Settlement Agreement between the Central Bank of Ireland

and

Bray Credit Union Limited

The Central Bank of Ireland imposes a fine of €98,000 on Bray Credit Union Limited for breaches of the Criminal Justice (Money Laundering and Terrorist Financing) Act 2010

The Central Bank of Ireland (the "Central Bank") has fined Bray Credit Union Limited ("Bray Credit Union") €98,000 and reprimanded it for breaches of the Criminal Justice (Money Laundering and Terrorist Financing) Act 2010 (the "CJA 2010"). All of the breaches (save for one) persisted for 5 years and 7 months, and have been admitted by Bray Credit Union.

The CJA 2010 requires all credit and financial institutions to adopt and implement adequate policies and procedures appropriate to their business to prevent and detect the commission of money laundering and terrorist financing.

The Central Bank's investigation found that all of the breaches (save for one) occurred from the enactment of the CJA 2010 on 15 July 2010 to February 2016 and represented significant failings in Bray Credit Union's anti-money laundering/countering of the financing of terrorism ("AML/CFT") framework and procedures. In particular, the breaches involved widespread failings in the following areas:

- **Policies and Procedures:** failure to adopt adequate policies and procedures, in particular in relation to customer due diligence, transaction monitoring, suspicious transaction reporting, training and record keeping;
- **Customer Due Diligence:** failure to conduct adequate customer due diligence on certain new and existing members;
- **Monitoring Dealings with Customers:** failure to monitor and scrutinise member transactions;
- **Monitoring and Management of Compliance with the CJA 2010:** failure to adopt policies and procedures to monitor and manage compliance with, and the consistent internal communication of, policies required under the CJA 2010; and
- **Record Keeping:** failure to retain certain records required under the CJA 2010.

Director of Enforcement, Derville Rowland, said:

"The credit union sector is an important component of the Irish financial services sector, enabling members to save together and lend to each other at fair and reasonable rates of interest. There are over 3.27 million credit union members in Ireland, with collective savings approaching €13.3 billion. Many credit unions are community based, creating a common bond which assists each credit union in knowing who their members are and how they interact with the credit union. However, this does not minimise or reduce the obligations of credit unions pursuant to the CJA 2010. Credit unions must use the knowledge and insight they have of their customer base to comprehensively assess the money laundering and terrorist financing risks in their business and to implement effective and robust frameworks, system and controls to counter those risks.

Bray Credit Union currently has 26,886 members and is in the top 11% of credit unions by asset size. The Central Bank is concerned that a credit union of its size and scale was found to have breached key AML/CFT requirements for such an extended period of time. The breaches identify significant failings by Bray Credit Union in crucial areas such as the adoption of adequate policies and procedures, customer due diligence and monitoring dealings with members. The failure by Bray Credit Union to apply adequate identification and verification measures to members and to scrutinise their transactions meant that it lacked critical information to allow it to properly fulfil its obligations to monitor, identify and report unusual and potentially suspicious activity and created an unacceptable risk of money laundering and terrorist financing.

It is vital that credit unions comply with all relevant requirements of the CJA 2010 and that they have an embedded and effective AML/CFT compliance framework and culture. The enforcement of anti-

money laundering governance and controls is an ongoing priority for the Central Bank and we will not hesitate to take action where non-compliance is identified."

BACKGROUND

Bray Credit Union is a regulated financial service provider and is registered as a credit union under the Credit Union Act, 1997. The principal activity of Bray Credit Union involves the provision of financial services to 26,886 members.

The Central Bank has responsibility for securing the compliance of credit and financial firms with the CJA 2010. The Central Bank's Anti-Money Laundering Division identified these breaches during an on-site inspection of Bray Credit Union in 2015. Following this inspection, an investigation was conducted by the Central Bank's Enforcement Division.

PRESCRIBED CONTRAVENTIONS

The Central Bank identified six breaches of the CJA 2010, occurring between 15 July 2010 and February 2016, namely:

Policies and Procedures

The CJA 2010 requires credit unions to adopt policies and procedures, in relation to their business to prevent and detect the commission of money laundering and terrorist financing. This is vital in the effort to prevent the use of credit unions for the purposes of money laundering and terrorist financing.

Bray Credit Union failed to adopt adequate policies and procedures in relation to its business to prevent and detect the commission of money laundering and terrorist financing, particularly in the following areas: customer due diligence, transaction monitoring, suspicious transaction reporting, staff training and record keeping.

Customer Due Diligence

The CJA 2010 requires credit unions to identify and verify members both when they are taken on and when the credit union has concerns relating to documents previously obtained for the purposes of identifying and verifying members. The customer due diligence process is one of the primary controls for money laundering and terrorist financing prevention and it is therefore essential that credit unions undertake robust identification and verification of its members.

The Central Bank identified the following two failings in respect of Bray Credit Union's customer due diligence, namely:

- Section 33(1)(a) of the CJA 2010 requires credit unions to identify and verify the identity of new members prior to establishing a business relationship with that member. Bray Credit Union failed to apply adequate customer due diligence measures to certain of its members prior to establishing a business relationship with them; and
- Section 33(1)(d) of the CJA 2010 requires credit unions to complete customer due diligence where there are reasonable grounds to doubt that existing member documents and information are accurate for the purposes of verifying or confirming the members' identity. Bray Credit Union failed to apply adequate customer due diligence to certain of its existing members whom Bray Credit Union had reasonable grounds to doubt the adequacy of the documentation or information previously obtained for the purposes of verifying the identify of those members.

Monitoring Dealings with Members

The CJA 2010 requires credit unions to monitor dealings with members with respect to whom the credit union has a business relationship. A credit union must scrutinise transactions, as well as the source of funds for those transactions, in order to determine whether or not the transaction is consistent with the credit union's knowledge of the member and the member's business and pattern of transactions.

The monitoring of member transactions and activities is vital in order to assist credit unions in highlighting larger, complex or unusual transactions and those which merit further investigation to prevent and detect the risk of money laundering and terrorist financing.

Bray Credit Union failed to monitor dealings with its members as it did not scrutinise their transactions to determine whether or not the transactions were consistent with Bray Credit Union's knowledge of those members and their business and pattern of transactions.

Monitoring and Management of Compliance with the CJA 2010

The CJA 2010 requires credit unions to adopt policies and procedures setting out how they will monitor and manage compliance with, as well as internally communicate, the policies and procedures required under the CJA 2010.

Bray Credit Union failed, over a period of 4 years (from 2010 to 2014), to adopt policies and procedures in relation to the monitoring and management of AML/CFT compliance. Bray Credit Union did not correctly oversee or supervise staff in relation to their fulfilment and completion of AML/CFT responsibilities and duties. The policies and procedures Bray Credit Union did have in place were not consistently communicated to those staff members required to have knowledge of them.

Record Keeping

The CJA 2010 requires credit unions to retain records evidencing the procedures applied and information obtained by the credit union in relation to each member. This requirement is important to assist in the successful identification and prevention of money laundering and to show compliance with the CJA 2010. Bray Credit Union failed to retain records evidencing the customer due diligence it performed on certain of its members.

PENALTY DECISION FACTORS

In deciding the appropriate penalty to impose, the Central Bank considered the following matters:

- The serious and widespread nature of the conduct relating to the failure to implement a number of key requirements of the CJA 2010.
- The extended period of time over which all of the breaches (save for one) occurred, spanning the period from 15 July 2010 to 25 February 2016 (5 years and 7 months).
- The fact that the monetary penalty will be payable from Bray Credit Union’s reserves.
- The co-operation of Bray Credit Union during the investigation and in settling at an early stage in the Central Bank’s Administrative Sanctions Procedure.
- The actions taken by Bray Credit Union to remediate the breaches.

The Central Bank confirms that its investigation into Bray Credit Union in respect of this matter is now closed.

NOTES TO EDITOR

1. The Criminal Justice (Money Laundering and Terrorist Financing) Act 2010 is available on the Central Bank's website www.centralbank.ie or to download here.

2. In May 2015, the Central Bank published the "Report on Anti-Money Laundering (AML), Countering the Financing of Terrorism (CFT) and Financial Sanctions (FS) Compliance in the Irish Credit Union Sector" which can be found on the Central Bank's website www.centralbank.ie or to download here.

3. The fine reflects the application of the maximum percentage settlement discount of 30% as per the Early Settlement Discount Scheme set out in the Central Bank's "Outline of the Administrative Sanctions Procedure" which is here.

4. Funds collected from penalties are included in the Central Bank's Surplus Income, which is payable directly to the Exchequer, following approval of the Statement of Accounts. The penalties are not included in general Central Bank revenue. In 2015 the Central Bank's Surplus Income amounted to €1,795.2 million (2014: €1,708.8 million), all of which was paid to the Exchequer.

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