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Security and Defence Research Team

Axis 3 - Economic intelligence and new financial crimes

Professors supervising the research axis : Lcl. Rémy Février & Pr. Hervé Boullanger

Associate researcher: Alexis Collomb (CNAM), Pr. Pythagoras Petratos (formerly Dynamics of Innovation)

Associate expert: Hugo Zsolt de Sousa

In the face of terrorist or criminal acts, an **understanding of the financing circuits**, while not solving everything, most often makes it possible to **trace the culprits and/or dismantle the network responsible for criminal acts** that are likely to be repeated. In some cases, the ex-ante detection of "abnormal" financial movements can even anticipate and prevent crimes and attacks. **The advent of crypto-currencies**, while it holds many promises of financial inclusion, transactional efficiency and cost reductions (both for individuals and institutions)**is not without risks**. On the one hand, detractors of these new technologies argue that these systems, most often pseudonymous, encourage criminal acts such as **money laundering and illegal trafficking.**

The famous example of the **Silk Road site**, where one could buy weapons and illegal substances online, paid for in bitcoins, is often cited. On the other hand, supporters of these crypto-currencies point out that cash is still the most common way to **finance all kinds of prohibited activities** and that the development of certain **crypto-currencies**, especially when they have **objectives of traceability and total transparency**, could have many advantages of reliability and security of use that should be encouraged. It is therefore this central question of how to improve the **traceability of financial transactions and the detection of illicit financing**, particularly in the era of crypto-currencies, that this axis should study.

In the wake of **Jensen & Meckling's (1976) seminal article on the Theory of the Firm: Managerial Behavior, Agency Costs and Ownership Structure**, we will look at the governance of organizations and the mechanisms and incentives that need to be put in place to reduce the risk of fraud and so-called **"white-collar"**crimes. Although many "best practices" in corporate governance, mostly inspired or derived from a "principal/agent" analysis framework, have been introduced over the last twenty years in many jurisdictions, the results are still far from perfect. And the **recent financial crisis** has underlined how important the risks of **individual fraud, collective failure**(e.g. of a team or a set of risk controls), or even - and perhaps especially - the **coupling of the two**, remain (e.g. the Kerviel affair, where a future position of about 50 billion euros gradually built up by a trader - well beyond the official risk limits - was eventually discovered by the highest authorities of the bank, and was unwound in a hurry, resulting in a loss of almost 5 billion euros).

By analyzing various reports (e.g. AFEP-MEDEF, Bouton or Viénot for France) or legislation (e.g. Sarbanes-Oxley or Dodd-Frank for the United States), this research intends to study how to**improve corporate governance in general, and that of financial institutions in particular**. And by focusing on **individual incentive and sanction mechanisms** (and the risks that some continue to pose), compliance and risk management procedures, and organizational architecture, this project aims to strengthen corporate security and **reduce the risk of fraud** (individual or collective).

https://esd-en.cnam.fr/axis-3-economic-intelligence-and-new-financial-crimes-1223709.kjsp?RH=1576512148977