News Letter

Global Financial Regulatory & Policy Newsletter

Winter 2020

"...What we need is smart regulation, not more regulation..."

FINTECH VULNERABILITY ..

In the aftermath of Paris FinTech Forum 2020, the greatest worry is in the FinTech space – where developers and IT specialists look like potential sitting ducks for massive cross-border fines. Particularly with the US Sanctions focus on the likes of Iran, North Korea and Russia - and EU Blocking Statutes, misleadingly, trying to ignore US Extra-Territoriality.

But most FinTech specialists are unaware of strategic cross-border dangers. FinTech solutions and funding are targets for those trying to circumvent US Sanctions. Fenergo's latest data on fines for KYC, AML and Sanctions offences from 2008-2019 shows a massive $36BN in fines - with the vast majority imposed by the US.

LONDON AS FINTECH HUB AND GLOBAL FINANCIAL CENTRE

London is #1 FinTech centre in Europe and #2 globally. In Z/YenResearch's latest GFCI 26 survey - London is #2 Global Financial Centre and has consistently ranked #1 or #2 with New York.

UK was again the top European FinTech investment hub, at a new record $4.9bn. Venture capital and private equity investment in UK FinTech rose 38% y-o-y, or 3x more than #2 Germany at $1.3bn, and 6x more than #3 Sweden at $778m (Source: Innovate Finance).

Globally the UK was #2 with US #1, with $16.3bn in 1,095 deals. India was #3 with $3.9bn for FinTech start-ups, while China dropped to #4 at $1.8bn after a 93% fall y-o-y.

UK FinTech saw 7 of the 10 largest deals in Europe in 2019, and had the #2 largest global deal - Greensill's $800m raise from Softbank.

With 1,600+ UK FinTech firms, estimates indicate 100,000+ will be employed by 2030.

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IAIN STEWART-LINNHE QUOTED IN fDi Magazine

"... has been the case for so many European banks in recent years – ignorance of US AML and sanctions regimes is no defence, and purporting to follow local, EU directives as being more than adequate in global terms is extremely naive," Iain Stewart-Linnhe, a global regulatory policy, capital markets specialist and academic, wrote in his [Oct] 2019 book Cross-Border Sanctions & AML"

fDi Intelligence
GLOBAL INSIGHT FROM THE FINANCIAL TIMES LTD

Read the FULL Article in HERE

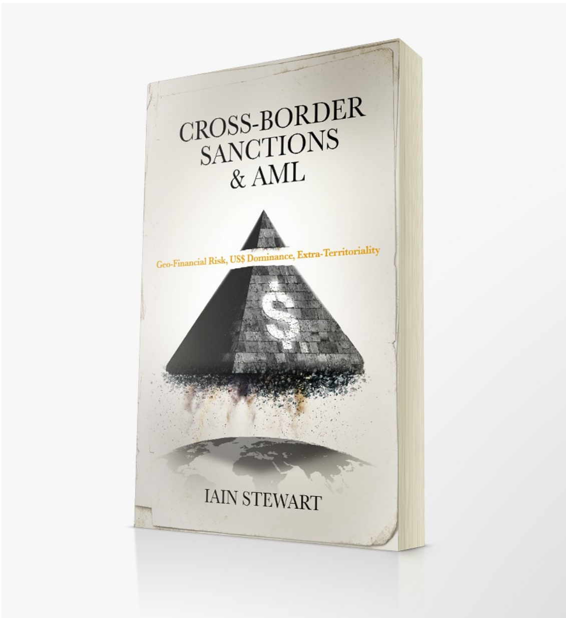
CROSS-BORDER SANCTIONS & AML
Geo-Financial Risk, US$ Dominance, Extra-Territoriality
500+ pages by Iain Stewart

Despite the numerous high level scandals and multi-billion dollar fines, particularly over the past decade, there is still a lot of confusion over US cross-border powers, otherwise known as Extra-Territoriality.

Much of this confusion has led to major firms and investors, governments making the wrong decisions and attempting to circumvent US Sanctions/AML policy, with disastrous results.

The key to the level of US pre-eminence is revealed in the way that US dollar dominance has provided the US with a major policy leveraging tool. The threat of exclusion from US dollar transactions or US markets has been, at times, a deterrent for some, but not all. Those who have chosen to ignore the full force of US extra-territorial enforcement have found themselves on the end of major penalties.

Available on Amazon &
www.SanctionsAML.com



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UWO – AZERBAIJANI BANKER'S WIFE - APPEAL DISMISSED

The wife of an Azerbaijani banker lost an appeal to keep her £15m Knightsbridge (London) home under a UK UWO for failing to explain the source of her wealth.

This is the first UK UWO case. A UWO allows the NCA to seize assets if the owner is a politically exposed person (PEP) - from outside Europe (EEA) and liable to bribery or corruption - unable to explain the source of their wealth.

Failure to do so here would see the NCA seizing her West London mansion (purchased for £11.5M in 2009 by a BVI company - now worth £15M).

Her husband is former chairman of state-owned International Bank of Azerbaijan, sentenced to 15 years in jail in 2016 for defrauding the bank out of £2.2bn.

USD $300M REPATRIATED

Jersey, Nigeria, US agreed to repatriate US$300M+ of forfeited assets to Nigeria. The funds were laundered via the US, held in Jersey banks under Doraville Properties Corporation (BVI), and in the name of former Nigerian Premier General Sani Abacha's son.

In 2014 a U.S. Federal Court in Washington D.C. forfeited the money as property involved in the illicit laundering of the proceeds of corruption in Nigeria from 1993 - 1998 when General Abacha was Premier. This is a reflection of extensive cross-jurisdictional cooperation between Jersey, the Money Laundering & Asset Recovery Section of US DoJ and FBI, Nigeria and other governments.

The tripartite agreement between Jersey, US and Nigeria represents a good example of international cooperation in asset recovery and repatriation - leading to a positive outcome for Nigeria. Nigeria Sovereign Investment Authority will disburse the funds on independently audited projects. This is a welcome example of how corruption and financial crime can be averted by highly diverse, focused jurisdictions with shared goals and common law ties.

CROSS-BORDER SANCTIONS & AML FEATURED IN ELAPH

Elaph is the leading independent around the clock Arabic news portal.

إيلاف

To read the FULL Article in Arabic HERE

EUROPE BANKING DISASTER

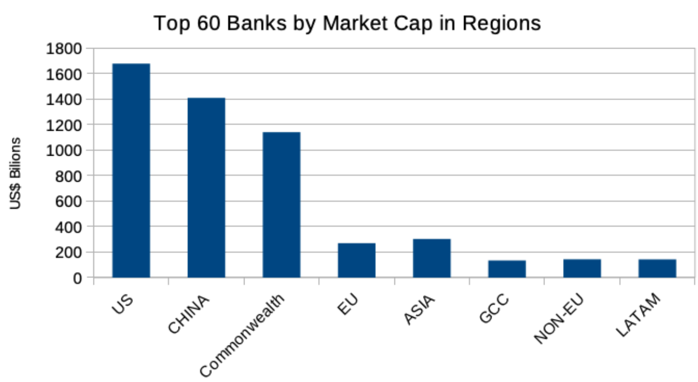
Astonishing data - after a decade dominated by US KYC AML sanctions fines & penalties (91% global fines 2008-18 were US), with European banks massively targeted. Only 5 EU banks (BNP Paribas, Banco Santander, ING, Intesa Sanpaolo, Credit Agricole) make the top 60 banks by market cap, with no German bank present, and only 1 Swiss bank (UBS) and 1 Russian bank (Sberbank).

US (8) and China (5) dominate the top 20. Commonwealth countries (5) - Canada (2), UK (1), Australia (1), India (1) - figure prominently, with only Russia (1) and Brazil (1) from outside these groups. Across the top 60 banks by market cap: US (32%), China & Hong Kong (27%), Commonwealth (22%) dominate, with an 81% share, with the EU at an astonishingly tiny 5.16%. From the GCC, Saudi Arabia's Al Rajhi Bank and National Commercial Bank, and Qatar's Qatar National Bank are in the top 60.

Ignoring the US Sanctions/AML extra-territorial threat is hopelessly short-sighted, and has to be prioritised. EU banks have paid heavily for their inability to adapt to the growing global reach of US policy goals. One startling statistic: in market cap terms as of 21 January 2020, not one single German bank features in the top 60 global banks - with only 5 EU-based banks included and just 1 Swiss, 1 Russian bank.

This is an extraordinary reversal over the past decade where EU and European banks have failed to understand how to prioritise global policy threats in real-time fashion. Market cap is a fair share price-related reflection of how reputational risk and adverse sentiment hits major names, and US, China, Commonwealth-based banks dominate where EU and European-based banks once flourished.

Source: ADVratings.com as per 21 Jan 2020



SanctionsAML.com

Stewart Linnhe
Smarter response to regulation

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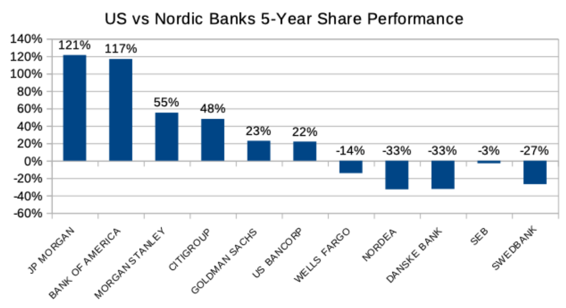
US CRUSHES EU AND NORDICS

As a snapshot measure of the threat of US Sanctions, we looked at the share price performance of US Banks versus the major Nordic banks over 5 years. We deemed this an appropriate measure as share prices typically reflect the hit to sentiment on listed companies caused by (US) Sanctions or AML investigations. Apart from Wells Fargo (US), the results reveal shocking underperformance of Nordics during a time of US investigations and scrutiny versus US major banks (also under similar scrutiny) - with share price returns into negative territory for all 4 major Nordic banks.

Nordea (Sweden/Finland) and Danske Bank (Denmark) are down 33% over 5 years, SEB (Sweden) is down 3%, and Swedbank (Sweden) down 27% in the same time period. Due to its slightly different geographical presence and footprint and arguably less exposure to the Baltic money laundering scandal allegations affecting other Nordic major players, Handelsbanken (Sweden) has not been included here.

Source: Market Data as per 18 Feb 2020



Many Nordic-based, long-term holders of Nordic banking stocks on the buy side and amongst major funds profess to holding them as a quasi-social responsibility duty in solidarity with Nordic markets. This is done in spite of poor performance, and perhaps due to their SIFI (Systemically Important Financial Institutions) status. We selected a 5-year share price performance timeline to try to capture long-term performance. This time period also coincides with a significant ramp-up in US extra-territorial and Sanctions/AML presence globally, with 91% of all AML, KYC and Sanctions-related fines issued by the US from 2008-2018 at an eye-watering $23.52BN (Source: Fenergo).

EU-based and European banks have been fined heavily over the past decade - not least due to the great confusion caused by EU Blocking Statutes since 1996 which claim that US extra-territoriality does not apply. The EU has been utterly misguided in its intentions and this has led to massive fines imposed on EU-based banks. With BNP Paribas fined $8.9BN by the US in 2014.

All the best,

Iain