



## 9 Gross corruption and other serious financial crime

Section 4 of the ethical guidelines states that: “Companies may be excluded or placed under observation if there is an unacceptable risk that the company contributes to or is responsible for:

[...]

g. gross corruption or other serious financial crime



This criterion originally applied to gross corruption. In 2021, it was expanded to also cover other serious financial crime. A key area of focus for the Council's work in 2022 has therefore been to start monitoring and assessing companies in relation to this new aspect. The new member of staff designated to work on these issues joined the organisation in June.

## 9.1 Other serious financial crime

To establish the best possible foundation for prioritisation and the best methodological approach to the field of financial crime, the Council organised a seminar in London in the autumn of 2022. During the year, substantial resources were devoted to the planning, preparation and staging of this seminar. Participants were primarily international experts with a background in banking and finance, investigative journalism, consultancy work and academia. The main focus of the seminar was the financial sector, money laundering and tax crimes.

One of the key topics at the seminar was the role that banks and financial institutions in western countries, not least in the major financial centres, play in the laundering of money stolen through corruption and other forms of financial crimes in countries that are resource-rich but often poor and undemocratic. The ongoing war in Ukraine resulted in a particular focus on the flow of money from Russia, including how such funds can also help to undermine western democracies and democratic processes through so-called "strategic corruption".

Several of the seminar's participants pointed out that it was impossible to quantify precisely the global scale of money streams from illegal sources (money laundering), but that it was probably enormous and that the high-profile money laundering scandals we have witnessed in recent years are likely just the tip of the iceberg. A lot has happened in the anti-money laundering field in the past 20–30 years, both with respect to the development of international standards and its criminalisation at the national level. At the same time, criminals have adapted their practices and working methods. Combatting the problem therefore remains extremely challenging. It was pointed out that governments and authorities give too little priority to

financial crime and that collaboration between private (the banking and finance sector) and public (police, prosecution services, tax authorities) entities should be developed and improved.

Financial institutions' own risk assessments were highlighted as one of the most important factors in the prevention of money laundering. The absence of effective and thorough risk assessments, combined with a fear of being sanctioned by public authorities if the money laundering regulations are not complied with, has created an excessive focus on *quantity*, i.e. the volume of Suspicious Activity Reports, rather than the *quality* of these reports. This means that resources which could have been used for the effective monitoring and combatting of money laundering and other forms of financial crime are wasted.

The Council's follow-up of individual companies will focus on the efforts they are making with respect to risk assessments and how risks are identified, reduced and managed within their operations. This includes companies' due diligence assessments of new customers and business partners.

Companies' historic risk appetite was also highlighted as an important factor that is highly indicative of the individual company's *corporate culture*. In this regard, several seminar participants felt that benchmarking against other companies within the same sector would be a useful tool. In the area of financial crime, the *board of directors' role*, including board members' backgrounds and competence, was also highlighted as a key factor. In addition, *transparency* relating to assets' real owners (*beneficial ownership*) and the importance of publicly accessible registers was also discussed. In Norway, for example, work is currently underway to establish a register of beneficial owners.

In 2022, the Council commenced the assessment of a few companies with respect to serious financial crime. All of them operate in the financial sector. Two of these are European, while one is based in Asia.

## 9.2 Gross corruption

In 2022, the Canadian private jet aircraft manufacturer, Bombardier Inc, was placed under observation, while observation of the Italian defence contractor



Leonardo SpA was concluded. Leonardo had been under observation since 2017. The Council recommends observation more often in corruption cases than in other types of cases. This is because the norm violations normally took place some years before they came to light, while companies involved in corruption will often implement changes that create uncertainty about developments going forward.

The Council monitors how the companies that have been placed under observation are working with and developing their anti-corruption programmes and systems. The Council also watches out for any new allegations of corruption that may arise. If no new corruption cases emerge and the company seems to have established an anti-corruption system in accordance with internationally recognised standards, the Council normally recommends that observation be terminated. This is, however, no guarantee that the company concerned will not become involved in corruption once again. In that case, the Council may decide to reassess the company.

An observation process can be fairly resource-intensive. In 2022, the Council started observing the South Korean building contractor Hyundai Engineering & Construction Co Ltd (HDEC). In June, the Council visited the company in Seoul. At the same time, it took the opportunity to meet with several relevant organisations in the anti-corruption field in South Korea.

The Council continuously monitors any allegations of corruption relating to companies in which the GPFG has invested. Companies linked to several serious corruption allegations are systematically registered,

sorted by sector and ranked with respect to risk. This overview is constantly updated and expanded. Within certain sectors, allegations have emerged against so many companies that it is also possible to perform a more collective assessment of them. In 2022, the Council has performed such a review of companies within the telecoms sector.

The telecoms sector has long been highlighted as having one of the highest levels of corruption risk in the world. This must be seen in light of several factors. The past 30 to 40 years have seen massive technological advances, deregulation and privatisation within the sector, which has led to huge growth in sales and revenues, also in emerging markets. In the past decade, in particular, the sector has experienced a surge in growth, which is linked to the development of mobile telephony and rising demand for high-speed networks. The vast sums spent on licences, equipment contracts, acquisition of formerly state-owned operators, as well as other mergers and acquisitions, provides both incentives and opportunities for grand corruption. Furthermore, the telecoms industry is particularly at risk of corruption due to the large number of actors involved and the sector's complex governance structures, which result in close day-to-day contact between the public and private sectors with regard to the award of licences, regulation, supervision, etc.

In addition to telecoms companies, the Council is currently assessing companies within the oil service sector. This work will continue in 2023.