



global witness

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9 March 2018

Dear Mr Steward,

On Monday, Global Witness will publish an analysis of the role of banks, lawyers and auditors in the alleged misappropriation of \$4.5 billion from 1Malaysia Development Berhad (1MDB), a company wholly owned by the government of Malaysia. Based on complaints filed by the US Department of Justice and statements by financial regulators in Switzerland Singapore it shows how foreign branches of the Royal Bank of Scotland Group (RBS) and Standard Chartered handled over \$2 billion of money embezzled from 1MDB, in breach of relevant anti-money laundering (AML) regulations.¹

We are writing to you to call on the FCA to fully investigate the role of RBS and Standard Chartered in the UK for the failings of their foreign branches and bring any ongoing investigations to a speedy conclusion. The FCA should use its enforcement powers to issue proportionate, effective and dissuasive sanctions where breaches of regulations are found.

RBS Coutts

The Department of Justice asset seizure case details how RBS Coutts in Switzerland handled over \$1 billion in funds diverted from 1MDB into an account held by a Seychelles company called Good Star, owned by Jho Low. An initial transfer of \$700 million was made from 1MDB to Good Star's account at RBS Coutts on or about 30 September 2009. Between 20 May and 25 October 2011, a further \$330 million was transferred from 1MDB to the Good Star account over four wire transfers.

On 2 December 2016, the Monetary Authority of Singapore, MAS, found that RBS Coutts had breached AML requirements in relation to customer due diligence measures for politically exposed persons (PEPs), in the context of 1MDB-related fund flows through the bank.

On 2 February 2017, the Swiss Financial Market Supervisory Authority, FINMA, found that RBS Coutts had seriously breached money laundering regulations by failing to carry out adequate background checks into business relationships and transactions associated with 1MDB. FINMA also alerted the FCA of its findings, given that RBS Coutts belonged to RBS during the period in question.

¹ <https://www.justice.gov/opa/pr/united-states-seeks-recover-more-1-billion-obtained-corruption-involving-malaysian-sovereign>
<https://www.justice.gov/opa/pr/us-seeks-recover-approximately-540-million-obtained-corruption-involving-malaysian-sovereign>
<https://www.finma.ch/en/news/2017/02/20170202-mm-coutts/>
<http://www.mas.gov.sg/News-and-Publications/Media-Releases/2016/MAS-Imposes-Penalties-on-Standard-Chartered-Bank-and-Coutts-for-1MDB-Related-AML-Breaches.aspx>

Standard Chartered

A further \$1.1 billion of misappropriated 1MDB funds were transferred into an account held by Standard Chartered in Singapore in the name of Blackstone Asia Real Estate Partners, between approximately 25 May and 14 December 2012. Funds from the Blackstone Asia Real Estate Partners account were then distributed to 1MDB officials, Malaysian Prime Minister Najib Razak, and officials in an Abu Dhabi government investment fund and its subsidiary.

On 2 December 2016, MAS found significant lapses in Standard Chartered's customer due diligence measures and controls for ongoing monitoring, which resulted in numerous breaches of MAS' AML regulations. The control lapses stemmed from inadequacies in policies and procedures, insufficient independent oversight of front office staff, and a lack of awareness of money laundering risks among some bank staff.

FCA investigation and enforcement


Based on these findings, we believe that RBS and Standard Chartered UK headquarters may have breached UK banking and AML regulations in their responsibility for and oversight of their foreign branches. These banks have a responsibility to ensure that their foreign branches have effective policies and procedures in place, yet regulators in Switzerland and Singapore found that these were deficient. These deficiencies enabled the significant misappropriation of funds from 1MDB. The Malaysian government and the Malaysian people are now likely to have to pay the price for this fraud, as a result of the banks' failures to implement effective AML controls.

We are also concerned at length of time the FCA has had to consider this case without an apparent conclusion. The breaches occurred more than five years ago, and FINMA and MAS concluded their investigations into the case over a year ago. FINMA also referred the case to the FCA over a year ago. Given the successful conclusion of these investigations by the Swiss and Singapore authorities, it is unclear why the FCA has not apparently completed investigations into the case.

Delays in investigating potentially serious breaches of AML regulations do not contribute to effective regulation of the banking sector. Global Witness has documented the repeated failings of UK banks to comply with AML rules, and it is vital that serious breaches are investigated swiftly and completely. Where breaches are found, it is essential that the FCA uses its enforcement powers to issue proportionate and dissuasive sanctions. Such sanctions are vital for ensuring accountability and changing broader culture and compliance within the banking sector.

Should you have any questions regarding our analysis or this letter, please contact Murray Worthy, Senior Campaigner – Banks and Corruption at mworthy@globalwitness.org or on 07725 257 419.

Sincerely



Shauna Leven,
Director of Corruption Campaigns
Global Witness

cc. John Glen MP, Economic Secretary to the Treasury
Rt Hon Nicky Morgan MP, Chair of the House of Commons Treasury Select Committee