

BNP PARIBAS OFAC REMEDIATION

IMPACT AT GROUP LEVEL, AND ON UKRSIBBANK

NBU SEMINAR PRESENTATION
Kiev, 27 November 2017



UKRSIBBANK
BNP PARIBAS GROUP

Банк позитивних змін

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OFAC Remediation : the global context (1/3)



Department of Financial Services (DFS) :

- August 2013 : Memorandum of Understanding (MoU)
- June 2014 : Consent Order

Required actions :

- Group USD centralization and 2 years clearing ban
- AML / OFAC Program / BSA
- Remediation

Additionally :

- Penalty
- Independent Consultant investigations throughout the Group



Federal Reserve and ACPR (Fed / ACPR) :

Joint Cease & Desist Order – June 2014

Required actions :

- Review of OFAC compliance policies and procedures, and their implementation
- Appropriate risk focused sample investigation of USD payments by an Independent Consultant



OFAC Remediation : the global context (2/3)

February 2016 Letter of Engagement of the Group :

The Group committed to perform an overall review, with the objective to ensure that adequate internal controls are in place to detect, mitigate and report BNPP's OFAC risk posed by its products, services and customers including:

- *“Evaluation of written policies and procedures (including global and selected regional, local and/or line of business-specific policies and procedures)”*
- *“Evaluation of training materials and processes”*
- *“Sanctions filtering capabilities and reporting requirements”*

In addition to the on-site examination of the New York operations, the Fed/ACPR Independent Consultant visited a number of Group locations.



OFAC Remediation : the global context (3/3)

The OFAC Independent Consultant's review methodology was similar to standard auditing practice :

Document Analysis

- Policies and procedures
- Organization
- Compliance and permanent control reports
- Regulatory Findings
- Audit reports
- Training
- ...

Interviews

- Management
- Compliance staff
- Relationship managers
- Middle-back office staff
- ...



Testing and Sampling

- Payment messages screening
- Client files
- Sanctions alerts
- Suspicious activity reports
- Voluntary disclosures

Observation

- Controls performance
- Tools
- ...



Report

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The impact over the Group (1/4)

Governance

- Creation of the Global Supervisory Control Committee at Executive Committee level
- Creation of a top-level Steering Committee to oversee the entire Remediation
- Reinforcement of all internal control functions
- Obligation to create a US-based “Intermediary Holding Company”, covering all activities in the USA

Clearing activities

- Centralization of the entire USD clearing activities of the Group in BNP Paribas New York
- Suspension of USD clearing activities for unaffiliated third-party banks (for the period June 2014-2016)
- Drastic reduction of nostri/vostri

Review of activities portfolio

- Energy and Commodities Finance
- Cash management
- Structured debt
- Commodity derivatives hedging and Foreign currency hedging
- OTC derivatives clearing
- ...

The impact over the Group (2/4)

Compliance programs

- Creation of Global Financial Security (GFS) in New-York, next to GFS Paris
- Appointment of a number of (US) specialists in the various fields of Compliance
- Reinforcement of the size (+ 50% between 2014 and 2015) and the professionalism of Compliance teams (specialisation) throughout the Group
- Standardised controls and best practices in all business lines across the BNPP organisation
- New procedures to cover adequately :
 - Country risks : methodology to rank countries in a risk-based approach, determination of the acceptable products and customer mix per type of countries etc.
 - Sanctions and Embargoes : streamlining and centralizing procedures and processes through global homogenised tools, and creation of specialized platforms to monitor and report/escalate alerts ; increased automation
 - KYC : totally new sets of KYC procedures for onboarding, recertification and closing of relations (per segment)
 - Clients questionnaires (MSCQ – Major Sanctioned Countries Questionnaire...)
 - KYS, KYI, KYB, KYT....
 - Target Operating Processes : unified operational approach throughout the Group (o/w standard automatised controls)
 - Whistleblowing Sanctions & Embargoes hotline
 - ...



The impact over the Group (3/4)

Internal Audit programs

- Creation of an IG (Inspection Generale) dedicated, specific methodology based on OFAC requirements
- Appointment of a specialised IG Deputy Head, whose responsibility is to monitor the audit coverage of Financial Security issues (+ team)
- Overarching 2015 audit plan created to test the compliance of the BNP Paribas set-up with OFAC requirements
- IG specific audit plan for USD-clearing activities
- Repeated 18 months audit cycles to audit all USD clearing entities of the Group on Compliance topics

Internal Control programs

- Set-up as a true independent control function, part of the second-level control of the Group
- Reinforcement and strong increase in the number of the “Fundamental Monitoring Points”, especially in the field of Compliance
- Regular on-field investigations and testings



The impact over the Group (4/4)

Training programs

- Unique training tool for the Group, deployed in all Group entities
- Standard training paths, either for all employees (new Code of Conduct...) or for specific categories (more particularly in the Compliance area : OFAC, Volcker rule, country policy etc.)
- Automated controls over the fact that assigned staff has passed the imposed trainings (quizz at the end of each training, to be successfully passed)
- Audit trail of all trainings

- Targets :
 - To ensure that all employees are generally aware of the importance, the objectives and the obligations of the bank, as well as their individual roles and responsibilities
 - To develop relevant expertise and judgment
 - To develop, embed and sustain a culture of Compliance throughout the Group

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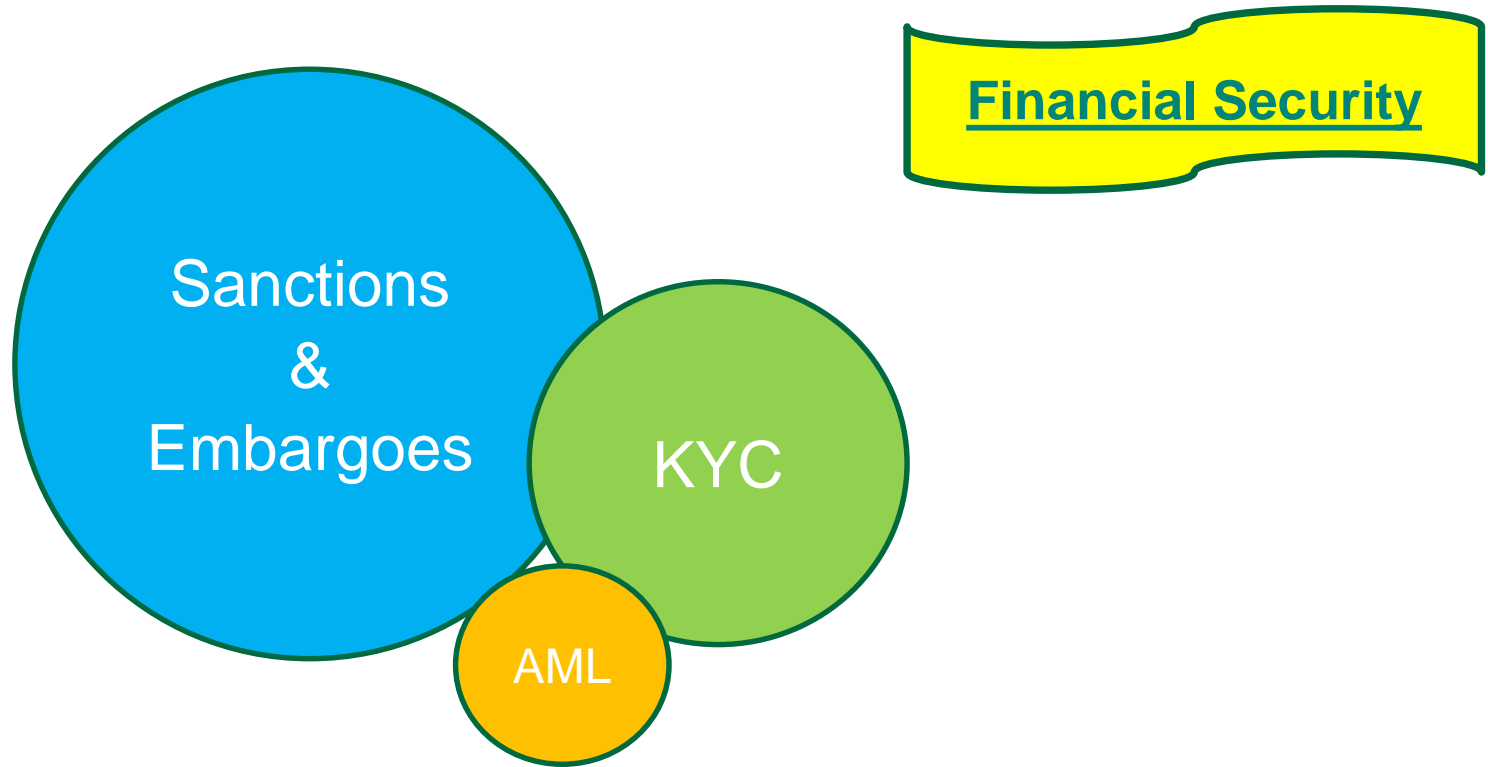
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2 LOCAL IMPACT

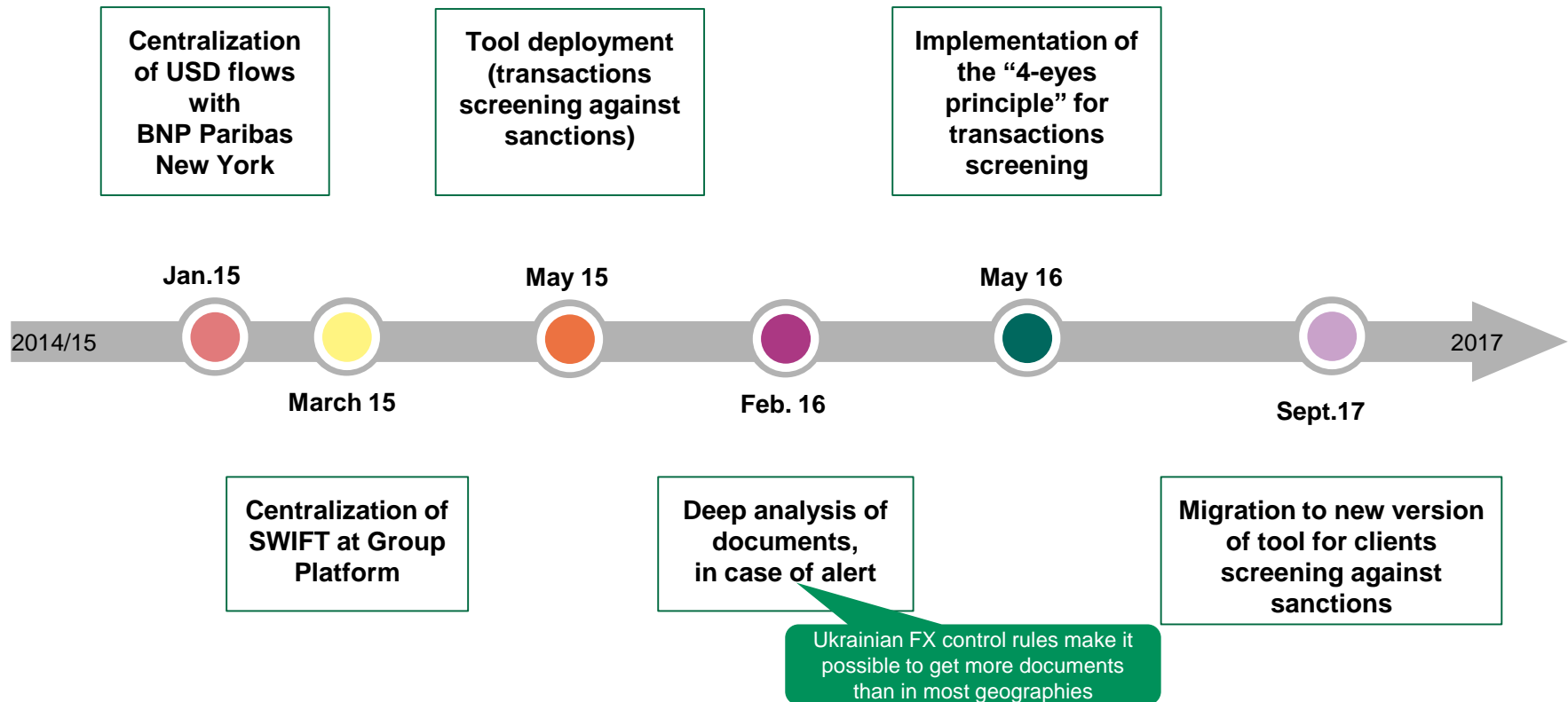
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Impact of OFAC recommendations : global overview



Sanctions & Embargoes (1/2) : main milestones



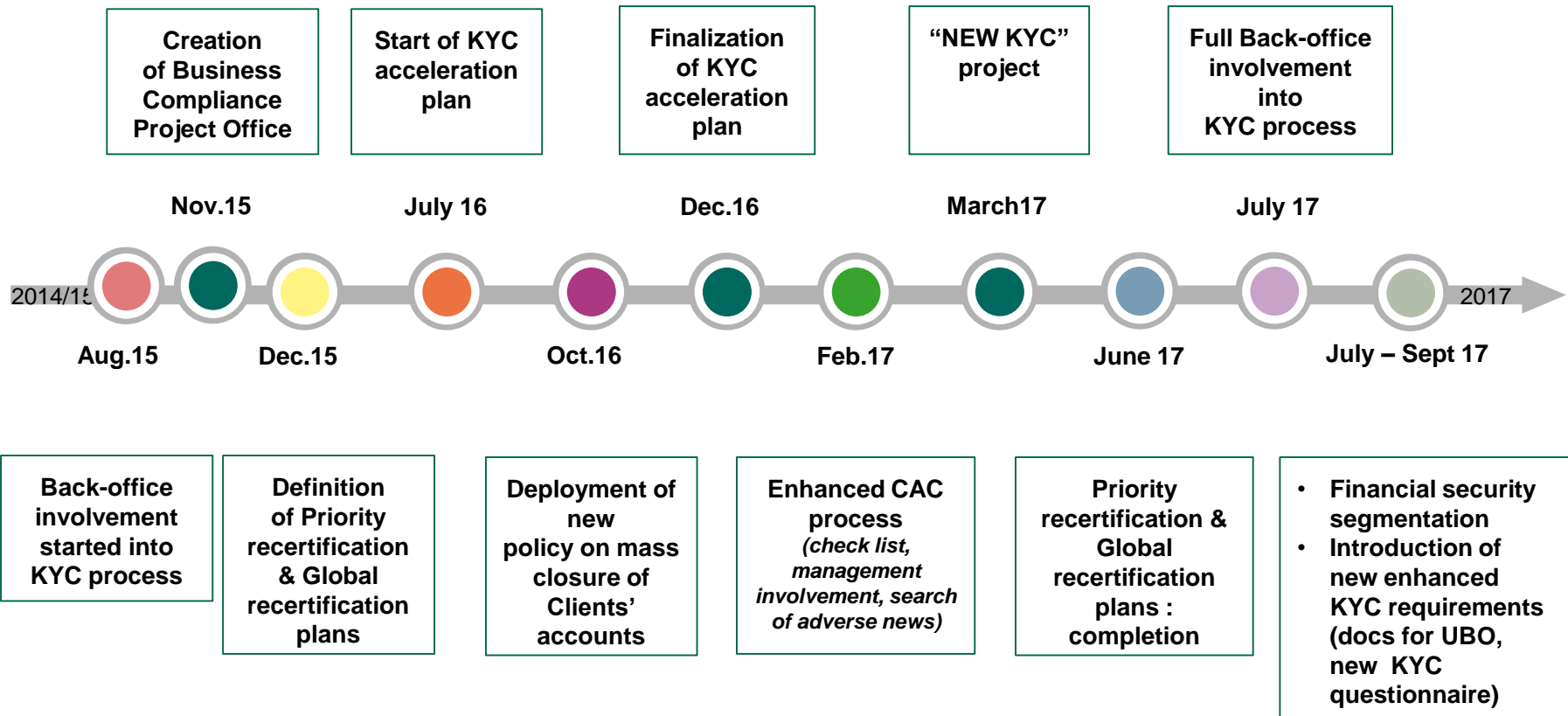
UkrSibbank implemented all required Group tools related to sanctions & embargoes

Sanctions & Embargoes (2/2) : main achievements

1. New version of Global Sanctions Policy is under implementation
2. Compliance Decision process deployment :
 - pilot launched,
 - presentation to Executive Committee,
 - training for Business Lines,
 - IT development and roll-out phase.
3. New version of Major Sanctioned countries questionnaire (MSCQ) launched since September 2017
4. Local Action Plan for close follow-up of new Group procedures and updates
5. Whistleblowing Sanctions & Embargoes Hotline implemented
6. E-learning – trainings for all staff
7. Range of automations via IT Tool



KYC (1/2) : main milestones

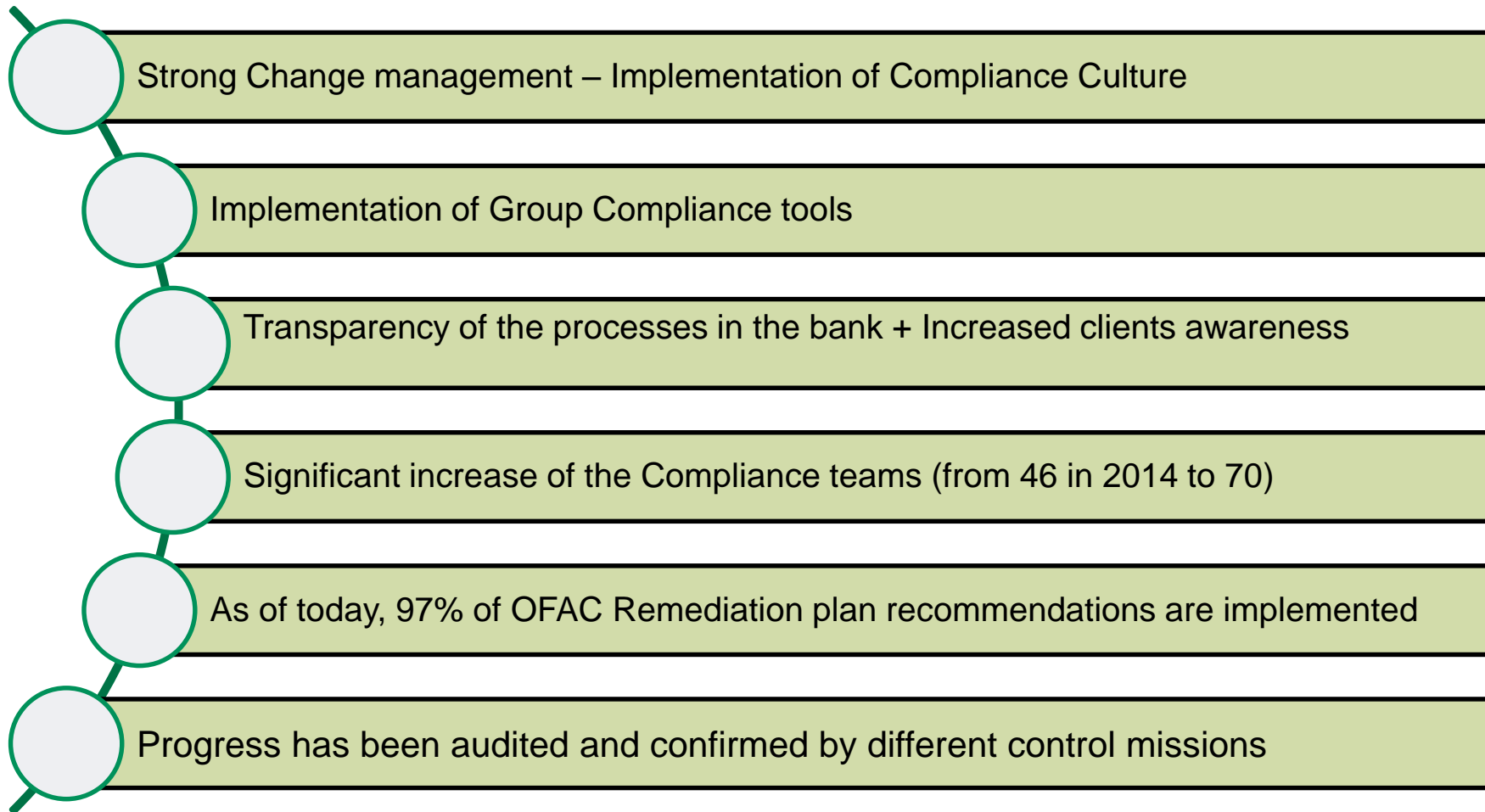


UkrSibbank further progresses in implementing Group and local KYC requirements

KYC (2/2) : main achievements

1. “New” Know Your Customer (KYC) / Know Your Intermediary (KYI) : project implementation is in progress
2. Client on-boarding and Recertification processes are fully covered, both for Retail and Corporate Clients, by Back-office for all :
 - legal entities,
 - private entrepreneurs
 - as well as (since July 2017) for individuals
3. New client questionnaires have been issued (New KYC and Global Sanction Policy requirements);
4. A range of automations is done in operational tool (new rating engine calculation for KYC files)

Global Achievements



CONCLUSION

Conclusion

There are clear trends in banking in the last years :

- From banking secrecy to transparency
- Extra-territorial regulations, especially –but no only- from the USA
- Organised exchange of information between countries :
 - OECD model of treaties aiming at avoiding double taxation
 - AEOI (Automatic Exchange of Information) : 49 jurisdictions join in 2017, and 53 more in 2018
 - FATCA (Ukraine signed the IGA early 2017)
 - ...

→ Main take-away :

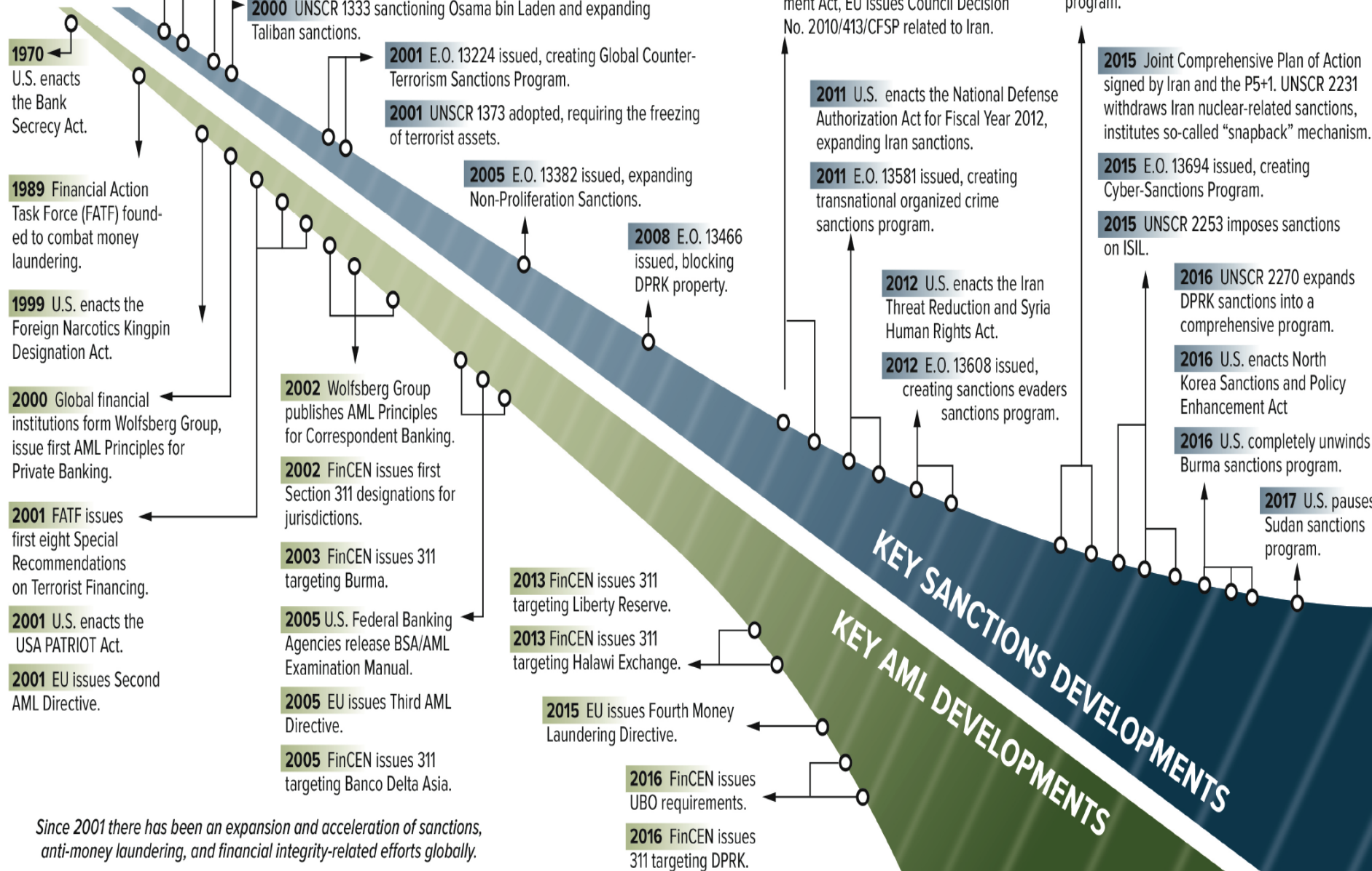
1. On the technical side, investments and tools are obviously key elements, to be carefully planned and rolled-out
2. But more fundamentally, proper mindset, tone at the top and corporate culture are essential to embed the Compliance behaviour required by all current local and international regulations

ATTACHMENTS





FINANCIAL INTEGRITY NETWORK



1970 U.S. enacts the Bank Secrecy Act.

1989 Financial Action Task Force (FATF) founded to combat money laundering.

1999 U.S. enacts the Foreign Narcotics Kingpin Designation Act.

2000 Global financial institutions form Wolfsberg Group, issue first AML Principles for Private Banking.

2001 FATF issues first eight Special Recommendations on Terrorist Financing.

2001 U.S. enacts the USA PATRIOT Act.

2001 EU issues Second AML Directive.

1994 E.O. 12938 issued, creating Non-Proliferation Sanctions program.

1995 E.O. 12978 issued, creating counter-narcotics sanctions program.

1999 UNSCR 1267, sanctioning the Taliban for harboring Osama bin Laden.

2000 UNSCR 1333 sanctioning Osama bin Laden and expanding Taliban sanctions.

2001 E.O. 13224 issued, creating Global Counter-Terrorism Sanctions Program.

2001 UNSCR 1373 adopted, requiring the freezing of terrorist assets.

2005 E.O. 13382 issued, expanding Non-Proliferation Sanctions.

2008 E.O. 13466 issued, blocking DPRK property.

2002 Wolfsberg Group publishes AML Principles for Correspondent Banking.

2002 FinCEN issues first Section 311 designations for jurisdictions.

2003 FinCEN issues 311 targeting Burma.

2005 U.S. Federal Banking Agencies release BSA/AML Examination Manual.

2005 EU issues Third AML Directive.

2005 FinCEN issues 311 targeting Banco Delta Asia.

2013 FinCEN issues 311 targeting Liberty Reserve.

2013 FinCEN issues 311 targeting Halawi Exchange.

2015 EU issues Fourth Money Laundering Directive.

2016 FinCEN issues UBO requirements.

2016 FinCEN issues 311 targeting DPRK.

2010 E.O. 13551 issued, expanding DPRK sanctions.

2010 U.S. enacts Comprehensive Iran Sanctions, Accountability, and Divestment Act, EU issues Council Decision No. 2010/413/CFSP related to Iran.

2011 U.S. enacts the National Defense Authorization Act for Fiscal Year 2012, expanding Iran sanctions.

2011 E.O. 13581 issued, creating transnational organized crime sanctions program.

2012 U.S. enacts the Iran Threat Reduction and Syria Human Rights Act.

2012 E.O. 13608 issued, creating sanctions evaders sanctions program.

2014 EU, U.S., Canada, Japan impose Crimea sanctions, sectoral sanctions targeting Russia. Australia, Switzerland impose Crimea sanctions.

2014 U.S. begins unwinding Cuba sanctions program.

2015 Joint Comprehensive Plan of Action signed by Iran and the P5+1. UNSCR 2231 withdraws Iran nuclear-related sanctions, institutes so-called "snapback" mechanism.

2015 E.O. 13694 issued, creating Cyber-Sanctions Program.

2015 UNSCR 2253 imposes sanctions on ISIL.

2016 UNSCR 2270 expands DPRK sanctions into a comprehensive program.

2016 U.S. enacts North Korea Sanctions and Policy Enhancement Act

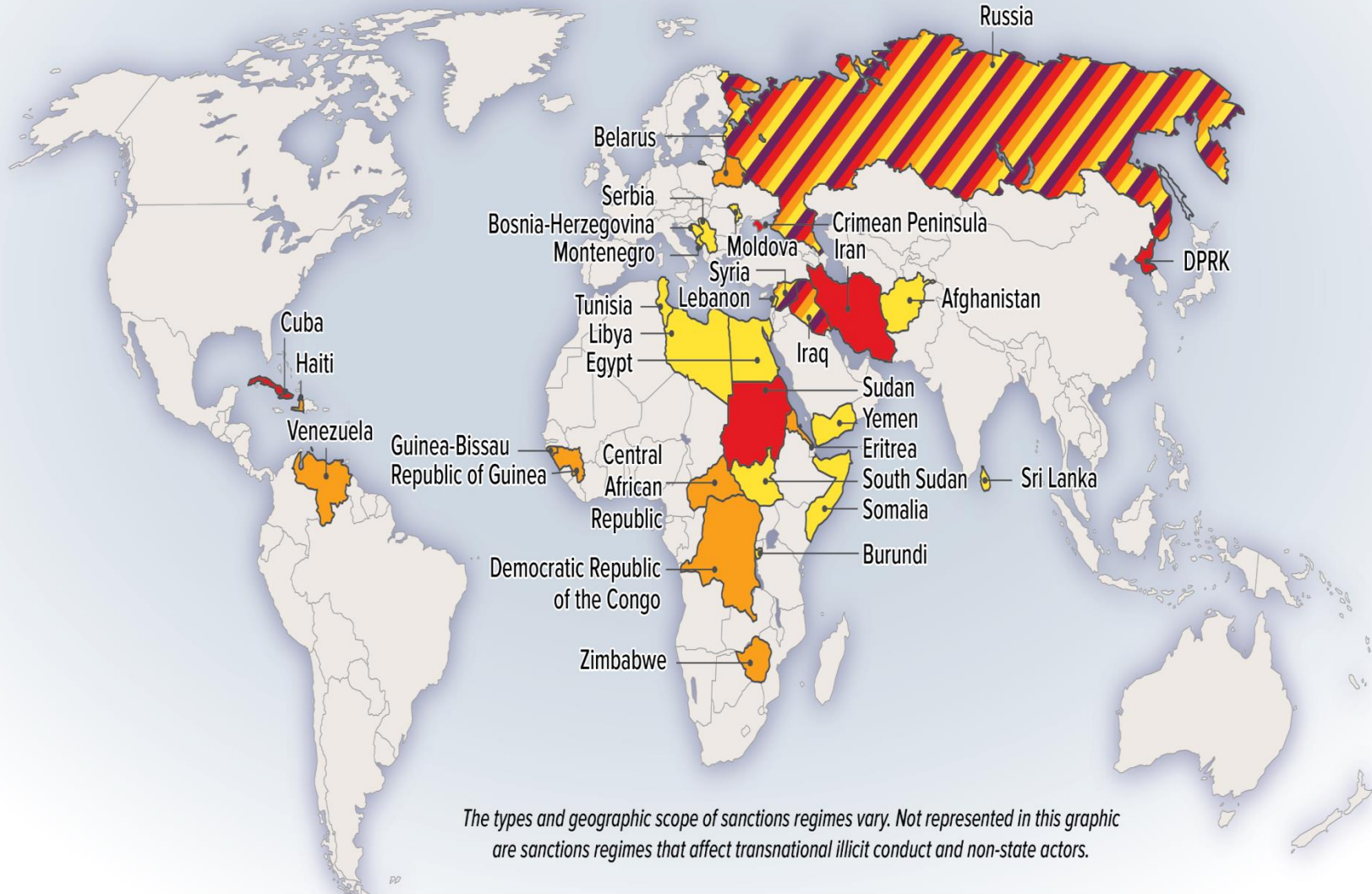
2016 U.S. completely unwinds Burma sanctions program.

2017 U.S. pauses Sudan sanctions program.

Since 2001 there has been an expansion and acceleration of sanctions, anti-money laundering, and financial integrity-related efforts globally.



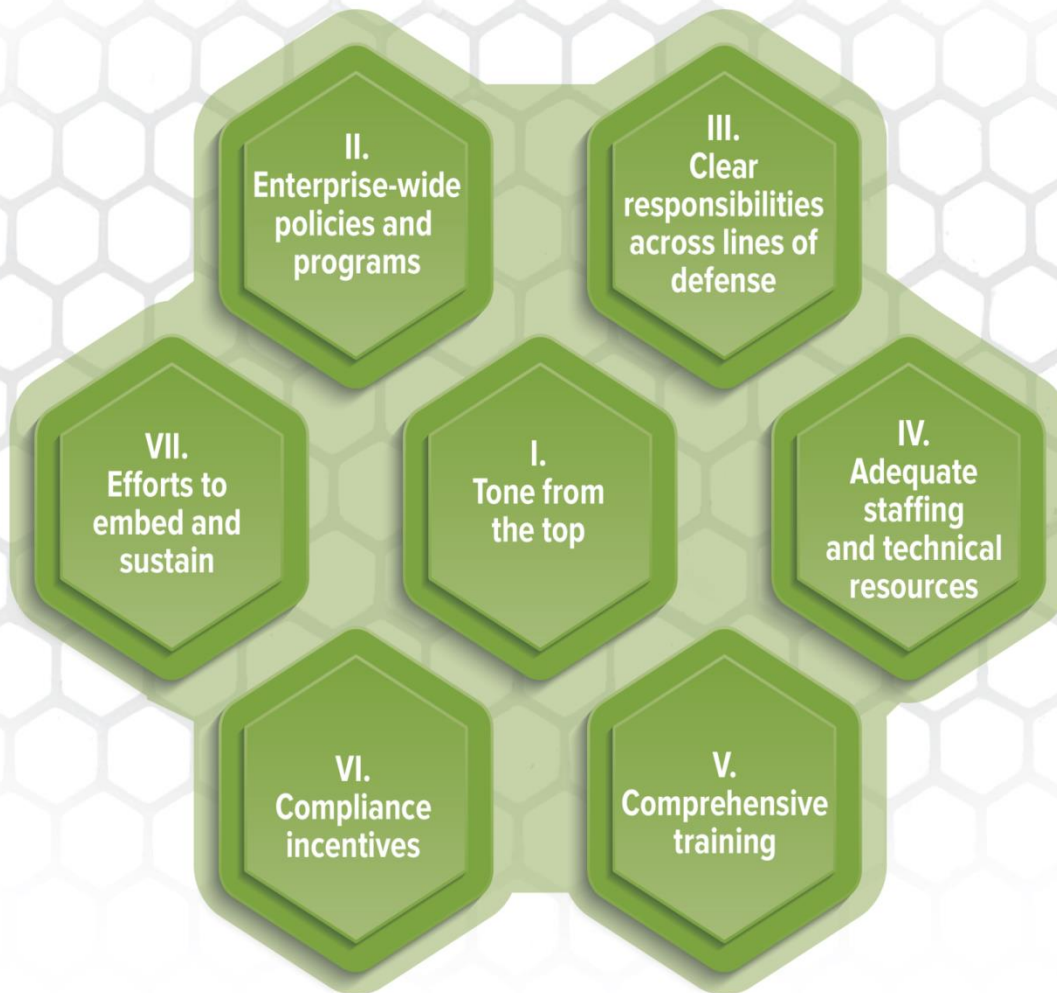
Sanctions Programs Worldwide



The types and geographic scope of sanctions regimes vary. Not represented in this graphic are sanctions regimes that affect transnational illicit conduct and non-state actors.



Seven Elements of a Culture of Compliance



THANK YOU!

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