

Public Statement

Lloyds Bank Corporate Markets Plc, Jersey Branch (LBCM, Jersey Branch)

Issued: 12 August 2022

1 Action

- 1.1 On 4 August 2022 the JFSC imposed a civil financial penalty of £498,000.00 on LBCM, Jersey Branch under the Commission Law.
- 1.2 The JFSC determined it necessary and proportionate to impose the civil financial penalty having concluded that LBCM, Jersey Branch breached requirements of the AML/CFT Code and the Banking Code in relation to one correspondent banking relationship between 2008 and 2020.
- 1.3 LBCM, Jersey Branch failed to ensure that the correspondent banking relationship was properly identified and risks potentially present in correspondent banking relationships adequately considered and mitigated over a protracted period of time. The failure to properly identify the relationship at an earlier stage, to maintain adequate systems and controls for correspondent banking to mitigate any increased financial crime risk arising from the relationship, and the failure to bring identified deficiencies to the attention of the JFSC more promptly and completely, gives rise to this civil financial penalty.
- 1.4 The JFSC issues this public statement under Article 48(2)(b) of the BB(J)L and Article 26(ba) of the Supervisory Bodies Law.
- 1.5 LBCM, Jersey Branch agreed to settle at an early stage of the process and therefore qualified for a 50% (Stage One) discount under the JFSC's settlement procedureⁱ. Were it not for this discount, LBCM, Jersey Branch may have been liable to a civil financial penalty of approximately £996,000.00.
- 1.6 The JFSC's actions are in line with its guiding principles:
 - 1.6.1 To protect and enhance the reputation and integrity of Jersey in commercial and financial matters; and
 - 1.6.2 To counter financial crime.
- 1.7 Definitions used in this public statement can be found in the glossary on page 5.

2 Background

- 2.1 LBCM, Jersey Branch is registered with the JFSC under the BB(J)L to conduct deposit-taking business. It provides banking services to retail and commercial customers.
- 2.2 A small part of LBCM, Jersey Branch's commercial banking business included one banking relationship for which correspondent banking services were provided. This one correspondent banking relationship was with the Jersey branch of an overseas incorporated bank (the **respondent bank**), that was also regulated and supervised by the JFSC. The services formed part of a larger group customer relationship. LBCM, Jersey Branch provided services to the respondent bank, including correspondent banking services, between 2006 and October 2021.
- 2.3 Correspondent banking is the provision of banking services by one bank (the correspondent bank) to another bank (the respondent bank). If not governed appropriately, correspondent banking presents a number of risks which may be exploited, including financial crime risks. The correspondent bank typically has no direct relationship with the underlying parties to a transaction and is therefore not in a position to verify their identities or conduct CDD.

Not all correspondent banking relationships carry the same level of financial crime risks, hence any CDD measures have to be commensurate to the degree of risks identified. As such the JFSC places great importance on registered persons identifying correspondent banking relationships and assessing and documenting the basis on which any risks inherent in those relationships are managed.

- 2.4 In late 2020, the JFSC conducted a risk based examination of LBCM, Jersey Branch's correspondent banking activities (such activities being limited to the one relationship). The examination identified non-compliance by LBCM, Jersey Branch with the regulatory framework.

3 Summary of findings

- 3.1 The regulatory framework requires, amongst other things, registered persons to have effective systems and controls, including policies and procedures, to prevent and detect financial crime. In particular, following the introduction of the MLO in 2008, registered persons are required to have a proportionate, risk based approach to CDD measures and on-going monitoring.
- 3.2 From 2008 to 2018, LBCM, Jersey Branch managed the relationship with the respondent bank as a normal commercial customer. LBCM, Jersey Branch did not identify the respondent bank as a correspondent banking customer until 2018. LBCM, Jersey Branch did not have specific correspondent banking policies and procedures in place during this period. Whilst the nature of the particular correspondent banking activities provided by LBCM, Jersey Branch to the respondent bank did not present the highest risks typically associated with correspondent banking relationships, LBCM, Jersey Branch failed to operate sufficiently robust and appropriate controls to adequately identify and manage the financial crime risks associated with the correspondent banking activity.
- 3.3 The CDD, on-going monitoring and transaction monitoring applied to the respondent bank were inadequate for the aforementioned period (the relevant requirements evolved over time during the relevant period, with the requirements in particular being enhanced from 2013 onwards). Failure to fully comply with certain systems and controls, including policies and procedures, resulted in errors or omissions over the periodic review process and escalation or scrutiny of some transactions. Some of these issues meant that LBCM, Jersey Branch missed opportunities to identify and address matters at an earlier stage.
- 3.4 LBCM, Jersey Branch failed to notify the JFSC upon identification in 2018 of the correspondent banking activity and of the absence of correspondent banking policies and procedures.
- 3.5 LBCM, Jersey Branch issued new correspondent banking policies and procedures in 2019 but they were not effectively implemented or monitored, extending the period for which LBCM, Jersey Branch's financial crime control arrangements were not appropriate for the respondent bank. The implementation failure was identified by LBCM, Jersey Branch internal controls in October 2020. Information that was subsequently provided by LBCM, Jersey Branch to the JFSC about the respondent bank relationship was initially insufficiently detailed. The JFSC became aware of the remediation failure and the full extent of the deficiencies associated with the respondent bank relationship during the examination.
- 3.6 LBCM, Jersey Branch commenced a CDD exercise for the respondent bank during 2020. LBCM, Jersey Branch applied certain exemptions provided for under the MLO, however, it failed to record the rationale for the exemptions and why it had not applied EDD measures for the respondent bank and third parties for whom it was acting.
- 3.7 In light of the failure to identify the relationship with the respondent bank as a correspondent banking relationship, LBCM, Jersey Branch did not include specific reference to correspondent banking within its staff training or compliance monitoring. Later compliance monitoring also failed to include testing of the identified correspondent banking activity. LBCM, Jersey Branch's AML/CFT BRA only contained more general language that did not expand sufficiently on the financial crime risks or mitigating controls associated with the correspondent banking activity.

- 3.8 Ensuring that training, the AML/CFT BRA and compliance monitoring plans are comprehensive and appropriately tailored to the business being conducted by registered persons is of fundamental importance to financial crime controls and risk management, and the JFSC considers the failure to identify this correspondent banking relationship and tailor these controls appropriately are additional weaknesses.
- 3.9 LBCM, Jersey Branch subsequently engaged in a full remediation exercise in respect of this one relationship and the local relationship was exited.

4 Conclusion

- 4.1 The JFSC concluded that for the period 2008 to 2020, LBCM, Jersey Branch maintained a correspondent banking relationship for which its CDD, on-going monitoring and transaction monitoring were inadequate (as noted above, the requirements evolved over time) and failed to take account of the potentially higher risk of financial crime that may arise in correspondent banking relationships. Further, procedural and system failings contributed to a failure to identify or escalate issues at an earlier point in time, resulting in LBCM, Jersey Branch being unable to adequately identify and mitigate the nature or risks associated with the respondent bank for a protracted period.
- 4.2 The JFSC has concluded LBCM, Jersey Branch breached Principles 3 and 6 of the Banking Codeⁱⁱ and the AML/CFT Code and its conduct in this regard was negligent. LBCM, Jersey Branch's breaches are considered significant and material because its deficient AML/CFT arrangements for the respondent bank, left it exposed to an increased risk of financial crime occurring for a protracted period of time.
- 4.3 Failure to properly identify, document and mitigate relationships that potentially present higher risks of financial crime is of serious concern to the JFSC and can undermine the integrity and stability of Jersey's financial services industry.

5 Aggravating factors

- 5.1 LBCM, Jersey Branch's failure to notify the JFSC of its correspondent banking breaches.
- 5.2 The period over which there were material deficiencies and failures was significant.
- 5.3 An absence of a specific correspondent banking policy or procedure until 2019.
- 5.4 Once issues were identified in 2018, remediation was initially ineffective and not monitored.

6 Mitigating factors

- 6.1 The particular correspondent banking activities provided by LBCM, Jersey Branch to the respondent bank did not present the highest risks typically associated with correspondent banking relationships.
- 6.2 No customer suffered losses from the matters identified.
- 6.3 LBCM, Jersey Branch's strong compliance record prior to this matter.
- 6.4 Post the examination, a further remediation exercise was completed with the support of the wider Lloyds Banking Group and LBCM, Jersey Branch fully addressed the issues identified. This included undertaking a root cause analysis of the examination findings and taking steps to prevent a recurrence.
- 6.5 LBCM, Jersey Branch fully cooperated with the JFSC throughout the examination and subsequent enforcement action.

7 Sanction

- 7.1 On 4 August 2022, the JFSC imposed a civil financial penalty of £498,000.00 on LBCM, Jersey Branch under the Commission Law.
- 7.2 LBCM, Jersey Branch agreed to settle at an early stage of the process and therefore qualified for a 50% (Stage One) discount under the JFSC's settlement procedures.

For further enquiries, contact the Enforcement team.

Glossary

AML/CFT	Anti-money laundering/countering the financing of terrorism
AML/CFT BRA	AML/CFT business risk assessment and strategy
AML/CFT Code	AML/CFT Code of Practice as set out in the Handbook for the Prevention and Detection of Money Laundering and the Financing of Terrorism for Regulated Financial Services Business
AML/CFT Handbook	Handbook for the Prevention and Detection of Money Laundering and the Financing of Terrorism for Regulated Financial Services Business
Banking Code	The Code of Practice for Deposit-taking Business
BB(J)L	Banking Business (Jersey) Law 1991
CDD	Customer due diligence
Commission Law	Financial Services Commission (Jersey) Law 1998
EDD	Enhanced due diligence
Financial crime	Financial crime, includes money laundering and terrorist financing
JFSC	Jersey Financial Services Commission
LBCM, Jersey Branch	Lloyds Bank Corporate Markets Plc, Jersey Branch
MLO	Money Laundering (Jersey) Order 2008
Regulatory framework	Collectively, the FS(J)L, the Banking Code, Proceeds of Crime (Jersey) Law 1999, MLO, Supervisory Bodies Law and AML/CFT Code.
Supervisory Bodies Law	Proceeds of Crime (Supervisory Bodies) (Jersey) Law 2008

ⁱ [Regulatory settlements \(jerseyfsc.org\)](https://www.jerseyfsc.org)

ⁱⁱ The Banking Code requires registered persons to deal with the JFSC in an open and cooperative manner and to advise the JFSC, in writing, as soon as it becomes aware of any matter that might reasonably be expected to affect its registration or be in the interests of its customers to disclose.