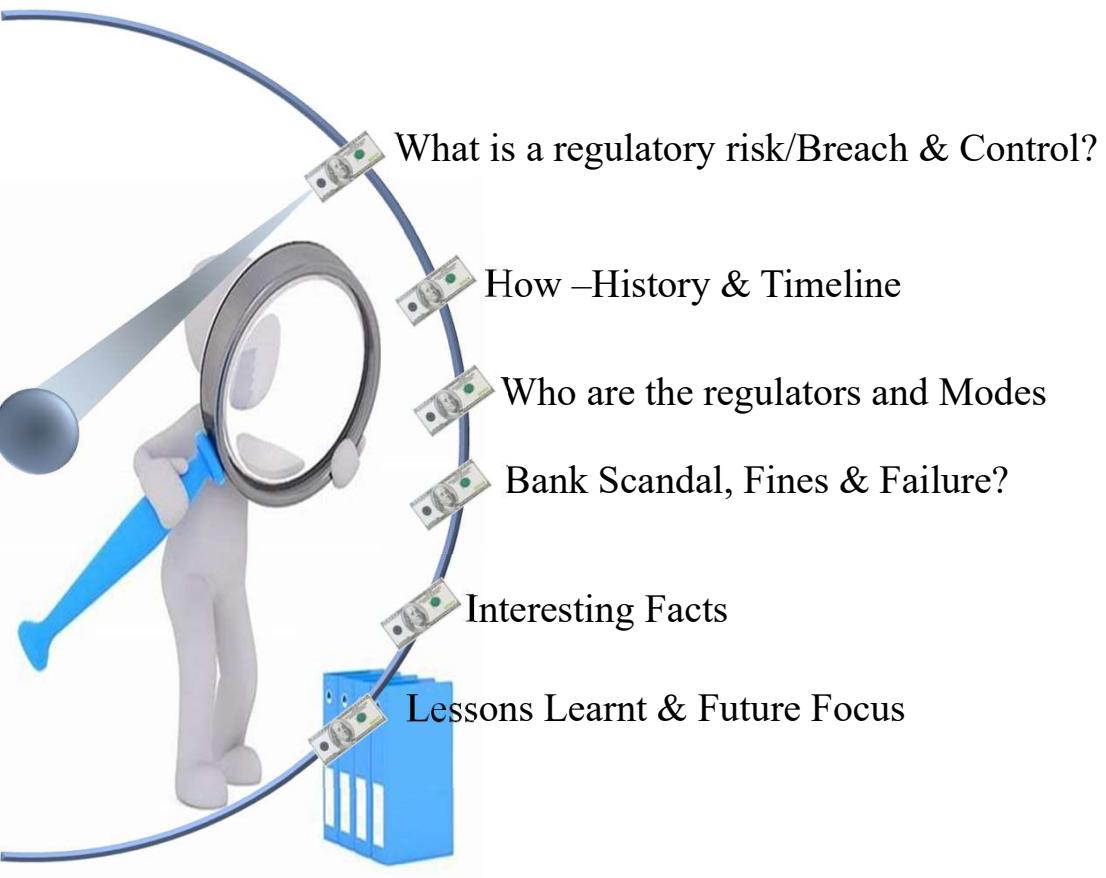


*Case Study on recent live issues  
around the globe-Bank  
penalties/Regulatory breaches  
fines*



# *SNIPPETS*



What is a regulatory risk/Breach & Control?

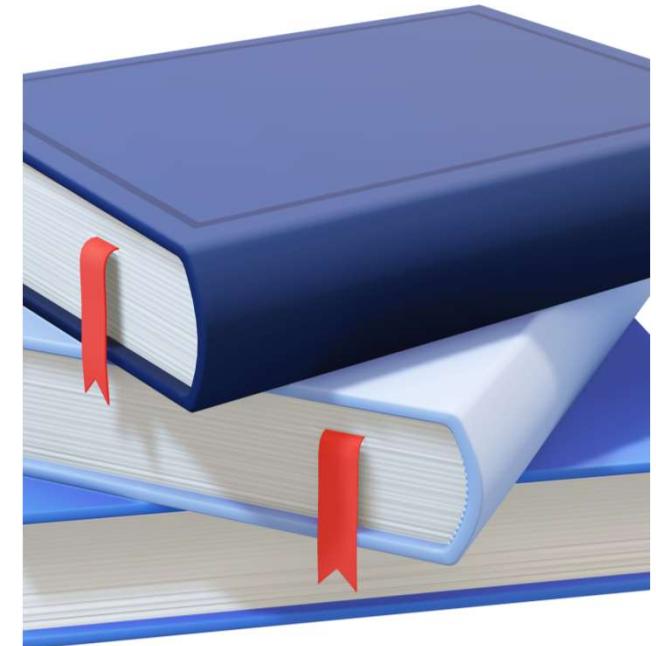
How –History & Timeline

Who are the regulators and Modes

Bank Scandal, Fines & Failure?

Interesting Facts

Lessons Learnt & Future Focus

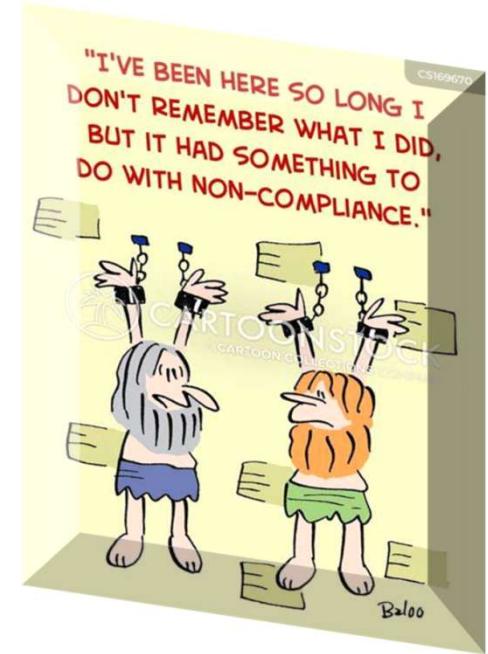


# What ???



Regulatory risk is the risk that a change in regulations or legislation will affect a security, company, or industry.

Internal controls are the mechanisms, rules, and procedures implemented by a company to ensure the integrity of information, promote accountability and prevent fraud



Breach is contravention

- Asset seizures.
- Civil money penalties.
- Loss of stock value.
- Increased regulatory scrutiny

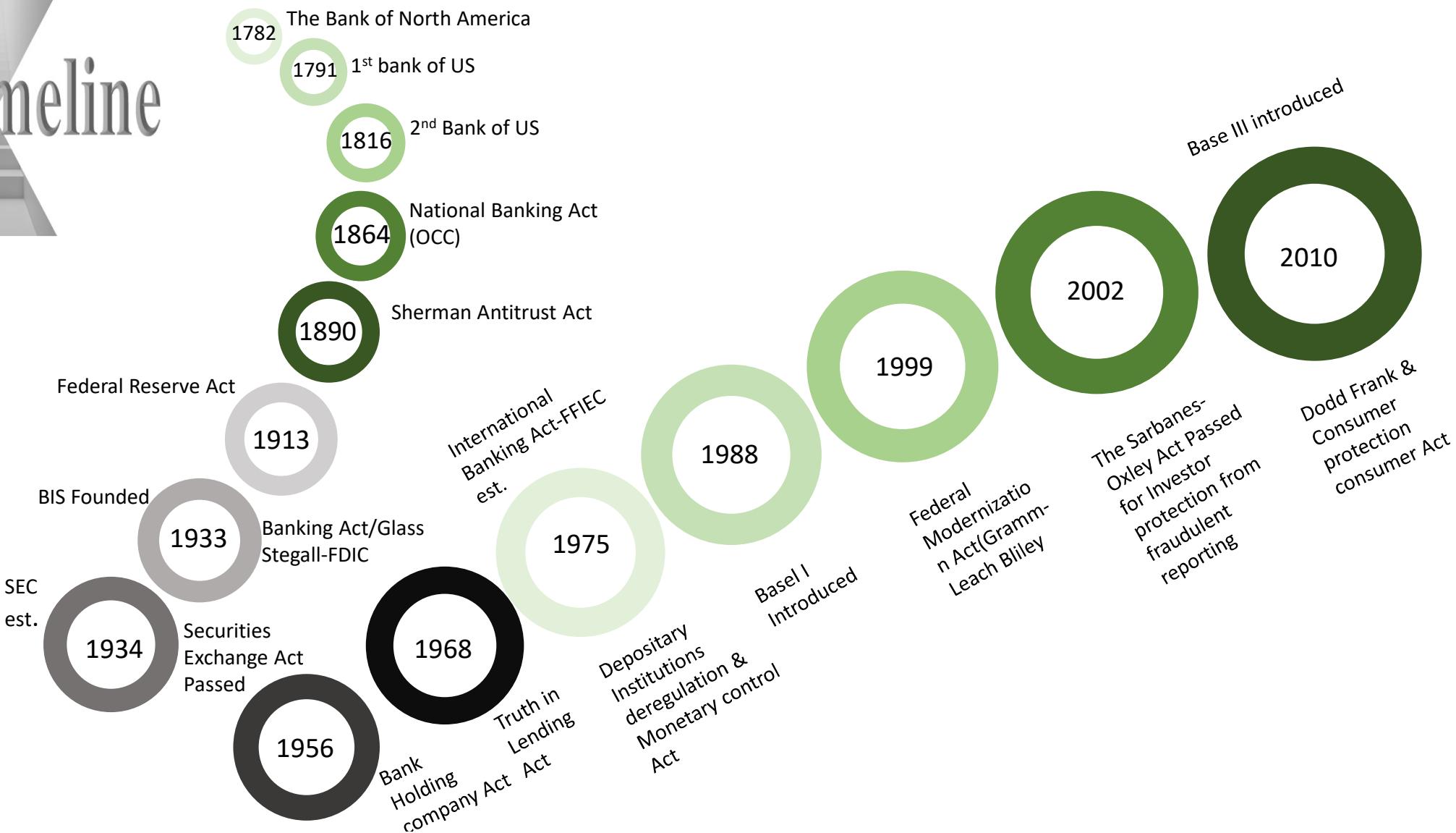


# *History*

- The subsequent implosion of both Cooke's bank and the railroads led directly to the economic depression of the Panic of 1873 and extensive advertising to sell bonds impacted all groups
- After the stock market crashed in 1929, Congress enacted the first securities laws, the Securities Acts of 1933 and 1934. These Acts established the Securities and Exchange Commission (SEC).
- Soon afterward, details of blatant corruption, self-dealing and bribery emerged, and the Mail Fraud Statute became the first federal law to protect Americans from fraud, scams and scandals. Congress enacted statutes to better regulate the railroads, including the Interstate Commerce Act of 1887, and Sherman Antitrust Act of 1890



# Timeline



# *Models*



**Functional Approach-  
Banking/Insurance etc..**  
Ex: Brazil/France/Spain

**Institutional Approach**  
Ex: HK/Mexico



**Twin Peaks Model- Prudential  
and Conduct Authority**  
Ex: UK/Australia



**Unified Approach-  
Single Authority**  
EX: Singapore/Germany

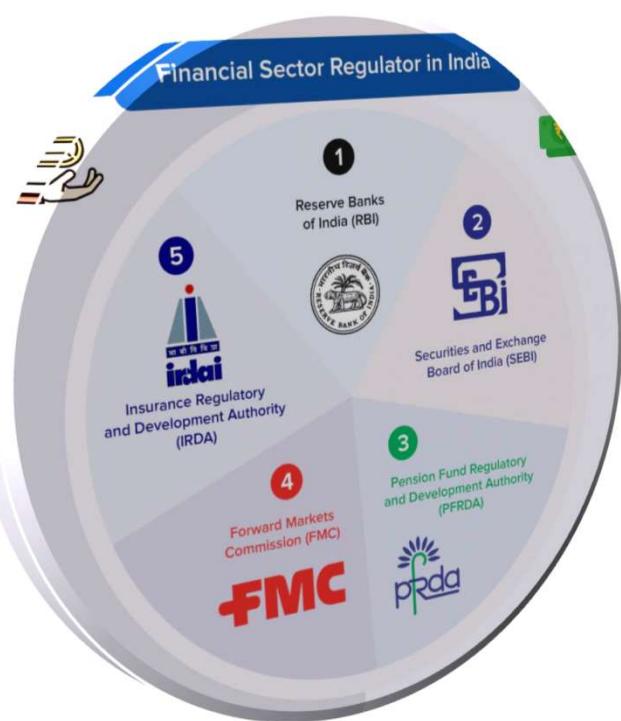
## **Global**

Basel Committee on Banking Supervision

BANK FOR INTERNATIONAL SETTLEMENTS



# Regulators-2



# Regulators-3

## U.S. Federal regulators

Securities markets regulators  
SEC, CFTC

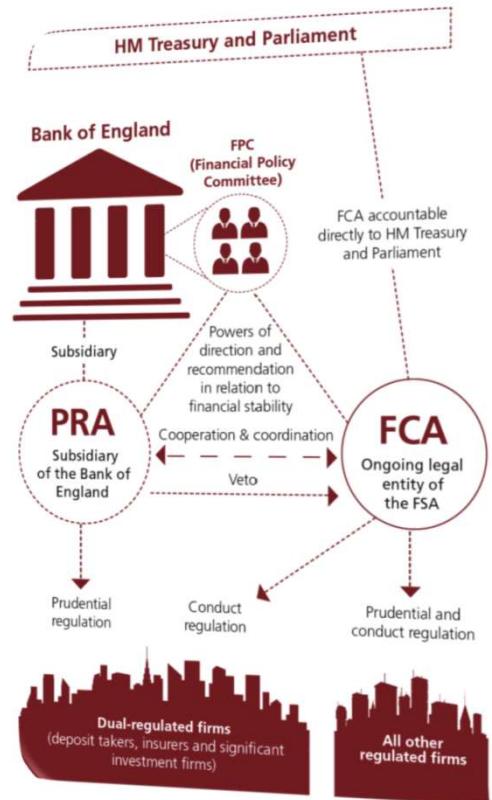
Depository regulators  
OCC, FDIC, FRB

International regulators  
BCBS, G20 FSB, IOSCO



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# Regulators-(AML)



## Anti-Money Laundering Regulators Around The World



# *Why and Which ??*

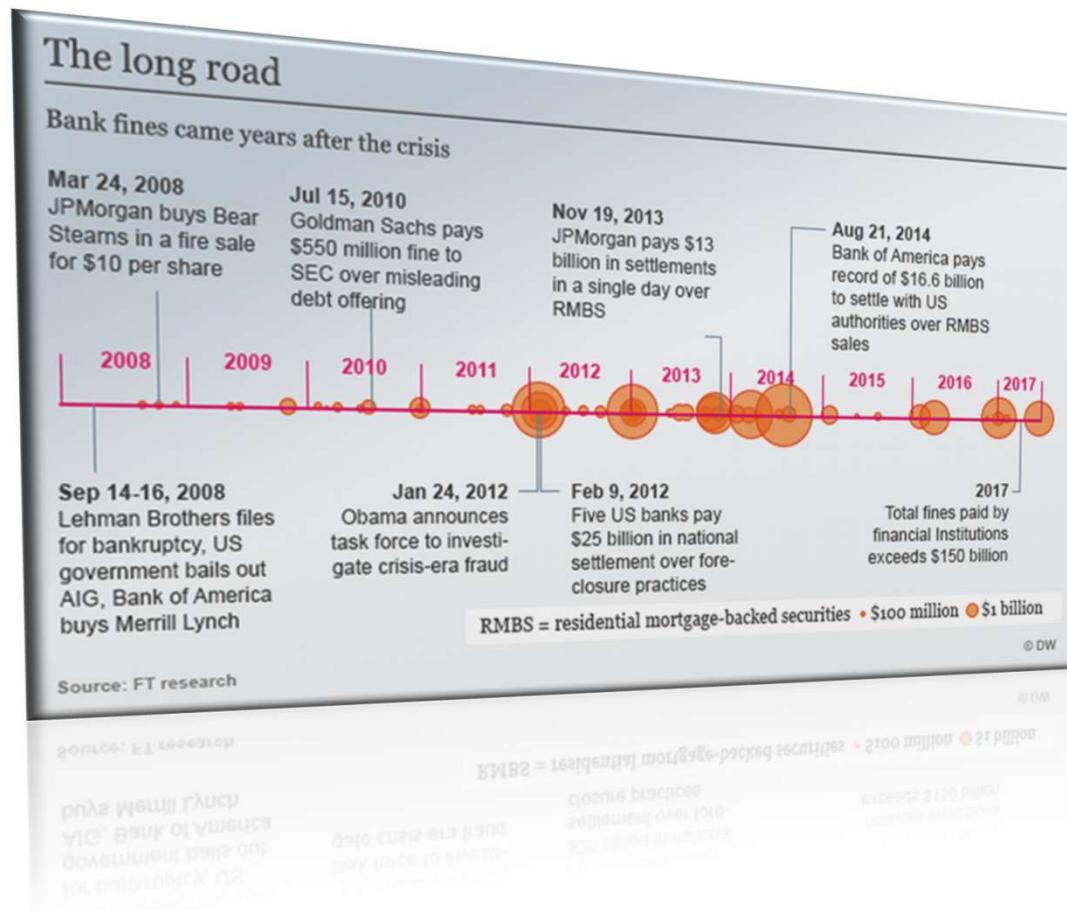
Banks who are fined large amounts usually have systemic deficiencies in things like anti-laundering monitoring systems, resulting in gaps and unreported suspicious activity.

While fines are imposed for a wide range of lapses, there are some common threads

- / KYC AML and CFT Violations
- / Sanction Country/Entity Transactions
- / Market Manipulation/Cartelization
- / Risk Management, Loan classification
- / Data Privacy and security breaches
- / Consumer Protection Violation
- / Other Procedural Lapses



# *Crisis and penalties*



Since the outbreak of the financial crisis in 2007, financial institutions have paid more than \$150 billion (127.6 billion euros) in fines for shady dealings with subprime mortgages, according to research by the British business daily Financial Times (FT).

Of all the banks penalized since 2008, Bank of America was hit the hardest by far, as FT research shows. So far, BofA has handed over a whopping \$56 billion

US prosecutors have convicted 324 individuals of crimes linked to the crisis. But not a single Wall Street CEO is among them. Instead, they come from Main Street

European banks have paid back \$118 billion, compared to \$204 billion by US institutions which includes penalties for crimes such as money laundering, terrorist financing, benchmark interest rate rigging and violating US sanction law



*Biggest scandals  
of decade*

*and fines*



## The Mother of all Ponzi Schemes

Bernie Madoff -JPMorgan Chase & the Biggest Ponzi Scheme — \$1.7 Billion

- Bernie Madoff. He's known for having pulled off the largest Ponzi scheme in history — defrauding his customers while grossing an estimated \$65 billion over several decades. In 2009, Madoff was found guilty of fraud and sentenced to 150 years in prison.
- JPMorgan Chase was found liable because of poor oversight and agreed to pay \$1.7 billion in restitution to Madoff's victims

## LIBOR Price-Fixing Scandal— \$2.5 Billion

The LIBOR scandal involves criminal charges regarding a foreign currency exchange that involves several major multinational banks( Citicorp, Barclays PLC, JPMorgan Chase & Co, The Royal Bank of Scotland plc, and UBS AG) between 2007 and 2013,all pled guilty to felony charges

Back Story:

Forex traders called "The Cartel" at the banks manipulated currency values between the U.S. dollar and the European euro for financial gain.

## **SAC Capital Advisors & Insider Trading — \$1.8 Billion**

The New York Hedge fund firm was found guilty of not just insider trading, but wire fraud and securities fraud. Along with a hefty \$1.8 billion fine, several individual traders found themselves headed to jail. To date, this is the largest fine for insider trading in U.S. history.

Similar Example:

**MF global (MAN Group)-** debt/Trading violation-Bankrupt-oct. 2011-CEO-Jon Corzine(\$5 million fine, lifetime ban from CFTC- Paid -\$1.212 billion in restitution to costumers

## **Goldman Sachs & the Pilfered Malaysian Coffers — \$5.4 Billion**

Goldman Sachs found itself in hot water in 2020 for participating in the Malaysian 1MDB (Malaysian Development Berhad) scandal where millions were stolen from the state investment fund by local Malaysian government officials and accomplices. The bank was accused of facilitating money laundering to divert money from the state fund, It agreed to pay a total of \$5.4 billion to global regulators like DOJ and \$1.4 billion to Malaysia as part of a restitution settlement



## **Subprime mortgage crisis (SMC) Scandal**

Subprime mortgage crisis had a lot of dirty banking hands in the cookie jar.

- ▲ JP Morgan found itself in the hot seat for federal and civil claims arising out of packaging, marketing, sale and issuance of residential mortgage-backed securities(GFC crisis) and ended up paying \$13 billion as settlement in 2013 to DOJ.
- ▲ Bank of America got a hard hit and was fined the most in SMC Scandal, the bank paid \$11bn as a part of the \$25bn agreement with five largest mortgage servicers in US, to address mortgage loan servicing and foreclosure abuses.

“Every major bank across the U.S. and many multinationals also faced steep fines for poor oversight and intentionally providing loans to unsuitable customers”



## **Wells Fargo -\$3.7 Billion -Rampant Mismanagement of Auto Loans, Mortgages, and Deposit Accounts**

The CFPB's (Consumer Financial Protection Bureau) specific findings include that Wells Fargo

- ▲ Unlawfully repossessed vehicles and bungled borrower accounts
- ▲ Improperly denied mortgage modifications
- ▲ Illegally charged surprise overdraft fees
- ▲ Unlawfully froze consumer accounts and misrepresented fee waivers

## *Fines at glance*

Bank	Country	How much (\$ BN)	Why
<b>Goldman Sachs</b>	US	6.25	<i>1MDB scandal in Malaysia, different jurisdictions</i>
<b>Wells Fargo</b>	US	3.00	<i>Fake accounts scandal</i>
<b>JP Morgan</b>	US	1.16	<i>LIBOR market manipulation. 2nd fine due to lapses in internal controls and audit</i>
<b>Westpac</b>	Australia	0.92	<i>AML lapses</i>
<b>Bank Hapoalim</b>	Israel	0.90	<i>Assisting customer in evading taxes</i>
<b>Swedbank</b>	Sweden	0.43	<i>AML lapses</i>
<b>Citigroup</b>	US	0.40	<i>Risk management, regulatory reporting data management lapses</i>
<b>Deutsche</b>	Germany	0.15	<i>Helping a convicted offender process hundred of transactions</i>
<b>Scotiabank</b>	Canada	0.13	<i>Manipulation of metal prices and misleading investigators</i>

Rank	Bank	Country	Total Fine in Billion \$USD
1	Goldman Sachs	US	\$3.97
2	Wells Fargo	US	\$2.96
3	JPMorgan Chase	US	\$0.92
4	Westpac	Australia	\$0.9
5	Bank Hapoalim	Israel	\$0.89
6	Swedbank	Sweden	\$0.42
7	Citigroup	US	\$0.39
8	Deutsche Bank	Germany	\$0.14
9	Scotiabank	Canada	\$0.12
10	TD Bank	US	\$0.12

Bank	How much (₹ Crores)	Why
<b>Bank of India</b>	5	Asset classification and Account opening lapses
<b>IndusInd Bank</b>	4.5	Asset classification and exposure norms lapses
<b>Citibank NA</b>	4	Process violations in lending and multiple banking without due process
<b>Karnataka Bank</b>	1.2	Asset classification
<b>HDFC Bank</b>	1	KYC lapses
<b>HDIL Bank</b>	1	KAC lapses
<b>Karur Vysya Bank</b>	1.5	Asset classification



Global Regulatory Fines/Breaches- AML focus

## **Liberty Reserve -Costa Rica**

Used digital currency (“LR”) for payment processing and money transmission. In May 2013, FinCEN issued a Notice of Finding under USA PATRIOT Act that Liberty Reserve S.A. was a financial institution of primary money laundering concern. Founder, Arthur Budovsky, was sentenced to 20 years in prison

Penalized for:

- Unregistered – No registration with FinCEN as an MSB.
- No proper verification checks for individual accounts
- Access for unlimited Anonymous accounts

## **BNP Paribas- Financing Terrorism**

In 2015, the Department of Justice announced that the Paris-based BNP Paribas was sentenced for conspiring to violate the International Emergency Economic Powers Act (IEEPA) and the Trading with the Enemy Act (TWEA) by processing billions of dollars of transactions in support of terrorists through the U.S. financial system on behalf of Sudanese, Iranian and Cuban entities subject to U.S. economic sanctions.

Penalized for : Five-year probation and \$9billion penalty.





## Ocean bank-Florida

As per FinCEN Ocean bank Violated AML Laws including:

- ▲ 28 %Customer base from high-risk jurisdictions like including Venezuela and no proper customer due diligence performed while onboarding clients and errors and omissions in its documentation were found, including the nature of the customers' businesses, verification of owner/operator identities, and anticipated account activity
- ▲ Direct account relationships in the US for politically exposed persons, consulates and established "bearer share" corporations.
- ▲ Despite high-risk nature clients, it lacked adequate policies, procedures and an effective system of internal controls to assess and mitigate the risks of narcotics-related money laundering activity.

**Penalized:** \$10.9M civil money penalty.

## Riggs Bank –Washington D.C

Riggs Bank maintained a close relationship with Augusto Pinochet(former president of Chile) which included flying to and from Chile on his private jet and taking hundreds of thousands of dollars' worth of cashier's checks to him which were later found to be the proceeds of corruption.

- ▲ Riggs also facilitated the movement of money through real estate transactions ensuring that nothing is linked to Pinochet.

### **Violated:**

- ▲ federal criminal violation of the Bank Secrecy Act
- ▲ repeated and systemic failure to report suspicious transactions

**Penalized:** \$16million dollar, following which riggs voluntarily closed it's embassy & international private banking divisions

## **BSI Bank-Switzerland**

On May 24, 2016, the Monetary Authority of Singapore (MAS) has ordered BSI Bank to shut down its operations in Singapore

Due to:

- Serious breaches of AML requirements: prevention of Money Laundering and Countering the Financing of Terrorism requirements
- Poor management oversight of the bank's operations: Failed to perform Enhanced Due diligence (EDD) for and on going monitoring of suspicious customer transactions for high-risk accounts.
- Gross misconduct by some of the bank's staff: CEO, Deputy CEO and Wealth Mgmt. head referred to prosecutor for criminal offense.

Penalized: S\$13.3 million



## **The Star Casino - Sydney**

Violated: Money laundering law & Failing to prevent laundering activities from taking place on the casino's premises

Penalized: AUD100 million and lost its license as a result of the regulatory investigation

## **Standard PLC-UK**

Violations:

- Failures relating to its AML/CFT policies, procedures, and controls.
- Failed to perform adequate EDD measures prior to establishing new accounts with entities who had connections with PEPs and failed to conduct sufficient ongoing monitoring

Penalized: £7.64 million by FCA



2022 Fines and breaches



# *Fines @2022*

2022-Fines issued by global financial services regulators including

- ❖ US Securities and Exchange Commission (SEC),
- ❖ Financial Conduct Authority (FCA)
- ❖ The French L'Autorité des Marchés Financiers (AMF),
- ❖ BaFin
- ❖ Federal Office of Justice (FoJ).

US SEC led the way in penalties, with a record \$6.4 billion in fines issued, which included a \$1.1 billion fine resulting from its crackdown on WhatsApp.

**Reason:** Failing to adequately monitor their employees' behavior and prevent them from using unauthorized instant messaging to exchange confidential information.

The highest penalty had to be paid in December 2022 by Santander UK.

**Reason:** Failing to properly oversee and manage its AML systems for almost five years “Between 2020 and 2022, the FCA imposed almost £1bn in fines, 43% related to inadequate compliance with governance and control regulations.”



# *Fines @2022*

Germany's financial regulators, BaFin and FoJ, imposed 46 fines in 2022.

**Reason:** reporting delays

France's stock market regulator fined companies a total of €95 million, including a single fine of €75 million

**Reason:** violations of professional obligations.

The US Office of the Comptroller of the Currency (OCC) has levied an \$80 million civil penalty against Capital One. The breach exposed names, addresses, phone numbers, credit scores, payment histories and social security numbers.

**Reason:** Failure to establish effective risk assessment processes" prior to its migrating of "significant" amounts of data onto a public cloud.

In 30 months, RBI fines Rs 73 cr in 48 cases involving banks, including public, private and foreign banks, for violation of provisions or contravention of certain directions.

**Reason:** For contravention on loan and advances, non-compliance with KYC norms

U.S. Bancorp agreed to pay \$613 million in penalties to state and federal authorities

**Reason:** Violations of the Bank Secrecy Act and a faulty anti-money-laundering program.



 BaFin



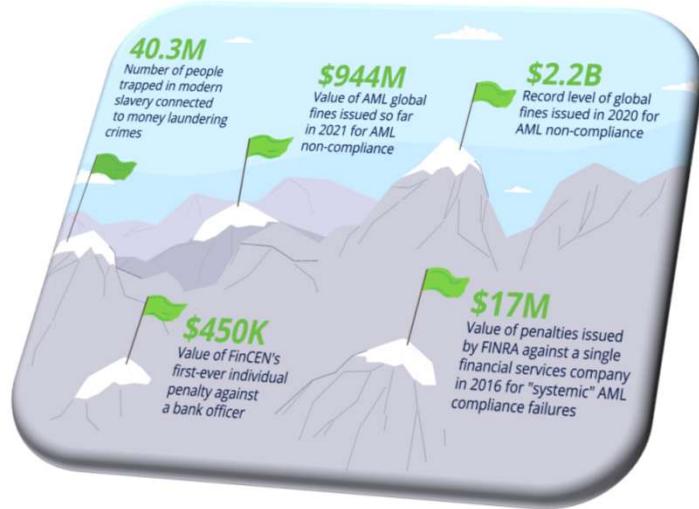
## Fines @2022-Green washing

- Assets held by US environmental, social and corporate governance funds grew to \$350 billion by 2022
- The U.K.'s Financial Conduct Authority in October proposed a new anti-greenwashing law
- The EU's Sustainable Finance Disclosure Regulation, or SFDR, has already introduced stricter disclosure requirements and criteria for investments classified as sustainable, essentially putting into law what financial firms can claim to be green

Ex: Carbon offset (An action that balances emission of Co2 or other greenhouse gases into the atmosphere) – It is a buyable tradable commodity



# Interesting Facts



## FCA Fines in 2021 for AML Failings

National Westminster Bank Plc Fined £264.7m	Credit Suisse Fined £147.2m
Lloyds Bank General Insurance Fined £90.7m	HSBC Bank plc Fined £63.9m
Sunrise Brokers LLP Fined £642.4k	Sapian Capital Fined £178k
Omar Hussein Fined £116k	Crossfill & Archer Claims Fined £110k
Simon John Varley Fined £68.3k	Adrian Horn Fined £52.5k

## US OFAC Sanctions Fines 2015–2021

Data includes fines for banks and larger financial institutions that breached OFAC Sanctions.

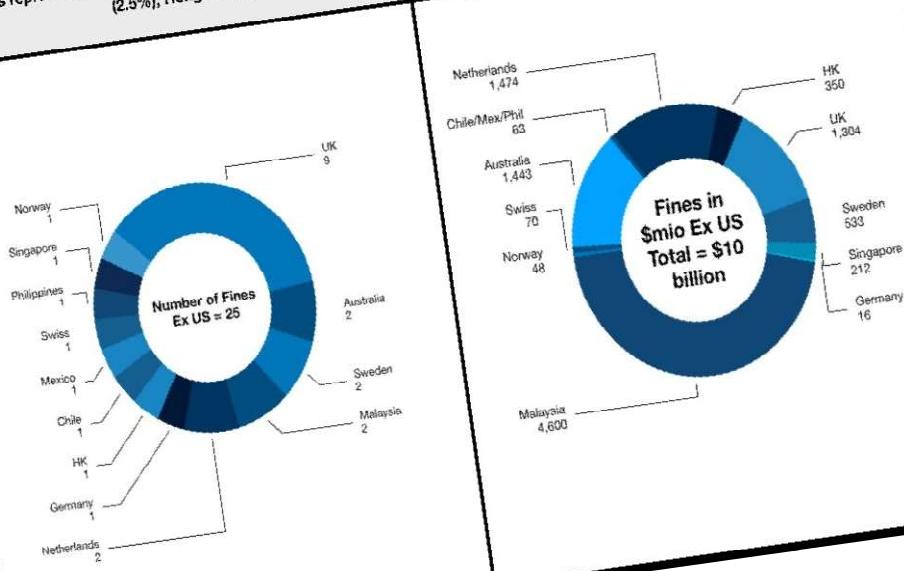


Comply Advantage

Source: US Department of the Treasury OFAC

## 47 US Levied AML Fines & 25 Levied AML Fines Non US

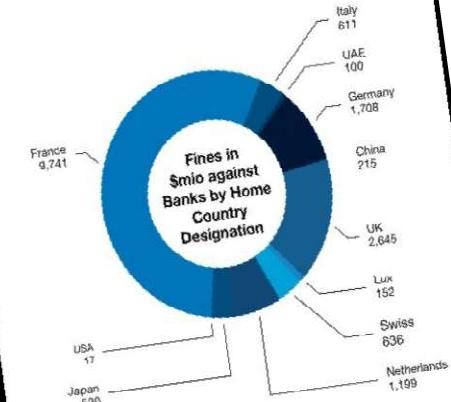
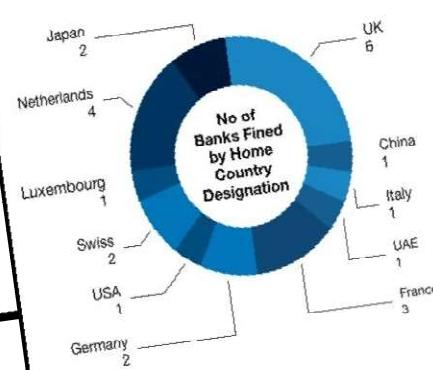
(US Fines represent 55% of total AML related Fines, followed by Malaysia (22%) Australia & Netherlands (7% each), UK (5%), Sweden (2.5%), Hong Kong (1.6%) & Germany (0.1%), with USA 65% Asia 31% & Europe 15%)



Fines in \$mio Ex US  
Total = \$10 billion

## 23 US Levied Sanctions Fines-1 Levied Sanction Fine UK

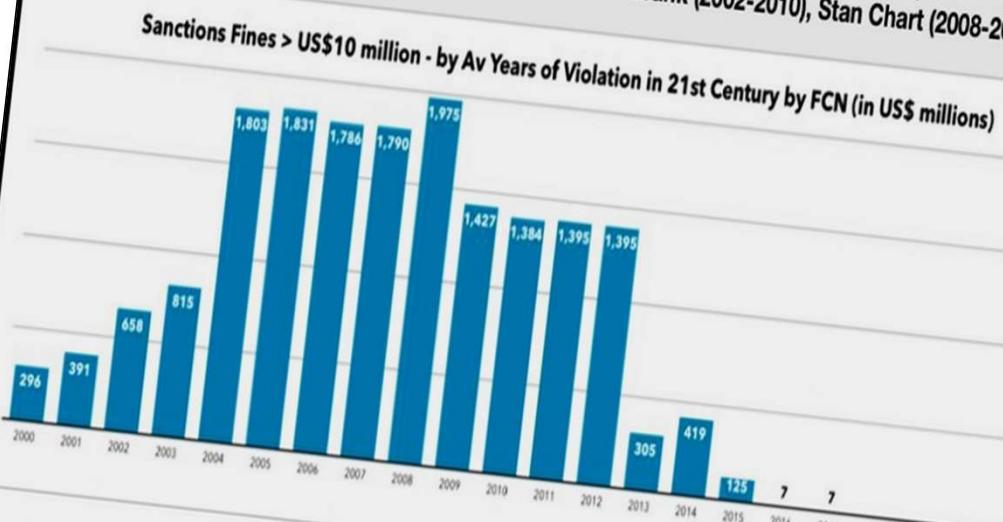
(US Fines represent 99.9% of total Sanctions related Fines, followed by UK (US\$27 million).)



## High - US\$1.97 billion in 2008 - Year of Highest Violations

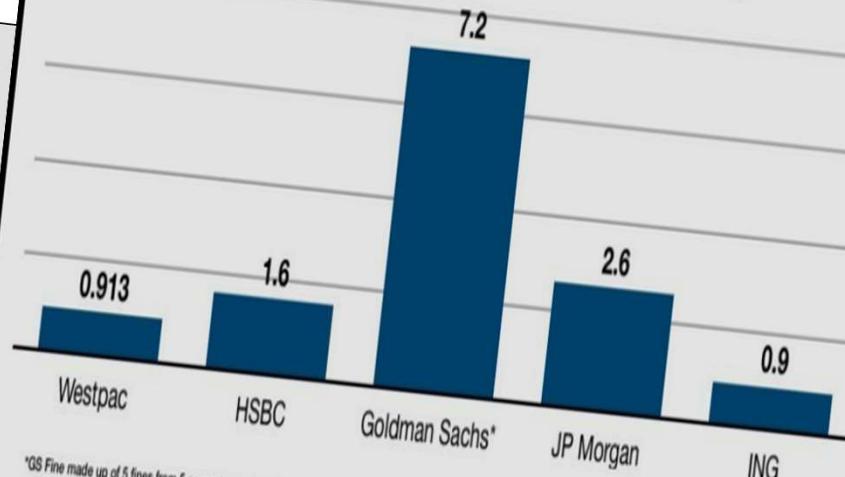
(US\$1.83 billion in 2005/US\$1.8 billion in 2004/US\$1.79 billion in 2007)

Top 3 Influenced: BNP Paribas (2004-2012), Commerzbank (2002-2010), Stan Chart (2008-2014)

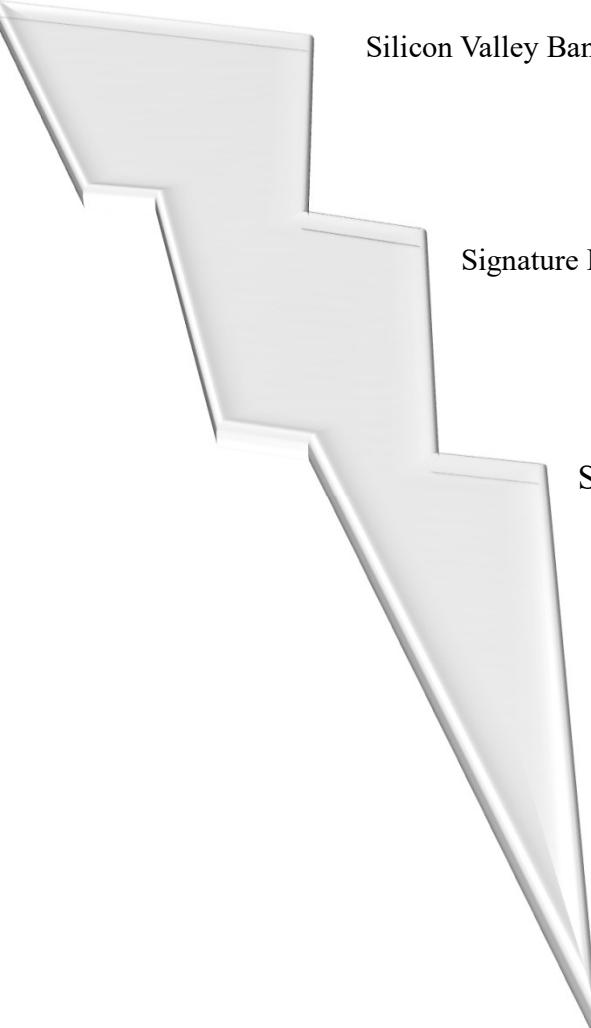


2005 - 14 Fines (13 Fines include violations in 2004 & 2006, 10 in 2007)

## Highest AML Fines - 21st Century (in US\$ billions)



\*OS Fine made up of 5 fines from 5 separate countries in connection with 1MDB from USA, HK & Malaysia. Note: Most frequently fined (aggregating in country agency fines) involve 1) Deutsche Bank (7 fines), Goldman Sachs (5 fines), Credit Suisse (4 fines) & J P Morgan (3 Fines)



Silicon Valley Bank

Signature Bank

Silvergate bank

First Republic Bank

# *Bank Failures @2023*

*“Too big to Fail”*

## **Signature Bank-Signature Bank -shut down -March 12, 2023.**

**The bank's failure resulted from regulator concern about depositors withdrawing large amounts of money after the failure of Silicon Valley Bank (SVB) and the fear of continued contagion.**

New York City-headquartered Signature Bank began in 2001 and expanded launched its blockchain platform signet in 2019.

- ▲ The bank's model relied on a network of private client banking teams with 40 private client offices across US, it is well-known for its services to law offices, real estate buyers, and cryptocurrency companies and was listed as the 19th largest bank in the United States by S&P Global
- ▲ It was also the first FDIC-insured bank to create block chain based digital platform "signet" which is approved by NYDFS (Department of Financial services)

Why?

- ▲ The failure of Silicon Valley Bank led to a Signature bank run on Friday, March 10, 2023
- ▲ Depositors panicked after SVB failed because Signature had high amounts of uninsured deposits and was exposed to the crypto sector.

FDIC report on Signature Bank's failure: " Root Cause- Poor Management"

- ▲ Management failure to understand the risks of its concentration in the crypto sector-28%percent of its deposits were from crypto clients.
- ▲ An abnormally large share of uninsured deposits- 90% of all its deposits were uninsured
- ▲ Liquidity risk- Bank's poor governance and risk management made the bank unable to manage its liquidity when required(only about 5% of its assets were in cash, compared to an industry average of 13%)
- ▲ Lack of adequate FDIC oversight: Own shortcomings in conducting timely reviews.



# *Lesson Learnt & Future focus*



*Bank controls*



*Training employees*



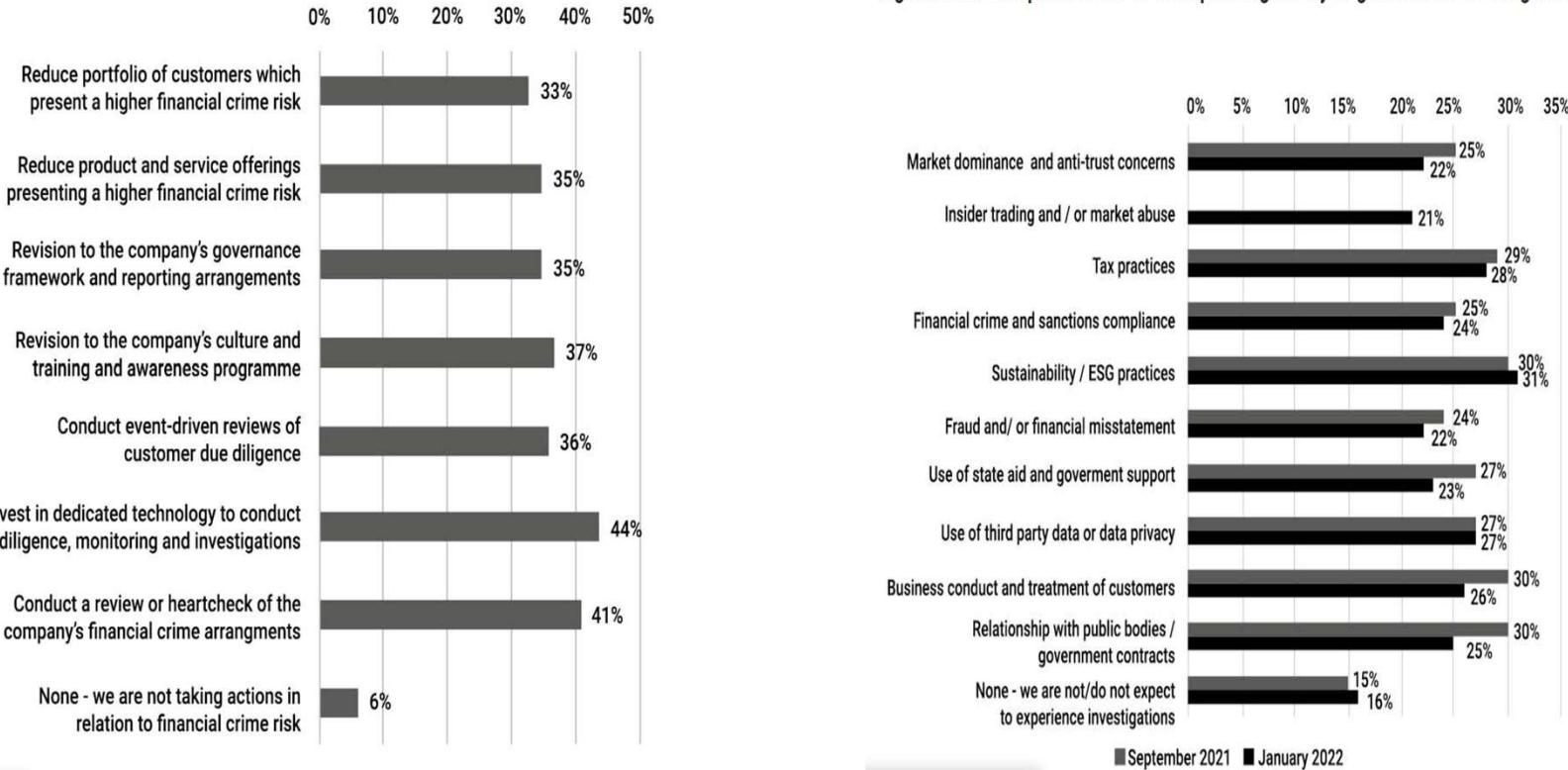
*Remediation of client files*



*Strict adherence to compliance norms doing all -but still the issue persist ? Why? What's going wrong ?*

- FI can use these technologies to better understand the current risk involved within the platform as they must comply with AML rules, KYC regulations and appropriate sanctions.
- More than 80% of G20 organisations are now considering implementing these technologies and currently 66% are piloting or exploring how block chain technologies impact their future business offering.

Fig. 2: Areas companies face or anticipate regulatory or government investigations



# Glossary:

- ▲ **BSA(Bank Secrecy Act):** The primary U.S. anti-money laundering regulatory statute (Title 31, U.S. Code Sections 5311- 5355) enacted in 1970 and most notably amended by the USA PATRIOT Act in 2001. Among other measures, it imposes money laundering controls on financial institutions and many other businesses, including the requirement to report and to keep records of various financial transactions.
- ▲ **Bank Run:** A bank run is a sudden and simultaneous withdrawal of deposits by a large number of customers due to a loss of confidence in the bank's ability to protect their funds.
- ▲ **Block chain:** Blockchain is a distributed database or ledger shared among a computer network's nodes. They are best known for their crucial role in cryptocurrency systems for maintaining a secure and decentralized record of transactions, but they are not limited to cryptocurrency uses. Blockchains can be used to make data in any industry immutable—the term used to describe the inability to be altered
- ▲ **Carbon offset:** An action or activity that balances emission of Co2 or other greenhouse gases into the atmosphere) – It is a buyable tradable commodity
- ▲ **FATF:** FATF was chartered in 1989 by the Group of Seven industrial nations to foster the establishment of national and global measures to combat money laundering. It is an international policy-making body that sets anti-money laundering standards and counter-terrorist financing measures worldwide. Its Recommendations do not have the force of law. Thirty-five countries and two international organizations are members. In 2012, FATF substantially revised its 40 + 9 Recommendations and reduced them to 40. FATF develops annual typology reports showcasing current money laundering and terrorist financing trends and methods
- ▲ **Financial Contagion:** Financial contagion is the spread of an economic crisis from one market or region to another and can occur at domestic and international levels and can affect goods and services, labor, and capital goods used across markets connected by monetary and financial systems.
- ▲ **Foreclosure:** is the legal process in which the ownership shifts to the bank or lender if the homeowner fails to pay the loan
- ▲ **Insider trading** - Insider trading is when an individual or institution gets advanced information about a publicly traded stock — thereby giving them an unfair advantage over other consumer or commercial traders.
- ▲ **Subprime mortgagee:** A subprime mortgage is one that's normally issued to borrowers with low credit ratings. A prime conventional mortgage isn't offered, because the lender views the borrower as having a greater-than-average risk of defaulting on the loan
- ▲ **USA Patriot ACT:** US Congress enacted the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act (USA PATRIOT Act) in October 2001 to strengthen money laundering laws

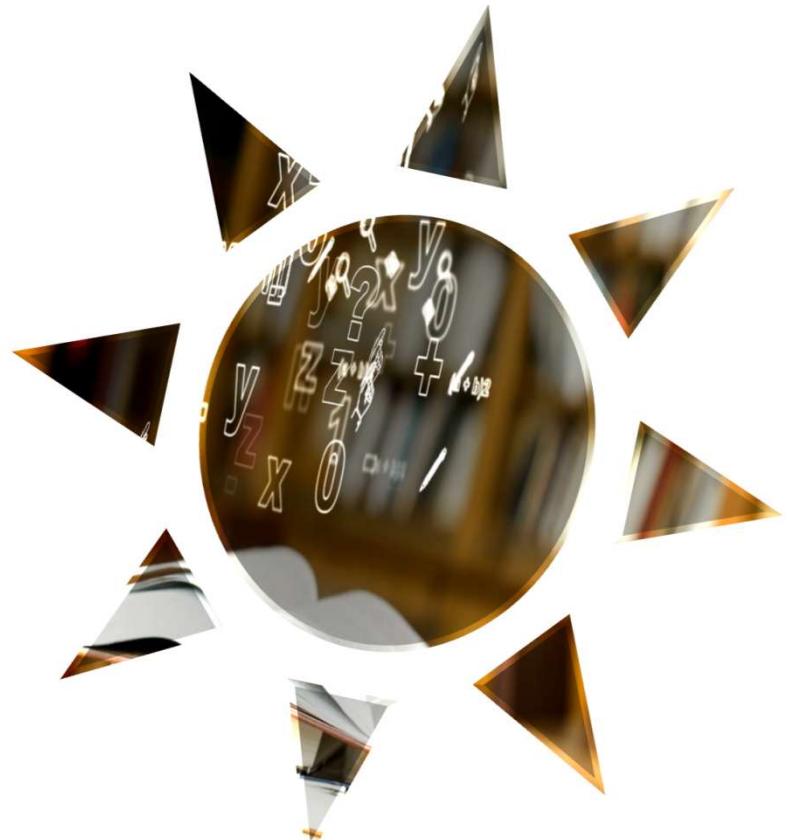
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# *Questions*

*“Every opinion has a logic, and every logic has perspective”*





Thank  
you

