Money Laundering, Bail-in Powers, German Pay: Compliance

By Carla Main - Feb 6, 2013 8:30 AM ET

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The European Union may target banks with fines as high as 10 percent of their annual revenue if they fail to combat money laundering and terrorist financing.

Bank staff may also face penalties as high as 5 million euros ($6.8 million) under proposals adopted yesterday by the European Commission. The rules would extend requirements for businesses to check the identity of clients and monitor their transactions, according to an e-mailed copy of the measures. They would also apply to lawyers, accountants, dealers in precious stones and gambling firms.

Current EU rules suffer from “inadequacies and loopholes,” according to the draft law. The commission warned last year that the EU faces “evolving threats” that required an upgrading of its rules against financial crime. The Financial Action Task Force, an international organization tasked with co- ordinating the fight

against money laundering, has also called on governments to toughen their laws.

The draft EU rules would force companies such as banks and law firms to carry out checks on their customers if they carry out transactions worth at least 7,500 euros, compared with a 15,000-euro threshold under existing EU law.

The commission plans must be approved by national governments and by lawmakers in the European Parliament before they can take effect.

Compliance Policy

German Push to Speed Bank Bondholder-Loss Plan Gains Support

Germany, the Netherlands and Finland want to speed up European Union plans to force losses on senior bondholders of failing banks, three European government officials said.

The three AAA rated euro-area states last week called for regulators across the EU to gain so-called bail-in powers as soon as 2015, rather than in 2018 as currently proposed, said the officials, who declined to be identified because the talks are private. The European Central Bank has warned that 2018 is “far too far away” for the new rules, which seek to insulate taxpayers and the euro area’s firewall fund from rescue costs.

The bail-in push from the Germans, Dutch and Finns was made during Jan. 29-30 technical meetings in Brussels, the same week that the Dutch government shielded senior bondholders of nationalized lender SNS Reaal NV. Dutch Finance Minister Jeroen Dijsselbloem said that step was needed to prevent a

spike in funding costs for SNS Reaal and other lenders in the country.

Accelerating the loss-sharing rules would give the euro zone more tools to avoid taxpayer rescues like those provided to Greece, Ireland, Portugal and Spain and sought by Cyprus. It also could ease concerns about financial liability within the euro zone once the ECB takes over financial supervision within the 17-nation currency bloc.

Senior bank bondholders so far have mostly avoided losses, while European governments and the International Monetary Fund have committed to 486 billion euros of aid since 2010.

Under the EU plans, drawn up by the European Commission, regulators would be given the power to impose losses on holders of senior unsecured debt, as well as derivatives counterparties, once a lender's capital and subordinated debt are wiped out. Regulators could also force debt to convert into common shares, so shoring up a struggling bank's equity.

For more, click here.

German Banking Bill May Affect Up to 12 Lenders, Schaeuble Says

As many as 12 banks based in Germany will be affected by government legislation to force some large retail banks to spin off proprietary trading, Finance Minister Wolfgang Schaeuble said.

Chancellor Angela Merkel's Cabinet approved a draft bill today that would force deposit banks to separate proprietary trading, lending and guarantees to hedge funds as well as high-

frequency trading when associated activities exceed 100 billion euros ($136 billion), or 20 percent of the balance sheet. The BaFin financial regulator would get discretionary powers that affect lenders not covered by the limits.

The bill is the latest measure taken by Merkel to regulate financial markets after curbing manager pay, banning some short- selling and making banks pay into a resolution fund.

Banking legislation is at the forefront of policy making as lawmakers prepare to contest federal elections slated for Sept. 22.

Under the bill, top managers at banks face prison sentences of as long as five years or a penalty of as much as 11 million euros if they intentionally violate rules and the banks that employ them get into trouble as a result.

There is no evidence that a split of trading business from other parts of banks improves stability on financial markets, according to the BdB Association of German Banks.

Andreas Schmitz, BdB president, said in an e-mailed statement that the package on financial market regulation "follows the wrong path" and "is primarily the product of electioneering."

The government aims to pass the draft in the lower house of parliament and gain upper-house approval before the summer.