

HORIZON

from
SKADI

Damian Taylor 
Product Development
Director

David Bridges 
Product Development
Analyst

Sophie Biro-Rouillon 
ESG
Analyst

Josh Richardson 
Financial Crime
Analyst

March 2022 Edition

HIGHLIGHTS

- As you would expect there was a large increase in **Sanctions** headlines during March, with additional references appearing in **Money Laundering** and **Commodities** related articles.
- **Crypto** headlines also increased as its potential use for money laundering and sanction evasion has been a recent focus of regulators across Europe and the U.S.
- This month's Spotlight looks at some of the key themes emerging in **ESG**, including a predicted rise in ESG court cases, the SEC releasing its climate disclosure proposals, and the potential need for ESG ratings to be regulated.

CATEGORY OVERVIEW

The Category breakdown for March shows some significant deviations from the monthly SKADI Sammendrag averages. **Regulatory Updates** remained the biggest category with a slight increased share. **AML** saw a significant jump from 14 to 19 articles, largely resulting from Russian sanctions. **Compliance Focus** headlines grew in March, as control staff and regulators contend with the impact of new sanctions and regulations.

Since starting HORIZON, the **Fraud** category has seen the largest fluctuations month-on-month. March saw fraud's lowest share of the financial news, at 5%, compared to a high of 25% back in December. Finally, **Audit Focus** and **Anti-Bribery and Corruption** remained around monthly average levels over March.

Figure 1: SKADI Sammendrag Articles by Category

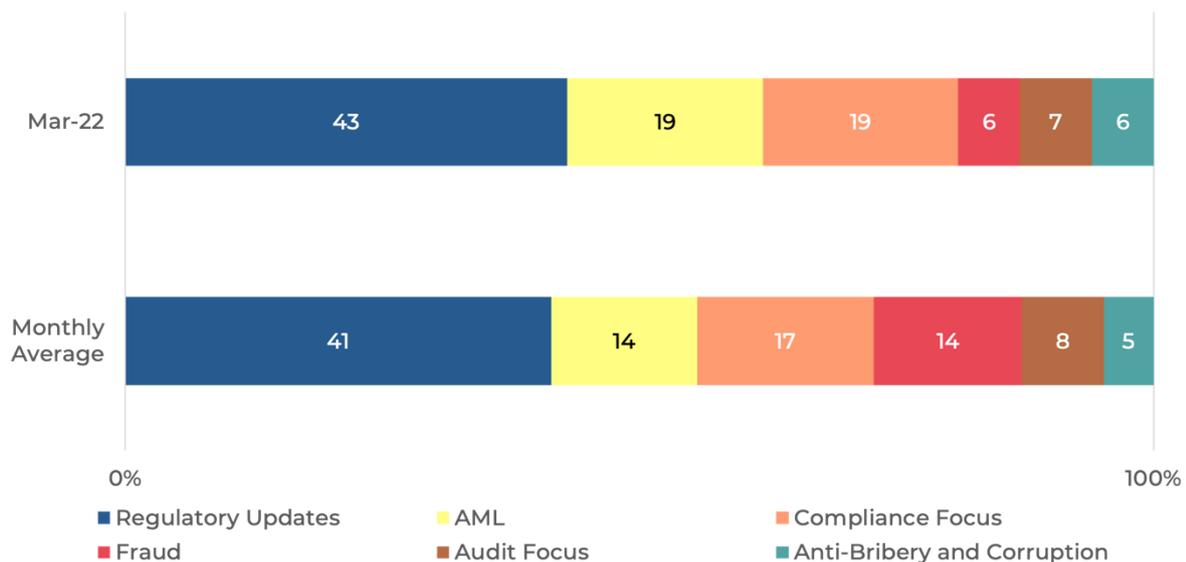
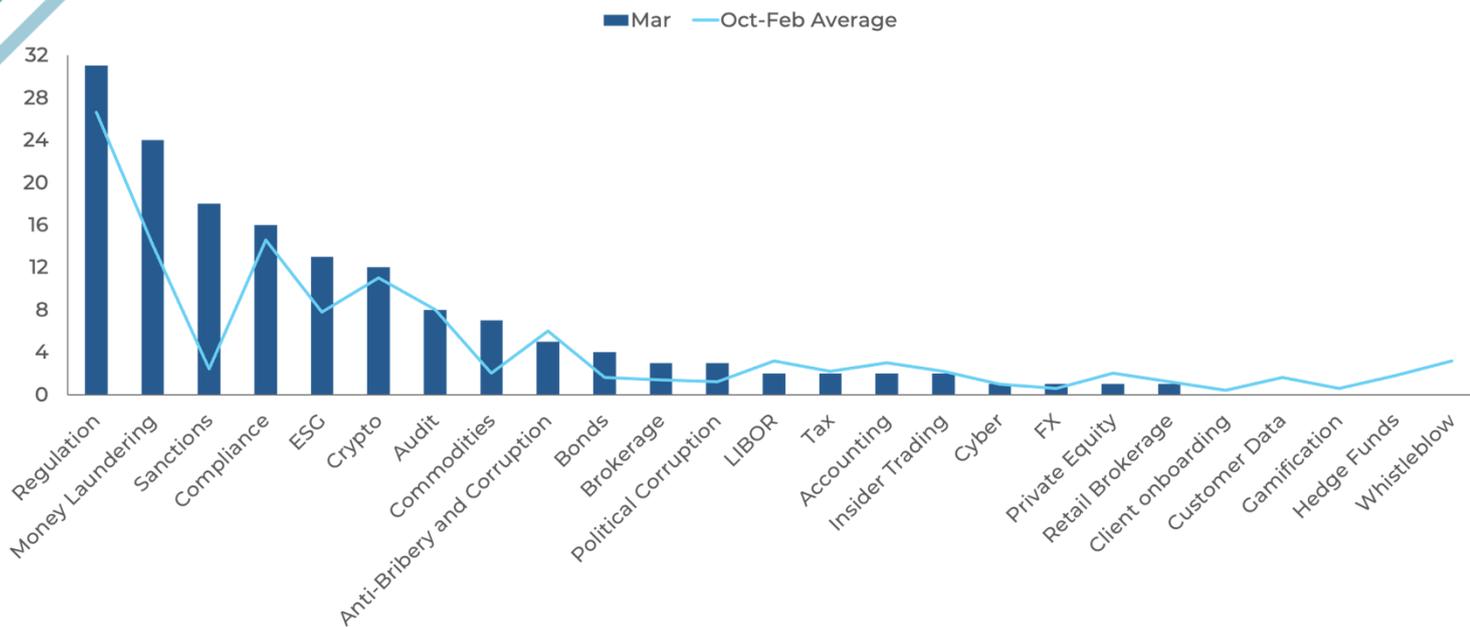


Figure 2: SKADI Sammendrag Articles by Topic



TOPIC DETAILS

Money Laundering

March saw AML headlines increase to 24 stories compared to 17 in February. Four AML headlines related to the [UAE's placement on the "Grey list" by FATF](#), the Financial Action Task Force.

UAE's admission takes the total of countries on the Grey list to 23. In response to the listing, the UAE said it would look to swiftly resolve deficiencies in countering money laundering under increased monitoring from FATF.

Other articles in March detailed recent Russian property investments in Dubai and Istanbul. With [one Dubai property firm seeing Russian interest jumping tenfold](#), together with residency visa incentives related to property purchases. Clearly while sanctions remain in place this will be an area of increased focus.

Commodities

Commodities headlines increased during March in-line with market volatility linked to the Russian invasion of Ukraine. A short squeeze in futures on the LME caused all LME Nickel trading to be suspended and executed trades to be cancelled, when the metal reached a high of around USD 100,000/tonne. Market participants speculated that Tsingshan Holding Group, a Chinese Nickel producer faced losses which could have been as high as USD 8 bln. The LME chief executive announced the exchange would consider whether it should have the power to supervise and limit short positions to protect market integrity.

Other commodities headlines included U.S. Senators imposing sanctions to anyone buying or selling Russian gold.

Sanctions

Following on from [February's edition](#), which focused on SWIFT payment sanction screening, March was a challenging month for banks responsible for processing permitted Russian corporate bond coupon payments, whilst also being tasked with blocking cash flows to an increasing list of sanctioned entities and individuals.



Outsourced service oversight functions in London would benefit from reviewing governance around the detail and timely receipt of MI from outsourced corporate action areas. Outstanding Nostro breaks may contain funds not received on Russian coupon payments, redemption proceeds or other corporate actions. In such instances, the issuer may not have defaulted, however funds could be held due to Russian sanctions. Already, an interest payment of USD 12.6 Mln has been frozen by Citigroup from Severstal, a steelmaker, not mentioned in Western sanctions. Tight controls-focused oversight and close communication between outsourced functions, governance teams, and the front office is crucial.

Other Topics

After a reduction in *Crypto* related news in February, we saw a return to trend in March. The majority of articles regarded crypto's potential to circumvent sanctions, with concerns voiced by the U.S. regulator [FinCEN](#) and European Central Bank president [Christine Lagarde](#) amongst others.

All other topics remained approximately in line with their long-time averages, apart from a slight rise in *Bonds* articles. This was once again largely driven by complications over bond payments caused by Russian sanctions.

SPOTLIGHT: KEY THEMES EMERGING IN ESG

Expect more Court cases in relation to climate change but also on social issues

In a report published in January 2022, the UN Environment Programme (UNEP) finds that Climate litigation cases have spiked in recent years: climate cases have nearly doubled over the last three years and are increasingly compelling governments and corporations to implement their climate commitments.

Greenwashing and non-disclosure was cited as among the recent trends in climate litigation identified by the report. This occurs when corporate messaging contains false or misleading information about climate change impacts. It is interesting to note that the UK government has also received a recommendation that Money Laundering laws should include Climate Crimes. In the interest of investor protection, fund managers ought to monitor the litigation landscape. However, investors may also be at risk of being deceived by fund managers who may mis-sell ESG funds as seen in the case of DWS. The fund was accused of misleading its investors about how much of its assets were invested along sustainable lines. Although there is no proof that the claims are true, the case has sent shockwaves through the investment industry.

The regulators want to prevent such events occurring again by improving alignment, transparency, and issuing clear reporting standards.

ESG litigation over social issues are also set to rise, according to Bloomberg. There has been a spike of workplace litigation with Covid and gender discrimination with the #MeToo movement. Last February, California sued Tesla Inc. for racial discrimination and harassment. This high-profile claim could potentially be a blueprint for future cases.

USA – SEC announced proposals on climate disclosure

The US is catching up with other regions of the world in terms of corporate climate disclosure. The U.S. Securities and Exchange Commission (SEC) announced on 21st March the release of its proposals for climate disclosures for U.S. public companies. The proposals require U.S. companies to provide information on climate risks facing their businesses, and plans to address those risks, along with metrics detailing the companies' climate footprint



including Scope 1, 2 and for larger corporates Scope 3 greenhouse gas (GHG) emissions. We expect this will have a number of implications: companies are set to brace for higher compliance costs and auditors will have to assess the complex new climate disclosures.

Goldman Sachs Asset Management has already announced that it is raising Climate Reporting Expectations for Companies under latest proxy voting policies while asset manager Abrdn plc is taking tougher diversity line at U.S. AGMs.

ESG ratings providers to be regulated?

The demand for ESG ratings has left a trail of confusion among companies and investors. There are more than a dozen third-party data vendors (MSCI, S&P, Moody's, Sustainalytics being among the largest) that provide ESG data and ESG scores with different methodologies. They range from bottom-up analysis with various KPIs and definitions to top-down analysis that screen using NLP and AI technology. As a result, the ratings for a company may vary widely from one data provider to another.

India is the first to announce that it is making the move on ESG rating regulation to improve transparency. On 4th April the EU Commission launched a targeted consultation on the functioning of the ESG ratings market in the European Union and on the consideration of ESG factors in credit ratings. US regulators may consider similar action.

There are also a number of reporting frameworks (EU taxonomy, SFDR, TCFD, GRI, SASB...) and the lack of data standardization undermines EU taxonomy and reporting alignment efforts. Without mentioning that more corporate disclosure will lead to more discrepancies—and potentially more lawsuits. ESG reporting will remain a challenging task until regulators put in place a standardised sustainability reporting framework. In an effort to tackle this, IFRS Foundation and Global Reporting Initiative (GRI) have announced that they agree to Align Disclosure Standards. The ISSB has also launched a consultation on its first two proposed standards to develop a global baseline of sustainability disclosures for Capital markets. We expect to see more initiatives of alignment in the future.

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



www.linkedin.com/company/skadi-limited/



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