

EU Benchmarking Regulation Benchmark Statement v.1.1





Contents

1. General information	3
2. Market reality	3
3. Definition of key terms	3
4. Methodology	5
5. Data inputs	6
5.1. Input errors	6
5.2. Insufficient input	7
6. Use of discretion	7
7. Changes to the assessment	7
8. Potential benchmark limitations	8



1. General information¹

This benchmark statement was first published on 30 June 2020 and has not since been updated. This statement applies to the Elucidate FinCrime Index (EFI)². The EFI does not rely on data contributors for the provision of the benchmark. Under Title III of Regulation (EU) 2016/1011, Article 26(2) the EFI qualifies as a non-significant benchmark as it does not yet meet the threshold mentioned in point (a) of Article 24(1).

2. Market reality³

The correspondent banking market is progressively shifting from volume-based pricing to risk-based pricing of transaction banking services. This is done by factoring operational and compliance costs associated with the contract at initiation and maintenance, as well as the potential for financial losses (regulatory fines, market cap loss, remediation costs, reputational loss, etc.) due to a financial crime risk event. These costs are generally in excess of the revenue generated by the contract. The EFI is global and uses institutions' data to assess the effectiveness of the financial crime risk management controls and their proportionality to inherent financial crime risks identified. The data utilised enables the comprehensive identification of financial crime risks, beyond those that may have been otherwise overlooked by manual or basic due diligence practices and procedures.⁴

3. Definition of key terms⁵

Key terms related to the EFI assessment are listed and defined below:

Key term	Definition
EFI Rating	The EFI rating is the sum of the scores generated for a given entity. An EFI rating is produced only when an institution is subjected to an extended assessment.
Score	The EFI produces nine scores aligned to specific financial crime risk themes.
Due Diligence Questionnaire (DDQ)	The questionnaire, issued by the Wolfsberg Group, "aims to set an enhanced and reasonable standard for cross-border and/or other higher risk Correspondent Banking Due Diligence" ⁶
Preliminary assessment	The preliminary assessment is based on public data and is intended to be a preliminary evaluation of the inherent risk of the entity in question.
Intermediate assessment	The intermediate assessment includes eventualities validated on the basis of the information included in the DDQ. In other words, the intermediate assessment is performed based on generally unverified disclosures.

¹ Article 1(1) of the ESMA Regulatory Technical Standards regarding Article 27 of the Regulation (EU) 2016/1011

² No International Securities Identification Number (ISIN) available.

³ Article 1(2)(a) and (b) of the ESMA Regulatory Technical Standards regarding Article 27 of the Regulation (EU) 2016/1011
Article 27(1)(a) of Regulation (EU) 2016/1011

⁴ Article 27(2)(b) of Regulation (EU) 2016/1011

⁵ Article 27(2)(a) of Regulation 2016/1011

⁶ The Wolfsberg Group, 2018, <https://www.wolfsberg-principles.com/wolfsberaqb>



Extended assessment	The extended assessment uses the DDQ combined with the Elucidate Data Protocols to validate disclosures and measure additional risk elements, which feed into the score calculation.
Risk themes	<p>The impact and probability ratings are used to determine the weighting of specific eventualities within a set of nine aggregated risk themes:</p> <ol style="list-style-type: none">1. Organisational reputation: This theme includes eventualities which have been shown to lead to regulatory enforcement action and negative press.2. Culture and employee conduct: This theme includes eventualities which relate to an organisation's culture and employee conduct.3. Bribery and corruption: This theme includes eventualities which affect the risk of engagement in bribery and corruption-related criminal activity by employees, vendors, or other parties.4. Geographic footprint: This theme includes eventualities related to financial crime risk associated with jurisdiction where there is variance in terms of transparency, the rule of law, enforcement, economic policy, and financial infrastructure.5. Sanctions: This theme includes eventualities related to economic sanctions issued by authorities for key currencies.6. Customer portfolio: This theme includes risk and control eventualities which relate to the institution's client base. The risk profile and required controls vary based on the market targeted by the institution.7. Products and channels: This theme includes risk and control eventualities which relate to the products and services offered by the institution and how those products are made available to the client (e.g. online, branch, intermediaries, etc.).8. Transactional activity: This theme includes risk and control eventualities which relate to the transactions executed by the institution on behalf of itself or its clients.9. Governance framework: This theme includes eventualities which relate to the governance and design of the institution's anti-financial crime programme. <p>Each of these themes are thereafter assigned an aggregated risk score. This is the primary tool for designating and monitoring financial crime risk appetites.</p>
Eventuality	An eventuality is a test performed on the data set which can be evaluated as either be true or false. Eventualities are mutually exclusive and applied to one risk theme for the calculation of the score.
Impact	We use impact as a risk metric to measure exposure. It is a proxy for the magnitude of the potential risk event linked to a given eventuality. This variable is applied to each eventuality.
Conditional probability	The probability that the applicability of a given eventuality will be associated with the occurrence of a risk event. The probability metric is then applied as a multiplier of the impact for eventualities which are evaluated as true.
Functional irregularities	Sets of eventualities which, if evaluated as true, can be indicative of a non-existent or significantly deficient control, a sanctions match, contradictory data points, or other deficiencies identified.
Data completeness	The data completeness corresponds to the percentage of eventualities for which the platform had the necessary data for validation.
Data protocols	Data protocols needed for the extended assessment.



4. Methodology

The EFI model segments financial crime risk into relevant risk themes and calculates a score for each theme. Each risk theme is then combined to form an overall EFI rating. The EFI uses the Wolfsberg Group DDQ as a structural baseline. The answers provided in the DDQ are processed through a set of tests, called eventualities. Some of these eventualities make use of market analyses to assess risk. These market analyses are included in the EFI model as sub-models, which are documented and available to users.

The DDQ responses and additional risk evaluations sum up to over a thousand eventualities analysed. The EFI model can run using three different levels of risk assessment based on the data availability - preliminary, intermediate and extended. The preliminary assessment uses publicly available data in order to create an approximated risk score for a given entity, and is not a complete risk evaluation. It is a very basic form of risk assessment and the results of the preliminary assessment are expected to change when performing the intermediate and extended levels of risk assessment.

The intermediate model represents the next level of risk assessment, which is primarily based on the data contained in the CBDDQ. The intermediate level of assessment provides better insights into the financial crime risk position of an institution including relatively detailed information on the controls in place internally.

The third and the final level of risk assessment is extended, which uses disclosures contained in DDQ and data as per the [Elucidate data protocols](#). The extended level of risk assessment is considered to be the most thorough and comprehensive way of assessing the complete risk position of an institution, as it provides an independent and verified evaluation of risk based on the confirmation of the disclosures made in the DDQ and the evaluation of additional risk factors and potential process failures. All assessment levels make use of the same model architecture and logic, they differ in the number of eventualities that are evaluated, based on the extent of data provided by the entity.

The EFI produces risk scores across nine risk themes:

- | | |
|---------------------------------|---------------------------|
| 1. Organisational Reputation | 6. Client Portfolio |
| 2. Culture and Employee conduct | 7. Products and Channels |
| 3. Bribery and Corruption | 8. Transactional Activity |
| 4. Geographic Footprint | 9. Governance Framework |
| 5. Sanctions | |

These risk themes were derived by expert opinion, reflecting current industry practice and regulatory expectations, to cover key aspects of financial crime risk.

Each theme is assigned a score based on the aggregation of the risk associated with underlying eventualities. The theme score ranges from 0 (worst possible score) to 1 for preliminary assessments, 0 to 10 for intermediate assessments and 0 to 100 (best possible score) for extended assessments. On



an eventuality level, each eventuality receives a weight computed from the evaluation of the impact and the conditional probability related to that eventuality.

The EFI score per theme is calculated using the list of eventualities related to each theme, the impact and the conditional probability score, and the data completeness associated with all eventualities across each theme.⁷ Each of the themes are assigned an aggregate risk score. The EFI rating is the aggregated risk for the nine themes and provides the user with a score between 0 (worst possible outcome) and 900 (best possible outcome). The EFI rating is mapped to a letter grade to inform the user of their overall rating in a familiar format, with AAA being the highest possible rating and CCC the lowest. Details of this risk grade assignment are documented and available to users.

The model includes a segmentation of eventualities between inherent risks and control effectiveness based on expert judgement. This enables the platform to identify specific failure points and direct whether improvements and/or risk acceptances are needed.

In addition, some eventualities are marked as functional irregularities. These eventualities, in case they apply, will be highlighted in the platform.

5. Data inputs⁸

The EFI model was designed in order to adapt to varying levels of data availability; a score can be generated as a result of a preliminary assessment, an intermediate assessment or an extended assessment.

- The preliminary assessment is based on public data and is intended to be a preliminary evaluation of the inherent risk of the entity in question.
- The intermediate assessment includes eventualities validated on the basis of the information included in the DDQ. In other words, the intermediate assessment is performed based on generally unverified disclosures.
- The extended assessment uses the DDQ combined with the [Elucidate Data Protocols](#) to validate DDQ disclosures and measure additional risk elements, which feed into the score calculation.

5.1. Input errors⁹

Elucidate has documented its process for handling input data, including how to handle erroneous data in its Data Handling Procedures. Should data be found to be erroneous after the publication of a report, the report will be re-issued and consumers of the report will be informed as soon as possible after the error was found.

Elucidate reserves the right to perform reviews of user data, should there be any reason to suspect that the data has been tampered with. Should Elucidate find that a user has manipulated data so as to

⁷ Article 27(2)(e) of Regulation (EU) 2016/1011

⁸ Article 27(2)(c) of Regulation (EU) 2016/1011

⁹ Article 27(2)(f) of Regulation (EU) 2016/1011



improve its results, Elucidate will terminate the relationship, and inform the user's counterparties on the EFI platform.

5.2. Insufficient input¹⁰

The preliminary assessment is not intended to be a full evaluation of an institution, but instead as an initial risk identification process, predicated upon the assumption that the results will form the basis for further investigation utilising the intermediate, and ultimately the extended assessment. Elucidate does not recommend the use of the preliminary model as a final assessment.

To account for data availability, the model issues a data completeness level alongside theme-level risk scores. The data completeness corresponds to the percentage of eventualities for which the platform had the necessary data for validation. The total of the data required for the intermediate model (i.e. a fully completed DDQ) is said to equal 10% of the data required and the extended dataset assessed for the extended model via the [Elucidate Data Protocols](#) aggregates to 100%. The data completeness acts as a multiplier of the risk score. As a result, institutions which are subject to the intermediate assessment receive a rating between 1 and 10 and no overall EFI Rating.

6. Use of discretion¹¹

Elucidate's methodology clearly defines where and how discretion may be used in the assessment process. Discretion is used in defining design components and variables in the methodology. Where discretion is used, it is applied consistently across assessments as the model is a hybrid of data-driven and expert-driven modelling. Where expert discretion is used, the rationale for the decision made is documented. When possible, the rationale is backed by a credible third party source such as regulatory guidance, credible academic or industry studies and reports, case studies, etc.

The model balances expert judgement and data both mathematically and structurally. The hybrid nature of the model is achieved by balancing the two key variables impact and conditional probability, where impact is driven by expert judgement and conditional probability is data-driven. The mathematical balance of these two structural components is reflected in the model mathematical equations which is documented and available to users.

The methodology does not enable discretionary changes to be made to scores after the computation of the data by the EFI model.

7. Changes to the assessment¹²

This benchmark statement, alongside other methodology documentation, shall be updated whenever:

- The information contained in this statement ceases to be correct or sufficiently precise.
- There is a change in the type of the benchmark as per Regulation (EU) 2016/1011 Article 26(2).

¹⁰ Article 1(3)(a) of the ESMA Regulatory Technical Standards regarding Article 27 of the Regulation (EU) 2016/1011

¹¹ Article 27(1)(a) and 27(2)(d) of Regulation 2016/1011

¹² Article 6 of the ESMA Regulatory Technical Standards regarding Article 27 of the Regulation (EU) 2016/1011
Article 27(1)(c) and (d) of Regulation (EU) 2016/1011



- There is a material change in the methodology used.

Should none of the above-mentioned circumstances come to pass, this statement will be reviewed at least every two years.

Changes to the assessment may be related to:

- Improvements required to enhance the quality of outputs.
- External factors, beyond the control of Elucidate, which necessitate a change to, or the cessation of, the benchmark. Such factors may include, but not be limited to, the ability to access key information used for the production of the benchmark and/or new information on market conditions which materially impact the parameters of the methodology used to produce the benchmark.

Changes to the EFI methodology are reviewed, justified, tested and documented by the Elucidate Product and Data Science teams. Material changes are then subject to approval by Elucidate's Senior Management. The Advisory Board is informed of material changes and provided with an opportunity to challenge the changes and/or object to them. Material changes are communicated in advance of release to users.¹³

Users of the EFI should nevertheless be advised that changes to, or the cessation of, the benchmark may have an impact on the value of the financial contracts that reference the benchmark. For more information, users should contact clients@elucidate.co.

8. Potential benchmark limitations¹⁴

During periods of fragmented market activity, as during all times, Elucidate continues to gather information from a broad range of credible sources. Should users provide limited data for a period of time, Elucidate will issue results which include contextual information regarding the amount of data utilised to produce the results and the data completeness.

During periods of stress, Elucidate executes its Business Continuity Plan (BCP) so as to minimise the impact on users and ensure the continuity of the delivery of the benchmark. Elucidate reviews and tests its BCP on a periodic basis.

Further methodological limitations of the EFI are listed and described in the EFI White Paper, which is made available to users.

¹³ Article 27(2)(c) of Regulation (EU) 2016/1011

¹⁴ Article 27(2)(g) of Regulation (EU) 2016/1011