

REGULATORY ARBITRAGE AND SANCTIONS COMPLIANCE

*How Sanctions Are Reshaping Global
Trade in 2025*

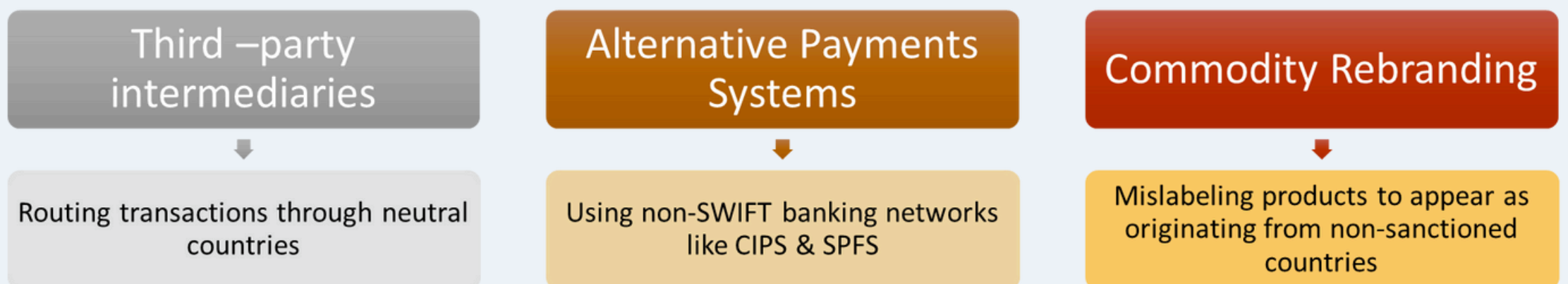


Regulatory Arbitrage Explained

Regulatory arbitrage occurs when companies *exploit differences in regulations* across jurisdictions to reduce costs, avoid restrictions, or gain competitive advantages.

So how does this work:

- Shifting operations, money flows, or trade routes to regions with fewer restrictions.
- Bypassing tariffs by routing products through a third country.
- Leveraging alternative financial networks to avoid banking restrictions.



Why Banks & Insurers Are More Cautious



⚠️ Secondary Sanctions Expand Risk Exposure

- Unlike primary sanctions (which block trade with a country directly), secondary sanctions affects businesses, banks, and insurers that engage indirectly.

⚠️ 'De-Risking' Is Pushing Businesses Out of the Banking System

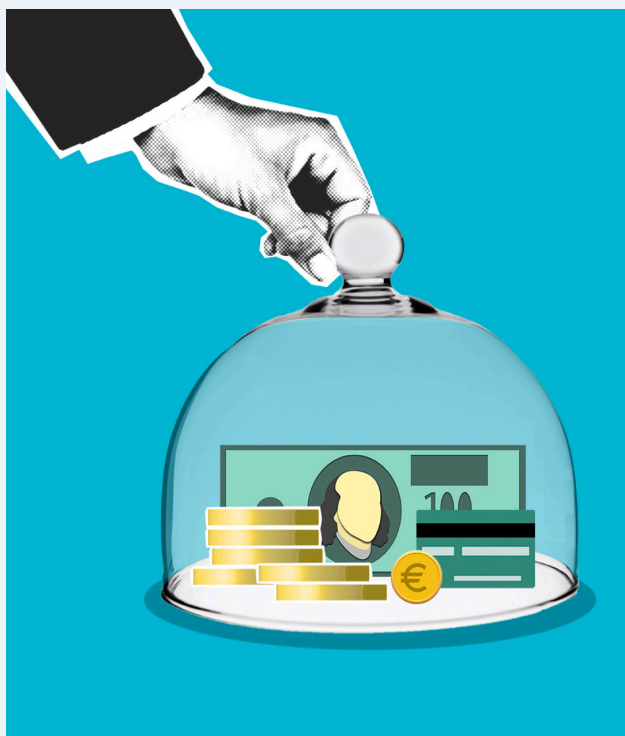
- To avoid US/EU penalties, financial institutions are reducing high-risk clients preemptively.
- This is limiting access to trade finance in emerging markets for cross-border trade.

⚠️ AI & Compliance Enforcement is Tightening

- Governments are using AI-powered financial monitoring to track hidden money flows in real time.

⚠️ Stricter Due Diligence on Finance & Payments

- Financial institutions are increasing scrutiny on cross-border payments via SWIFT.
- Transactions involving sanctioned regions are flagged or rejected before settlement.



How Regulators Are Closing These Loopholes in 2025

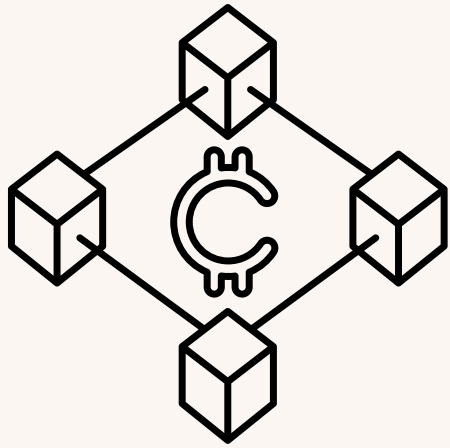
<p>Enhanced Trade Finance & Banking Restrictions</p>	<p>Financial institutions are tightening transaction screenings to detect disguised payments linked to sanctioned entities.</p> <p>Regulators are enforcing secondary sanctions on intermediary banks to block indirect financing.</p>
<p>Expanding Secondary Sanctions Enforcement</p>	<p>The US Treasury, EU, and UK regulators have expanded secondary sanctions, meaning that even companies outside sanctioned countries can be penalized for indirect dealings.</p>
<p>Tightening Control on Energy & Commodities Trade</p>	<p>Restrictions on Russian crude oil have intensified closing past exemptions that allowed disguised sales.</p>
<p>Strengthening Export Controls on Dual-Use Goods</p>	<p>Stricter end-user verification is required for exports of sensitive technologies (microchips, semiconductors, industrial machinery) are not secretly being supplied to restricted regions.</p>



What Lies Ahead in Sanctions Compliance Trends?



AI-Driven Compliance Is No Longer Optional



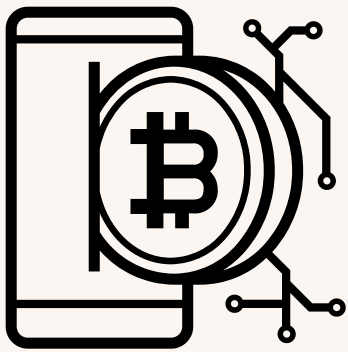
- ◆ **Expansion of RegTech** with projections estimated to surpass **\$22B**, as institutions invest in core AI-powered components to avoid secondary sanctions risks.



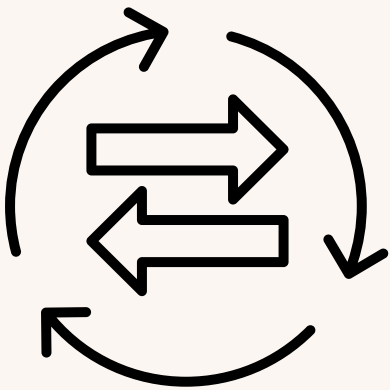
- ◆ Cautious and reactive approach in expectations from financial institutions to go **beyond basic Know-Your-Customer (KYC)** checks reducing false positives and increasing AML risk detection.



Decentralized Finance



- ◆ Crypto and digital payment infrastructures are increasingly tested as **alternative settlement methods**, though regulatory scrutiny remains high.



- ◆ Scaling operations of **China's Cross-Border Interbank Payment System (CIPS)** and **Russia's System for Transfer of Financial Messages (SPFS)** reflects an accelerating move away from SWIFT and USD dominance.



Energy Sector Volatility



- ◆ Major producers adjust **pricing strategies** to mitigate restrictions & maintain market share.

- ◆ Energy diversification is accelerating as buyers seek **stable, sanction-proof supply chains**.



- ◆ Long-term trends **favor renewables**, but fossil fuel tensions still dictate short-term unpredictability.



Counter-Sanctions and Trade Fragmentation



- ◆ The rise of regional trade blocs as alternatives to the USD and Euro suggests a long-term shift toward a more fragmented global financial system.



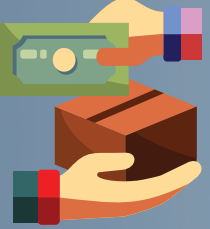
- ◆ **Retaliatory measures** restricting critical exports (e.g., rare earths, food supplies).



- ◆ Companies must reassess **risk exposure and develop more agile compliance frameworks** to reframe geopolitical uncertainty.



Market Shifts When Rules Change...

Sector	Key Takeaways
 Tech	Export controls are rewriting the rules of global innovation, consumer and competition law.
 Energy	Shifting supply chains and price volatility remains a major risk factor
 Finance	Enforcement measures being proactive, not reactive as compliance gaps are costly.
 Trade	New trade corridors as mitigating measures to bypass restrictions.