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BSI pays price for 'serious breaches' of anti-money-laundering rules

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Swiss bank censured by financial supervisor in its home market and forced to close in Singapore

MICHAEL PEEL — BANGKOK

Regulators have cracked down on BSI, the Swiss private bank, over alleged money-laundering failings related to the scandal over Malaysia's IMDB state investment fund. Claims that billions of dollars have been misappropriated from Malaysian state groups have spawned probes on several continents. BSI is under a criminal probe in its home country and has been ordered to shut in Singapore. It has been fined \$813.3m in Singapore and forced to disgorge profits of SFr95m in Switzerland.

What was BSI's relationship with IMDB?

BSI appears to have had a deep trans-continental involvement in IMDB-related business. The Malaysian fund became a big part of BSI's drive to win business in Asia after it opened its doors in Singapore in 2005, offering private banking services. BSI counted as its clients not only the IMDB parent fund but subsidiaries and related parties, court documents in the city state suggest.

One was Brazen Sky, a IMDB subsidiary through which \$2.3bn was processed — not necessarily all through BSI — to buy investments in the Cayman Islands. IMDB insists all this money is accounted for, but the fund's critics say it has yet to show evidence of this.

Documents released by the Singapore attorney-general's office in a case involving a former BSI official state that another of the bank's clients was Jho Low, a Malaysian financier whose role — if any — in IMDB's international dealings has come into question. Mr Low has consistently denied any wrongdoing.

BSI received the proceeds of a \$3bn bond arranged for IMDB by Goldman Sachs in 2013, a relatively unusual move, as state funds usually deal with larger commercial banks. Goldman has denied any wrongdoing.

What happened in Switzerland?

In Switzerland, BSI committed "serious breaches" of anti-money-laundering rules, according to Finma, the financial supervisor. BSI failed between 2011 and 2015 to identify risks around "dubious" transactions totalling hundreds of millions of dollars involving "politically exposed persons", Finma said. The bank was happy to accept the client's explanation in one case that \$20m of funds were a "gift", while in another instance an account was credited with more than \$98m without any effort to clarify the money's commercial background.

Authorities have approved BSI's takeover by Zurich-based EFG International, after which BSI will be dissolved. Stefano Coduri, BSI's group chief executive, has quit with immediate effect, replaced by Roberto Isolani, a board member of the bank.

Why is BSI being shut in Singapore?

In 2011, a Monetary Authority of Singapore inspection of BSI found "policy and process lapses at the front office and weak enforcement by control functions". The regulator says those problems were rectified. In 2014, an inspection revealed "serious shortcomings" in due diligence on assets underlying funds structured for clients.

A "more intrusive" third inspection last year uncovered "multiple breaches of anti-money-laundering regulations and a pervasive pattern of non-compliance". The regulator says the bank suffered from widespread control failures, poor senior management oversight, a "blatant disregard" for rules on compliance, and "numerous acts" of gross misconduct by certain staff.

BSI's alleged record of problems raises a question of whether the authorities should have taken stronger action

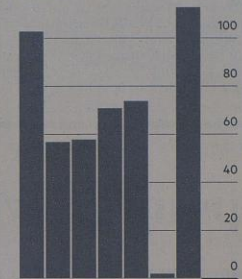
Ill-starred partnership

BSI's total client assets
SFr (bn)



FT graphic Source: company

BSI's net profit
SFr (m)



* After deducting SFr 700m depreciation charge

BSI's tier one capital ratio

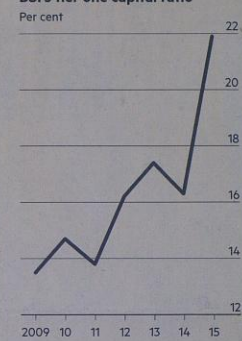


Photo: Samsul Said/Reuters

Background

Venerable lender to vanish as legal entity

The Swiss private bank BSI was founded more than 140 years ago. After becoming embroiled in Malaysia's IMDB scandal, the bank will vanish as a legal entity within a year.

The country's financial regulator Finma demanded yesterday that BSI be dissolved once it is acquired by EFG International, a rival Swiss bank, which announced a takeover plan in February. BSI was in "serious breach" of money-laundering regulations, Finma said. The bank's chief executive Stefano Coduri has resigned, and the Swiss attorney-general's office has announced criminal proceedings against the lender.

The action by Swiss authorities marked an ignominious end to a decade of Asian expansion by BSI, founded as Banca della Svizzera Italiana in 1873. Since the 2008 financial crisis, small and midsize Swiss banks such as BSI have faced increasing pressure to expand into emerging markets.

At home, a clampdown on tax evasion by US and European authorities has led to outflows of client money. Last year BSI paid a \$21m penalty to settle a US Department of Justice probe. At the same time, tougher financial stability regulations have encouraged Swiss banks to seek economies of scale.

Fast-growing emerging economies with growing numbers of high-wealth individuals looked tempting to Swiss bankers offering traditional banking skills. BSI opened in Singapore in 2005 and expanded its Asia business further with a branch in Hong Kong in 2012.

After the clashes with US authorities over tax evasion, however, Swiss financial authorities have sought to clean up the image of the country's banking system. Mark Branson, Finma's chief executive, warned recently that he would take a tough line on growing money-laundering risks.

Yesterday Mr Branson said BSI had to be completely integrated with EFG International, though the BSI brand could still be used.

He banned some BSI managers from taking leadership positions in the new group. Roberto Isolani, a BSI board director since last September, has replaced Mr Coduri as BSI chief executive.

BSI has changed owners twice in barely a year. Last year BSI was sold by Generali, the Italian insurer, to Brazil's BTG Pactual. But after the arrest of co-founder André Esteves last year, BTG was forced to sell assets, including BSI, to boost liquidity and avert potential collapse.

EFG International stepped forward, despite concerns over IMDB and signs that the upheaval was hitting BSI's business. Total client assets fell to SFr84bn last year from SFr94bn in 2014. EFG International was facing its own

pressures. Being a "consolidator" rather than takeover target was "crucial for us", Joachim Straehle, EFG chief executive, said in February.

But EFG sought to protect itself from the IMDB affair, securing indemnities from BTG that are worth as much as the purchase price as part of the takeover deal. As a result, the \$110m cost of the fines levied by Swiss and Singaporean regulators yesterday for the scandal are being deducted from the SFr1.33bn that EFG has agreed to pay for BSI.

Meanwhile, BTG is looking to pass the charge on to Italy's Generali by seeking compensation.

When the Brazilian bank negotiated to buy BSI last year, it secured specific indemnity against the cost of the Swiss bank's settlement with the US Department of Justice over taxes.

But BTG argues that the agreement also gave it a "warranty" to claim back the cost of any other fines for activities that predated its ownership. Generali said it was likely to contest the claim.

People involved in the sale of BSI to BTG said the anti-money-laundering failures at BSI stopped in 2015, before BTG bought it. They said that under the Brazilian bank's ownership, risk controls were tightened and several senior managers were replaced.

EFG said yesterday that the latest actions by regulators would "draw a line" under the affair.

Ralph Atkins and Martin Arnold

sooner. The Singapore monetary authority says it has made "substantive strides" on anti-money-laundering and counter-terrorist financing and has a "comprehensive regime".

Which BSI staff are being probed? What are the allegations?

The Singapore monetary authority said it had referred six past and present BSI executives to the public prosecutor to determine whether they had committed criminal offences. The most senior named was Hanspeter Brunner, ex-Asia head. Mr Brunner arrived from Royal Bank of Scotland Coutts' Singapore office in 2010, bringing scores of fellow staff with him including Raj Sriram, his deputy at BSI and another one of the six whose files have been passed to the Singapore prosecutor. Neither men could be reached for comment. Yeo Jiawei, a third member of the six, has been charged in Singapore with money-laundering-related offences and accused of witness-tampering and attempting to pervert the course of justice. He could not be reached for comment.

Are other banks being probed?

RBS disclosed last month that Swiss authorities were probing client accounts at Coutts, which used to be part of RBS's private bank. A number of other financial institutions are claimed to have been involved in the web of IMDB transactions spanning the US, Europe and Asia since the fund was set up. Finma said it was probing more than 20 banks in connection with the IMDB affair and the Petrobras scandal in Brazil.

Additional reporting by Jeevan Vasagar in Singapore