

Press release

Date:
20 February 2020

Embargo:
--

Serious AML failings at Julius Baer

Contact:
Tobias Lux, Media Spokesperson
Phone +41 (0)31 327 91 71
tobias.lux@finma.ch

and

Vinzenz Mathys, Media
Spokesperson
Phone +41 (0)31 327 19 77
vinzenz.mathys@finma.ch

The Swiss Financial Market Supervisory Authority FINMA has found that Julius Baer fell significantly short in combating money laundering between 2009 and early 2018. The shortcomings arose in connection with alleged cases of corruption linked to PDVSA, an oil company, and FIFA, the world soccer federation, resulting in enforcement proceedings on the part of FINMA, which have now concluded. FINMA has instructed Julius Baer to undertake effective measures to comply with its legal obligations in combating money laundering and rapidly finalise the measures it has already started putting in place. Moreover, Julius Baer must change the way it recruits and manages client advisers as well as adjusting remuneration and disciplinary policies. The Board of Directors must also give greater attention to its AML responsibilities. Furthermore, Julius Baer is prohibited from conducting large and complex acquisitions until it once again fully complies with the law. Lastly, FINMA will appoint an independent auditor to monitor implementation of the above-mentioned measures.

FINMA conducted inspections at several Swiss banks to ascertain whether anti-money laundering (AML) rules had been upheld in connection with the alleged cases of corruption linked to Petróleos de Venezuela S.A. (PDVSA), a Venezuelan state-owned oil company, and FIFA, the world soccer federation. Part of this process included the appointment, in 2017, of an agent to investigate Julius Baer. In 2018, FINMA broadened its investigation following the arrest of one of the bank's client advisers in the US and in response to events unfolding in Venezuela. The proceedings, now concluded, found that Julius Baer was in breach of obligations to combat money laundering and its duty to put in place an appropriate risk management policy, representing a serious infringement of financial market law.

Systematic AML and risk management failings

During its investigation, FINMA uncovered systematic failings to comply with due diligence under the Anti-Money Laundering Act as well as violations of AML reporting requirements. FINMA arrived at its conclusion based on the sheer number of failings. Almost all of the 70 business relationships selected on a risk basis and the vast majority of the more than 150 sample transactions selected on the same basis showed irregularities. What is more,

the offences spanned a period of several years, from 2009 to early 2018. FINMA also uncovered systematic failures in risk management at Julius Baer, which repeatedly failed to react to clear indications of possible money laundering risks or did not do so decisively enough.

Defective KYC processes

Specifically, Julius Baer did not do enough to determine the identities of clients, nor did it establish the purpose or background of its business relationships. Information contained in KYC (know your customer) documentation was either incomplete or ambiguous for the vast majority of the audited business relationships. For example, information was frequently missing as to how individual clients had come by their wealth, why they wanted to open an account with Julius Baer and what business they were planning to transact. Transactions were not properly monitored or were insufficiently queried, in a period in which Julius Baer was presumably seeing clear warning signs of money laundering activity. As an example, a CHF 70 million transaction was carried out in respect of a large Venezuelan client in 2014 without the required investigations, even though the bank had learnt in the same year that the client was facing accusations of corruption. Finally, in 2017, the bank arranged a pass-through transaction involving several million US dollars for this client without investigating it sufficiently. The only information provided by the client was that the money would serve to pay for advisory services, about which no further details were given.

Inadequate organisation and risk culture

FINMA proceedings furthermore showed that organisational failings and misplaced incentives encouraged breaches of the legal obligations to combat money laundering. The bank's remuneration system focused almost exclusively on financial targets and paid scant regard to compliance and risk management goals. As an example, a client adviser looking after Venezuelan clients in 2016 and 2017 received bonuses and other remuneration in the millions, even though Julius Baer had reported a number of his clients, on the basis of investigations or suspected wrongdoing in connection with the PDVSA case, to the Money Laundering Reporting Office Switzerland (MROS). In 2017, the client adviser's bonus was reduced by only 2.5%. Even the previous year, the individual had been awarded a special bonus reserved for 'top performers'. Through these payments, the client adviser in both years received the highest total remuneration of his career at Julius Baer.

The identified offences were not confined to a single adviser. All in all, Julius Baer had a poor compliance and risk culture in which legal obligations to combat money laundering were not given the required degree of importance. For example, the manager in charge did not check the explanations given by the client adviser regarding the background to transactions in many of the

cases connected with Venezuela. That task was left to the person's assistants. In some examples, money laundering risks were flagged and addressed by the appropriate departments but not properly acted on. Additionally, Julius Baer decided in 2016 that it would conduct an internal review of the PDVSA case but this was delayed for almost 17 months. Moreover, when FINMA questioned the bank over the extent of its business relationships that bore a connection with PDVSA at the start of the investigations, its responses were incomplete, which in itself represents a breach of its duty to provide information to the supervisory authority. Only in 2018 did Julius Baer put in place the long overdue operating and HR measures in respect of its Venezuelan business relationships.

FINMA orders series of measures

Prior to and since the beginning of the FINMA proceedings, Julius Baer has implemented operating, structural and HR-related measures to improve anti-money laundering mechanisms, which should strengthen controls and the compliance culture. FINMA acknowledges that the current executive team is resolutely pushing ahead with these measures. At this point, FINMA simply requires that these measures be fully implemented in the near future and that further action be taken to make sure the legal requirements to combat money laundering are observed effectively. FINMA orders the following additional measures to be taken:

- The bank must put in place a process for identifying those client advisers whose client portfolio carries a high money-laundering risk, for assessing the identified risks and for suitably containing them.
- The bank must make changes to its remuneration and disciplinary policy so that incentives are no longer offered to generate the highest possible returns at the cost of unreasonable risk-taking or compliance failures.
- The bank must establish a Board committee specialising in conduct and compliance issues, or set up a similarly effective mechanism.
- Until it is once again fully compliant with the law, the bank is prohibited from conducting transactions such as major acquisitions that lead to a significant increase in operating risks (including but not limited to money laundering risk) or in its organisational complexity.

Lastly, FINMA will appoint an independent auditor to monitor step by step the implementation of internal measures, both those already introduced and the additional safeguards now required of it.

As is customary upon completion of proceedings against a bank, FINMA will now examine whether to commence proceedings against any individuals.

FINMA will act firmly against all violations of AML rules

In recent years the Swiss financial services industry has been caught up in several global corruption cases (Petrobras, Odebrecht, 1MDB, Panama Papers, FIFA and PDVSA). FINMA has therefore focused its AML supervisory activities on how institutions deal with such international money-laundering cases (see [dossier on money laundering prevention](#)). Among the institutions it supervises, FINMA has most recently and in general observed higher standards of compliance with the legal obligations to combat money laundering. FINMA's [risk monitor](#) continues to designate money laundering as a major risk to the Swiss financial services industry. Correspondingly, the issue remains a core part of its supervisory activities.