

# HORIZON

from  
SKADI

**Martin Anthony**   
Business Development  
Director  
London

**Sophie Biro-Rouillon**   
ESG  
Analyst  
Paris

**David Bridges**   
Product Development  
Analyst  
London

**Josh Richardson**   
Financial Crime  
Analyst  
London

## June 2022 Edition

### HIGHLIGHTS

- June's 'Spotlight' feature - 50 Shades of Green - focuses on the recent growth in investor engagement regarding ESG issues (page 4).
- The fallout over LME's handling of the nickel short squeeze intensifies (page 2).
- Several AML sanctions were levied in June, including the first criminal conviction against a bank rather than an individual (page 3).

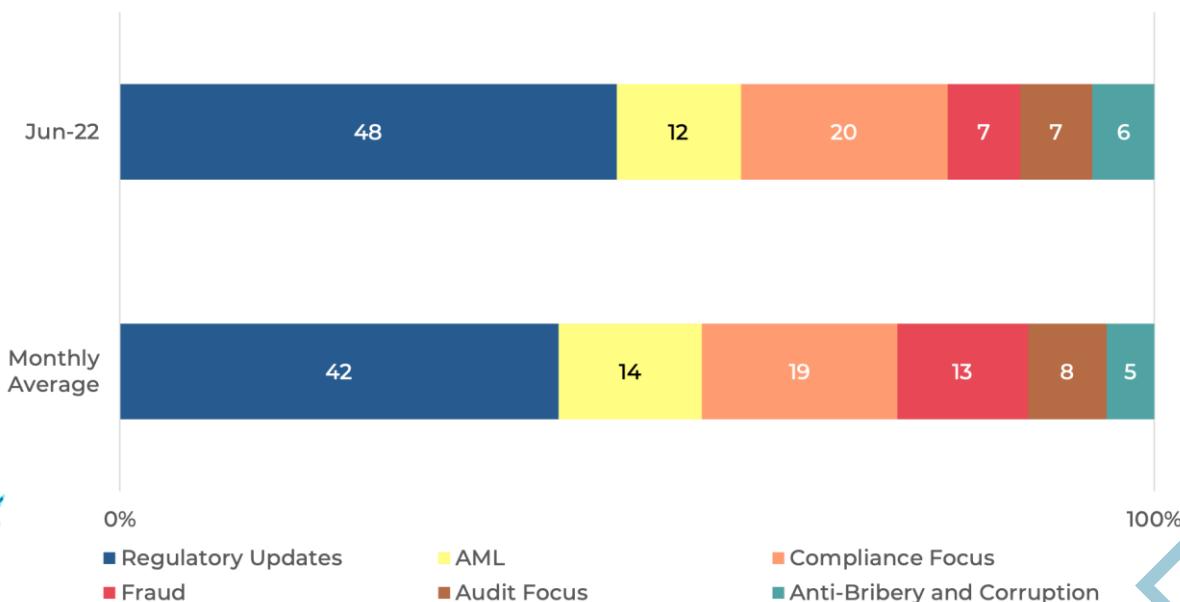
### CATEGORY OVERVIEW

For the second consecutive month, *Regulatory Updates* had the highest share of articles featured in The SKADI Sammendrag. One fifth of these referred to crypto regulations, with a further 15% regarding ESG. The rest of the articles concerned a wide-range of topics, from the FCA's plans to regulate both cloud services and the 'buy now, pay later' market, to plans unveiled in the US focusing on retail brokerage and 'meme-stocks' (page 3).

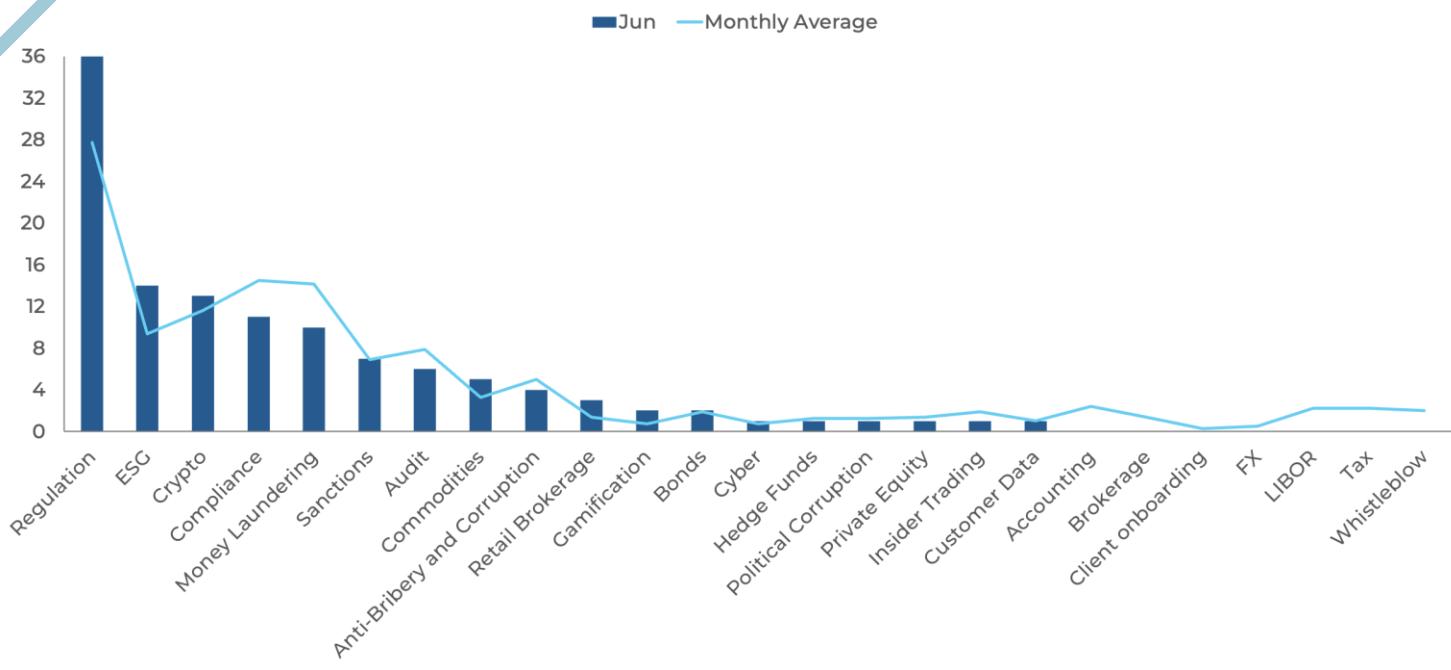
After a slight dip in May, *AML* headlines returned to their monthly average, with money laundering arrests made in both Georgia and Dubai. In addition, after an investigation that began in 2008, Credit Suisse were found guilty in the first criminal trial of a major Swiss bank. The case related to money laundered by a Bulgarian cocaine trafficking gang, with the bank found to have been deficient in their AML controls (page 3).

*Fraud* articles fell substantially in June; however, this tends to be the most volatile of the headline categories that we track. No other category was more than 2% from its HORIZON monthly average.

**Figure 1: SKADI Sammendrag Articles by Category**



**Figure 2: SKADI Sammendrag Articles by Topic**



### TOPIC DETAILS

As shown above, the June SKADI Sammendrag articles were once again led by stories focusing on *Regulation*. The only other topics above their averages were *ESG*, *Commodities*, *Retail Brokerage* and *Gamification*. There were also significant articles regarding *Audit*, *Compliance* and *Money Laundering*. All of these topics are discussed in more detail on the following pages.

**Commodities** headlines gained traction in June, with stories covering lawsuits made by Hedge Funds over the LME's handling of the Nickel short squeeze in March 2022. Elliott Management [claimed](#) damages of USD 450 mln over the exchange's decision to cancel a day's worth of trades, and suspend trading for eight days, when the metal's price spiked to more than USD 100,000 a tonne. The following day, Jane Street [filed](#) a claim to sue the exchange for USD 15.3 mln. Later in the month, the LME approved an initiative to require disclosure of all OTC positions on a weekly basis from 18 July.

**Money Laundering** stories throughout June brought attention to several Swiss incidents. In Geneva a prosecutor [identified](#) more than USD 60 mln that was understood to have been laundered through Credit Suisse from 2008 to 2014. Sources stated the allegations constituted aggravated laundering by the Bank. Patrice Lescaudron, a CS employee, was convicted and imprisoned in 2018 for his role in the scheme. To date, Credit Suisse has not been associated directly with the investigation.

In a separate case, Credit Suisse was convicted by Switzerland's Federal Criminal Court with [failure](#) to prevent money laundering pertaining to a Bulgarian cocaine trafficking gang which laundered millions of Swiss francs between 2004 and 2008.

These cases potentially mark a turning point for Swiss prosecutors since, in both examples, allegations are being made against the bank rather than an individual.

There were more *Sanctions* articles in June, including several stories around Russian sovereign debt. At the start of June, our headlines reported Russia failing to pay a coupon payment as the EU's sanctions included a Moscow-based payments firm anticipated to service Russia's Eurobonds. This story developed throughout June, with Russian Eurobond coupon payments sent from Russia's National Settlement Depository becoming "[stuck](#)" at Euroclear based on a report from Bloomberg. The last week of June saw the [announcement](#) of Russia defaulting on its government bonds, with 26<sup>th</sup> June as the expiration of a 30-day grace period from coupon payments denominated in euros and US dollars.

*Audit* topics detailed regulators imposing fines for auditing misconduct. In the UK, the Financial Reporting Council (FRC) [fined](#) PwC approximately GBP 5 mln for failings regarding construction companies Kier and Galliford Try. Additionally, CohnReznick [agreed](#) to pay USD 1.9 mln to the SEC for charges against the audit and advisory firm. Charges were levied for improper conduct relating to their audit of Longfin Corp, a cryptocurrency firm, which collapsed shortly after CohnReznick's audit which failed to follow-up on fraudulent transactions that inflated the company's sales.

This month's *Compliance* headlines highlighted further fallout from Citi's two-year old operational risk incident relating to a syndicated loan arranged for cosmetics maker Revlon, [a topic SKADI wrote about in detail last year](#). Citi are still attempting to recover the balance of USD 500 mln from several Hedge Funds and, when Revlon filed for bankruptcy in June, Court documentation showed the ongoing saga could hamper Revlon's restructuring plans.

It has been another eventful month for *ESG*, especially with regards to greenwashing, and we expect to see many more headlines about this topic over the rest of 2022. At the start of the month, DWS chief Woehrmann [resigned](#) over greenwashing allegations. Additionally, BNY Mellon was fined USD 1.5 million by the SEC, whilst a separate investigation into Goldman Sachs Asset Management continues.

The financial authorities are also stepping up their attempts to tighten ESG disclosure [requirements](#) for funds and corporations on both sides of the Atlantic, in an attempt to fight [greenwashing](#) as they look to protect investors. The rules are complicated (with various metrics and scenarios) and we anticipate companies and funds will need to allocate considerable time, money and valuable resources to remain compliant.

In Europe, disclosure of sustainability reporting is now [required](#) for large non-European companies. In the US, the SEC has published a new set of ESG Fund Disclosure Rules, and a proposal for Climate Disclosure rules which have raised [objections](#) from US business leaders. The roundtable group leaders expressed specific concerns on the nature of scope 3 GHG emissions disclosure, which typically tracks the majority of a company's footprint (65% to 95% according to Carbon Trust).

Following a resurgence in May, both *Gamification* and *Retail Brokerage* continued to generate several headlines this month. First, SEC Chair Gary Gensler announced his [plans](#) to boost competition for retail brokerage firms who offer commission-free trading. Gensler also said a ban on payment-for-order-flow (PFOF) is still a possibility, in line with the UK. We talked about PFOF in detail in [The SKADI Podcast S2E2](#).

This month also saw the publication of the U.S. House of Representatives' Financial Services Committee [report](#), which stated that regulators must do more to address "meme-stock" trading and the associated market risks.

Finally, the CME Group announced their plans to launch binary options, so-called "event contracts", in September. The layout is based on similar retail brokerage sites, with a focus on simplicity and placing trades with a swipe on a phone screen. In our view, we would expect to see some push-back on this given it seems to go against the concerns raised in the FSC report, and given the CFTC recently [warned](#) against the proliferation of binary options on unregistered trading platforms.

### **SPOTLIGHT: 50 SHADES OF GREEN: ENGAGEMENT KEY TO TRANSITION**

The complexities and confusion around ESG disclosure and reporting has led to some investment funds adopting a more pragmatic approach, by using investor engagement.

Engagement is the practice of holding direct discussions with a company about pre-defined issues that the asset manager believes present business risks. Along with voting at AGMs and EGMs, it is one of the two tools that investors can use to influence the management teams of investee companies to persuade them to act in a more responsible manner. According to Ceres, an environmental NGO, the number of engagements this year has risen steeply. Ceres have recorded 181 cases of engagement so far this year, compared to 114 for 2021.

Engagement can help companies improve their performance across the three ESG pillars and can be especially effective in persuading corporations with large carbon footprints to speed up their transition to cleaner processes. Investors are also taking this approach very seriously, with the launch of specialist funds dedicated to helping companies with high omission levels transition to cleaner technologies.

The [largest-ever impact fund](#) is now run by Mark Carney, former governor of the Bank of England, and current head of impact at Brookfield. In Carney's view, it is counter-productive to starve high-emitting sectors of investment when they need to fund their transition to cleaner business models. His fund will seek to "go where the emissions are" and help companies transition rather than investing in already green assets. The fund will select companies with credible plans to align their businesses with the Paris agreement target of limiting global warming to 1.5°C.

Robeco Asset Management, well known for being a forerunner in the ESG investing space, recognises the importance of [active ownership and engagement](#). Robeco has adopted an interesting approach as it has included engagement in their quantitative investment process tool. It is used as an important overlay to impact data that may at times be difficult to gather and which may also lack quality. It also brings another (realistic) dimension to the complex and rigid data gathering process.

## HORIZON Takeaway Points for Audit and Control Teams

- Addressing potential greenwashing risks should now be front and centre for control function professionals as we are seeing increased activity from regulators and policy makers. Corporations need to ensure that they don't make misleading statements in company disclosures, and asset managers need to check that investments are in line with their stated objectives to avoid allegations of potential mis-selling.
- Market volatility has increased as people begin to fully digest the latest inflation numbers and medium-term interest rate prospects. SKADI continues to recommend revisiting Risk limit controls and frameworks to ensure they continue to be fit for purpose.
- Institutions should also conduct a regular review of their marketing materials as regulation in a number of areas is evolving rapidly. A misleading single word (ALL) in their documentation meant the SEC could levy a fine against BNY Mellon – as often found, the devil is in the details.
- Multinational corporations and institutions need to follow regulations in the different jurisdictions in which they operate. This process is made much more difficult when regulations are not yet aligned, as it means more money and resources will need to be allocated until there is some sort of consensus on the rules. (ESG disclosure rules and crypto regulation are good examples that spring to mind).

---

### 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](mailto:enquiries@skadilimited.com)

[www.skadilimited.com](http://www.skadilimited.com)



[www.linkedin.com/company/skadi-limited/](https://www.linkedin.com/company/skadi-limited/)



<https://www.youtube.com/channel/skadi-limited/>