gain exposure to Russian companies through exchanges in other countries. These can take the form of either American Depository Receipts (ADRs) or Global Depository Receipts (GDRs). ADRs are shares of a single foreign company issued in the United States, whilst GDRs can be issued in countries other than the home country or the US. There are currently eight Russian companies with ADRs trading on US exchanges (NASDAQ and NYSE), thirteen trading on the US OTC market and twenty-four GDRs trading on the London Stock Exchange. Prior to the invasion of Ukraine, depository receipts accounted for around 15% of all trading in Russian dual-listed equities. [A law passed in Moscow on 16-April requires Russian companies to delist their depository receipts](#) by 05-May and convert them into local shares.

The resulting challenges for foreign owners of Russian DRs have now become apparent. Holders have been prevented from selling their DRs: in March the London Stock Exchange suspended all Russian GDR listings, whilst NYSE and NASDAQ exchanges implemented trading halts on Russian ADRs. Ordinarily, cancellations from depository receipts held in New York or London, into the underlying local shares can be done in a day, with investors permitted to hold the position, or sell and exchange the proceeds very easily.

Whether investors decide to cancel into Russian shares now, or are forced to convert by 05-May, the Russian central bank has already embargoed foreign investors from transferring shares out of their custody accounts or selling Russian shares. Additionally, sponsors of DR programmes charge a cancellation fee, which could be as high as USD 0.05 per depository receipt converted.

Russian Bonds

March saw further operational issues in processing Russian bond coupons. On 04-April, [the US treasury vetoed Russia's government from transferring US Dollars to service Russian sovereign debt](#). Until this point, movement of sanctioned US Dollars had been permitted to fulfil coupon payments.

Just a few days later, Russia announced its intention to take legal action if imposed sanctions, preventing the payment of US Dollars, triggers a sovereign default.

The EMEA Credit Derivatives Determinations Committee (CDDC) began looking into a Russian bond payment made on 04-April received in roubles rather than US dollars to determine whether this should be deemed as a failure to pay.

Audit

Whilst there were only two Audit related articles featured in the SKADI Sammendrag in April, they both covered interesting developments in this area. Firstly, the Financial Reporting Council announced they will be [reclaiming their power to ban auditors](#). Professional bodies such as the ICAEW are currently the ones who hold this power. This marks the first major change in approach since Sir Jan du Plessis took over as chair earlier this year. The proposals are open to public consultation until 26-May and will not come into effect until September this year.

The other big news in Audit this month came with the [verdict of no systemic fraud at Adler Group SA](#). The beleaguered German real-estate investment company has been the subject of a forensic audit report from KPMG, since fraud allegations were made by short-seller Fraser Perring in November last year. KPMG did however find evidence of accounting irregularities and an opaque system of consulting fees.

Other Topics

ESG continued to be a key theme in April, with several articles featured in the SKADI Sammendrag. From a social and governance perspective, [the Financial Conduct Authority \(FCA\) finalised their proposals setting positive diversity targets for listed companies](#). The new legislation now requires companies who are unable to meet these targets, to explain why they failed. The targets until at least the next review period in three years' time, are for 40% of the board to be women, including at least one senior board position and at least one board member to be from an ethnic minority background.

On the environmental side, pressure from activists and investors alike continues to build on banks and investment funds to divest from fossil fuels. [Activists blocked the entrance of the insurance market Lloyd's of London](#), the world's biggest insurance market, forcing it to close for the day. Investors at Credit Suisse are demanding the cessation of fossil fuel financing, with a group of thirty-one shareholders supporting this resolution.

Following on from our Spotlight feature in [February's HORIZON](#), the FCA could face industrial action for the first time in its history. [This comes after 75% of workers who are members of the Unite union backed strike action](#). Staff at the city watchdog are disgruntled over changes to their pay and working conditions.

Finally, April saw the start of [the landmark trial of former senior German tax inspector](#), Hanno Berger, over his alleged role in the cum-ex scandal – a tax fraud worth €279mn. Berger was extradited from Switzerland earlier this year, after being on the run since 2012.



SPOTLIGHT: REGULATION LOOMS OVER CRYPTO

Whilst regulation has been looming over the crypto industry for years, focus has now increased as its use as a vehicle for potential sanction evasion has come under the spotlight in recent months. The European Parliament have begun a discussion on the possibility of hastening the introduction of the proposed markets in cryptoassets (MiCA) regulations, from the initially proposed two-year implementation period. This comes at the same time as leading crypto exchange [Binance announced that Russian nationals will be banned](#) from making any new deposits or trading. As well as the latest wave [of U.S. sanctions targeting Russia's crypto mining industry](#), which is purportedly the third largest in the world.

Elsewhere in the world, the Treasuries in both the UK and US have pleased crypto users with comments indicating that regulation in the space is poised to be far less onerous than some anticipated. At the beginning of the month, [Rishi Sunak announced his ambitions for the UK to become a crypto global hub](#). This ambition was demonstrated with the treasury's confirmation that they intend to recognise stablecoins as a valid form of currency. Other policies announced included potential tax overhauls to increase the UK's competitiveness in the industry, as well as the announcement of Royal Mint NFTs being issued in the summer. The Chancellor stated that these policies will help the UK's financial sector stay "at the forefront of technology and innovation".

Similarly, U.S. Treasury Secretary Janet Yellen said in a [speech last month](#) that "Our regulatory frameworks should be designed to support responsible innovation while managing risks". These comments are very much in line with other recent statements from US state departments. This sentiment has been met with relief from crypto enthusiasts, after the possibility was touted earlier in the year of the US taking a far tougher line with their regulations. We will get a better understanding of what regulations will be introduced, after the combined report by the Treasury Department and the Commerce Department is published, known as 'the future of money' report.

The current market value of all cryptocurrencies is over \$2 trillion, more than the combined value of all FTSE 100 companies. This has created an extraordinary potential risk for consumers in the wild west crypto world as it is. For this reason, as [Bill Dudley wrote in Bloomberg last week](#), crypto advocates should be just as hungry as crypto sceptics for regulation, before cybertheft or a market crash "forces an innovation-killing crackdown".

What is it we're doing here?

Released every morning, the SKADI Sammendrag covers headlines to assist Compliance, Internal Audit and control teams. In this monthly research document, HORIZON, we collate and analyse these 100 or so articles, finding themes and areas of focus for control functions.

SKADI

+44 (0) 20 7510 1762

enquiries@skadilimited.com

www.skadilimited.com



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