

## **The Bank's Integrity Risks Policy and Terms of Reference for the Office of the Chief Compliance Officer**

### **Introduction**

The Bank's long standing practice has been to hold itself to the highest standards of integrity in the conduct of its business and to ensure that its behaviour and the manner in which it chooses its project sponsors, clients, co-financiers and counterparties meet these standards. Further, as a major investor in enterprises and financial institutions based in or operating out of its countries of operations, the Bank seeks to promote high ethical standards, integrity, and good business practices both within the Bank and as a key transition component in its operations.

Integrity risks can stem from risks associated with the Bank's investment activities (client related risks), as well as from the improper behaviour of Bank employees (personal conduct related risks). Failure to recognise and address these integrity risks can result in reputation risk which can damage the Bank's name and standing. For this reason, the Bank ensures that its integrity standards are complied with and that its integrity risks are identified and managed in a timely manner.

The purpose of this policy is to set out, for the benefit of the Bank's stakeholders, the manner in which the Bank's Office of the Chief Compliance Officer (OCCO) helps the Bank protect its integrity and reputation and manage integrity risks related to clients and personal conduct related risks. This policy also includes the OCCO's Terms of Reference.

### **General Principles**

The Bank considers that the most effective way of avoiding integrity failures is to instil a culture of integrity and high ethical standards throughout the Bank and to ensure the efficient management of integrity risks.

The Bank's ethical culture starts with a strong "tone at the top". The Board of Governors is responsible for the adoption of the Bank's Codes of Conduct for both staff and officials of the Board of Directors and for any revisions thereto. The Board of Directors agrees the policy and framework for integrity and ethics in the Bank. It has responsibility for overseeing that the Bank's integrity risks are properly managed. The Board of Directors, with the assistance of the Audit Committee, monitors the effective management of these risks.

The Bank's President has overall responsibility for the management of the Bank's integrity risks and keeps the Board informed of any material issues regarding these risks. Members of senior management are responsible for the day to day management of such risks and to ensure that the procedures and guidance in support of the Bank's integrity and ethical standards are adhered to in the areas for which they are responsible and that any breach is referred to the appropriate officer or office for remedial or disciplinary action, as necessary.

The Bank takes such steps as are necessary to ensure that in the performance of their responsibilities, staff, management, and Bank officials act in compliance with the

highest standards of integrity in accordance with best practice so as to avoid or minimize risks arising out of or in connection with the Bank's activities.

The Bank's Office of the Chief Compliance Officer is a key player in this effort and its responsibilities extend to certain client related integrity risks (money laundering, terrorist financing, "know your customer", fraud and corruption and other prohibited practices), as well as personal conduct related risks (such as insider trading, breaches of the Code of Conduct, nominee director behaviour, whistleblower protection). OCCO's compliance function includes managing conflicts of interest which may arise from the Bank's multiple relations with, or interests in, clients, and financing competing clients as well as managing the consequences of non-compliance with certain Bank policies.

### **Managing client related integrity risks**

The Bank has developed integrity due diligence procedures and guidelines which reflect its long experience and practice in addressing integrity issues in its countries of operations. These integrity guidelines and procedures help the Bank to assess the potential risk associated with a particular client or sponsor while providing clear guidance as to what is not acceptable. The procedures rely on a risk based approach whereby higher risks are subjected to increased levels of scrutiny and control. The Bank requires its bankers to properly identify client related integrity concerns given their proximity to, and familiarity with, potential clients, the regulatory environment, and the country and sector specific information relevant for each project.

The Bank's Credit function plays a key role in the project approval process and is specifically charged with reviewing and documenting client related integrity concerns and referring any significant concerns to OCCO. OCCO provides expert advice, independent of Banking, as to whether a potential risk is acceptable to the Bank and regularly monitors whether the information provided by the Banking department to the Credit department is accurate and that integrity concerns are properly identified. The Operations Committee, consisting of the vice presidents responsible for Banking, Risk Management, and Finance, the General Counsel, and the Chief Economist and assisted, where appropriate, by OCCO, determines the acceptability of potential integrity risks of a proposed project prior to its submission for approval of the Board. Similarly, for projects that are approved by management under a Board delegated approval, the acceptance of potential integrity risks related to such projects is determined by a subcommittee of the Operations Committee, the Small Business Investment Committee.

As part of its investment, the Bank will promote its counterparty's adherence to high ethical standards and good business practices by requiring, where appropriate, greater transparency of ownership, the adoption of international accounting standards and strengthened anti-money laundering procedures, and compliance with international corporate governance standards. Should the Bank subsequently receive any allegation of fraud, corruption, collusion, coercion or theft in relation to a Bank activity or project, it will proceed in accordance with its Enforcement Policy and Procedures (EPPs) and the International Financial Institutions Principles and Guidelines for Investigations as forming part of the Uniform Framework for Preventing and Combating Fraud and Corruption. Following the entry into force of the Agreement for

the Mutual Enforcement of Debarment Decisions among the EBRD, World Bank Group, Asian Development Bank, African Development Bank Group, and the Inter-American Development Bank Group, an entity debarred by one of these multi-lateral development banks will, in the absence of exceptional circumstances, be unable to obtain financing from the others.

### **Managing personal conduct related risks**

Personal conduct related risks are addressed by establishing, communicating, monitoring, and implementing a clear set of rules regarding the required ethical conduct of Bank Personnel and Board Officials, and by taking appropriate corrective action in the event of a breach. Mandatory ethical and integrity training provided by the Bank is key to ensuring that a proper ethical culture prevails in all of the Bank's dealings with its clients, sponsors, suppliers, counterparties, and other bodies with which the Bank interacts.

Through the Bank's Codes of Conduct and its commitment to protect whistleblowers, the Bank fosters a culture that encourages Bank Personnel to apply, and openly discuss, ethical standards in their decision-making, as well as to report any suspicion of unethical conduct without fear of retaliation.

Bank staff, management, and members of the Board of Directors are expected to abide by the general principles and rules on ethical behaviour and integrity which are contained in the EBRD Codes of Conduct and related Bank policies. Each individual is responsible for adhering to these principles and policies and for observing all specific requirements relating to personal and professional behaviour. The Bank has procedures that address suspected instances of non-compliance with its ethical rules.

### **Review of Policy and Terms of Reference for OCCO**

This Policy will be approved by the Board and reviewed every five years, or as needed, to ensure that it reflects the highest standards of integrity in accordance with best practice.

# Office of the Chief Compliance Officer

## Terms of Reference

### Mission

The mission of the Office of the Chief Compliance Officer (OCCO) is to protect the integrity and reputation of the Bank, to promote ethical standards of behaviour and to strengthen the Bank's accountability and transparency. OCCO assists in identifying, assessing, and monitoring integrity risks arising from failure to comply with the Bank's standards and policies and contributes, in an independent manner, to the Bank's effective management of integrity risks.

### Objectives

OCCO's overall objectives are:

- to ensure that the Bank's ethical rules of conduct and internal standards, procedures, and guidelines on anti-money laundering, counter-terrorist financing, conflicts of interests, treatment of confidential information, and integrity due diligence are in line with, or reflect, internationally accepted norms;
- to ensure that Board officials, senior management, and staff members fulfil their obligation to behave in an ethical manner, consistent with the relevant Code of Conduct, and that they are adequately trained to meet these obligations;
- to oversee the effective administration of the Bank's external project complaint mechanism which reviews allegations that the Bank has failed to adhere to certain specified policies.

### Independence

OCCO has been established as a function that is independent of operational departments.

To provide for the independence of OCCO, all its staff report to the Chief Compliance Officer (CCO), who reports functionally and administratively to the President and has full and free access to the Chair of the Audit Committee<sup>1</sup>.

OCCO's independence is reinforced through the oversight role of the Audit Committee, as set out in this Committee's terms of reference. The Audit Committee assists the Board to fulfil its responsibilities relating *inter alia* to the status, ability to

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<sup>1</sup> For the purposes of these Terms of Reference, it is noted that the Chair of the Audit Committee operates only within the framework of the Procedures and Terms of Reference of Board Committees (BDS05-39 (Final) (Rev 2.))

perform duties independently, and performance of the Bank's compliance, internal audit, project evaluation and risk management functions. In relation to OCCO, this is achieved by:

- Periodically assessing whether OCCO:
  - has a role that is appropriate for the Bank's purpose and needs;
  - has policies, procedures, methodologies, budgets and staffing resources that are adequate to perform its role;
  - performs according to expectations;
  - has the ability to perform its duties independently from the departments, units or staff members over which/whom it exercises an oversight or review responsibility, and that the CCO has the ability to express opinions independently from other members of management.
- Reviewing annually the proposed scope of OCCO's work plan for the following year, and the process to develop the plan.
- Meeting regularly with the CCO without other members of Management being present.
- Noting any unresolved difference of opinion involving the President and the CCO which may be reported by the CCO to the Chair of the Audit Committee.
- Being consulted prior to the engagement of the CCO and reporting promptly its views on the matter to the Board.

As required by Section 3.4 of the Terms of Reference of the Audit Committee, any decision to remove the CCO (other than for misconduct) shall be taken by the President in accordance with guidance given by the Board of Directors in an Executive Session. Any allegation of misconduct against the CCO shall be dealt with as provided in the Code of Conduct for EBRD Personnel.

### **Authority**

OCCO has access to all of the Bank's units, departments and teams for the purpose of discharging its responsibilities, including the conduct of autonomous and independent investigations. Specifically, the CCO and OCCO staff are authorised to:

- Have unrestricted access to all Bank premises, functions and personnel, as well as unrestricted access to all information assets and property in the custody or under the control of the Bank, or subject to the Bank's right of inspection or audit. Information and documents accessed by OCCO shall be handled in the same prudent and confidential manner as required from those persons who are normally accountable for such information and documents.
- Have full and free access to all levels of Management, the President, the Chair of the Audit Committee, and the External Auditors.

## **Responsibilities**

The Office of the Chief Compliance Officer is responsible for promoting good governance and ensuring that the highest standards of integrity are applied throughout all activities of the Bank in accordance with best practice.

In carrying out its responsibilities, OCCO works closely with a number of departments, including the Office of the General Counsel, the Internal Auditor, the Human Resources Department, Risk Management, and the Evaluation Department.

Specifically, OCCO:

*Advises* senior management on relevant rules and standards and ensures that the Bank is aware of, or is following, best market principles and international standards particularly as concerns the following:

- Prevention of money laundering and terrorist financing;
- Fraud and corruption and other prohibited practices;
- Prevention of insider trading and conflicts of interest;
- Protection of confidential information; and
- Fair and equitable behaviour towards clients, sponsors, suppliers, counterparties and others with which the Bank interacts.

*Develops and recommends* the policies, rules, procedures and processes governing the ethical behaviour of Directors, management and staff of the Bank and establishes standards of integrity that the Bank expects of its clients, project sponsors and other counterparties. It ensures that new policies, rules, procedures and processes, or changes to existing ones, are effectively communicated and implemented throughout the Bank.

*Assists and provides* staff with guidance as to the proper management of actual or potential conflicts of interests with respect to their personal financial interests or resulting from their involvement in various capacities and multiple projects.

*Provides* independent expert advice to management on significant integrity concerns and assesses whether the potential risk is acceptable to the Bank, in accordance with the Bank's integrity due diligence procedures and the integrity due diligence guidelines.

*Monitors* compliance with the Bank's internal policies, procedures, and guidelines relating to the integrity of the Bank's clients, sponsors, borrowers, and other counterparties with whom the Bank interacts.

*Investigates*, in accordance with the Bank's Enforcement Policy and Procedures, allegations of Prohibited Practices with a view to making recommendations on possible sanctions.

*Assesses and recommends* the mutual enforcement of debarment decisions of participating institutions in accordance with the Agreement for Mutual Enforcement of Debarment Decisions and the Bank's Enforcement Policy and Procedures.

Identifies and investigates, in accordance with the Conduct and Disciplinary Rules and Procedures or the Bank's Codes of Conduct allegations or incidents of non-observance of the Bank's rules and standards on ethics and integrity, and, where applicable, makes a recommendation whether the results of the investigation justify raising a formal accusation of misconduct.

Where an investigative process reveals evidence of misappropriation of Bank funds or other assets or breaches of or weaknesses in the Bank's financial, accounting or control systems, the CCO is required to refer the matter to the Head of Internal Audit (HIA) and to inform the Vice President responsible for Finance and the Vice President responsible for Risk Management of such referral..

Oversees the Bank's procedures for selecting the panel of external integrity due diligence consultants and assists in the formulation of the terms of references for particular investigations.

Trains staff through awareness raising activities in regards to integrity, anti-money laundering, conflict of interests, and ethical matters, and acts as a contact point within the Bank for queries from staff members in respect of their obligations. It also provides training on integrity and ethics to members of the Board of Directors.

Administers arrangements regarding the appointment of Bank Nominee Directors to the boards and board committees of Bank investee companies and provides advice to Bank staff on issues relating to their obligations as nominee directors.

Processes complaints from individuals and civil society in relation to Bank financed projects in accordance with the procedures set out in the Bank's project complaint mechanism.

Authorises various requests for exceptional access to Bank information assets pursuant to various Bank policies and procedures, including, without limitation, certain data files created on the Bank's voice recording system.

### **Statutory responsibilities and liaison**

The OCCO serves as the Bank's anti-money laundering reporting office and ensures liaison with relevant external bodies, including standard setters and external experts.

### **Review of Terms of Reference**

The Audit Committee will formally assess, at least every five years, or as needed, whether the mission, objectives, independence, authority, and responsibility as defined in these terms of reference continue to enable OCCO to accomplish its objectives.

Approved by the Board of Directors  
2 June 2014