

"Role of the Compliance Function in Today's Environment"

LACPA / SIC / Deloitte
4-5 May 2015
Biel

Chahdan Jebeyli
Group Head Legal & Compliance

Bank Audi

Disclaimer

The information in this presentation is intended to provide only a general outline on certain areas of the subject and was tailored to a specified audience and may contain personal interpretation and views. It should not be used in place of professional advice.

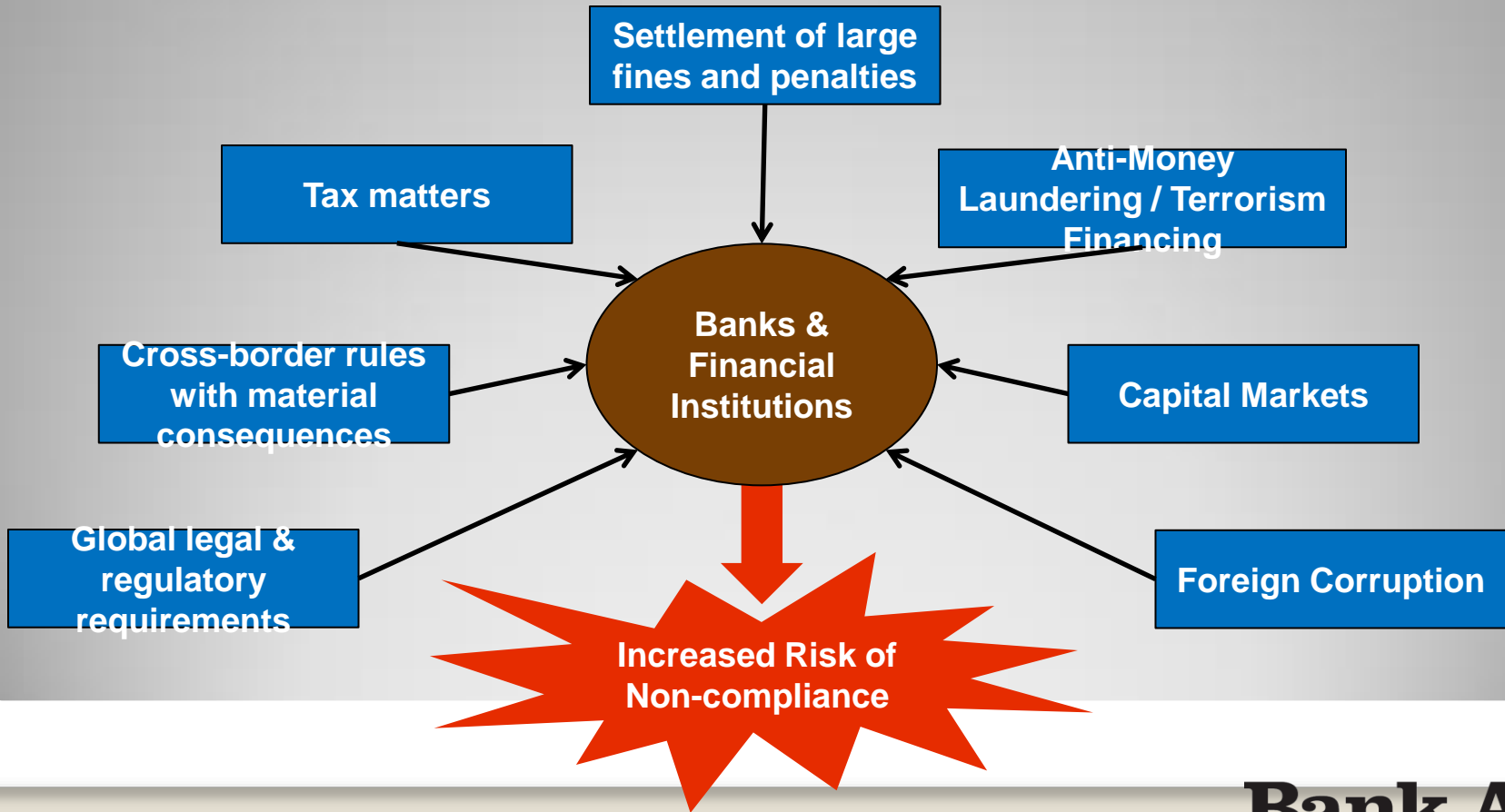
Table of contents

- Globalization of the banking industry
- Penalties trend: Banks and individuals
- Expansion of the compliance role
- The compliance function
- Partnership and reliance
 - Internal Audit
 - External Audit
 - Regulatory Authorities
- Governance
- Conclusion

Globalization of the banking industry

- Impact of 2008 **financial crisis**
- **Legal & Regulatory rules** with **stricter** applications and consequences
- **Stronger supervisory standards** to manage compliance risks
- Global Banks doing business in the U.S. are under **heightened regulatory scrutiny** to further tighten controls over correspondent banks in emerging markets
- Growing trend: **banks and responsible parties** are subject to large **fines/ penalties / lawsuits**
- Emergence of **cross border risks**
- **Increased exposure of professional's** role and personal **liability**
 - Growing role
 - Additional responsibilities
 - Increased importance and visibility
- Duty to have an **Enterprise Wide Compliance Program**

Regulatory non-compliance risks



Correspondent Banking Implications

- Application of **foreign law** (US, EU):
 - Sanctions / Trade Controls
 - Tax Evasion
 - Market Abuse
 - Foreign Corruption practices
- **Long arm reach of US laws**
- Changes in **tax laws and requirements**
- Importance of **customer education** on applicable requirements

Application of Correspondent Banks' Standards

- Compliance should take appropriate measures to continuously meet **international standards** and best practices, not to compromise its correspondent banking relations.
- **Transparency** → Necessity to **apply correspondent banks own rules** and **provide full and accurate** transaction details

BDL Basic Circular No. 126 – April 2012:

- Obligation of banks to be **fully informed and comply**, as applicable, **with the laws and regulations** governing their **correspondents abroad**

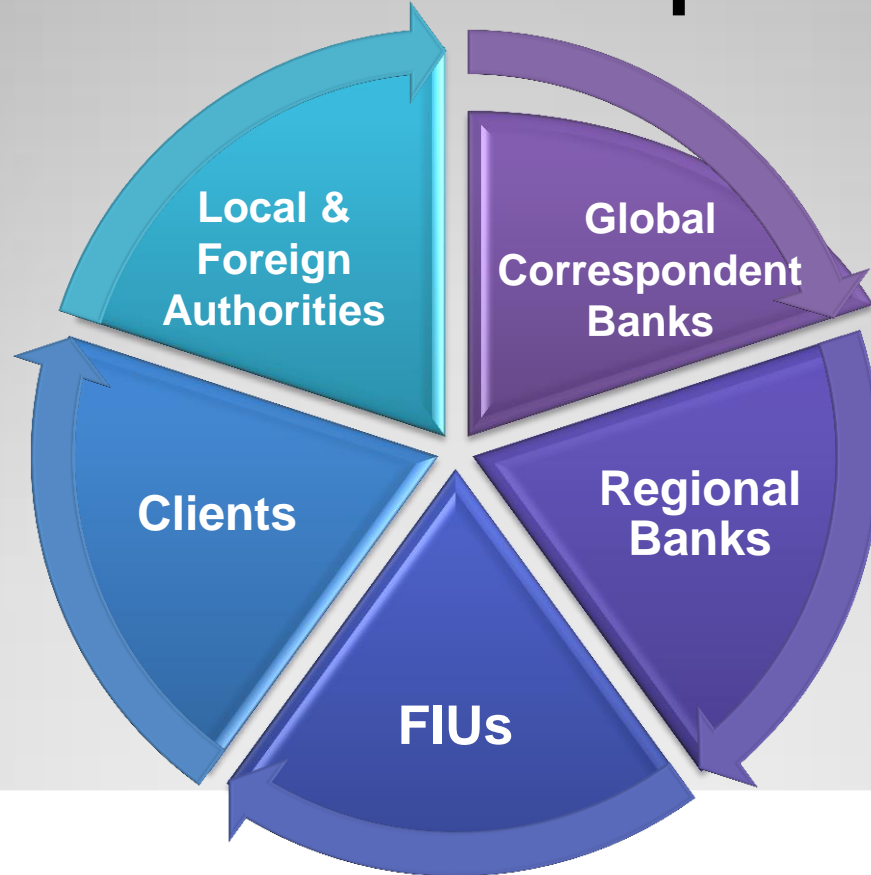
Penalties trend: Global banks

Date	Bank	Reason
<p>March 2015</p>		<p>Total of 1.45 billion USD for violations of the US Sanctions laws and non-compliance with BSA / AML requirements.</p>
<p>November 2014</p>		<p>315 million USD for submitting a whitewashed report about its improper handling of transactions involving Iran, Sudan and Myanmar (added to last year's 250M USD settlement). PwC was fined 25M USD.</p>
<p>August 2014</p>		<p>300 million USD for failing to improve its money laundering controls as a result of the settlement with U.S. regulators back in 2012 for Iran sanctions violations (a 667M USD penalty was paid back then).</p>
<p>June 2014</p>		<p>8.9 billion USD for violating U.S. sanctions / Doing business with Iran, Cuba, and Sudan .</p>
<p>January 2014</p>		<p>Cumulative 27.6 billion USD since 2012 for various violations including BSA reporting violations and other BSA/AML compliance program deficiencies.</p>

Penalties trend: Personal liability

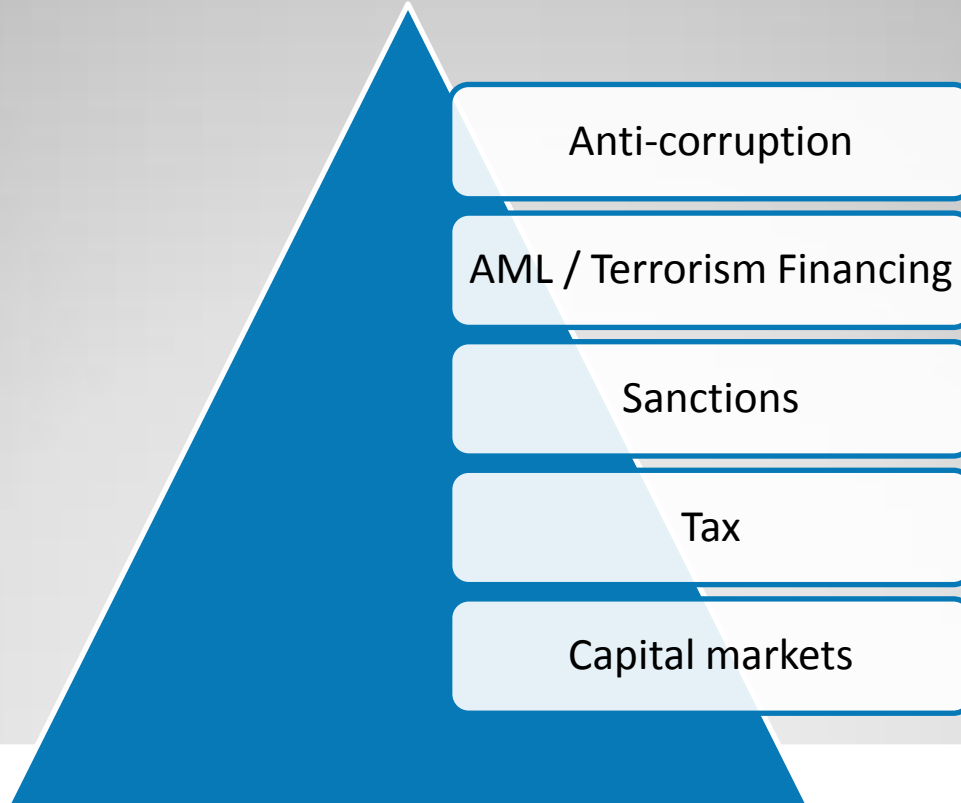
Date	Entity	Reason
April 2015	Global Bank	The Dubai Financial Services Authority "DFSA" imposed restrictions on 2 former Licensed Directors for providing DFSA with false and misleading information
February 2015	Multinational Audit Firm	UK Financial Reporting Council " FRC " fined and reprimanded audit partner over an independence issue
January 2015	Brokerage Firm	UK Financial Conduct Authority "FCA" fined and banned 2 former senior executives for compliance and cultural failings at the firm
December 2014	Money Transfer Services	US Financial Crimes Enforcement Network "FinCEN" issued a \$1 million penalty on Chief Compliance Officer for failing to ensure that his company abided by the AML provisions of the Banking Secrecy Act.

The circular impact



Expansion of the Compliance role

Vertical expansion



Expansion of the Compliance role

Horizontal expansion

Additional responsibilities – BDL Basic Circular No. 128 – January 2013

- Identify **non-compliance risks** on new and existing products
- Identify **gaps in compliance program**
- **Testing and monitoring** to verify compliance with BDL/BCC/SIC regulations
- Provide **training** and reference material
- Aware of **regulatory updates** and implementing changes into the bank
- **Informing senior management** of compliance with regulations
- **Corrective procedures** applied upon non-compliance
- **Periodical reporting** to senior management on non-compliance cases and corrective measures

Expansion of the Compliance role

Senior management

BDL Basic Circular No. 128 – January 2013

- Set **written policy** for non-compliance risk management
- Promote compliance **culture**
- Identify **non-compliance risks** and amend **policies and procedures** accordingly, in cooperation with Head of Compliance
- Ensure **corrective action** is applied upon non-compliance
- Review **periodic reports** prepared by Compliance function
- Immediately **report to BoD** on serious **compliance deficiencies**
- Notify BoD upon appointment, resignation or dismissal of Head of Compliance

Expansion of the Compliance role

Compliance officer competencies



Compliance function in banks

Basel Committee

- Independent
- Sufficiently resourced / qualified individuals
- Responsibilities clearly specified
- Subject to internal audit periodic and independent review
- In line with international compliance laws, rules and standards, maintained through regular and systematic education and training

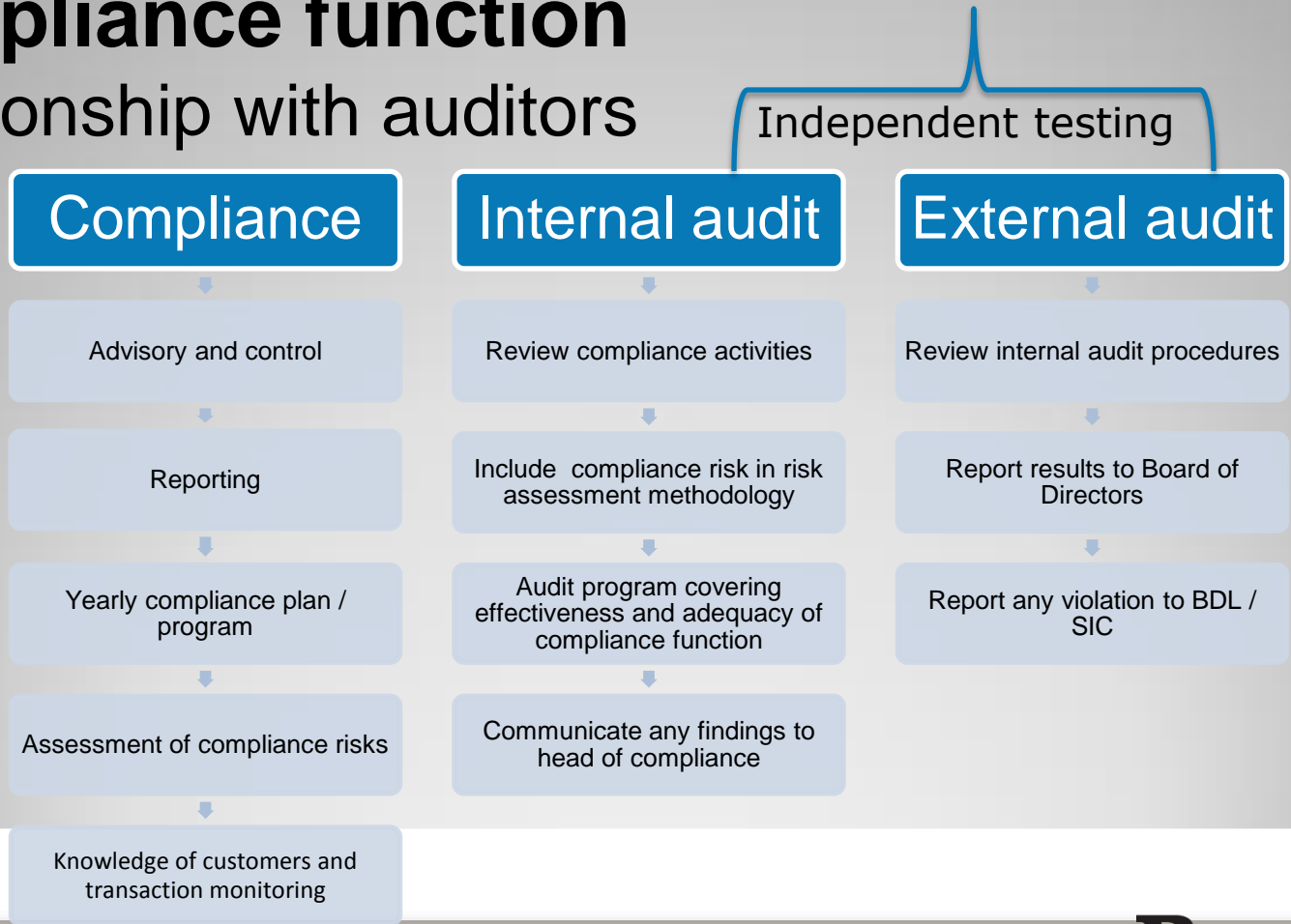
Basel Committee - Independence principle

The concept of independence involves 4 related elements:

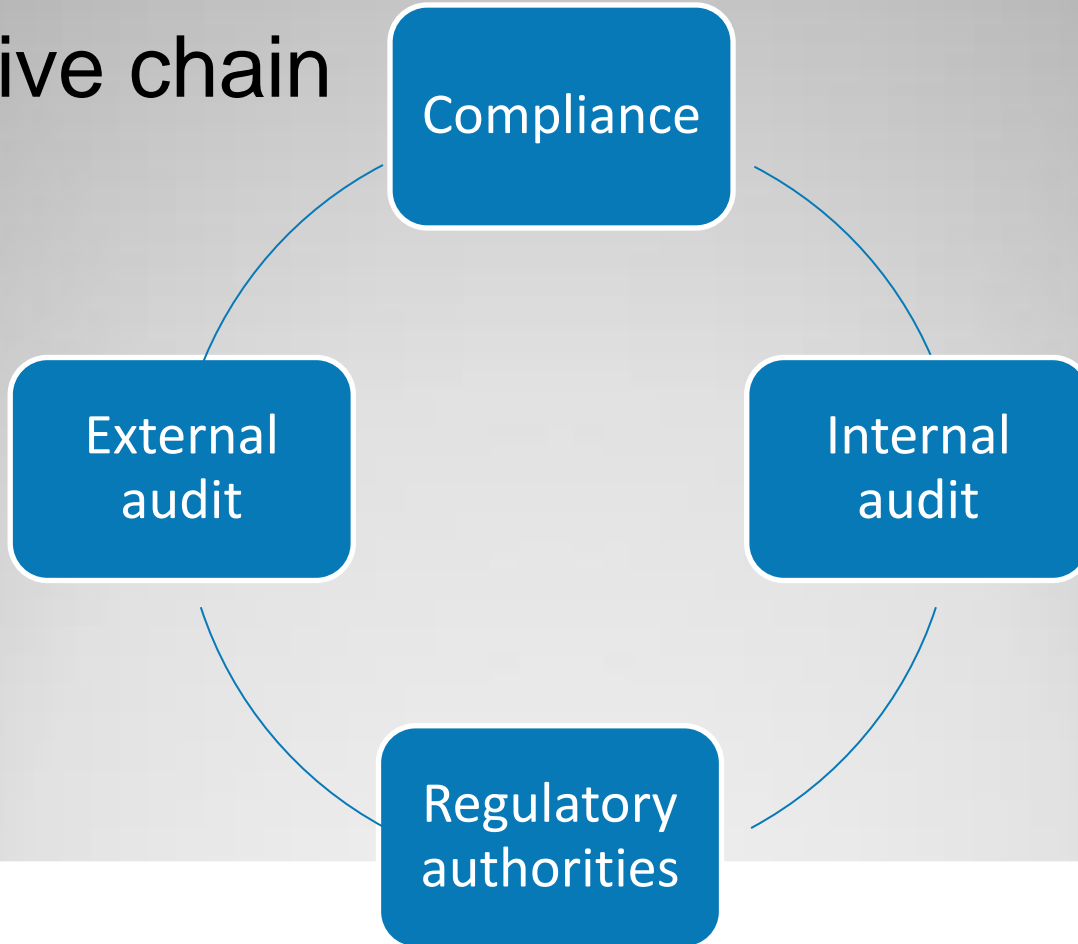
1. **Formal status** within the bank
2. **Compliance officer** responsible for coordinating the management of the bank's compliance risk
3. **No conflict of interest** between their compliance responsibilities and any other responsibilities
4. **Access to information and personnel** to carry out responsibilities

Compliance function

Relationship with auditors



Interactive chain



Partnership and Reliance

Internal Audit

Basel – Internal Audit Function in Banks – June 2012

Periodically review

- **Compliance function activities**

Scope of review

- Compliance **laws, rules and standards**
- Market conventions
- **Industry** codes of practice
- Internal **code of conduct**

Assessment

- How effectively the compliance function **fulfills its responsibilities**

Partnership and Reliance

Internal Audit

FATF Recommendations – 18, 19, 23

- Financial institutions' AML / CFT program should include an **independent audit function** to test the system
- In high risk countries, perform **increased supervisory examination and/or external audit** requirements for branches and subsidiaries
- Countries are strongly encouraged to require **auditors to report suspicious activity**

Partnership and Reliance

External Auditor

Bank reliance on external auditor for due diligence on legal entities:

- Improved KYC data
- Financial information of the customer
- More accurate profiling and monitoring

External auditor:

- Review of agreed-upon procedures (83 and 128 circulars in Lebanon)
- Reports results including gaps identified



Partnership and Reliance

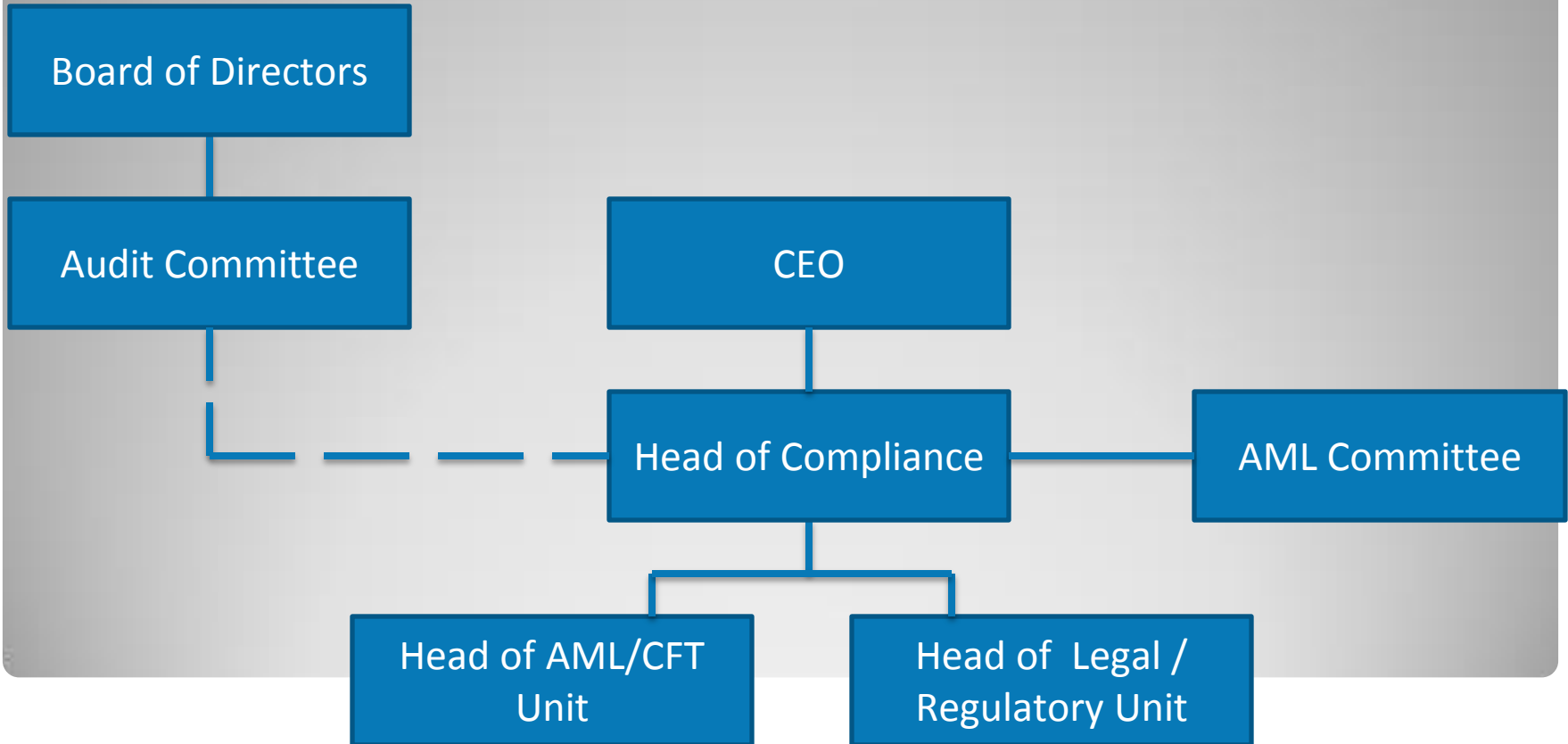
Regulatory Authorities

FATF Recommendations – 2012

Recommendation 27 – Powers of Supervisors

- Adequate powers to **supervise, monitor and ensure compliance** with AML / CFT requirements
- Authority to **conduct inspections**
- **Access to information** relevant to monitoring compliance
- Power to **impose disciplinary and financial sanctions** (including withdrawal, restriction or suspension of license)

Governance: Compliance function



Governance: Banking committees

BDL Intermediate Circular No. 253 – April 2011

Board of Directors

- Sufficient number of non-executive independent members
- **Establish committees**
- Convene at least 4 times a year

Audit Committee

- Covers the bank, its branches and subsidiaries
- Ensure **external auditor and internal audit unit competence**
- Control of financial statements' soundness
- **Supervision of internal controls and internal audit activities**
- Implementation of **remedial issues**
- **Monitor compliance** with regulations

Risk Committee

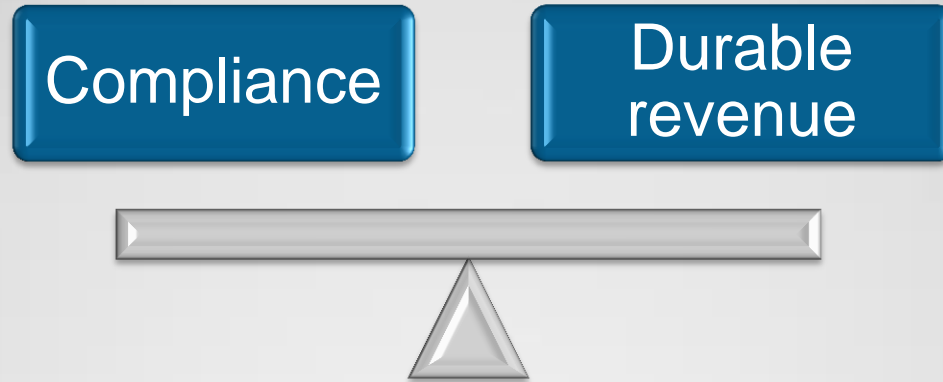
- Composed of at least three Board members
- Supervise the **implementation of risk management rules**
- Covers the bank, its branches and subsidiaries

End result

- Wide view of regulatory trends
- Segregation and completion of roles
- Mitigating an important risk
- Violation vs. opportunity loss



Properly balancing



Thank You