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By email: baselcommittee@bis.org

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Dear Sir/Madam

Sound management of risks related to money laundering and financing of terrorism

We welcome the opportunity to comment on the Basel Committee's consultative document on managing money laundering and terrorist financing risks. Clearly, we agree that this is a fundamental issue, and support the bulk of the committee's thinking and proposals.

By way of background, Hermes is a leading fund manager in the City of London. As part of our Equity Ownership Service (EOS), we also respond to consultations on behalf of many clients from across Europe and around the world, including PNO Media (Netherlands), Canada's Public Sector Pension Investment Board, VicSuper of Australia and the UK's Lothian Pension Fund, British Coal Staff Superannuation Scheme, Mineworkers Pension Scheme and the BBC Pension Trust (only those clients which have expressly given their support to this response are listed here). In all, EOS advises clients with regard to assets worth a total of €133 billion (as at June 30 2013).

Our two comments on the document seek to enhance the guidance in two crucial respects:

- first, we believe that a necessary part of a bank's appropriate management of money laundering and terrorist financing risks must be a step back consideration of whether it is appropriate to operate in a particular market at all; and
- second, we would welcome the addition of wording to emphasise the need to consider enhancing group-wide standards where local standards are upgraded to meet local host nation rules.

We discuss each of these in a little more detail below.

Overview consideration of market risks

The whole approach of the guidance is at the micro-level, focusing principally on knowing individual customers and having appropriate take-on procedures. Our dialogue with key banks has indicated that there is a much more fundamental question to be asked: whether the risks inherent in operating in a particular market, including money laundering and terrorist financing risks, are worth facing. We would thus argue that paragraph 13 should include an explicit

expectation that each bank mounts a group-wide review to assess jurisdictions where it is exposed to heightened money laundering and terrorist financing risks, and whether these and other risks mean that it is not appropriate for the bank to continue to operate in that market. Only once this decision is taken should the process of considering which transactions create most risk, which customers generate greatest concerns, and the appropriate allocation of resources and controls to manage and mitigate these risks, if the bank actively decides that it is willing to take them on.

The language to be applied in this regard could reflect that in paragraph 83, which in the context of supervisors requests the adoption of an overall risk-based approach, including starting at the jurisdiction level.

Raising group-wide standards

We support the expectation that where a host jurisdiction sets requirements which go beyond a bank's group-wide standards, the bank's local standards in that jurisdiction need to be raised to the regulatory norm. However, we would go further as we would expect the bank to seek actively to consider whether its overall group-wide standards need to be enhanced to meet these requirements. Banks should be prepared to learn lessons and take every opportunity to enhance their approach.

We would welcome dialogue if anything is unclear in these comments.

Yours faithfully

Paul Lee
Director