

Compliance Activity Report 2020



European
Investment
Bank

The EU bank 

Compliance Activity Report 2020

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Statement by the Head of Compliance

The EIB sets itself the highest standards in integrity and compliance in line with the principles and standards of relevant EU legislation, best banking practices and applicable market standards.

The Bank has a robust policy framework to ensure compliance with best practices in relation to anti-money laundering and combating financing of terrorism (AML-CFT). This includes the Group AML-CFT Framework and the procedures themselves, the recently approved Group policy and related procedures on non-cooperative jurisdictions, sanctions and whistleblowing, the Codes of Conduct for staff and members of governing bodies, and market abuse and conflict of interest guidelines.

All EIB projects are subject to ex ante compliance due diligence based on robust AML-CFT and tax good governance due diligence procedures including know your client requirements, which are closely aligned with best practice and follow a risk-based approach. Post-signature AML and tax experts are consulted when certain events occur and the Bank can rely on strong contractual protection measures when required. These include compliance with applicable laws, including in the area of AML-CFT, sanctions and tax, information undertakings and access rights for investigations.

The Compliance Function provides compulsory training for all staff as well as targeted training for staff in particular roles.

Areas for continued development include the Group Compliance Risk Assessment, monitoring of operations and compliance controls, reporting and further alignment with the three lines of defence model. Critical in this regard are improvements in compliance systems and data quality. These will provide further quality assurance, improve efficiency and effectiveness and help us to complement the information already provided to key stakeholders.

2020 was a challenging period for the Compliance Function as it adapted to new ways of working, supported the EIB Group's response to the coronavirus crisis and intensified its efforts to align with evolving best practices. Work remains to be done in collaboration with other Bank services, as compliance is a shared responsibility. However, the road ahead is clear and the level of ambition high, reflecting the increased attention of supervisors and regulators to non-financial risks in financial institutions.

Nicholas Barclay
Head of Compliance

1. Executive summary

In 2020, EIB Group governance was strengthened with the creation of a Group Risk and Compliance Function overseen by the Group Chief Risk Officer (GCRO), who started his activity in the third quarter of the year. The Group Chief Risk Officer oversees and reports on all Group risks including compliance risks, whilst the EIB Compliance Function, headed by the Chief Compliance Officer, remains an independent function with direct access to the Bank's governing bodies.

The EIB does not fall within the scope of application of EU legislation on credit institutions. However, reflecting its statutory duty to conform to best banking practice, the EIB, including its Compliance Function, aims to comply with relevant EU banking legislative acts and guidelines, to the extent determined by the competent governing bodies.

In performing its activities, the Compliance Function of the EIB (the Office of the Chief Compliance Officer, or OCCO) has developed a comprehensive compliance risk management framework and regularly adapts its policies and practices to market conditions and best industry practice. OCCO's Compliance Activity Report is designed to provide further information about its work in this respect, including the main developments during 2020 and priorities for 2021.

2. Introduction

2.1. Purpose

The report is designed to provide further information about the approaches and actions that the EIB takes to manage risks within the remit of the Compliance Function – the Office of the Chief Compliance Officer (OCCO). It describes the main developments in OCCO, its activities during 2020 and priorities for 2021. Further information on the Bank’s risk management framework can be found in the EIB Risk Management Disclosure Report, which is designed to provide information about the approach the Group takes in managing the main risks it is exposed to and assessing its capital adequacy, leverage and liquidity.

2.2. Best banking practice framework

In order to clarify and reinforce the EIB’s best banking practice (BBP) framework, the Board of Governors of the EIB has approved the EIB’s [BBP Guiding Principles](#), as published on the EIB’s official website. The BBP Guiding Principles is a high-level document defining the overall principles and the general scope of banking rules and guidelines applicable to the EIB as best banking practices. It also sets forth assessment criteria aimed at identifying the relevant rules and considers the specific characteristics of the EIB’s business model by way of general adjustments.

According to the disclosure and transparency principle: “The Bank shall, where appropriate, publish information that is easily accessible and fairly reflects its financial condition, performance, risk exposures, risk management strategies and corporate governance policies and processes.”

According to the business and market conduct principle, in relation to abuse of financial services: “The Bank shall have adequate policies and processes, including strict customer due diligence and anti-money laundering rules to promote high ethical and professional standards in the financial sector and prevent the Bank from being used, intentionally or unintentionally, for criminal activities.” In relation to compliance, conduct and reputational aspects of non-financial risk management: “The Bank shall have adequate policies and processes ensuring the accountability, and protecting the integrity of the Bank and of financial markets, as well as the confidence in the Bank.”

In applying the BBP Principles, the Bank shall implement and follow the rules of EU Legislative Acts and Guidelines except for those rules, or parts of them, which are adapted or from which the Bank is exempted based on internal assessment. Through adaptations of rules, the Bank may also determine the implementation date from which it shall follow such rules. When the Bank adapts or is exempted from the rules of EU Legislative Acts and Guidelines, it shall implement and follow adapted rules and, where appropriate, mitigating measures which shall be in line with the Bank’s public policy nature and mission.

2.3. Approval process

This report and its external publication have been approved by the Management Committee. In parallel, the report is also distributed for information and discussion to the EIB Board of Directors and the EIB’s Audit Committee. Any Audit Committee and Board of Directors recommendations thereon are taken into account for the next reporting iteration.

2.4. Overview of the report

Chapter 3 provides a summary of EIB compliance organisation and governance. It includes the main features of EIB Compliance operational guidelines and processes.

Chapter 4 provides an overview of the Compliance Risk Assessment (CRA) and Compliance Monitoring Plan (CMP), its reporting and disclosures.

Chapter 5 contains information on the governance of risks in OCCO's remit with reference to the risk themes outlined in the Compliance Risk Assessment. It describes OCCO's input to operations, including its contribution to AML-CFT, tax good governance, sanctions compliance and market integrity topics (such as market abuse, conflict of interest at institutional level and MiFID-related requirements). It also presents activities related to compliance culture and ethics, including personal conflicts of interest, the Group Staff Code of Conduct and Group Whistleblowing Policy.

The report continues with transversal topics such as training (in Chapter 6), systems and data (Chapter 7) and cooperation with multilateral development banks (Chapter 8).

As a forward-looking conclusion, Chapter 9 outlines OCCO priorities for 2021.

3. Compliance organisation and governance

This chapter provides an overview of EIB compliance risk governance, outlining the key roles and responsibilities regarding the relevant risk-taking and oversight in the Bank.

3.1. Organisation of the Compliance Function

The EIB has established a Compliance Function responsible for compliance risk management at an institutional level. It has defined specific compliance risk management policies and procedures and implemented compliance risk management controls, aimed at ensuring that the risks in the Compliance Function remit inherent to EIB activities are managed in line with the principles, policies and limits defined.

During 2020, the Group created the role of Group Chief Risk Officer (GCRO), who is responsible for the ongoing creation of a Group Risk Function. Without prejudice to the statutory responsibilities of the President and the EIB Management Committee, the Group Chief Risk Officer shall report on Group risks to the EIB Management Committee under the oversight of the Management Committee member in charge of risk. On key risk policy matters related to Group risks, the Group Chief Risk Officer shall participate in all meetings of the EIB Management Committee and relevant meetings of the other EIB governing bodies, and be invited to relevant meetings of the EIF Board of Directors and discussions with EIF management. The EIF shall report on Group risk matters to the EIB through the Group Chief Risk Officer.

The identification, assessment and measurement of compliance risks is carried out by the Office of the Chief Compliance Officer (OCCO), headed by the Head of Compliance, reporting to the Group Chief Risk Officer, the Management Committee, the relevant committees of the Board of Directors, and the Audit Committee.

Several other EIB committees or working groups support the implementation of the Bank's policies in OCCO's remit, such as:

- **Ethics and Compliance Committee (ECC)**, ruling on any potential Conflicts of Interest and provides opinion on ethical matters regarding Management Committee and board members. This committee also rules on a voluntary basis on any potential conflict of interest of the Audit Committee.
- **New Product Committee (NPC)**, approving new products prior to their use. A product is considered new when its financial structure or implementation framework implies that the Bank is entering into new business areas, is doing existing business in new ways or faces new types of operational risks.
- **Board Working Group on Tax and Compliance** matters, discussing and giving recommendations to the Board of Directors on (i) the Bank's good governance approach on taxation issues, (ii) the EIB Group NCJ Policy, (iii) the AML-CFT Framework, and (iv) other substantial compliance policies.

Further information on the statutory bodies and the board's committees is available in the Annual Corporate Governance Report published on the EIB's official website.

Compliance Function structure and main business activities

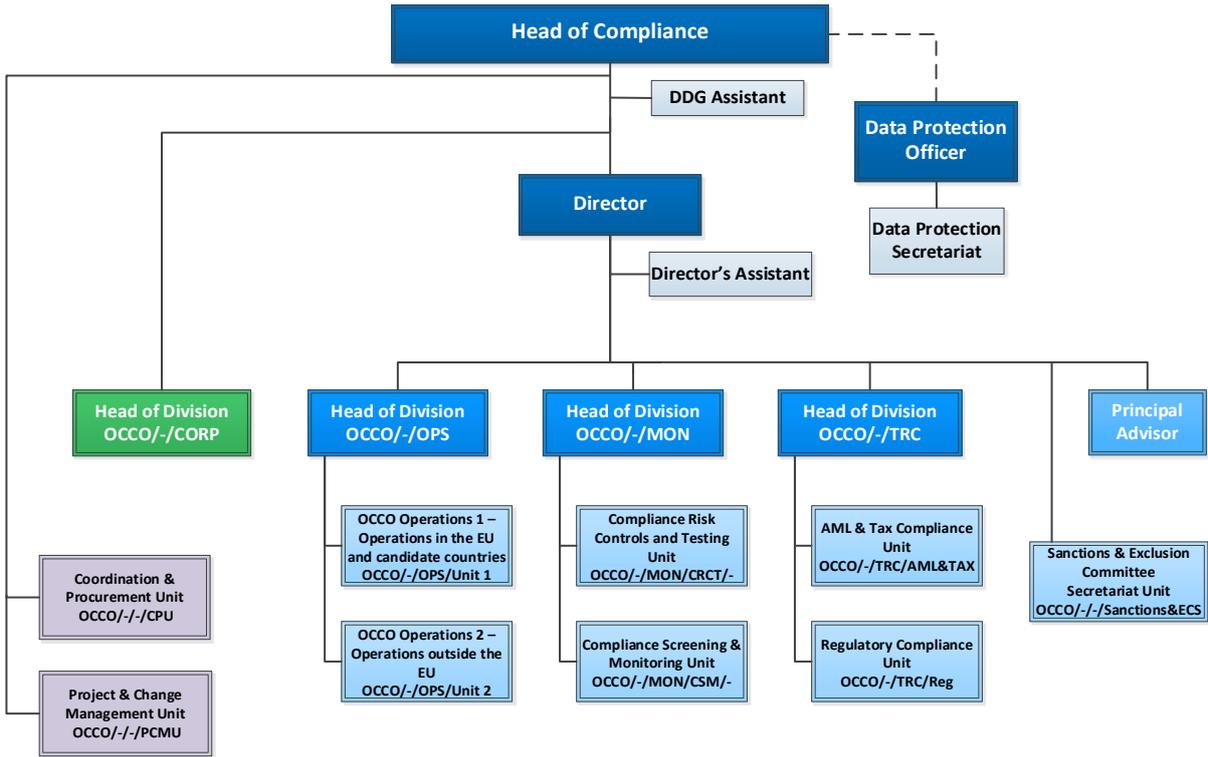
The Compliance Function includes the following organisational divisions/units:

- Compliance Operations Division (OCCO-OPS) provides the main input on compliance issues in operations at pre-approval stage, in relation to Event Driven Reviews and new products.
- Compliance Monitoring Division (OCCO-MON) performs compliance risk assessment, monitoring and reporting, and contributes to risk-based OCCO consultation in the context of ongoing monitoring of approved operations and transactions monitoring.
- Tax and Regulatory Compliance Division (OCCO-TRC) is a centre of expertise in relation to tax good governance, AML, market abuse, MiFID, institutional conflict of interest and best banking practice within OCCO's remit.
- Compliance Corporate Division (OCCO-CORP) provides the lead on compliance culture and ethics topics, including the Staff Code of Conduct, whistleblowing and personal conflicts of interest.
- Sanctions & Exclusion Committee Secretariat Unit manages sanctions-related topics and assists the Exclusion Committee.
- Coordination and Procurement Unit coordinates and manages OCCO-supporting areas of procurement, staffing, learning and knowledge management, budget execution and quality assurance.
- Project & Change Management Unit works on transversal topics in the Group context and IT systems and data quality improvement projects involving the Compliance Function.
- Data Protection Office (DPO) provides liaison with the European Data Protection Supervisor and guidance on practical improvement of data protection to the EIB and advises the data controllers on the application of data protection provisions¹.

The structure of OCCO is set out in Figure 3-1 below.

¹ Further information on DPO activities is available in the DPO Annual Activity Reports to the Management Committee, published on the EIB's Intranet.

Figure 3-1: Organisational structure of the Compliance Function at the EIB



Staffing: Organisational changes and recruitment

The Management Committee approved a substantial number of new positions for the Compliance Function in early 2020 in order to reinforce second line of defence activities in relation to AML-CFT, sanctions and tax and respond to the rapidly changing regulatory environment. OCCO was able to attract a good mix of external and internal candidates, with compliance, legal, audit, procurement, operational and regulatory backgrounds for these positions whilst continuing to rely on specialised external consultants for more complex operations or for particularly sensitive integrity or transparency concerns, to bridge time gaps to recruitment periods or support the development of new activities. At year-end, total headcount stood at 74 employees compared to 58 as of 31 December 2019 (+22%), with 19 remaining vacant positions at various stages of recruitment.

In view of the increased size of teams and the need to establish an appropriate delegation framework, align with best practice in the area of sanctions compliance, support investment in IT systems and data governance and respond to feedback from the 2019 Bank-wide Staff Engagement Survey, a number of new units have been created:

- In the OCCO Operations Division:
 - Operations in the EU and candidate countries Unit
 - Operations outside the EU Unit
- In the OCCO Monitoring Division:
 - Compliance Risk Controls and Testing Unit
 - Compliance Screening & Monitoring Unit
- In the OCCO Tax and Regulatory Compliance Division:
 - Regulatory Compliance Unit, complementing the existing AML and Tax Unit
- Outside of existing divisions:
 - Project and Change Management Unit
 - Sanctions and Exclusion Committee Secretariat Unit

Other initiatives in the staffing domain included:

- The first talent review exercise organised in OCCO
- Participation in the pilot phase of the three lines of defence skills mapping initiative launched by EIB Personnel in Q4 2020 (creation of a skill library)
- Joining the Bank-wide newcomers networking initiative started in Q4 2020
- Participating in EIB diversity and inclusion initiatives
- A revised training offer for OCCO staff

3.2. Compliance governance

Group alignment

In line with the principles derived from Article 45.1 of the EU fourth AML Directive (amended by fifth AML Directive) and section 196 of the EBA Guidelines on internal governance (EBA/GL/2017/11), the Compliance Functions of the EIB and EIF have increased their cooperation, seeking more alignment where possible. Particularly noteworthy are:

- The significant alignment of policies within the remit of the Compliance Functions, such as the Group Anti-Money Laundering and Combating the Financing of Terrorism (AML-CFT) Framework, Group Policy on Non-Cooperative Jurisdictions, Group Sanctions Policy, Group Whistleblowing Policy and Group Data Protection Policy.
- Progress made in developing implementing procedures, differences in which may be explained by the respective business models and risk appetite of the different entities.
- Alignment of contractual provisions for operations under the European Guarantee Fund.
- Further alignment of processes and mutual reliance where feasible, such as in the areas of AML-CFT, sanctions risk assessment and management of common counterparties.
- Joint work on key projects (see section 9).

During 2020, both the EIB and the EIF signed aligned Memoranda of Understanding with the Luxembourg Financial Intelligence Unit (FIU) and implemented similar internal procedures to ensure prompt and adequate reporting in the event of suspicious activities or transactions.

Integrity Policy and Compliance Charter

The [Integrity Policy and Compliance Charter](#) sets out the fundamental ethical principles applicable to the European Investment Bank and the European Investment Fund and underlines the commitment of the EIB Group to a policy of integrity in the performance of its mission.

Three lines of defence

The EIB Group's internal control functions and risk management systems are consistent with the three lines of defence model. Further work is being undertaken to fully align with best practice with regards to AML-CFT by strengthening the first line of defence's capacity to identify, assess, mitigate, monitor and report on risks and refocusing second line of defence activities on the related policies, procedures and processes, more complex cases and control verification (see Chapter 9).

The work of the Compliance Function is supported by the Financial Control Directorate, which has established the Internal Controls and Assertion Division, which aims at strengthening the Bank's

second line of defence and has the objective of providing a common platform to assess and report on the EIB's control risks.

The third line of defence is conducted by Internal Audit, which provides an independent review of the risk management practices and internal control framework and reports to the Audit Committee or to the EIF's Audit Board, as relevant. Internal Audit conducts an annual audit of AML-CFT activities as well as regular audits of other activities falling within the remit of the Compliance Function (e.g. market abuse, ethics). OCCO also worked extensively on the so-called "pillar assessment" relating to Article 154(3) of the Financial Regulation requiring the Commission to carry out an assessment of the systems, rules and procedures of persons or entities implementing Union funds under indirect management as well as the European Court of Auditors audit².

Internal control functions are separate functions, each having direct access to the relevant executive body (President/Management Committee), the relevant Board Committees and the Audit Committee.

3.3. Risk Appetite Framework

The processes and activities performed by the Bank to manage its risk appetite are formalised in the EIB Risk Appetite Framework (RAF) approved by the Board of Directors. Apart from the major financial risks, the Risk Appetite Framework covers non-financial risk categories (including operational, information, communication and technology, conduct and compliance and reputational risks). It helps to embed a healthy organisational risk culture within the EIB through implementation and monitoring of measurable risk appetite metrics, which are subject to boundaries and (where applicable) cascaded further down within the Bank.

The EIB's risk appetite is articulated in the Risk Appetite Statement (RAS), which communicates the risk profile that the EIB is willing to assume in the pursuit of its strategy to management and oversight bodies, employees and other key stakeholders (e.g. in public disclosures). The risk appetite aims to align the EIB's risk-taking with its strategy and business model. The high-level Risk Appetite Statement is translated into risk appetite metrics and boundaries that are reviewed, reported and monitored on a regular basis as part of the monthly risk reporting to the EIB governing bodies and the Risk Appetite Framework annual review process.

Non-financial risk categories were included in Risk Appetite Framework reporting in 2020, with quarterly reporting to the Bank's governing bodies on AML-CFT specific risk indicators also starting in the same year.

Under the guidance and responsibility of the Head of Compliance Function, the independent Compliance Function is dedicated to the oversight of the following non-financial risks:

- **Compliance Risk:** the risk of legal or regulatory sanctions, financial loss, or loss to reputation of a member of the EIB Group may suffer as a result of its failure to comply with all applicable laws, regulations, staff codes of conduct and standards of good practice.
- **Conduct Risk:** the current or prospective risk of losses to an institution arising from inappropriate conduct towards clients, counterparties and the financial system, including cases of fraud or wilful or negligent misconduct.

² ECA Notification of the start of ECA's audit on use of data on (potential) recipients to enhance its budget protection - Audit task 20CH5005 (as of 29 January 2020).

- **Reputational Risk:** the risk arising from negative perception on the part of customers, counterparties, shareholders, investors, debt-holders, market analysts other relevant parties or regulators that can adversely affect a bank's ability to maintain existing, or establish new business relationships and continued access to sources of funding.

The following chapters provides an overview of the main elements of the management of various risks in the Compliance Function's remit, as well as concise descriptions of relevant risk management policies, procedures and processes with reference to the **Compliance Risk Assessment**.

4. Compliance Risk Assessment, Compliance Monitoring and Testing Plan and risk reporting

4.1. Compliance Risk Assessment

During 2020, OCCO performed a first Compliance Risk Assessment (CRA)³. This assessment is designed to meet specific regulatory requirements⁴, guidance and best market practices. The underlying methodology – which was developed with the aid of external consultants to allow the Bank to perform its Compliance Risk Assessment exercise – includes a Group approach.

In accordance with OCCO's remit, the scope of the Compliance Risk Assessment process identifies the compliance risk exposure of the Bank's business activities in the geographic locations in which it operates; on this basis it assesses the Bank's exposure to money laundering and financing of terrorism (ML-FT) risks as well as sanctions, non-compliant jurisdictions/tax good governance, market integrity, conduct and procurement risks.

The assessment looked at inherent risks and took into account the existing control environment in order to determine the underlying residual risks. The CRA Report formulates recommendations and proposes actions to be taken in order to address identified compliance risks. The results are reviewed on a yearly basis, and the ML-FT data-driven risk assessment is re-performed every quarter and included in regular reporting to the Bank's governing bodies.

4.2. Compliance Monitoring and Testing Plan

The outcome of the Compliance Risk Assessment serves as a basis for the development of an annual risk-based Compliance Monitoring and Testing Plan (CMP). This plan enables OCCO to test the design adequacy and the operating effectiveness of identified compliance controls. In turn, the outcome of the Compliance Monitoring and Testing Plan will feed back into the Compliance Risk Assessment to inform the control effectiveness assessment. Based on the CRA-2020 exercise, compliance-related controls were identified and selected for inclusion in the 2020/2021 Compliance Monitoring and Testing Plan. Compliance testing started in 2020 and will continue in 2021.

³ The first CRA exercise was based on year-end 2019 data.

⁴ Directive (EU) 2018/843 of the European Parliament and of the Council of 30 May 2018 amending Directive (EU) 2015/849 on the prevention of the use of the financial system for the purposes of money laundering or terrorist financing; and amending Directives 2009/138/EC and 2013/36/EU; Directive (EU) 2015/849 of the European Parliament and of the Council of 20 May 2015 on the prevention of the use of the financial system for the purposes of money laundering or terrorist financing, amending Regulation (EU) No 648/2012 of the European Parliament and of the Council, and repealing Directive 2005/60/EC of the European Parliament and of the Council and Commission Directive 2006/70/EC which Member States were due to transpose into national law in 2017 and 2020 respectively. (fourth and fifth EU AML/CFT Directives); FAFT Recommendations and the EBA/ESMA/EIOPA Joint Guidelines JC 2017 37 (EBA's Risk Factor Guidelines).

4.3. Reporting

Regular reporting of Compliance Risk Assessment and Compliance Monitoring and Testing Plan results is envisaged to the Bank's governing bodies. In Q3 2020, OCCO established the quarterly ML-FT key risk indicators monitoring and reporting (ML-FT Dashboard) in order to reflect the status of the relevant risk indicators within the Group. The ML-FT Dashboard has been developed in line with best market practice and captures information on ML-FT risk by counterparty and exposure, as well as for specific risks factors such as exposure to higher risk jurisdictions and the status of know your client reviews.

The ML-FT Dashboard is designed to provide more granular information on ML-FT risks than that provided as part of regular reporting as part of the EIB Risk Appetite Framework.

5. Risk governance

5.1. ML-FT risk

AML-CFT Framework

The EIB has put in place an AML-CFT Framework, the basis of which is documented in the [EIB Group AML-CFT Framework](#) (last revised in December 2020) and implementing procedures. The EIB Group AML-CFT Framework aims to prevent the EIB Group, its governing bodies, staff and counterparties from being associated with or used for money laundering, financing of terrorism or other criminal activities.

The AML-CFT regulatory context and practices are constantly evolving and are monitored for their relevance and implementation in the EIB Group AML-CFT processes. To this effect, the latest regulatory changes relevant for the EIB (the fifth AML Directive and Directive 2018/1673 of 23 October 2018 on combating money laundering by criminal law⁵) are taken into consideration, together with other relevant updates and enhancements to the AML-CFT process that may be identified or suggested. Additional updates aiming to further strengthen the AML-CFT Framework and related procedures are expected in 2021 (see Chapter 9).

Integrity and AML-CFT ex ante due diligence

OCCO's ex ante due diligence includes the integrity and AML-CFT assessment of the operation and counterparties using a risk-based approach. In accordance with the EIB Group AML-CFT Framework and the EIB AML-CFT Procedure, the EIB applies customer due diligence measures to relevant business relationships for all EIB operations, taking into account the type of counterparties, business relationship, product or transaction and country of operation.

⁵ [Directive \(EU\) 2018/843 of the European Parliament and of the Council of 30 May 2018 amending Directive \(EU\) 2015/849 on the prevention of the use of the financial system for the purposes of money laundering or terrorist financing, and amending Directives 2009/138/EC and 2013/36/EU and Directive \(EU\) 2018/1673 of the European Parliament and of the Council of 23 October 2018 on combating money laundering by criminal law](#)

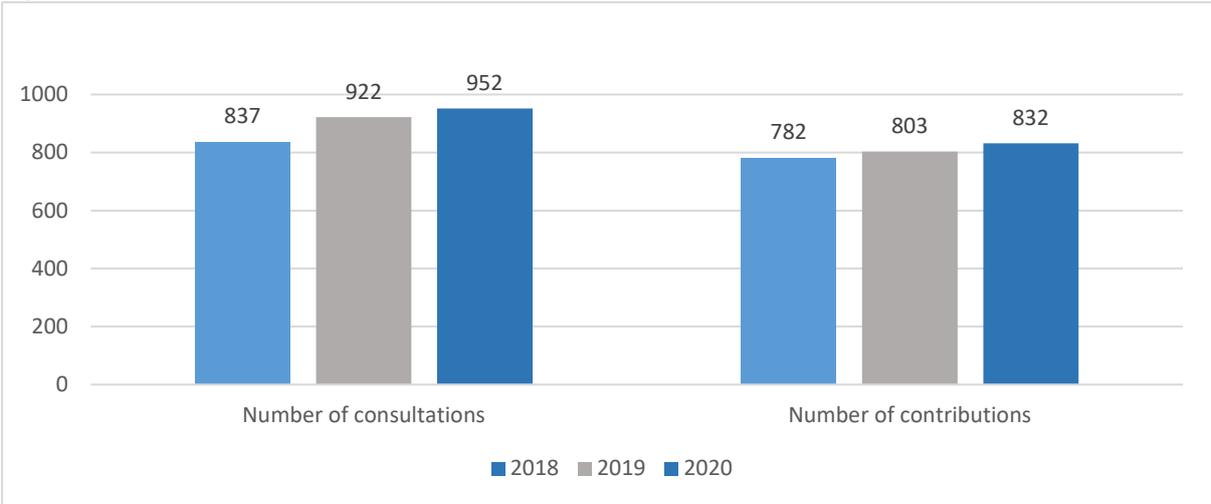
OCCO consultation is mandatory for all operations outside the European Union, equity-type investments and for any operation where ML-FT risk factors, related integrity issues, tax red flags and sanctions concerns have been identified by the first line of defence or the automated screening processes. When consulted, OCCO assesses the compliance risk potentially associated with a specific operation or counterparty. The outcome of the assessment is documented in an OCCO opinion for the attention of the Bank’s decision-making bodies and services concerned.

In light of the COVID-19 crisis, specific measures were put in place in order for the Bank to respond quickly to the global crisis and support the economies of EU Member States and of other countries affected. In this respect, OCCO has adapted its procedures on a risk-based approach to allow a timely response without undermining its AML-CFT standards and ensuring increased vigilance towards associated risks.

OCCO’s involvement in the new product approval process

New products and significant changes applied to the EIB’s products, instruments, processes, activities, markets and services meeting the EIB’s new product criteria are identified, assessed and submitted to the New Products Committee for approval. OCCO is a member of the New Product Committee and as such fulfils its role as Compliance Function in the new product approval process, as described in the EBA guidelines⁶.

Figure 5-1: Number of OCCO consultations and contributions in 2018 – 2020

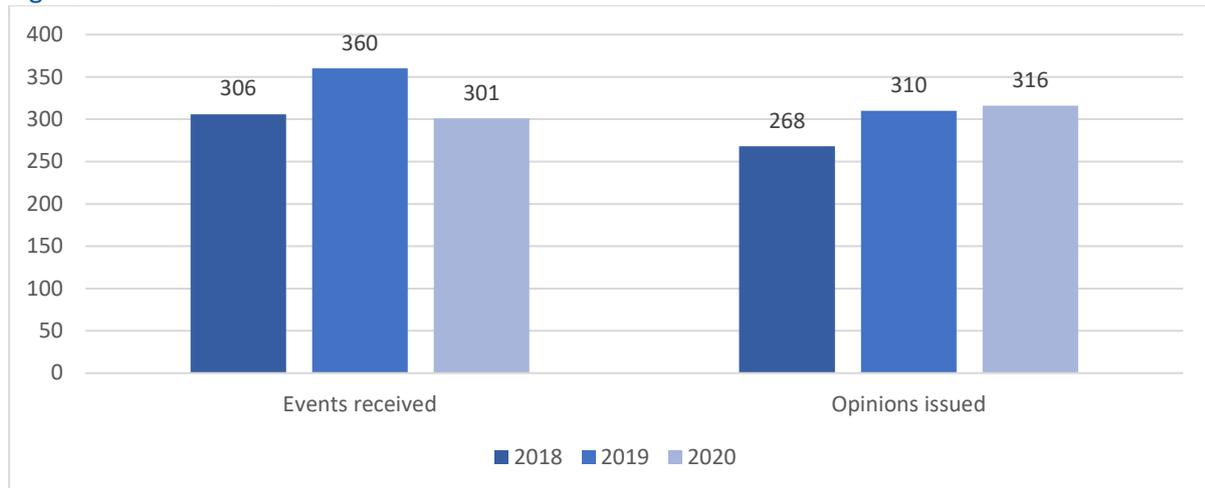


Event Driven Reviews

The AML Directive and best banking practice require that knowledge and risk profile of customers and their business be kept up-to-date throughout the lifetime of the business relationship. At the EIB, this is a shared responsibility among the services. As second line of defence, OCCO is consulted for any Event Driven Review triggered by new ML-FT risk factors or by changes to known ML-FT risk factors post-board approval. The guidelines and procedures in relation to Event Driven Reviews were updated in 2020 (see statistics in Appendix I).

⁶ EBA Guidelines on internal governance (EBA/GL/2017/11).

Figure 5-2: Event Driven Reviews statistics in 2018-2020



Post-board ongoing compliance monitoring activities

As part of its post-approval ongoing compliance monitoring, OCCO also performs:

- **Review of payments:** In accordance with a risk-based approach, OCCO is consulted by the relevant first line of defence services on incoming and outgoing payments in the event of pre-defined ML-FT risk related trigger events. The outcome of the compliance assessment (including recommendations, if any) may also trigger enhanced customer due diligence measures and in case of suspicion of ML-FT, reporting to the Luxembourg Financial Intelligence Unit (FIU).
- **Automated name screening:** In addition to reacting to internal reports, OCCO proactively performs risk-based automated name screening for politically exposed persons (PEPs) and sanctions (see also section 5.2 on sanctions risk below).
- **Compliance Monitoring Reviews:** Applying a risk-based approach, OCCO seeks to detect possible ML-FT or related integrity risks arising (post-approval) throughout the duration of its business relationships. OCCO performs a desktop review using available know your client documentation, open-source information and external service providers to gather information about potential adverse media, sanctions, involvement of politically exposed persons and other ML-FT or related integrity issues. As an outcome of the review, OCCO may issue recommendations to address specific ML-FT risk/integrity issues and updates the compliance risk rating of the relevant counterparty and/or operation in the Bank's systems.
- **Reporting of suspicious activities and transactions:** As an EU body and a bank, the EIB seeks to foster public accountability and contribute to market integrity. In 2008, the EIB concluded a Memorandum of Understanding with the Luxembourg FIU on a voluntary basis, setting up a framework for the exchange of information between the parties for the reporting of suspicious activities and transactions that may constitute money laundering, related underlying offences or terrorist financing. In 2019, the EIB initiated a review with the Luxembourg FIU to revise and update the terms of the original Memorandum of Understanding, including through reporting of appropriate cases via the secure online portal. The updated Memorandum of Understanding was signed between the EIB and the Luxembourg FIU in March 2020 and is fully operational. The Money Laundering Reporting Officer (MLRO) function is part of OCCO and carries out case-by-case assessment of the need to report suspicions of ML-FT. The Money

Laundering Reporting Officer cooperates closely with the Bank's Investigations Division within the Inspectorate General Directorate responsible for the conduct of all investigations into alleged violations of the board-approved Anti-Fraud Policies and related matters.

- **Ad hoc compliance monitoring activities:** OCCO carried out a specific analysis in relation to the so-called Cyprus Papers⁷ and FinCEN Files⁸. In relation to the Cyprus Papers, based on the names reported in the media, no links to EIB activities were identified. Concerning the FinCEN Files, a more comprehensive review of media reports and the Bank's own approach to suspicious activity reporting was undertaken. No new issues had been identified with regards to existing counterparties as of the end of December 2020.

5.2. Sanctions risk and exclusions

The sanctions landscape remains challenging and increasingly complex.

The EIB's sanctions risk remains firmly connected to its external lending and other business activities outside of the European Union. In this context, the EIB remains fully committed to adherence to applicable sanctions laws and regulations, as defined in the EIB Group Sanctions Compliance Policy and its corresponding implementing procedures. The implementation of the Sanctions Compliance Programme commenced in summer of 2019, and, inter alia, defines:

- applicable sanctions regimes;
- governance;
- controls and systems;
- reporting obligations.

The Sanctions Compliance Programme is comprehensive in nature and covers most activities of the Bank, imposing obligations and requirements not only on OCCO but also on other services as well as counterparties and other persons with whom the EIB is interacting. Given international developments, the Sanctions Compliance Programme is not static and is regularly reviewed and expanded to manage emerging sanctions risks.

Over the course of the last two years, significant developments have been made in the design and implementation of controls, including new contractual provisions and new screening processes carried out by the first line of defence, whilst increased EIB staff resources have been dedicated to sanctions matters.

Exclusion Committee Secretariat

OCCO is responsible for the Secretariat of the Bank's Exclusion Committee established in October 2020. The Secretariat's activities comprise the review of materials, submissions and preparation of notices on behalf of the Exclusion Committee in order to determine whether the evidence presented convincingly supports the conclusion that a counterparty has engaged in a prohibited conduct. Cases are referred to the Exclusion Committee by the Inspectorate General.

⁷ The Cyprus Papers was a leak of government documents related to the Cyprus Investment Program (CIP) obtained by Al Jazeera and released in August 2020.

⁸ The FinCEN Files are leaked documents from the U.S. Treasury's Financial Crimes Enforcement Network (FinCEN), that have been investigated by BuzzFeed News and the International Consortium of Investigative Journalists (ICIJ), and globally publicised on 20 September 2020.

5.3. Non-cooperative jurisdictions and tax good governance

The EIB is committed to having effective compliance-related policies and procedures in place in order to prevent EIB operations from being misused for, inter alia, tax fraud, tax evasion and tax avoidance.

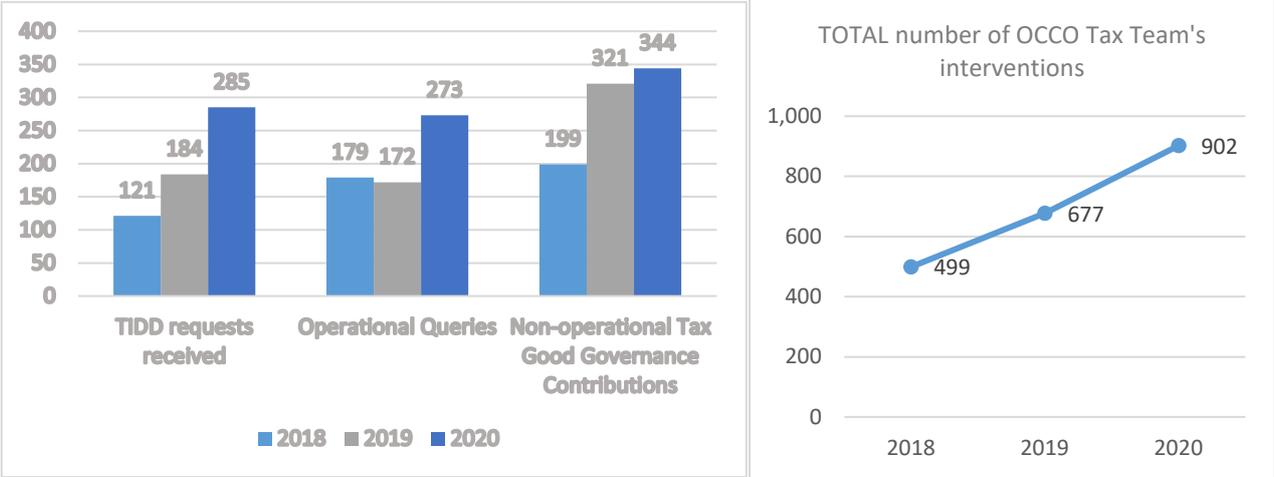
The revised EIB Group Policy towards weakly regulated, non-transparent and non-cooperative jurisdictions and tax good governance ([EIB Group NCJ Policy](#)) was approved by the EIB in 2019. It takes account of recent European and international regulatory developments in the area of tax integrity as well as tax good governance standards and policies such as the EU Council Conclusions on the “The EU list of non-cooperative jurisdictions for tax purposes”, OECD Base Erosion and Profit Shifting project and the European Union Anti-Tax Avoidance Package.

Non-compliant jurisdictions (NCJs) under the EIB Group NCJ Policy are designated on the basis of relevant classifications made by one or more Lead Organisations with respect to jurisdictions which have not made sufficient progress towards satisfactory implementation of EU and/or internationally agreed standards in connection with AML-CFT and/or tax transparency/tax good governance. The Lead Organisations include, among others, the European Union, the FATF, the OECD Global Forum and G20. Throughout 2020, the EIB closely followed and took into account the updates in the Lead Organisations’ assessments of jurisdictions. For more information on the Reference Lists of Lead Organisations please visit the EIB Group NCJ Policy – Frequently Asked Questions ([here](#)).

The EIB Group NCJ Policy includes the Anti-Tax Avoidance Toolbox, which sets out general expectations vis-à-vis contracting counterparties as part of the tax integrity due diligence process at the EIB. All EIB operations are assessed, on a risk-sensitive basis, in line with the standards of the due diligence process outlined in, inter alia, the EIB Group NCJ Policy and its revised implementing procedures, which were approved and entered into force in 2020. Internal tax integrity due diligence tools, subject to refinement/update from time to time, have been further developed and refined for the purpose of the tax integrity due diligence assessment.

In 2020, a dedicated team of three tax professionals within the OCCO-TRC AML & Tax Unit handled almost 300 tax integrity due diligence requests on operations and a number of other tax good governance queries referred to OCCO as the second line of defence.

Figure 5-3: OCCO Tax team activities in 2018-2020



For further information see:

- The EIB Group NCJ Policy: [EIB Group Policy towards weakly regulated, non-transparent and non-cooperative jurisdictions and tax good governance](#)
- FAQs on the EIB Group NCJ Policy: [EIB Group NCJ policy – Frequently Asked Questions \(FAQs\)](#)
- Tax governance statement: [Taxation: avoiding misuse of EIB Group operations](#)

5.4. Market integrity (market abuse, institutional conflicts of interest and MiFID)

The 2016 EIB Group Guidelines for the prevention of insider dealing and market manipulation (EIB Group Market Abuse Guidelines) provide the overall framework for market abuse compliance at the EIB. Guidance is in place with regards to identifying inside information and using a central register of insider lists to prevent unlawful disclosure of inside information, whilst improvements in the acknowledgement process for insider lists were introduced in 2020. Guidance is further relayed throughout the EIB by way of a network of Compliance Liaison Officers (CLO) – designated individuals in each Directorate whose roles and responsibilities were further articulated in the CLO Terms of Reference for Market Abuse issued by OCCO in 2020. Prohibitions on personal investments and declaration of interest controls further help to reduce the risk of insider dealing.

In 2020, OCCO:

- implemented a centralised market abuse training control aiming to more closely meet the need to identify relevant target audiences, their training needs and recommend training content;
- kicked off the revision of the EIB Group Market Abuse Guidelines to reflect the evolution of market abuse requirements.

The EIB has put in place a framework for dealing with conflicts of interest at an institutional level – the EIB Group Guidelines on Conflicts of Interest – which establishes a uniform definition of conflict of interest, outlines the key risks the EIB Group and relevant persons could be exposed to in connection with conflicts of interest and sets out the key principles for the timely identification and management of conflicts of interest arising in the course of or in connection with EIB Group activities, with a view to minimising possible reputational, legal or other adverse consequences arising therefrom. In 2020, OCCO kicked off its revision process with a comprehensive review of the framework to commence in the second half of 2021. In the meantime, OCCO has continued providing advice on ad hoc operational requests to ensure that the institutional conflict of interest principles are duly taken into account.

The EIB has carried out an applicability assessment of MiFID⁹ and MiFIR¹⁰ to its activities, with OCCO contributing to this assessment. Throughout 2020, OCCO advised on ad hoc requests regarding potential applicability of certain MiFID/MiFIR requirements in the development of new investment services.

⁹ Directive 2014/65/EU of the European Parliament and of the Council of 15 May 2014 on markets in financial instruments and amending Directive 2002/92/EC and Directive 2011/61/EU Text with EEA relevance.

¹⁰ Regulation (EU) No 600/2014 of the European Parliament and of the Council of 15 May 2014 on markets in financial instruments and amending Regulation (EU) No 648/2012 Text with EEA relevance.

5.5. Conduct risk

5.5.1. Staff Code of Conduct and Whistleblowing Policy

In December 2019, the reform of the EIB Group Staff Code of Conduct and the EIB Group Whistleblowing Policy (WBP) were important milestones in the revision of policies and procedures within the Compliance Culture Change Programme, launched in 2018, with the aim of reducing compliance, conduct and reputational risks as well as promoting a strong compliance culture. Both documents have a Group dimension to strengthen the cooperation between the EIB and EIF and its two Compliance Functions, create synergies, increase the efficiency of compliance risk management and achieve consistency across the EIB Group.

In line with the principles derived from the European Banking Authority and Basel Committee, the Board of Directors continues to be closely involved in the setting of compliance policies and the promotion of both a compliance culture and of ethical behaviour, reinforcing the protection of the EIB Group's reputation through a collective commitment to EIB Group values and integrity principles.

EIB Group Staff Code of Conduct

The revised EIB Group Staff Code of Conduct has been aligned with existing policies and guidelines. It focuses on good corporate governance and ethical values with engaging and user-friendly language. Particular emphasis has been given to the role of line managers and supervisors in promoting an ethical culture and supporting all staff in addressing ethical dilemmas. Furthermore, more detailed guidance has been given, in particular for difficult situations e.g. interpersonal relations and conflicts of interest. Specific examples of personal conflicts of interest have been added, including cooling-in and cooling-off provisions.

The new EIB Group Staff Code of Conduct sets out the core values (integrity, respect, cooperation, commitment and equal opportunities) according to which EIB Group staff members are expected to act.

EIB Group Whistleblowing Policy

The EIB Group Whistleblowing Policy (WBP) entered into force in December 2019 and has been aligned with the package of measures to strengthen whistleblower protection, as adopted by the European Commission on 23 April 2018. A further revision expected in 2021 will be based on a detailed analysis of the provisions of Directive (EU) 2019/1937 of the European Parliament and of the Council of 23 October 2019 on the protection of persons who report breaches of Union law.

5.5.2. Personal conflicts of interest

The revised EIB Group Staff Code of Conduct makes a clear distinction between institutional, organisational and personal conflicts of interest.

Conflicts of interest may cause or aggravate a breach of applicable legal and regulatory provisions, including professional confidentiality obligations, fiduciary duties vis-à-vis third parties and the inside information regime as addressed in the EIB Group's Codes of Conduct. A breach of such legal and regulatory provisions may constitute a criminal offence and could expose staff members and/or the

EIB Group to administrative, financial or criminal sanctions and restrictive measures by the competent authorities, or to civil litigation, as well as to significant reputational risk.

All potential, apparent and actual conflict of interest must be avoided or properly managed if they do arise. The process for dealing with conflicts of interest includes abstention from any decision-making process that creates or is perceived to create a conflict of interest and declaring it to the EIB or EIF Compliance Function for guidance.

Measures to mitigate conflicts of interest are determined in connection with identified conflicts of interest:

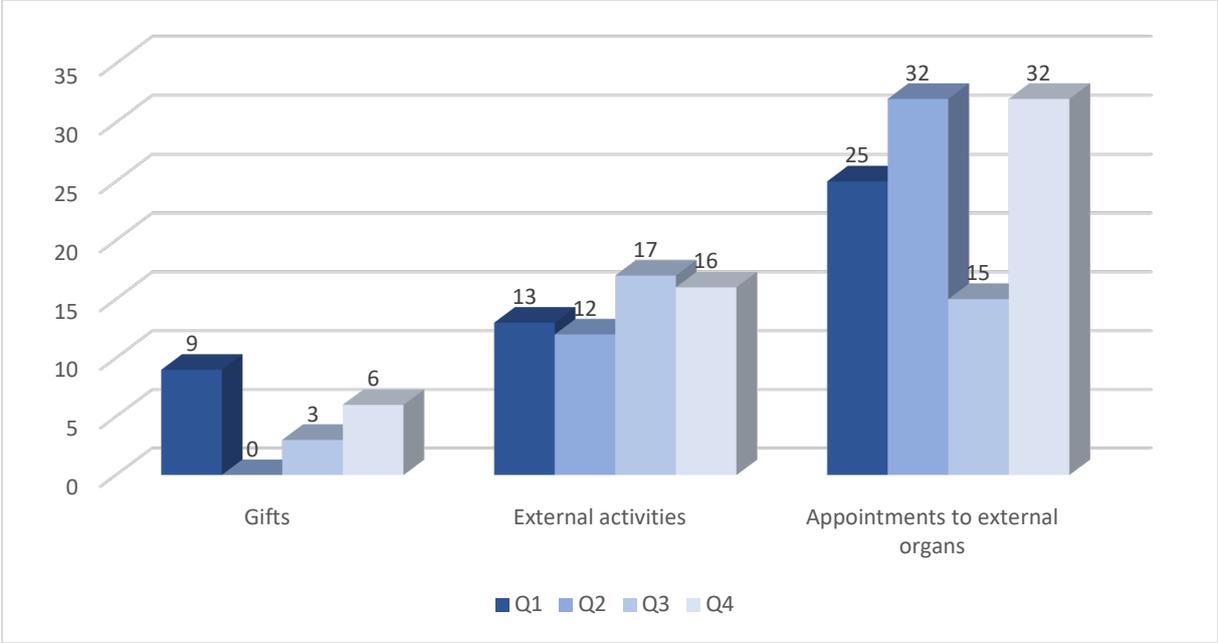
- on a general basis for permanent conflicts of interest inherent to certain categories of activities/products; or
- on an ad hoc basis, subject to the specific risks of a given situation/operation occurring unexpectedly and/or on a one-time basis.

Depending upon the underlying facts of the relevant conflict of interest and related risks, the Compliance Function may implement specific mitigating measures.

Declarations and OCCO clearances

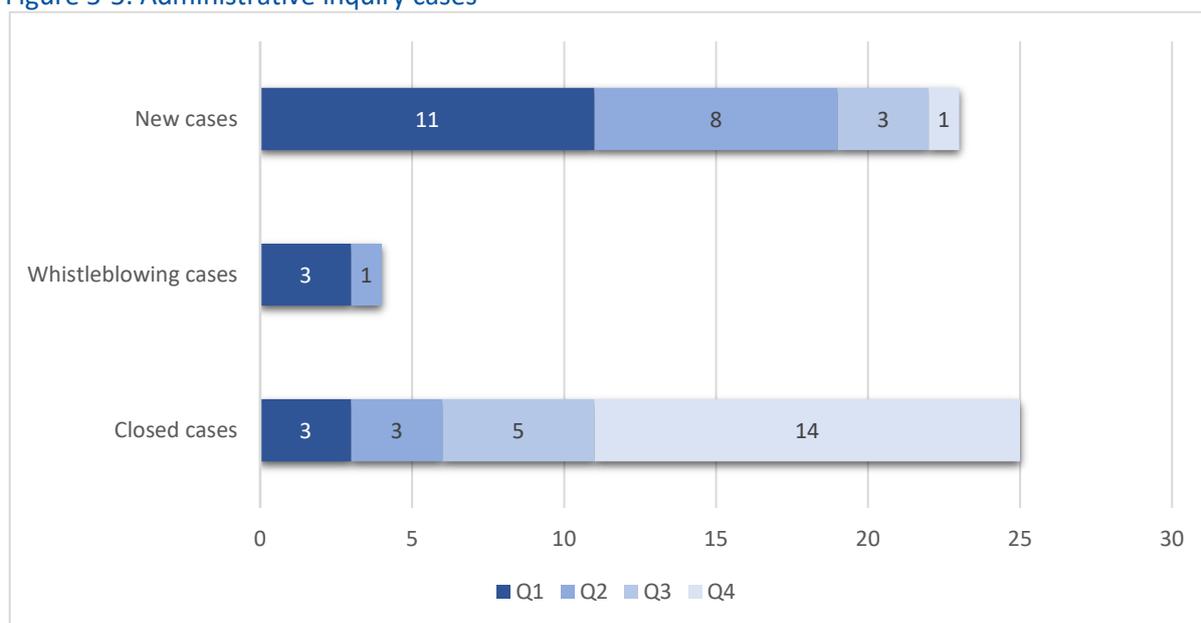
OCCO’s preliminary assessment and informal advice was sought by staff and members of the Management Committee in connection with conflicts of interest, private investments, gifts, external activities and declarations of interest prior to the transmission of formal declarations. During 2020, OCCO issued 18 clearances for declarations of gifts, 58 clearances for external activities applications and 104 clearances for appointments to external organs.

Figure 5-4: OCCO clearances on declarations of gifts, external activities and appointments to external organs



Several cases of alleged breaches of the Code of Conduct were examined by OCCO, in cooperation with the Inspectorate General and/or Personnel Directorate, where applicable: 23 new cases of alleged breaches of the Code of Conduct were communicated to OCCO (including four whistleblowing cases) and 25 cases were brought to a conclusion in 2020.

Figure 5-5: Administrative inquiry cases



OCCO consultations in respect of integrity policy clauses

In 2020, OCCO-CORP was tasked with leading OCCO consultations in respect of integrity policy clauses. Consultation takes place when additional language is required beyond the standard integrity policy clauses set out in the master finance contract, either because of an OCCO recommendation at the appraisal stage of the operation or because of requests by counterparties that cannot be accommodated with alternative contractual language previously agreed by the different services. During 2020, 74 consultations were conducted.

5.6. Procurement compliance

The role of OCCO Procurement is based on the [EIB's Corporate and Technical Assistance Procurement Guide](#) (the Guide), which was revised in 2017 in order to harmonise the EIB procurement framework for the EIB's own account and for Technical Assistance¹¹ services. The Guide transposes the principles of the [Directive 2014/24/EU](#) on public procurement into the EIB rule framework.

The number of OCCO Procurement clearances has maintained a stable level since 2019 when 2 663 procurement clearances¹² were issued. In 2020, a total of 2 401 procurement clearances were issued.

OCCO Procurement also contributes to enhancing the Bank's procurement practice by delivering coaching, training and awareness-raising sessions on procurement compliance on a regular basis. It is also closely involved in the transversal project to streamline procurement processes across the Bank.

¹¹ Technical assistance (TA) refers to all actions and advice provided by the EIB's staff or contracted to external consultants and managed by the EIB's staff with the aim of assisting promoters, national authorities or financial intermediaries to improve their institutional or regulatory set-up, their financial management or their investment projects or programmes (through assistance in project preparation and implementation), etc. TA services may be provided to borrowers or third parties with the aim to improve quality of investments and ensure compliance with EU policies and applicable standards.

¹² Procurement clearances issued for new contracts and modifications to existing ones.

6. Training and awareness raising

Several initiatives designed to ensure up-to-date and regular training sessions and awareness raising on topics within Compliance's remit were initiated in 2020, either directly by OCCO, or in collaboration with Personnel:

- **Mandatory AML-CFT learning**

In 2020, almost all staff took the Bank-wide compulsory AML-CFT e-learning course, similar to the 2019 figures, excluding authorised exceptions, e.g. long-term absence. The development of a new Group-wide e-learning concept was launched with the support of an external provider and will go-live early in 2021. Further developments to e-learning modules (a refresher course and courses for targeted audiences) are envisaged in 2021 for launch in 2022/23. Meanwhile, a specifically designed AML-CFT course for members of the EIB's Board of Directors was delivered in January 2021 and will be repeated for members of EIB governing bodies on a regular basis.

- **Market abuse training**

A market abuse training programme is currently being developed in collaboration with Personnel.

- **Code of Conduct and ethics e-learning**

Work also began on a Group e-learning course on ethics and the Code of Conduct during 2020 that is expected to be finalised in 2021. Awareness-raising materials covering key business ethics topics (by the means of brochures, posters, podcasts, videos, slides, etc.) were also developed and 14 classroom and 20 online business ethics workshops delivered with the collaboration of other services.

- **Newcomers training**

In 2020, particular attention was given to the Bank's newcomers, who received presentations on the Compliance Function, mandatory training on ethics and the Code of Conduct. OCCO newcomers were provided with a dedicated "Newcomers Kit".

- **Certification in Regulatory Compliance**

30 OCCO officers are currently participating to the Compliance Officer certification (ICA International Advanced Certificate in Regulatory Compliance), organised by OCCO. The programme started in September 2020 and will finish in March 2021.

Compliance Liaison Officers

The Compliance Liaison Officers Network (CLOs Network) aims to promote a compliance culture within the Bank and to facilitate effective communication and awareness raising on general compliance-related topics throughout the EIB Group. The CLOs Network provides first points of contact for OCCO and EIB Group services to exchange information on various compliance-related matters. The compliance information channelled via the CLOs Network concerns general policy developments, standards, training courses, ongoing projects and other compliance-related initiatives. The role and responsibilities of the Compliance Liaison Officers (CLOs) are detailed in the CLO's Network Terms of Reference, which were established in 2020. The Terms of Reference may be complemented by OCCO with subset(s) of Specific CLOs Terms of Reference from time to time to further detail specific compliance responsibilities for specific compliance topics.

7. Systems and data

Compliance projects, IT resources and tools

IT resources used for OCCO's activities (OCCO checks and monitoring of regulatory developments) include open-source and publicly available information¹³, compliance-dedicated databases, online alerts, newsletters and other publications as well as industry-specific periodicals.

An enhanced EIB Group compliance-screening tool became operational from mid-2019 and further enhancements, including in relation to the scope of counterparty screening, are envisaged in 2021. Other important initiatives involving OCCO were the creation of a politically exposed persons register, participation in the BCBS239 Group-wide project and launch of the EIB Group counterparty onboarding and monitoring process review and enhancement (OMEGA) project, which envisages the implementation of a state-of-the art system for counterparty management including AML-CFT and know your client-related activities.

Data governance

High quality data and a robust data management culture are of increasing importance for effective and efficient compliance monitoring and reporting. Accordingly, OCCO is investing in additional resources with a view to reducing reliance on end-user computing tools¹⁴, migrating core data to the Bank's databases, improving business processes, documenting and resolving data quality issues and introducing data quality controls.

During 2020, particular attention was paid to creating automated data extraction and reporting in the context of the Compliance Risk Assessment and ML-FT Dashboard.

Personal data protection: Implementing data protection regulation

The EIB appointed a Data Protection Officer (DPO) in 2003, being one of the first EU institutions to have institutionalised the DPO function. During 2020, the Data Protection Officer's activities continued to concentrate on ensuring compliance with the new obligations deriving from the EU data protection regulation 2018/1725. The Data Protection Officer focused on the adoption of the necessary implementing acts and procedures. DPO Implementing Rules describing the duties and tasks of all data protection stakeholders at the EIB have been adopted by the Management Committee and an EIB Group Data Protection Policy was adopted by the EIB's Board of Directors. Also of note, the Data Protection Officer adopted procedures related to the exercise of data protection rights and the conducting of Data Protection Impact Assessments, initiated a Bank-wide compliance exercise, including the review of the records of the centralised register, and established a roadmap to address remaining compliance gaps. The Data Protection Officer continued delivering dedicated awareness sessions across the Bank and established a Memorandum of Understanding with the EIF Data Protection Officer to ensure mutual back-up and support.

¹³ e.g. the web, data published by national authorities and corporations, IFIs and other multilateral development banks, press articles from reliable and reputable sources, NGO reports, etc.

¹⁴ An end-user computing (EUC) tool is defined as: any end-user developed, owned or operated tool including but not limited to spreadsheets, MS Access databases, code and models, the mismanagement of which could pose significant reputational, financial, operational, and compliance impacts for the EIB Group. These solutions are used recurrently and are not fully supported by IT; hence, they fall outside formal IT governance and controls.

8. Cooperation with multilateral development banks

Regular contacts are held with peer international financial institutions (such as the World Bank, the EBRD and the IFC), EU bodies, standard-setting international organisations (e.g. FATF) as well as civil society organisations (such as non-governmental organisations) in order to enable ongoing alignment of OCCO activities with relevant international standards and best banking practice. During 2020, a particular focus of these contacts was developments related to the COVID-19 crisis and their impact on AML-CFT related activities.

9. Priorities for 2021

The main OCCO priorities for 2021 are closely aligned with the common corporate objectives of the EIB in the areas of best banking practices, Group alignment, further implementation of the three lines of defence model and support for the EU response to the coronavirus crisis and climate bank agenda.

Of particular note are:

- ***Transitional roadmap: Strengthening the (AML-CFT) three lines of defence model***

The fight against money laundering and financing of terrorism remains a priority for the EIB Group. Thus, the Group is constantly looking at improving its processes and systems to strengthen its AML-CFT model. Part of this work consists in putting in place a more mature delineation of the AML-CFT roles and responsibilities between the first and second lines of defence. To this effect, the EIB Compliance Function, together with relevant services, has established a roadmap, requiring elements of cultural change supported by training, new IT systems, process and governance to gradually relinquish some responsibilities from the second line of defence, enabling it to focus more on complex escalations, policy setting, monitoring and reporting. This work is being carried out jointly with the EIF.

- ***Group alignment***

The work programme for 2021 will focus on:

- the revision of Group policies relating to market abuse and whistleblowing;
- further developing the Group approach for the Compliance Risk Assessment and ML-FT Dashboard;
- developing Group RAF non-financial risk indicators, with a particular focus on AML-CFT risk and the related Risk Appetite Statement;
- exploring further possibilities for contractual clause alignment.

- ***Process review and enhancements***

OCCO will seek to ensure that all Internal Audit Action Points are closed in a timely manner and its internal control framework further strengthened. Opportunities will be pursued to streamline processes, introduce new IT tools and improve data quality. Pending implementation of the OMEGA project, the focus will be on increasing automation of processes related to declarations and authorisations, case management, enquiries handling and risk scoring as well as measures to improve data quality and further automate reporting.

- *People management*

OCCO will look to embed the new units within its organisational structure and seek to explore synergies with the Risk Management Directorate under the common oversight of the Group Chief Risk Officer. Attention will be paid to filling remaining vacancies, promoting learning and development, and implementation of OCCO's diversity and inclusion action plan with a view to securing improvements in key staff engagement indicators.

10. Appendix

10.1. Appendix I – Non-financial risk taxonomy (risk definitions)

Main risk category	Risk sub-category	Definition
Non-financial risks	Operational risk	The risk of loss resulting from inadequate or failed processes or systems, human factors or due to external events, which includes legal risk but excludes strategic and reputational risk.
	ICT & security risk	Risk of loss due to breach of confidentiality, failure of integrity of systems and data, inappropriateness or unavailability of systems and data or inability to change IT within a reasonable time frame and cost when the environment or business requirements change (i.e. agility). This includes security risks resulting from inadequate or failed internal processes or external events including cyber-attacks or inadequate physical security.
	Reputational risk	The risk arising from negative perception on the part of customers, counterparties, shareholders, investors, debt-holders, market analysts, other relevant parties or regulators that can adversely affect a bank's ability to maintain existing, or establish new, business relationships and continued access to sources of funding.
	Strategic risk	Strategic risk is the risk that a sub-optimal contribution to achieve the EIB Group's policy mission supporting EU policy objectives could indirectly, through decreasing shareholder or stakeholder support, affect the long-term financial sustainability of the EIB or EIF. Strategic risk could be affected by inadequate strategic decisions, a failure to execute strategy or a lack of effective response to changes in the economic, political and business environment.
	Compliance risk	The risk of legal or regulatory sanctions, financial loss, or loss to reputation a member of the EIB Group may suffer as a result of its failure to comply with all applicable laws, regulations, staff codes of conduct and standards of good practice.
	Conduct risk	The Bank defines conduct risk as the current or prospective risk of losses to an institution arising from an inappropriate supply of financial services, including cases of fraud or wilful or negligent misconduct.
	Other non-credit assets obligations	The risk of losses due to fixed assets and cash.
	Model risk	Model risk refers to the potential for adverse consequences from decisions based on incorrect or misused model outputs and reports.

10.2. Appendix II – Abbreviations

BBP	Best Banking Practice
BCBS	Basel Committee on Banking Supervision
CMP	Compliance Monitoring and Testing Plan
CoI	Conflict of Interest
CRA	Compliance Risk Assessment
DPO	Data Protection Officer
EBA	European Banking Authority
EC	European Commission
EIB	European Investment Bank
EIF	European Investment Fund
EU	European Union
GCRO	Group Chief Risk Officer
NPC	New Product Committee
OCCO	Office of the Chief Compliance Officer
WBP	Whistleblowing Policy

10.3. Appendix III - List of figures

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Compliance Activity Report 2020



**European
Investment
Bank**

The EIB bank

European Investment Bank
98-100, boulevard Konrad Adenauer
L-2950 Luxembourg
☎ +352 4379-22000
www.eib.org – ✉ info@eib.org