

Project Finance Deals and Compliance Risks

Article

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Most commonly, what starts as a legal and compliance risk for one entity, can “leak” into becoming a systemic financial or operational risk affecting the project entity or single purpose vehicle (SPV), the sponsors/shareholders of the project and, in some cases, the lenders to the project – although the position of lenders is more nuanced and is not expressly discussed in this article.

Compliance risks generally arise from financial crimes such as bribery, money laundering, financial and trade sanctions violations or fraud. This article considers how those risks can materialize and leak through project finance structures to infect project SPVs and sponsors, including through: (1) allegations of bribery, fraud and tax evasion under the failure to prevent model; and (2) the new senior managers regime. We also consider the practical steps that can be taken to limit such risks.

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