

Counterparty due diligence

Mitigate the risks of the unknown



Given the present day competitive scenario, companies have increased their reliance on third parties to not only help them gain a competitive edge but to also supplement their rapid growth and gain a sustained cost advantage. However, this also exposes them to various reputational and regulatory risks making it imperative to select business partners after careful considerations.

Adverse impact of an embittered business relationship

Regulatory action

- Potential investigation by regulatory authorities.
- Penalties/financial implications for companies as well as the management.
- Civil/criminal charges and proceedings.
- Negative publicity and reputational damage.

Commercial costs

- Liabilities relating to unfulfilled contracts/commitments.
- Full or partial write-off of amounts invested.
- Loss on account of the defaulting third party.
- Cost incurred to conduct a 'post-incident' investigation.
- Cost incurred to hire legal counsel.
- Cost incurred to minimise effects of negative publicity and damage to reputation.

Key third party/counterparty relationships



Supply side

- Contractors
- Service providers
- Suppliers
- Transporters
- Third party intermediaries



Demand side

- Agents
- Distributors
- Franchisees
- Operators
- Customers
- Retailers



Licensees

- Intellectual Property Licensees
- Joint developers



Infrastructure

- Accounting
- Billing & development
- IT management & development
- Outsourced services
- Travel



Business partners

- Joint Venture partner
- M&A partner
- Funding partner



Non - governmental organizations

- Charities
- Consumer Co-ops
- Societies

Key questions to ask regarding third parties

- Does the third party have a business profile and experience in the relevant industry?
- Who are the ultimate beneficial owners of the third party engaged by you?
- Are there any potential conflicts of interest that exist?
- Are there connections to government bodies or political officials?
- Does the third party or its principals have a track record of bankruptcy or solvency issues that might threaten the supply chain?
- Does the third party or its principals have a history of serial litigation, criminal issues, counterfeiting, or product safety?
- Is the third party associated with 'red flag' issues such as bribery, corruption, fraud, links to terrorist groups or money laundering?
- Is the third party located in a country restricted by law from receiving payment, or does it appear on lists of restricted entities or individuals?
- Has there been anything in the media that would reflect negatively upon the company?

Protection against key risks

Effective international business partner due diligence requires that a company gather meaningful information, assess potential risks across the enterprise and devise risk mitigation actions accordingly.

Coverage parameters	Major risks ascertained
Background information, including ultimate beneficial ownership (UBO) and affiliates	<ul style="list-style-type: none"> • Experience and competence/track record • Front/shell companies for money laundering • Collusion with employees • Clients and other business relationships
Other business interests/ affiliations	<ul style="list-style-type: none"> • Conflict of interest
Adverse media	<ul style="list-style-type: none"> • Evidence of past or current corruption • Unethical business practices • Involvement in tax evasion • Involvement in terrorist financing • Links to organized crime • Involvement in money laundering • Other reputational issues
Litigation	<ul style="list-style-type: none"> • Involvement in legal proceedings/ other crimes
Political affiliations	<ul style="list-style-type: none"> • Inappropriate political support and links to politically exposed persons / entities
Sanctions/ high risk entities	<ul style="list-style-type: none"> • Business operations in Office of Foreign Assets Control (OFAC) sanctioned countries • Other reputational concerns
Regulatory screening	<ul style="list-style-type: none"> • Action by competent authority for lapses or defaults
Financial position screening	<ul style="list-style-type: none"> • Financial position snapshot • Historic analysis of Financial position • Financial capacity to execute commitments
Credit history	<ul style="list-style-type: none"> • Credit defaults and bankruptcies

Why Deloitte Forensic

- **A proactive and scalable approach:** We can provide our clients the flexibility to meet their compliance requirements while growing their business sans regular investments.
- **Ability to handle high volumes:** The Forensic practice has solutions to address situations where large volumes (of third parties) need screening within the desired time frame.
- **Integrated global reach:** With coverage of over 200 countries and a multi-lingual and multi-disciplinary team, we have an unparalleled reach and expertise to support your needs across geographies.
- **Strong team capabilities:** We have an experienced team that have insight and understanding of local risks from varied domains such as law enforcement, journalists, economists, lawyers etc.
- **Access** to extensive **business intelligence resources** across the world.
- Built **market credibility** through values such as discretion, trust and integrity.

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