

In 1MDB fund probe, S'pore closes Falcon Bank, fines UBS and DBS

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The Monetary Authority of Singapore (MAS) has withdrawn the merchant bank status of the Singapore branch of Falcon Private Bank Ltd (Falcon Bank) for its links with the 1MDB-related funds flow.

In a statement today, MAS announced the withdrawal of its merchant bank status for "serious failures in anti-money-laundering (AML) controls and improper conduct by senior management at the head office in Switzerland, as well as the Singapore branch".

"MAS is also imposing financial penalties on DBS Bank Ltd (DBS) and UBS AG, Singapore branch (UBS) for breaches of MAS' AML requirements.

"The actions on the three banks follow supervisory examinations by MAS into 1MDB-related fund flows that took place through these banks between March 2013 and May 2015.

"MAS' investigations benefited from close cooperation with various overseas regulatory counterparts, in particular the Swiss Financial Market Supervisory Authority (Finma)," it added.

This is the second bank shut down by MAS in the wake of the 1MDB scandal.

On May 24, MAS [closed](#) Swiss bank BSI's operations in the city-state over its dealings with the troubled Malaysian investment fund.

Falcon Bank has been operating as a merchant bank in Singapore since August 2008, offering boutique private banking services. It is headquartered in Switzerland.

Falcon Bank was originally owned by American International Group (AIG) and was known as AIG Private Bank. In 2009, AIG Private Bank was acquired by Aabar Investments PJS and renamed as Falcon Bank.

Meanwhile, MAS said it conducted inspections on Falcon Bank in 2013 and 2015.

The 2013 inspection found weaknesses in the bank's controls for client acceptance and transaction surveillance that led to breaches of MAS' AML requirements, the authority

added.

"Falcon Bank paid a composition fine of S\$300,000 (RM904,242) for these breaches, and MAS instructed the merchant bank to strengthen its AML controls.

"The 2015 inspection uncovered an even larger number of regulatory breaches as well as serious failings on the part of head office senior management and the Singapore branch manager," it said.

MAS said it has decided to withdraw Falcon Bank's status as a merchant bank in Singapore, taking into account the following factors:

- The merchant bank's head office failed to guard against conflicts of interest when managing the account of a customer who was associated with the bank's former board chairperson Mohamed Ahmed Badawy Al-Husseiny. The former chairperson misled and influenced the Singapore branch into processing the customer's unusually large transactions despite multiple red flags.
- The improper conduct of the Singapore branch manager and certain senior managers at the head office had impaired the effectiveness of the Singapore branch's compliance function in discharging its responsibilities. Their interference was wrongful and egregious in nature, and contributed to substantial breaches of AML regulations. MAS has been informed that the Singapore branch manager, Jens Sturzenegger, has been arrested by the Commercial Affairs Department on Oct 5, 2016.
- Falcon Bank has demonstrated a persistent and severe lack of understanding of MAS' AML requirements and expectations. Taking into account the totality of Falcon Bank's conduct, MAS' assessment is that the merchant bank will be unable to comply with these requirements and expectations going forward.

MAS has imposed on Falcon Bank financial penalties amounting to S\$4.3 million (RM12.95 million) for 14 breaches of MAS Notice 1014 - Prevention of Money-Laundering and Countering the Financing of Terrorism.

MAS said the breaches include failures to adequately assess irregularities in activities pertaining to customer accounts, and the filing of suspicious transaction reports.

MAS is working closely with Finma, the home regulator of Falcon Private Bank Ltd, to oversee an orderly closure of the merchant bank branch in Singapore.

Meanwhile, MAS also completed its inspections of DBS and UBS in relation to their 1MDB-related fund flows and revealed several breaches of AML requirements and control lapses.

It said there were deficiencies in the on-boarding of new accounts, weaknesses in corroborating the source of funds, inadequate scrutiny of customers' transactions and activities and failure to file timely suspicious transaction reports.

"The control lapses observed in DBS and UBS relate to specific bank officers who failed to carry out their duties effectively.

"MAS' inspections did not find pervasive control weaknesses within these banks," it added.

MAS has admonished the two banks and instructed their management to investigate the lapses, promptly address the control deficiencies and to take appropriate disciplinary measures against the staff involved.

MAS has imposed financial penalties amounting to S\$1 million (RM3.01 million) on DBS for 10 breaches and S\$1.3 million (RM3.9.2 million) on UBS for 13 breaches of MAS Notice 626 - Prevention of Money-Laundering and Countering the Financing of Terrorism.

MAS has also directed DBS and UBS to appoint an independent party to confirm that rectification measures have been effectively implemented and to report its findings to MAS.

Other than the above three banks, MAS is finalising its assessment of Standard Chartered Bank, Singapore branch, and will make an announcement in due course.

MAS has referred the 1MDB-related transactions processed by Raffles Money Change to the Commercial Affairs Department for their follow-up investigation.