



Office of the Chief Compliance Officer

Activity Report 2015



European Investment Bank

**Office of the Chief Compliance Officer (OCCO)
Activity Report 2015**

Table of contents

MESSAGE FROM THE PRESIDENT.....	3
1 OCCO REMIT, STRUCTURE AND RESOURCES	4
2 POLICY AND INSTITUTIONAL MATTERS.....	6
3 ETHICS - EIB CODES OF CONDUCT.....	10
4 PROCUREMENT PROCESS	11
5 AML-CFT, INTEGRITY DUE DILIGENCE, CONTRACTUAL CLAUSES	11
6 ON-GOING MONITORING OF COMPLIANCE RISK, BBP and ICF.....	12
7 REGULATORY AND POLICY DEVELOPMENTS.....	13

Message from the President



I am pleased to present the Ninth Activity Report of Office of the Chief Compliance Officer (“OCCO”) which provides information on the Directorate's core activities, notably in the areas of Anti-Money Laundering/Combating the Financing of Terrorism (AML-CFT), integrity due diligence of EIB counterparties and operations, monitoring, Ethics/Codes of Conduct and related Policy and Institutional matters.

EIB attaches high importance to its Compliance and Controls Framework. Compliance is a key control function to ensure the integrity of EIB staff, management and activities. The EU-bank has been an important part of the response to the EU financial crisis, providing increased lending in the past years, and now plays a crucial role of the EIB in the Investment Plan for Europe. As a consequence, the Bank is now subject to a higher scrutiny by its Audit Committee and Board of Directors, by the European Council, European Parliament and European Commission, as well as by other stakeholders, such as Rating Agencies and Civil Society. Reputational risk and its mitigation are hence of utmost importance.

In 2015, OCCO celebrated its 10th anniversary. OCCO was established as a Group function in 2005 following a request made by the EIB Board of Governors in the "Statement on Governance at the EIB" at its annual general meeting of 2004. As part of EIB's adherence to Best Banking Practices, one of the 2015 priorities was strengthening the Compliance function in line with similar developments in peer institutions and commercial banks. The Management Committee reconfirmed the independent status of OCCO as Compliance function with direct access to the President, Audit Committee and Board of Directors.

In 2015, OCCO has achieved substantial progress on implementation of the revised Anti-Money Laundering and Combating Financing of Terrorism (AML/CFT) processes at the Bank, including the creation of Compliance Monitoring dedicated to on-going monitoring of AML-CFT compliance risks and Best Banking Practices in OCCO remit. Also last year, the important Data Protection function was integrated into OCCO. Finally, the Bank's continued commitment to the highest standards of integrity also had a practical impact on its operations, with the number of OCCO involvements raising substantially with our lending, by 58% in 2013-2015.

In 2015, in the context of its 10th anniversary, OCCO hosted the Business Ethics and Compliance Conference at EIB. This second high-level event organised by the Office of the Chief Compliance Officer continued the 'tone' of debates set in the previous year with the successful Compliance Summit. The Conference highlighted Ethics at the core of Compliance, reminding all that having good policies is not enough if they are adhered to only 'by the letter' and not 'in spirit'. This event emphasized the high and ever rising importance of Compliance both externally and for EIB and its staff. As a result of the event, the EIB gained increased visibility and recognition for its Compliance function efforts to strengthen the ethical behaviour across the EIB Group.

Establishing and strengthening the Compliance function may have a cost, but Compliance and ethical leadership pay in the long run. Consequently, I note with satisfaction the significant work carried out in 2015 and I encourage colleagues in OCCO to continue on this way. Allow me to recall that Compliance is a shared responsibility of all EIB services, staff and members of the governing bodies. Effectiveness of Compliance depends not only on the 'culture of the institution' but also on its implementation and continuous monitoring.

Werner Hoyer

EIB President

This Activity Report of the Office of the Chief Compliance Officer (“OCCO”) provides information on the main developments in OCCO and its activities in the year 2015 (“Reference Period”).

1 OCCO REMIT, STRUCTURE AND RESOURCES

1.1 REMIT

Pursuant to its Terms of Reference, *“the remit of the Group Chief Compliance Officer is to identify, assess, advise on, monitor and report on the compliance risk¹ of the EIB Group, that is, 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. He acts as first-line detector of potential incidents of non-observance or of breaches by the staff of the rules on ethics and integrity, monitors compliance therewith by the staff of the EIB Group and recommends the adoption of such protective or redressing measures as are appropriate.”*

Current activities² within OCCO remit can be broadly grouped as follows:

- 1) Compliance policies and institutional matters;
- 2) Ethics and Codes of Conduct;
- 3) Anti-money laundering/Combating the financing of terrorism (“AML-CFT”) and integrity due diligence of EIB counterparties and operations;
- 4) On-going monitoring of compliance risks, with focus on AML-CFT (expanded to other Best Banking Practices reporting and Internal Control Framework in OCCO remit), and
- 5) Clearance of procurement processes for the Bank’s own account.

1.2 STRUCTURE

OCCO was established in July 2005 as:

- an Autonomous Department under the responsibility of a Group Chief Compliance Officer (“GCCO”) assisted by a Deputy Chief Compliance Officer;
- an independent function: in accordance with the principles laid down by the Basel Committee³ and pursuant to the “Statement on Governance at the EIB”⁴, *“the Group Chief Compliance Officer is independent of other EIB Group services and reports directly to the President of the Bank under the functional authority of a Vice-President”*; and
- a Group function, in accordance with the [Integrity Policy and Compliance Charter](#). From an organisational standpoint, the EIB Group compliance function is currently split between OCCO, which handles EIB compliance, and EIF Compliance function, which is in charge of EIF compliance. In order to strengthen a consistent group approach on Compliance, consideration is being given to the development of further synergies.

In line with President Hoyer’s focus on strengthening the Compliance function in the last years, the OCCO structure and organisation went through major changes including its upgrading from Autonomous Department to Directorate, appointment of a new Director General as Group Chief Compliance Officer, Mr G. Hütz, former Deputy Director General of the Legal Directorate, and progressive increase of staff.

OCCO is currently comprised of 4 organisational units:

- i) [Compliance Corporate Division](#) (OCCO-CORP), dedicated to drafting, consultation, review/update and advice on all policy and institutional matters:

¹See definition of compliance risk in Basel Committee on Banking Supervision “Compliance and the compliance function in banks” 2005.

² <http://www.eib.org/about/compliance/index.htm>

⁵ Basel Committee on Banking Supervision: “Compliance and the compliance function in banks”, 2005

⁴The Office of the Chief Compliance Officer (“OCCO”) was established as a Group function in 2005 following a request made by the EIB Board of Governors at its annual general meeting of 2004 (“Statement on Governance at the EIB”).

- within OCCO traditional remit (AML-CFT Framework, NCJ Policy, Market Abuse Guidelines, Ethics and Codes of Conduct; Awareness-raising, Training on Compliance);
 - any other “horizontal” institutional and compliance issues from time to time assigned to OCCO by the Management Committee and/or handled at inter-directorate level in cooperation with Directorates concerned, e.g. policy provisions to be inserted in the Bank’s financing contracts, institutional conflicts of interest, Corporate Responsibility and various initiatives including negotiation of requests for derogations/review of policy provisions/principles for financing contracts for operations in the EU and for all operations outside the EU, advice on NCJ and AML-CFT policy issues, .participation to various inter-services working groups such as Pensioners, Contracts, Transparency Policy, Market Abuse, Data Governance;
- ii) Compliance Operations Division (OCCO-OPS), dedicated to:
- integrity due diligence of OPS and FI new operations and counterparties at pre-approval stage, OCCO opinions submitted in Board documents, notes on sanctions;
 - review of requests for derogations to the policy provisions of the Master Finance Contract for direct lending operations within the EU, and transposition into clauses of OCCO recommendations approved by the Board;
 - managing the newly (in house created) risk scoring tool to provide firm basis for scoring of ALM-CFT risk in OCCO opinions of both EIB Operations as well as EIB counterparts;
 - managing external consultancy firms within the recently signed Framework Agreement;
- iii) Compliance Monitoring Unit (OCCO-MU), dedicated to on-going monitoring of AML-CFT compliance risks and Best Banking Practices in OCCO remit. The AML-CFT compliance monitoring activities involve:
- Ad-hoc and scheduled updates of due diligence checks at post-approval stage applying risk-based approach;
 - Compliance testing, starting with follow-up on OCCO recommendations;
 - Automated screening and processing of sanctions, to be expanded to PEPs and adverse media alerts;
 - OCCO consultation on sanction-related issues from SWIFT screening by FI and on specific transactions;
- iv) Data Protection Office, established in line with the Regulation (EC) 45/2001, requiring each Community Institution and body to appoint at least one person as Data Protection Officer (DPO) to ensure the application of the principles of data protection. In 2015, the Data Protection function has been integrated in OCCO.

The two Divisions and the Unit are coordinated by a Director, also Deputy Chief Compliance Officer, under the lead and strategic guidance of the Group Chief Compliance Officer. The Data Protection Officer, holding an independent function, reports administratively to the GCCO.

1.3 RESOURCES

Staffing of Compliance function

Since the new GCCO was appointed in Q4 2012, the Management Committee approved several new positions for Compliance, specifically to address the rising number of operations and evolving post-approval Compliance monitoring activities in line with the revised AML-CFT Framework. OCCO has retained a good mix of external and internal candidates, with Compliance, Legal, Audit, operational and regulatory backgrounds.

IT and other resources

IT resources used for OCCO daily activities (OCCO checks and monitoring of regulatory developments) include “open source” and publicly available information⁵ with the support of a compliance-dedicated database, on-line alerts, newsletters and other publications, periodicals for the main legal and regulatory developments.

⁵ 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.

In a number of cases, OCCO engages specialised external consultants to perform investigations complementing its findings in complex operations or for particularly sensitive integrity or transparency concerns. In 2015, a new Framework Agreement for the provision of services in integrity and compliance due diligence has been signed for assisting OCCO in the field. The scope of services has been enlarged in order to cover also complex policy and institutional matters in OCCO remit, given the increasing range of issues to be covered.

Compliance Liaison Officers

In an effort to further enhance the Compliance culture within the Bank and more specifically to facilitate interaction with the Directorates directly concerned with compliance related processes, OCCO has proposed to establish in each relevant Directorate a “Compliance Liaison Officer”.

In May 2015, the Compliance Liaison Officer duties were formally allocated in the Operations Directorate. OCCO is in discussion with other services regarding the establishment of a formal Compliance liaison. The approval of the Market Abuse Guidelines by the Management Committee in February 2016 constituted a major step forward in establishing a network of the Compliance Liaison Officers across the Bank.

2 POLICY AND INSTITUTIONAL MATTERS

2.1 AML-CFT

Revised EIB Group AML-CFT Framework and EIB AML-CFT Procedure

Following consultations with the EIB services involved and with the [European Data Protection Supervisor](#), it was proposed to remedy existing AML-CFT gaps through the adoption and publication of a revised EIB Group [AML-CFT Framework](#) and adoption of a roadmap ensuring the gradual implementation of all structural measures and procedures needed bank-wide during an estimated pilot phase of 2 years, to allow for appropriate adjustment and/or simplification (for instance in terms of processes, resources) of the revised AML-CFT processes against operational requirements/practices and other on-going regulatory and organisational developments.

The proposed EIB Group [AML-CFT Framework](#) and Roadmap for the implementation of measures were approved in July 2014.

The AML-CFT Roadmap foresees structural and organisational changes in AML-CFT processes bank-wide along with enhancement of existing Information Technology systems and databases.

The EIB Group [AML-CFT Framework](#), agreed with services and EIF and laying down general principles in line with the EU AML-CFT Directives and changes agreed with the European Data Protection Supervisor (“[EDPS](#)”) has been published on the EIB website, as expressly requested by the EDPS. Pending implementation of the AML-CFT Roadmap during the pilot phase, the existing internal procedure continues to apply.

AML-CFT Roadmap Steering Committee

An AML-CFT Roadmap Steering Committee has been set-up in June 2015 to coordinate the actions of the services responsible for setting up their internal processes and procedures in line with the approved AML-CFT Roadmap.

The implementation of the AML-CFT Roadmap remains subject to relevant legislative/regulatory update, possible [EDPS](#) requirements (if any), and/or EIB organisational and/or operational developments such as timely implementation of automated solutions and IT system developments.

2.2 FOLLOW-UP OF NCJ POLICY

In addition to the works of FATF⁶ and participation to the FATF plenary sessions of the GCCO alongside the Commission, OCCO actively monitored NCJ-related developments at the OECD Global Forum⁷ including the Jakarta Plenary meeting in November 2013, the Berlin meeting of October 2014 and the Bridgetown meeting of October 2015, to which the GCCO participated.

It is recalled that both FATF and Global Forum qualify as "Lead Organisations" under the EIB Policy towards weakly regulated, non-transparent and uncooperative jurisdictions ("[NCJ Policy](#)"), and that EIB strictly conforms with Lead Organisations' country listings for the purposes of qualifying a jurisdiction as a Non-Compliant Jurisdiction ("NCJ") under the NCJ Policy, as confirmed in the last Addendum to the NCJ Policy⁸. Within the OECD Secretary-General Report to the G 20 Finance Ministers and Central Bank Governors of September 2015, the Global Forum delivered a Progress Report on "Update on Effectiveness and On-going Monitoring". This report mentions EIB's NCJ Policy as an example for the application of the Global Forum ratings by an IFI.

It is to be noted also that EIB stays constantly abreast of developments and tendencies in NCJ related policies and practices of peer IFIs and as such regularly meets and/or communicates on these matters, including recent international tax developments.

As evidenced by the outcome of the Lead Organisations' meetings, an unprecedented number of NCJ-related initiatives and measures (notably International Taxation Agenda, OECD and EC, Terrorism Financing risk, FATF, EC) are in progress at international level and will require further implementing measures at EU and national level before relevant "standards" can be deemed in force and can be transposed into EIB policies and procedures.

Pending this lengthy consensus and capacity-building process OCCO suggested to start a dialogue with NGOs in the form of face-to-face informal meetings such as workshop/roundtables in order to facilitate mutual knowledge and identify possible priorities of Civil Society, while reaffirming EIB reliance upon Lead Organisations.

The discussion with NGOs at the NCJ Workshop in December 2015 involved OCCO's organisation and main areas of activity, the development of the EIB's NCJ policy, as well as its key features and implementation. The audience was informed of latest developments since the last seminar with NGOs held in 2014.

2.3 MARKET ABUSE / INSIDER DEALING

The EIB inter-services Working Group on Market Abuse, established in 2014 and chaired by OCCO, advanced its work throughout 2015 resulting in the full review and update of the EIB Group Market Abuse Guidelines ("MAG"), approved by the Management Committee on 16 February 2016.

The MAG apply to EIB and EIF in terms of high-level guiding principles, and provide further tailored guidance for the EIB matching its business specificities. A Market Abuse event was organised in March 2016, with a keynote address from a technical expert and followed by an introduction to the Market Abuse Guidelines to EIB staff.

⁶ FATF is an inter-governmental body established in 1989 whose objectives are to set standards and to promote effective implementation of legal, regulatory and operational measures for combating money laundering, financing of terrorism and related threats to the integrity of the international financial markets. FATF has issued its 2012 Recommendations, recognized as the international standard, and evaluates its member states and other countries against this standard. FATF has currently 37 Members, amongst which the US, Canada, China, Russia, Brazil, India, 15 EU Member States and the European Commission. Amongst the organisations that have formal observer status are inter alia World Bank, EBRD, African Development Bank, Asian Development Bank, ECB, IMF, Basel Committee on Banking Supervision, and United Nations. EIB participates in FATF Plenary meetings within the EC delegation.

⁷ The Global Forum is an independent OECD Secretariat dedicated to transparency and exchange of information for tax purposes for the implementation of the international tax transparency standards. The Global Forum has progressively extended its representation basis and currently counts 131 Members, countries and the European Union, as well as 14 observer organisations (besides EIB inter alia EBRD, World Bank, IFC, UN, IMF).

⁸ <http://www.eib.org/about/documents/ncj-policy-addendum.htm>

2.4 PARTICIPATION IN COMPLIANCE AND CONTROLS COMMITTEE

In its meeting of 11 March 2015, the Management Committee approved the Proposal for reinforcement of the Compliance and Controls Framework, including the establishment of the Compliance and Controls Committee (“CCC”).

The Committee is composed of the Group Chief Compliance Officer, the Inspector General and the Financial Controller as permanent members, with Internal Audit and Risk Management as observers, and is chaired by a Vice-President in charge of the control functions.

The Committee has the purpose of providing a visible platform to monitor the Bank's compliance and control risks and to make recommendations for improvements, including oversight and coordination of the Best Banking Practices self-assessment exercises across the Bank, and alignment of the Compliance and Controls framework across the EIB Group.

2.5 AWARENESS-RAISING INITIATIVES

Several awareness-raising initiatives were started or further developed by OCCO in 2015 upon GCCO guidance, such as:

- Regular presentations for the new members of the Board of Directors and Audit Committee. The presentations covered the OCCO remit, its policies, latest and anticipated developments;
- Periodic Compliance Newsflash published on the Intranet News Centre on core Compliance Procedures and Policies; dedicated information on specific compliance issues (e.g. Code of Conduct, Conflicts of Interest, Market abuse);
- Participation in the EIB dialogue with civil society and with non-financial rating agencies;
- Upgrade of the Compliance internet page⁹ on EIB’s website, promoting the Compliance role as integral to the Bank’s ethical, professional and business approach;
- Revision of OCCO intranet site with the aim to provide a user-friendly tool by adding clarity and simplicity to the navigation structure;
- OCCO Board Seminar with presentation of OCCO in general and more particularly the AML-CFT Roadmap implementation including on-going monitoring activities and the development of the AML-CFT risk scoring tool;
- Launching AperOCCO events reaching out, in particular, to OPS colleagues. The first of a number of awareness-raising sessions dedicated to Compliance topics took place in January 2016, the President participating in the opening.

2.6 TRAINING

OCCO maintains an up-to-date mandatory AML-CFT focused E-learning course consisting of several modules and including case studies, exercises and practical examples.

The main objectives of the AML-CFT training are to:

- Inform about the AML-CFT risks;
- Provide legal principles and best banking practices in terms of AML-CFT requirements;
- Help to identify operations or transactions which could be suspicious (red flags) in relation to money laundering or terrorist financing and to instruct on how to proceed in such cases;
- Provide an overview on AML-CFT trends, including risk-based approach;
- Inform about the relevance of the Compliance function and the consequences of non-compliance;
- Inform about the EIB requirements to follow in the context of the fight against money laundering and terrorism financing.

In addition to AML-CFT training, OCCO participates to the induction presentations of the role, responsibilities and structure of the EIB Compliance function to all new EIB recruits and organises or participates to ad-hoc awareness sessions on specific compliance topics.

⁹ <http://www.eib.org/about/compliance/index.htm>

During 2015, in addition to the main course on AML-CFT E-learning, OCCO has started the development of refresher AML-CFT courses.

2.7 REPRESENTATION AND COOPERATION WITH INTERNATIONAL ORGANISATIONS AND OTHER IFIS

Systematic consultation and cooperation with other IFIs (EBRD, ADB, CEB, NIB, IFC, IADB) and national development agencies (AFD, KfW) is an essential part of OCCO activity and is on-going on several compliance areas (such as NCJ, FATF, Ethics).

In March 2015, the Group Chief Compliance Officer attended the MDB Private Sector Integrity Meeting in Washington. The meeting was hosted by IFC and World Bank with participation of Heads and/or other staff from Compliance and Integrity functions of AfDB, ADB, BOAD, BSTDB, CABEI, CAF, CDB, CEB, EBRD, ISDB, IFC, World Bank and MIGA. The purpose was to establish closer working contacts with the compliance functions at other MDBs in order to form common positions on compliance topics, exchange information and improve communication and responsiveness to compliance issues.

Furthermore, EIB's representation in international standard-setting Lead Organisations continues to be ensured by the participation in the FATF Plenary meetings together with the European Commission and in the OECD Global Forum on Transparency and Exchange of Information for Tax Purposes as an official observer. In February, June and October 2015, OCCO participated in the Plenary Meetings of the Financial Action Task Force (FATF).

On 29 and 30 October 2015, the Group Chief Compliance Officer attended the meeting held by the OECD Global Forum for Transparency and Exchange of Information for Tax Purposes ("Global Forum") in Bridgetown.

2.8 BUSINESS ETHICS AND COMPLIANCE CONFERENCE 2015

In October 2015, OCCO hosted the Business Ethics and Compliance Conference at EIB. The speakers comprised leading experts in their fields such as the Director of the Institute of Business Ethics in London, the President of the Vatican Financial Intelligence Authority, the Chairman of the Council of Ethics (Norwegian Government Pension Fund Global), as well as representatives from Deutsche Bank and Bank of England and the Founder of Transparency International.



The President opened the Conference emphasising the high and ever rising importance of Compliance both externally and for EIB and its staff. As the Basel Committee recently stressed, a fundamental component of good governance at banks is a corporate culture of reinforcing appropriate norms for

responsible and ethical behaviour, where the Board plays a crucial role. OCCO, as the guardian of the EIB Codes of Conduct, is rolling out a robust Compliance & Ethics programme for the EIB.

As a result of the event, the EIB gained increased visibility and recognition for its Compliance function efforts to strengthen the ethical behaviour across the EIB Group. Another immediate effect of the Compliance Conference was the establishment or strengthening of close relationships with leading compliance experts and IFI Compliance colleagues.

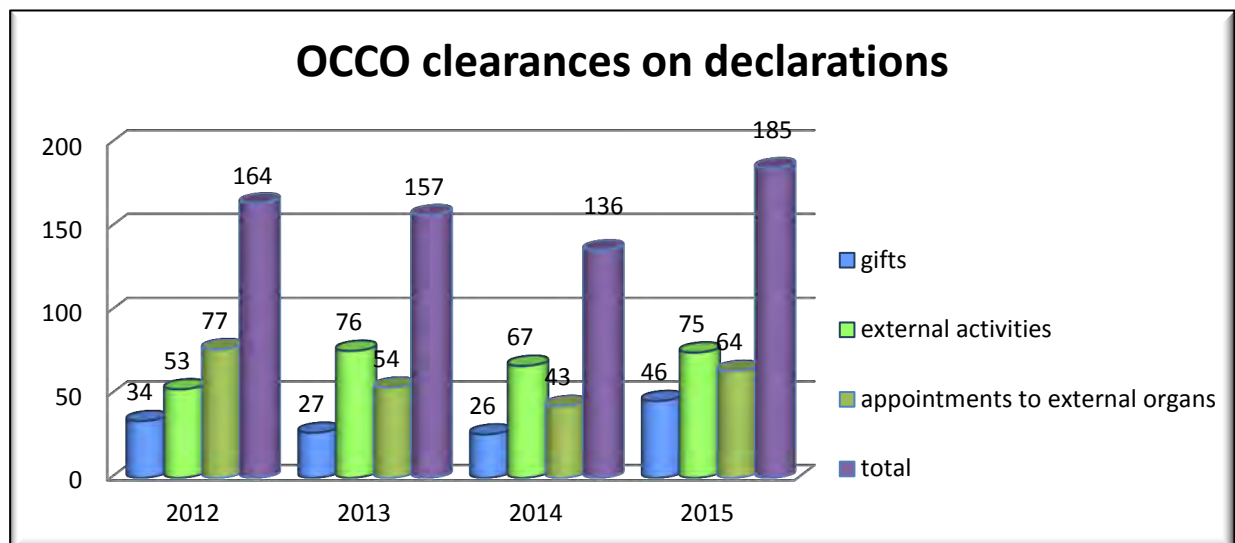
3 ETHICS - EIB CODES OF CONDUCT

3.1 OCCO CLEARANCES

OCCO's remit includes the responsibility to administer the EIB Staff Code of Conduct and manage any connected compliance issues, where Compliance “acts as a first line detector of potential incidents of non-observance or breaches by the staff of the rules on ethics and integrity, monitors compliance therewith by the staff of the EIB Group and recommends the adoption of such protective or redressing measures as are appropriate.” During the Reference Period OCCO issued:

- 46 clearances for declarations of gifts;
- 75 clearances for external activities applications;
- 64 clearances for appointments to external organs.

OCCO preliminary assessment and informal advice was also sought by staff and members of the Management Committee in connection with conflicts of interest, private investments, gifts and external activities prior to the transmission of formal declarations.



OCCO also participated in the working groups on revision of the EIB Transparency Policy and creation of the EIB Internal Document Classification Guidelines, which have to be aligned with the Policy. The reviewed Transparency Policy was subject to a public consultation process and was adopted by the EIB Group in March 2015¹⁰.

3.2 WHISTLEBLOWING POLICY

The EIB Whistleblowing Policy¹¹ is a key element for safeguarding the Bank's integrity calling on relevant persons to fulfil their duty to report irregularities, setting out clear reporting procedures and ensuring the most effective protection for whistle-blowers acting in good faith. The GCCO is the reporting

¹⁰ <http://www.eib.org/infocentre/publications/all/eib-group-transparency-policy.htm>

¹¹ http://www.eib.org/attachments/strategies/eib_s_whistleblowing_policy_en.pdf

authority for cases of infringement of the Staff Code of Conduct or the Integrity Policy and Compliance Charter.

3.3 ETHICS AND COMPLIANCE COMMITTEE - OPERATING RULES EXTENSION

OCCO participated in the revision of the Operating Rules of the Ethics and Compliance Committee

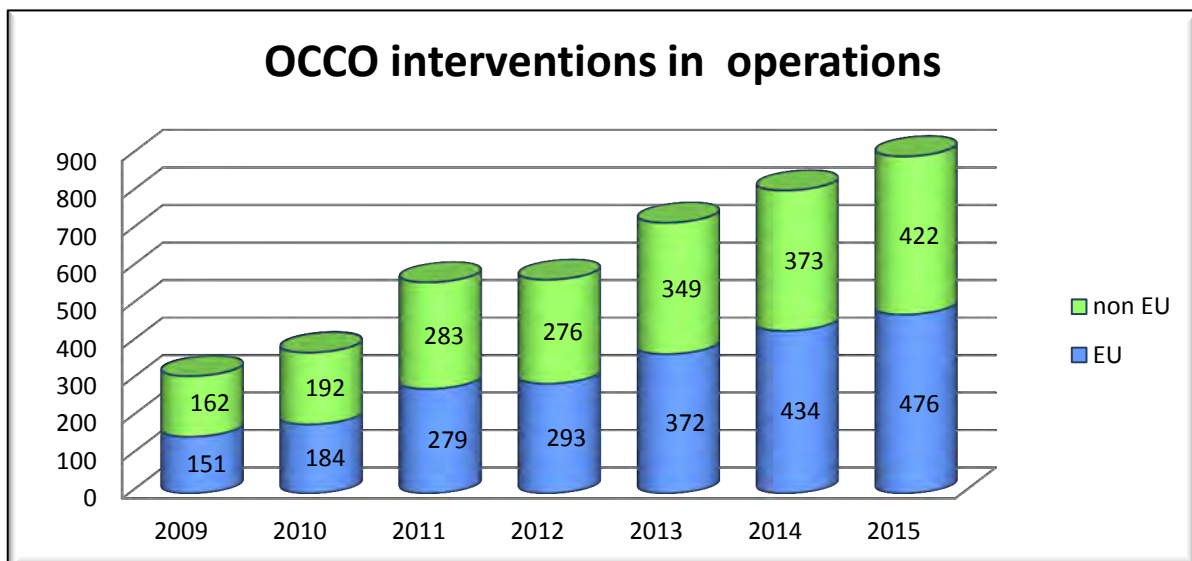
It is recalled that the GCCO plays an important role in the ECC, receiving communication of all the documents provided to the ECC, participating in the ECC meetings, without the right to vote, and has the power to request a decision of the ECC. Furthermore, the GCCO provides opinions at the request of the Chairman of the ECC or upon his own initiative.

4 PROCUREMENT PROCESS

The OCCO procurement role is based on the “Guide for the procurement of services, supplies and works by the EIB for its own account” (the “Guide”)¹². Clearances on the procurement procedure for all works, supplies and services needed by the Bank for its own account must be issued by OCCO.

5 AML-CFT, INTEGRITY DUE DILIGENCE, CONTRACTUAL CLAUSES

During 2015, OCCO continued the trend of increasing consultation by the Operational, Legal and TMR Directorates in connection with AML-CFT matters, including but not limited to opinions and finance contracts.



Along with the substantially increased number of OCCO interventions in 2015 (898 as compared to 569 in 2012, i.e. 58% increase in the last 3 years), OCCO advice is increasingly sought for:

- ✓ discussion of specific compliance concerns and negotiation of contracts with clients and co-financier (including other IFIs) at any stage of the appraisal of projects and negotiation of contracts;
- ✓ post-signature events including changes in the beneficial ownership of EIB counterparties (change of owners, shareholders, restructuring), unusual cash flows (e.g. return of over-repayments); supervening integrity concerns or reputation risks (blacklisting; press allegations; new NCJ-links; NGOs adverse reports; judicial decisions imposed on entities suspected of being infiltrated / having awarded contracts to companies linked to organized crime);

¹² <http://www.eib.org/infocentre/publications/all/guide-for-procurement-of-services-supplies-and-works-by-the-eib-for-its-own-account.htm>

- ✓ issues arising in relation to operations approved prior to the existence of the Office, for which the EIB may not have adequate information or contractual remedies.

It should be recalled that OCCO has no veto power regarding the operations, but its findings on compliance risks allow the governing bodies to take an informed decision. Following OCCO feedback on compliance issues, during 2015 8 transaction parties were not taken forward by OPS (and therefore not presented to the Management Committee for approval) or were not approved by the Management Committee. In addition, 7 transactions have been postponed to 2016. It is important to highlight, however, that this does not imply that the operation is abandoned. In most cases the project can be continued until a proposal for a sounder structure of the operation is found e.g. with different financial intermediaries or new co-investors in existing funds. It has to be noted that the number of not approved counterparties is decreasing which is to be seen in the context of a growing compliance culture within the Bank, enabling operational staff to assess issues at a preliminary stage.

5.1 INTERNATIONAL SANCTIONS / RESTRICTIVE MEASURES

Restrictive measures or sanctions (hereinafter “Sanctions”) are an essential EU foreign policy tool that it uses to pursue objectives in accordance with the principles of the Common Foreign and Security Policy. Article 215 of the Treaty on the Functioning of the European Union provides a legal basis for the interruption or reduction, in part or completely, of the Union’s economic and financial relations with one or more third countries, where such restrictive measures are necessary to achieve the objectives of the Common Foreign and Security Policy (CFSP).

OCCO has been actively involved in the Sanctions assessment throughout the years 2014/2015. For illustration purposes, OCCO was called upon to (i) identify and assess implications of the applicable European Council Regulations/Decisions; (ii) initiate and follow up on discussions with the European External Action Service and the European Commission; (iii) assess the position of other IFIs; (iv) serve as a central point of contact and expertise in relation to sanctions for intra-services and intra-group queries; (v) contribute to notes issued by bank services and (vi) ensure due diligence and consistency in communications in this respect.

5.2 RISK SCORING TOOL

In line with the formerly applicable “CAM Procedure” (now replaced by the EIB Group [AML-CFT Framework](#)) and, at the request of the Board of Directors, OCCO started in 2013 to include, as a matter of course, a risk rating in all OCCO opinions submitted to the Management Committee and Board of Directors. Furthermore, the Group Chief Compliance Officer decided to make the development and implementation of a compliance risk scoring tool one of the OCCO priorities. Accordingly, a risk scoring tool has been developed which aims to:

- Reinforce compliance with Best banking Practices (BBP) by formalizing the risk-based approach to AML-CFT and related integrity aspects of the EIB counterparties and operations;
- Facilitate a consistent and holistic approach to EIB lending operations for which an OCCO opinion is required, by providing a semi-automated process for the ML-FT risk rating of operations and counterparties in OCCO opinions.

The pilot phase is being launched, to allow for an on-going testing of robustness of the risk scoring tool. A second phase is foreseen in Q4 2016 to integrate the risk scoring tool in the existing EIB systems and develop additional functionalities as appropriate.

6 ON-GOING MONITORING OF COMPLIANCE RISKS, BBP AND ICF

6.1 BEST BANKING PRACTICES IN OCCO REMIT

The framework for EIB compliance with Best Banking Practices was established jointly by the Audit Committee and the Bank services in March 2010 following the new EIB Statute¹³, which gives the Audit Committee the responsibility to verify that the Bank’s activities comply with Best Banking Practices including: (i) the core EU legislation, (ii) standards mandatory for the banking industry (e.g. EU

¹³ Art.12 paragraph 1 of EIB’s Statute states that the Audit Committee “shall verify that the activities of the Bank conform to best banking practice”.

Directives, national laws) and which the EIB adopts - to become Best Banking Practice for EIB, and (iii) supervisory guidelines, such as those issued by national supervisors or Basel Committee (BCBS).

The role of the EIB Compliance function with regards to the applicable laws and regulations is reflected in the [Integrity Policy and Compliance Charter](#) of the EIB Group and the GCCO Terms of Reference, indicating that the Group Chief Compliance Officer is responsible for co-ordinating the management of the compliance risk¹⁴ (i.e., the risk arising “as a result of its failure to comply with all applicable laws, regulations, staff codes of conduct and standards of good practice”) of the members of the EIB Group.

OCCO has direct access to the Audit Committee and a well-established relationship with regular reporting and meetings held in relation to Compliance developments as well as progress on the gaps identified in the Best Banking Practices in OCCO remit.

6.2 MONITORING OF COMPLIANCE RISKS IN AML-CFT AREA

The AML-CFT area is in focus of on-going monitoring of compliance risks by OCCO. The monitoring is implemented on a risk-sensitive basis to detect possible Money Laundering, Financing of Terrorism or related integrity risks arising throughout the life of the business relationship.

The AML-CFT on-going monitoring tasks include:

- Ad-hoc and scheduled updates of due diligence checks at post-approval stage applying risk-based approach;
- Compliance testing, starting with follow-up on OCCO recommendations;
- Automated screening;
- OCCO consultation on specific transactions.

The transparency of the beneficial ownership remains a key requirement in the fight against illegal activities such as corruption and tax fraud, hence particular attention is paid to beneficial ownership. It is recalled that the identification of the beneficial ownership is a fundamental requirement of the Bank's due diligence process.

6.3 INTERNAL CONTROL FRAMEWORK

During the Reference Period, the Internal Control Framework (ICF) covering the Compliance Directorate processes has been updated by OCCO together with Internal Audit.

The ICF audit assignment implied a comprehensive review of changes in OCCO processes and controls since creation of the ICF in 2014, including audit testing of the new and changed ‘key’ controls.

7 REGULATORY AND POLICY DEVELOPMENTS

OCCO has set up an internal OCCO Regulatory function with the objective to ensure that EIB services are informed about the latest developments in Compliance regulatory space and capable of applying this information in a timely fashion within the EIB. Notably, the OCCO Regulatory function issues quarterly “regulatory watch” newsletters / alerts and arranges their publication on OCCO intranet. A dedicated section on the intranet has been launched for regulatory reference materials and news, including a subsection on EU/UN sanctions.

On that basis, OCCO continues to monitor major legislative and regulatory developments expected to impact EIB activities in 2016, such as relevant Basel Committee documents, 4th AML/CFT Directive, EU legislation and initiatives related to fight against tax fraud, tax evasion and harmful tax practices.

¹⁴ See definition of compliance risk in Basel Committee on Banking Supervision “Compliance and the compliance function in banks” 2005.



**European
Investment
Bank**

The EU bank

Information Desk

☎ +352 4379-22000

☎ +352 4379-62000

✉ info@eib.org

European Investment Bank

98-100, boulevard Konrad Adenauer

L-2950 Luxembourg

☎ +352 4379-1

☎ +352 437704

www.eib.org