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| Università degli Studi di TrentoSchool of International Studies | Master’s Degree in European and International StudiesEnglish Language Reading Comprehension**Text 1** | 2012 – 20136 September 2013 |

**READING TEXT 1 – Global Witness Report – Anonymous companies pp7-9**

**Banks are too willing to do business with anonymous companies**

1. According to conservative estimates more than $450 billion illicitly left African countries during the last decade (2001 – 2010). Money flows of this kind of scale could not happen without the willingness of banks and other professionals (like estate agents and lawyers) to facilitate the movement of the money. As Paul Collier has pointed out, bribery takes three to tango: not just the bribed and the bribing company, but also the facilitator.
2. Banks stand to make big profits from accepting the business of rich, dodgy customers. And yet despite the existence of fairly stringent-sounding anti-money laundering laws, the risks they face for taking tainted assets are small. Banks are rarely caught and when they are, the punishment is small: the fines may seem large to members of the public, but are often only a fraction of the bank’s profits; and there is very limited personal responsibility from individual bankers.

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| *“ If you are an important person, and you work for a big international bank, you won’t be prosecuted even if you launder nine billion dollars. Even if you actively collude with the people at the very top of the international narcotics trade, your punishment will be far smaller than that of the person at the very bottom of the world drug pyramid.”* Matt Taibbi on the HSBC settlement  |

1. The recent case involving HSBC is a strong example of this. In 2012 the bank agreed to pay a record $1.9 billion fine by US authorities after admitting to systematic anti-money laundering failings, including laundering at least hundreds of millions of dollars for drugs cartels, terrorists and pariah states. The Senate Sub-Committee which carried out the investigation uncovering this described HSBC’s culture as pervasively polluted”. During this time 47,000 people died in Mexico at the hands of drug traffickers.
2. HSBC’s problems cannot be blamed on a few momentary lapses in judgement by low-level compliance officers. Top management received repeated warnings from regulators over the course of a decade, yet failed to clean up the bank. The fine faced by HSBC – $1.9 billion – is the biggest penalty regulators have ever given to a bank. Yet this represents just 8.5% of its pre-tax profits for 2012. Fines paid by Standard Chartered, ING, Credit Suisse and other big banks for violating US sanctions over recent years show a similar pattern – all represent less than 10% of one year’s pre-tax profits.
3. Recent evidence suggests that banks are all too willing to turn a blind eye to dirty money. In 2011, the UK’s Financial Services Authority (now the Financial Conduct Authority) carried out a survey of 27 UK banks, including all the major ones, to see how well they were doing in implementing the antimoney laundering laws. They particularly focused on the accounts of senior foreign politicians. Ordinary people may be in a position sometimes to steal money, but unscrupulous senior politicians can be in a position to steal significant amounts of a whole country’s money, so banks are required to do extra checks on them. And yet they found that **more than half of UK banks did not do any extra checks on the politicians and three quarters of them did not find out what the source of their money was, as they are required to do by law.**
4. Within banks, compliance is all too often seen as a cost, rather than a profit centre. Compliance officers that Global Witness have spoken to describe how they often do not feel empowered to challenge the decisions of the business units. In most banks it is the relationship manager (the person responsible for bringing business in), rather than the compliance officer, who has the final say over whether a prospective customer is accepted. It is vital that the inbalance of power between these two roles is changed so that there is a greater emphasis on compliance to ensure banks’ obligations to meet anti-money regulations are not deprioritised for greater profit.
5. Another significant barrier to lawful and ethical behaviour in the banking industry is the way in which bank staff are rewarded for their behaviour. At the moment, the pay of bankers is almost exclusively linked to how much money they make for their institution, rather than whether their behaviour is compliant with applicable rules and regulations or even in the long term interests of all their customers.

**How to stop banks taking money from corrupt politicians**

1. The main way to prevent banks from facilitating money laundering 13) … . Senior people within banks need to be held individually responsible for the actions of their institutions; sanctions need to be sufficiently dissuasive; and regulators must improve the way they enforce the existing rules which make it illegal to accept dirty money.
2. 14) … , a board member needs to be explicitly responsible for a bank’s compliance with the anti-money laundering due diligence rules. Banks should also tie remuneration to how “compliant” a bank is: senior bankers’ bonuses should be clawed back 15) … ; and senior individuals should be prevented from working in the industry for such compliance failures. In the most egregious cases, they should be indicted and face jail if convicted.
3. 16) … in order to be more dissuasive. 17) … to ensure that it is in banks’ financial interests to properly comply with the anti-money laundering laws. The starting point should be that if a bank has committed serious breaches of the rules 18) … plus be faced with an extra penalty as a deterrence.
4. Action is also needed from regulators to improve the way they enforce existing regulations. As a start they should carry out mystery shopping exercises 19) … . It is not enough merely to examine an institution’s policies. Countries should follow the FSA’s example and carry out reviews of how well their banks are dealing with money laundering risk, and in particular the threat to their financial system from corrupt money.
5. Another way to stop banks from taking dirty money is to take action to improve the way they carry out due diligence on high risk customers. 20) … : public officials who by dint of their position could potentially have opportunities to appropriate public funds or take bribes, or their family members or close associates. For high risk PEPs, the burden of proof should be flipped, so that such customers have to prove that their funds are legitimate, 21) … . At the moment if banks can find a slightly plausible explanation for the source of funds (e.g. unverified claims of a substantial inheritance) they can take it.
6. Finally, the Financial Action Task Force should use its new focus on whether countries are effectively implementing its standards 22) … . One way of starting the ball rolling on this would be for all mutual evaluations, which are often hundreds of pages long, to include a summary with the various recommendations put in order of priority.

**TEXT 1 - QUESTIONS**

**F*or questions 1 – 12 look in paragraphs 1-7 and the quotation box to find a word or phrase which means the same as the following. Write your answer in the appropriate numbered box on the answer sheet. Please note that the words are NOT in the same order as they appear in the text.***

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| **1** | *failure, slip, error* |  |
| ***2*** | *paid, remunerated, recompensed* |  |
| ***3*** | *trend, shape, model* |  |
| ***4*** | *decides* |  |
| ***5*** | *conspire, scheme* |  |
| ***6*** | *moderate, cautious* |  |
| ***7*** | *outcast, not accepted* |  |
| ***8*** | *risky, ambiguous, unreliable, suspicious* |  |
| ***9*** | *shortcoming, weakness, flaw* |  |
| ***10*** | *contaminated, unclean* |  |
| ***11*** | *overlook, not see* |  |
| ***12*** | *dishonest, unprincipled* |  |

*For questions 13 – 22 write the letter of the missing phrase in the appropriate box on the answer sheet. There are two extra phrases which are not used.*

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| **A** | it should lose all the revenue it made from its illegal activity |  |
| **B** | rather than allow banks to simply find a plausible explanation for their wealth |  |
| **C** | preventing senior individuals from working in the industry where laws have been breached |  |
| **D** | if the bank was complicit in laundering money |  |
| **E** | to put pressure on countries that are not doing enough to tackle money laundering and corruption |  |
| **F** | to see how well banks’ compliance procedures work in practice. |  |
| **G** | is to ensure there is a more effective system of deterrents |  |
| **H** | Countries should put pressure on the secrecy jurisdictions and if necessary introduce legislation |  |
| **I** | At the very least |  |
| **J** | The basis for calculating financial penalties needs to be revised |  |
| **K** | Banks should be required to annually review the business they do with Politically Exposed Persons (PEPs) |  |
| **L** | Sanctions for banks should also be increased from the current levels being imposed |  |