



**GREEN
CLIMATE
FUND**

Meeting of the Board
12–14 October 2016
Songdo, Incheon, Republic of Korea
Provisional agenda item 13(d)

GCF/B.14/Inf.07
6 October 2016

Accreditation review of applicant 026

Summary

Decision B.12/30, paragraphs (e–h), outlines a process that applies to the accreditation of applicant 026, which was accredited in the same decision. In the decision, the Board requested that the Accreditation Panel review, prior to the fourteenth and sixteenth meetings of the Board, the applicant's progress in implementing its Global Standards programme, including a review of material external information. The Board also requested that the Accreditation Panel report to the Board on whether the results of these reviews would alter its recommendation to accredit the applicant. This document presents the Accreditation Panel's assessment of information submitted by applicant 026 in relation to decision B/12/30, paragraphs (e–h).

I. General mandate

1. At its twelfth meeting, by decision B.12/30, paragraph (b), the Board decided to accredit applicant 026, HSBC Holdings plc and its subsidiaries (HSBC), which is headquartered in the United Kingdom of Great Britain and Northern Ireland. In paragraphs (e–h) of the same decision, the Board outlined the following process that applies to this applicant only:

- “(e) Notes that the Accreditation Panel has recommended the accreditation of applicant 026 and further notes that in its review the Accreditation Panel identified a potential information gap associated with the implementation of its Global Standards programme, which overviews the applicant's progress in implementing stronger anti-money laundering and sanctions compliance mechanisms (Global Standards);
- (f) Requests that the Accreditation Panel review prior to the fourteenth and sixteenth meetings of the Board, the applicant's progress in implementing its Global Standards, including a review of material external information. Further requests that the Accreditation Panel report to the Board on whether the results of these reviews would alter its recommendation to accredit the applicant;
- (g) Approves the accreditation of applicant 026 subject to the condition that the Board has the ability to temporarily or permanently suspend the applicant's accreditation based on the recommendation of the Accreditation Panel following its reviews;
- (h) Takes note that the process outlined for applicant 026 applies only in this case, without prejudice to further decisions.”

II. Document review

2. In line with decision B.12/30, paragraphs (e–h), the Accreditation Panel (AP) requested and received additional information from HSBC. The AP additionally undertook a review of independent third-party information that is publicly available.

3. The main sources of information used by the AP in its review of the progress made by HSBC in the implementation of its Global Standards programme are the following:

- (a) Answers and supporting documentation provided by the entity to questions raised by the AP;
- (b) Relevant news articles from the web pages of Reuters and Bloomberg; and
- (c) A publicly-available court document filed by the Department of Justice of the United States of America (DOJ).

III. Assessment of reviewed documentation

3.1 Answers and supporting documentation provided by the entity

4. From the review of the answers and supporting documentation provided by the entity, the following conclusions by the AP are drawn:

- (a) The entity continues to implement the initiatives contained in its Global Standards programme, thus reinforcing its compliance programme related to relevant regulations, including, but not limited to, risk management, management of operational risk, and anti-money laundering and countering the financing of terrorism;
- (b) A highly qualified executive, with a demonstrated track record in the field of compliance, has been retained by the entity to serve as Global Deputy Head of Financial Crime Compliance; and
- (c) The investments, in both monetary terms and time, made by the entity to improve its compliance function are consistent with the assurances, given at the time of the accreditation assessment, regarding the entity's commitment to improvement.

3.2 Relevant news articles

5. From the review of relevant news articles, the following conclusions are drawn:
- (a) Press reports are of the opinion that the entity is making progress in its compliance function, but not at the rate required. The concerns raised in media reports are that the entity may be implementing actions to mitigate its exposure to compliance risk at a slower-than-required pace;¹
 - (b) The issue that requires continuous monitoring is the achievement of the terms and conditions of the deferred prosecution agreement (DPA) that the entity has signed with the DOJ. The news articles express concern regarding the entity's ability to meet the requirements of the DPA within the time frame established. The DPA requires that the entity comply with the requirements by the end of 2017; and
 - (c) The entity is still exposed to the risk that further legal issues will arise due to transactions executed before the signing of the DPA and the actions of the independent monitor.

3.3 Document of the Department of Justice of the United States of America

6. From the review of the publicly-available court document filed by the DOJ regarding the implementation of the entity's DPA during the second quarter of 2016,² the following conclusions are drawn:
- (a) The independent monitor reports that additional areas of weakness have been identified and that corrective actions were agreed upon with the entity;
 - (b) The independent monitor has identified potential anti-money laundering problems as a result of the country-level reviews, which have been performed. These issues are being evaluated by the entity and the DOJ, however no action plan has been established yet;
 - (c) Although there are still important compliance issues that the entity must address, the DOJ has not uncovered any evidence suggesting that the entity lacks full commitment to meeting these stringent requirements; and

¹ See, for example, the article titled "HSBC Money-Laundering Controls Aren't Sufficient, U.S. Says" published by Bloomberg on 2 April 2016, available at <<http://www.bloomberg.com/news/articles/2016-04-01/hsbc-hasn-t-adhered-to-terms-of-u-s-prosecution-agreement-imhzdm5q>>.

² DOJ. "United States v. HSBC Bank USA, N.A. and HSBC Holdings PLC Criminal Docket No. 12-763 (AMD)".

- (d) The DOJ is continually assessing the speed with which the entity endeavours to reach a global anti-money laundering standard across the entire organization.

3.4 Conclusions

7. The conclusions of the AP based on the review undertaken are as follows:
- (a) No material change in the entity's compliance risk is reported in the news sources reviewed. The information available is not substantially different from that which was assessed at the time of the Stage II accreditation review assessment conducted by the AP of the entity's application for accreditation to the GCF;
- (b) The information provided by the applicant demonstrates that it continues to be committed to the implementation of its Global Standards programme. For example, the entity continues to invest substantial resources in employee training and has retained a well-qualified individual, with a proven track record, to serve as the Global Deputy Head of Financial Crime Compliance; and
- (c) The information provided in the DOJ document is the most relevant to conclude that the entity has remained committed to, and made important progress in, the implementation of its Global Standards programme. The DOJ clearly states that although there are still important compliance issues that the entity must address, no evidence was found to suggest that the entity is not fully committed to meeting the requirements of the DPA.
8. It is the assessment of the AP that the entity has remained committed to the assurances provided at the time of the Stage II accreditation review assessment by the AP of the entity's application for accreditation to the GCF, specifically that the entity continues to implement its Global Standards programme as stated at the time of its application.
9. Based on this assessment of the information reviewed since the recommendation presented in annex IX to document GCF/B.12/07 at the twelfth meeting of the Board and up to August 2016, the AP continues to recommend applicant 026 for accreditation, in accordance with the recommendation contained in annex XVI to decision B.12/30.
10. A further review of the applicant's progress in implementing its Global Standards programme will be presented at the sixteenth meeting of the Board, in line with decision B.12/30, paragraph (f).
-