

REGULATORY INTELLIGENCE

G7 at Elmau: Tougher together on corruption and illicit finance

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Leaders met and joked about being tougher together than Russia, but the conflict in Ukraine dominated the G7 Elmau Summit held at the end of June, particularly since it coincided with the death of civilians following a missile strike in a shopping mall in Kremenchuk. In addition to sanctions, corruption and illicit financial flows were also discussed at the summit, with leaders linking the fight against corruption and illicit financial flows to strengthening democracy.

Various countries were also identified as part of foreign policy discussions where there is conflict and instability.

Illicit finance and corruption

In the [communiqué](#), G7 leaders identified the fight against illicit financial flows as essential to protecting democracy and tackling kleptocracies, which "pose an immediate threat to the freedom and national security of our societies". Illicit financial flows and proceeds of crime generated by corruption "drain public resources, can often fuel organised crime, enable kleptocratic systems to accumulate wealth and power at the expense of citizens, undermine democratic governance".

The G7 said it would step up the fight against corruption.

Beneficial ownership transparency has long been seen as central to tackling illicit financial flows linked to corruption. The G7 welcomed the Financial Action Task Force's (FATF) work on enhancing beneficial ownership transparency standards.

Earlier this year, the FATF [updated Recommendation 24 \(R24\)](#) and its interpretative note requiring countries "to prevent the misuse of legal persons for money laundering or terrorist financing and to ensure that there is adequate, accurate and up-to-date information on the beneficial ownership and control of legal persons".

The updated R24 calls for a multi-pronged approach to beneficial ownership transparency, flags the need for public authorities to have accurate (which has been subject to verification), adequate and current information, and says this information should be provided in an efficient manner to competent authorities.

At the summit, G7 leaders committed to improving timelines, accuracy and adequacy of beneficial ownership registers, accelerating work on beneficial ownership transparency. G7 leaders further stated that they would enhance the fight against "cross-border corruption" and assist their partners in Africa to create 15 beneficial ownership registries. This will be essential to lifting the corporate veil in a region where foreigners have limited access to corporate registry records.

The G7 also committed to strengthening internal security against threats posed by authoritarian regimes and Russia by boosting cyber defences, preventing illicit finance and focusing on law enforcement effectiveness. The G7 also touched upon predicate offences for money laundering and terrorist financing. With regards to violent extremism and terrorism, the G7 committed to deepening its cooperation.

Leaders further pledged to intensify the fight against transnational organised crime, cyber crime, environmental crime and human trafficking. The G7 noted that Russian aggression in Ukraine has increased the risk of human trafficking, so that there are now more than 100 million internally displaced persons or refugees. Women and children are particularly vulnerable to human trafficking and the G7 committed to fighting child sexual abuse both online and offline, as well as sexual and labour exploitation of women and children.

Firms should review their transaction monitoring systems to ensure that they include red flags and typologies for cyber crimes, environmental crimes and human trafficking. Given the higher threat of modern slavery and laundering of the proceeds of sexual exploitation of displaced persons, firms should consider carrying out awareness campaigns for staff in their organisations to help them identify unusual behaviour and red flags. Firms should also consider joining public-private partnerships that address this issue and consider launching projects to review customers and transactions for human trafficking and exploitation.

On the anti-corruption front, firms should ensure that they are engaging with materials that are being published by governments prioritising anti-corruption initiatives. There is a wealth of activity coming out of the United States, which recently hosted a [Global Anti-Corruption TechSprint](#) and will host the second [Summit for Democracy](#) this year. Firms must be aware of the commitments made on this topic, and assess whether new information will require them to update internal policies, procedures, systems and training materials.

Firms should also remain aware of investigations carried out by civil society organisations which specialise in anti-corruption and unearthing violent kleptocratic regimes. Consideration should be given to launching special projects, including sweeping internal customer and transaction databases to identify potential matches to persons identified in investigations. Firms should also ensure that



their enterprise-wide risk assessments take into account transnational crimes, including cyber crimes, and that their controls remain fit-for-purpose and relevant to identify and address threats.

Higher-risk countries

The G7 also identified numerous countries which should be considered higher-risk. These are countries where there is a heightened threat of conflict (or are currently in conflict), terrorist activity or where atrocities are being carried out by the incumbent regimes or mercenaries supported by the regimes.

These countries may be at risk of sanctions action by G7 countries due to aggression, the development of weapons of mass destruction or use of chemical weapons, human rights violations or corruption by the regimes. These countries may also be more susceptible to acting as source and/or transit countries for laundering the proceeds of crime or financial flows linked to sanctions.

Countries where there may be a higher risk of laundering proceeds linked to corruption, atrocities and human rights violations:

- Sudan — a swift transition to a civilian-led government was called for.
- Ethiopia — G7 countries called for talks toward a lasting ceasefire and durable peace.
- Yemen — parties were called upon to convert a UN-brokered truce into a lasting peace.
- Libya — the G7 would like to see the withdrawal of the Wagner Group, and for there to be accountability for conflict-related sexual violence.
- Afghanistan — the Taliban have been called upon to respect human rights and to create an "inclusive and representative" government.
- Myanmar — the military coup has led to human rights violations and arbitrary detentions.
- Hong Kong — G7 countries are calling on China to honour commitments made for the transfer of British control related to the rights, freedom and autonomy of Hong Kong.
- China — G7 countries again raised concerns about violation of human rights and forced labour in Tibet and Xinjiang, as well as tensions in the East and South China Seas.

Countries with a heightened risk of terrorist activity and terrorist financing:

- Guinea — is at an elevated threat of terrorism.
- Burkina Faso — recent terrorist attacks killed a number of civilians.
- Mali — has seen atrocities led by the Wagner Group.

Countries with a heightened risk of proliferation finance for weapons of mass destruction or chemical weapons:

- Syria — the G7 is looking for accountability for the "regime's use of chemical weapons, human rights violations and abuses, and other violations of international law".
- Iran — continues to pose a threat to international security if it develops nuclear arms, and the G7 wishes to hold it accountable for shooting down a Ukrainian Airlines flight.
- North Korea (Democratic People's Republic of Korea (DPRK)) — has unlawfully tested ballistic missiles, and concerns remain about its weapons of mass destruction and ballistic missiles programme.

Firms should ensure that their anti-money laundering/countering the financing of terrorism (AML/CFT) policies are updated, designating countries as higher-risk for AML/CFT and sanctions. Firms should review client onboarding systems and payment filtering systems to ensure that the listed countries are flagged to trigger manual review.

In the case of China, systems should be configured so that not all payments listing China are flagged, but rather those where the term "China" occurs in combination with additional trigger words such as sanctioned persons, adverse press or cities in a particular region.

Staff training materials should also be updated to reflect higher-risk countries, including red flags and typologies to allow staff in the first line of defence to identify unusual activity. Staff should be encouraged to review deals involving higher-risk countries and submit suspicious activity reports or suspicious transaction reports when concerns arise.

About the author

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