

## Financial Crime Compliance ...

... having risen to the top of both regulators' and banks' priorities, ISSA has adopted 17 relevant Principles for Securities Custody and Settlement.

### This Newsletter initiates their publication and covers the following aspects:

- Introduction providing background information on the project
- Focus of the Principles
- Putting the Principles into Practice
  - Defining Policies
  - Focusing on Holdings and Transactions
  - Revising Contractual Arrangements
  - Managing Conflicts of Law
- Implementation Process
- Regulatory and Industry Engagement
- Sibos 2015
  - ISSA Community Session
  - Panel on Legal Transparency versus Operational Efficiency
  - Panel on Securities Transparency
  - SWIFT Institute Lecture

### We welcome your feedback

We would very much welcome your comments whether the contents of this newsletter suit your requirements.  
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Many thanks in advance!  
The ISSA Secretariat



## ISSA Financial Crime Compliance Principles for Securities Custody and Settlement

At its meeting of August 27, 2015, the ISSA Board adopted the ISSA Financial Crime Compliance Principles (FCCP). These Principles aim to support the efforts of the global community of securities custodians and intermediaries to address the critical challenges posed by financial crime. They have been published on the [ISSA Homepage](#).

The Principles have been worked out by ISSA's Working Group «Financial Crime Compliance Principles for Securities Custody and Settlement». A draft was made available to the ISSA membership in June for feedback. The final 17 Principles are intended to provide global guidance on the establishment and maintenance of cross-border securities custody relationships. The Working Group was divided into two distinct subgroups addressing the Operational Implementation Framework and Regulatory, Industry and Membership Engagement. They comprised an impressive team of experts drawn from ISSA member firms and third parties.

### Introduction

At its May 2014 Symposium, ISSA decided to address the financial crime compliance in securities custody, settlement and the distribution of securities and investment funds. This decision was taken in response to three principal drivers:

- To provide a framework to guide custodians and fund distributors in the application of the *IOSCO Principles on Client Identification and Beneficial Ownership for the Securities Industry of 2004*;
- To address issues raised by recent enforcement actions with a view to minimizing any gaps between market practice and the expectations of regulatory and enforcement authorities;
- To articulate standards that address those specific characteristics of conduct risk in the securities services field which are otherwise absent in correspondent banking services.

In the following the framework of the Principles is summarized.

## Focus of the Principles

In the context of the Principles, custodians include but are not limited to banks acting as global custodians and sub-custodians, fund distributors, trustees / depository banks, brokers, prime brokers and (International) Central Securities Depositories.

The Principles focus on the custodian's relationship with its account holders, which can also be other custodians. They address cross-border relationships in which the account holder is foreign or which concern the deposit of foreign or international securities. The Principles also address relationships maintained with the regulated financial institutions even if custodians may decide to extend these Principles to all the relationships they maintain for other types of customers.

## Putting the Principles into Practice

**Defining Policies:** Custodians shall define policies and procedures which detail how the custodian will ensure compliance with these ISSA Principles. All account holders of the custodian shall be subjected to appropriate due diligence that will seek to satisfy the custodian that it is comfortable conducting business with a particular account holder.

**Focusing on Holdings and Transactions:** Securities custody intermediates the ownership interests not only of the account holder but, in many cases, of the clients of the account holder. Securities are primarily a record of entitlement. Consequently, control methodologies in securities services must focus on asset holdings and not just on the execution of transactions by asset owners.

**Revising Contractual Arrangements:** In dealing with custody accounts established for the purpose of safekeeping and transacting in securities ultimately owed to third party clients, the custodian shall apply these 17 ISSA Principles. In order to ensure that the custodian can meet its obligations and fulfil the objectives of its compliance policies, it should communicate its requirements to its account

holders and obtain representations and undertakings relating to them contractually.

**Managing Conflicts of Law:** Account holders may be subject to local legal or regulatory requirements that make compliance with these Principles unlawful without appropriate consents or at all. If compliance with any Principle can be made lawful if the appropriate consents are provided, the account holder shall use reasonable endeavors to obtain such consents.

## Implementation Process

The success of the Principles depends upon broad adoption not only among ISSA's membership, but also on a practical impact across the financial industry. It is anticipated that industry participants will commence implementation planning from October 2015, with a projected cross-market adoption of the Principles by the end of 2018.

In order to facilitate implementation, ISSA will release an Adoption Guide for Securities Services Providers and make available a Due Diligence Framework supported by a three part questionnaire. The availability of these documents on ISSA's homepage will be communicated by a separate newsletter. A newly to be founded Working Group will be tasked with these and further activities.

## Regulatory and Industry Engagement

Concurrently to raising the awareness of the Principles across the broad ISSA membership, ISSA has consulted with selected regulators. Exponents of the ISSA Working Group will continue to maintain contact with global regulators on matters relevant to the Principles.

## Sibos 2015

On the occasion of this year's Sibos taking place in Singapore from October 12 to 15, 2015, various sessions will offer an excellent opportunity to address elements of the ISSA Principles. Whoever takes part in this year's Sibos is encouraged to attend one or the other of the following sessions, where exponents from the ISSA community are represented:

**ISSA Community Session: ISSA Principles for Financial Crime Compliance – Clear, Actionable and Measurable**

Monday, October 12, 15:30 – 16:30  
Conference room 3

Moderator: - Dominic Hobson,  
Founder, COOConnect

Panelists: - Tom Zeeb, SIX-SIS  
- Olivier Goffard, Euroclear  
- Mark Gem, Clearstream Banking  
- Alan Naughton, Standard  
Chartered Bank  
- Tom Casteleyn, BNY Mellon

**Cross Border Challenges of Intermediated Securities: Legal Transparency versus Operational Efficiency**

Tuesday, October 13, 09:00 – 09:45  
Conference room 4

Moderator: - Dominic Hobson,  
Founder, COOConnect

Panelists: - Lee Waite, Citibank  
- Stephan Lomas, Deutsche Bank  
- Alan Naughton, Standard  
Chartered Bank  
- John Siena, Brown Brothers  
Harriman

**Securities Transparency: Is this the Next Frontier?**

Wednesday, October 14, 09:00 – 09:45  
Conference room 2

Moderator: - Jonathan Rosenthal, Editor,  
The Economist

Panelists: - James Freis, Deutsche Börse  
- David Wildner, BNY Mellon  
- Olivier Goffard, Euroclear  
- Henrik Koch, Nordea Bank AB

**ISSA / Financial Crime Compliance Principles Video at Sibos**

Wednesday, October 14, 10:00 – 10:30

- Tom Zeeb, SIX-SIS  
- James Freis, Deutsche Börse

will be interviewed for future broadcast.

**Swift Institute Lecture with Prof. Stuart Weinstein**

Wednesday, October 14, 15:00 – 15:30  
Swift stand

- Stuart Weinstein, Professor, Head of the  
Coventry Law School

will provide a lecture taking as example the recently completed research paper commissioned by ISSA via the Swift Institute.

The above study reports on the «Benefits and Costs of Securities Accounting Systems». ISSA will make it available on its home page towards the end of September 2015.

**A Milestone is reached**

With the release of the FCCP Principles ISSA has reached a major step forward in combating financial crime. We are convinced that these Principles will greatly assist the securities services providers to improve the transparency and trustworthiness of the industry.

Please refer also to the [media statement](#) published today.

Urs Staehli  
ISSA Secretary