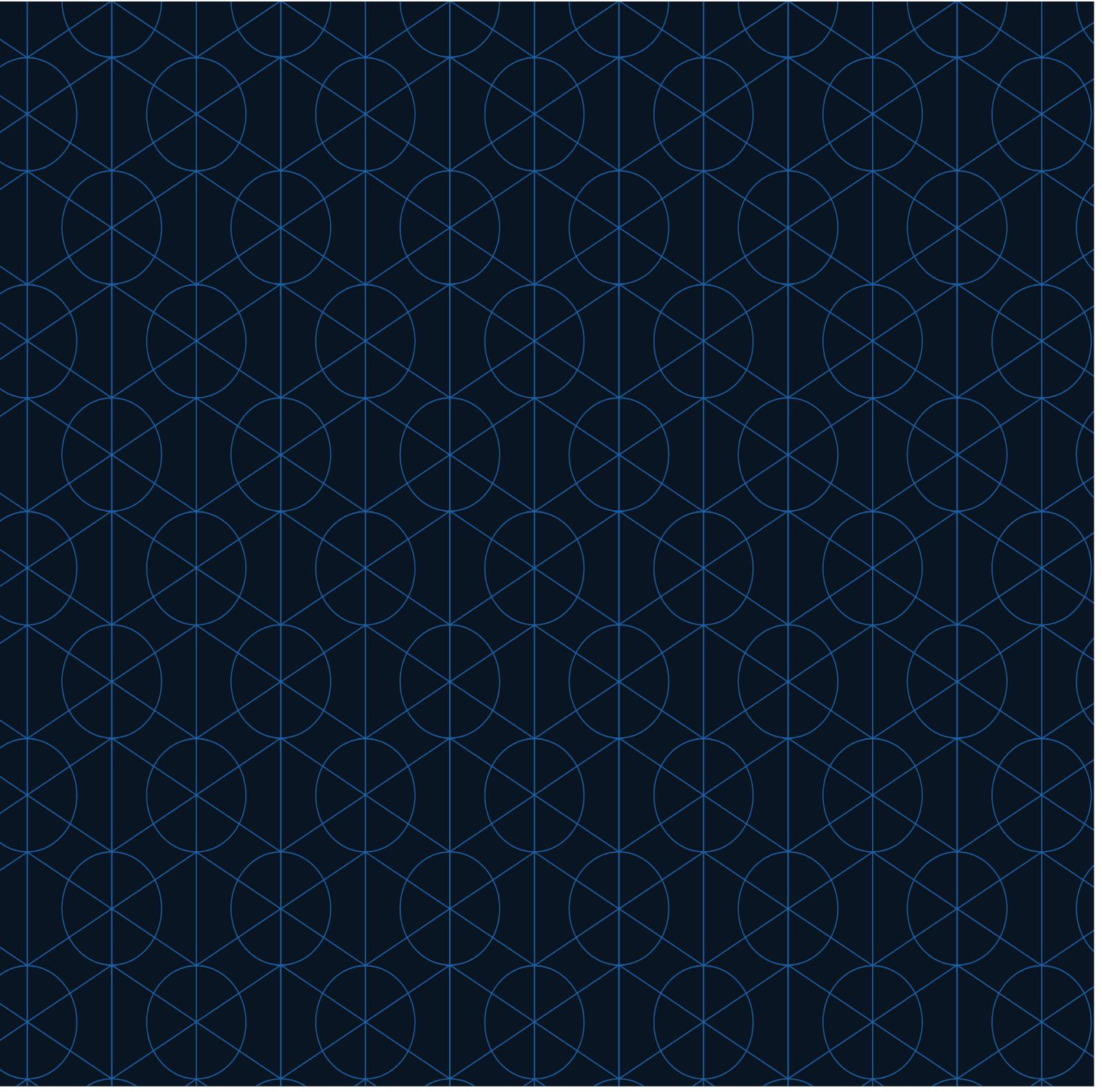


EU Benchmarking Regulation Benchmark Statement v.2.0





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 23 July 2020 and has been updated on <31 March 2021>. 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 described 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 average of the scores (see below) generated for a given entity. An EFI rating is considered indicative when data completeness (see below) is below 50%.
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

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/wolfsbergcb>



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 in addition to proprietary data, and user data as per the [Elucidate data protocols](#). 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 EFI produces risk scores across nine risk themes:

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

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

The DDQ responses and additional risk evaluations sum up to over a thousand eventualities analysed. 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 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 100 (best possible score). 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 model was designed in order to adapt to varying levels of data availability. After all the eventualities for which there is sufficient data are evaluated, the rest of the eventualities are subjected to Monte Carlo simulations to estimate their likelihoods of being true. For each risk theme, the aggregate score of the evaluated eventualities is added with the median result of the simulations to produce the final theme scores. The medians of the simulations for each of the 9 themes are averaged with each other (via mean) to produce a final EFI rating. In order to provide transparency to the model, we also report the percentage of eventualities that had the necessary amount of data for calculation as the data completeness.

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 runs on two data types, institution data and model data. Data is sourced both from the financial institutions using the EFI platform and from the public domain. The EFI model uses these two types of data set concurrently to assess the risk profile of any given institution and in order to highlight specific pockets of risk. In merging these datasets together, the EFI brings together the most comprehensive data set used in the market for the assessment of financial crime risk, covering all aspects of the market to measure inherent risk and all aspects of the industry standard financial crime control framework to measure effectiveness.

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

⁸ Article 27(2) (c) of Regulation (EU) 2916/1011

The structure and format of data to be provided to Elucidate is specified in the [Elucidate Data Protocols](#). These protocols have been developed in alignment with the algorithm consuming the data. A data prioritisation level has been assigned to each file to be provided in the [Elucidate Data Protocols](#).

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

5.2. Insufficient input¹⁰

Assessments producing an indicative EFI Rating are 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 additional data points. Elucidate does not recommend the use of Indicative Ratings as a final assessment.

To account for data availability and to provide context to the results, the model issues a data completeness level alongside theme-level risk scores. The data completeness level corresponds to the percentage of eventualities for which the platform had the necessary data for validation. In addition, the results of the Monte Carlo simulations are displayed on the platform to provide the users with information on the scores possible if 100% data completeness is achieved.

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. Elucidate does not adjust model results after they are generated. 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, compelling 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.

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

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

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).
- 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 bmr@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.

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

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

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