

*Prepared, not delivered*

**Opening Statement**

**Chairman Michael G. Oxley  
Committee on Financial Services**

**“Risk Management and Regulatory Failures at Riggs Bank and UBS:  
Lessons Learned”**

**Subcommittee on Oversight and Investigations**

**June 2, 2004**

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Thank you, Chairwoman Kelly, for convening today’s hearing before the Oversight and Investigations Subcommittee concerning two recent cases where bank misbehavior at a U.S. bank (Riggs) and a foreign bank (UBS) over an extended period of time ultimately led federal regulators to sanction those banks.

In both cases, high-prestige lines of business missed risk management and regulatory scrutiny because they did not generate high revenues. In both cases, flagrant violations continued to occur even after regulatory authorities began to inquire and demand remedial action.

Riggs Bank N.A. was recently fined a \$25 million civil money penalty for Bank Secrecy Act noncompliance. As I understand it, Riggs allowed substantial sums of money to pass through diplomatic accounts over a number of years. It failed to comply with a number of Bank Secrecy Act reporting requirements, including the substantial changes made to these statutes following the September 11 events.

To compound the problem, once this behavior was revealed by the Office of the Comptroller of the Currency last year, it took many months to halt the improper money handling practices at Riggs, even with an OCC examiner on the premises!

The second situation involves the Union Bank of Switzerland (UBS) and its performance under a contract with the Federal Reserve Bank of New York (the Fed) to act as agent for the Fed in disbursing and receiving U.S. banknotes outside the United States through a vault in Zurich. In brief, UBS violated its “Extended Custodial Inventory” (ECI) contract by engaging in transactions to buy and sell U.S. banknotes with counterparties in countries subject to U.S. restrictions and then failing to disclose the transactions. Those countries were: Cuba, Iran, Libya, and two parts of the former Yugoslavia. The contract with the Fed specifically prohibited such transactions.

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These transactions came to light by accident, when a cache of U.S. dollars originally shipped through the Zurich facility was discovered in post-Saddam Iraq. UBS aggravated the situation by taking over six months to identify and remedy pervasive weaknesses in their internal risk management structure that permitted the violations to continue up until the day the Fed terminated its contract with UBS.

The Federal Reserve fined UBS \$100 million for this action. This is the second largest fine ever levied by the Fed, and the largest was against BCCI in the early 1990s. I question whether the magnitude of the UBS fine is sufficient in light of the gravity of the risk management failures and deliberate efforts to conceal prohibited activity. The fine seems roughly equivalent to the value of the ECI business. But it barely dents the quarterly earnings at UBS. I understand that the Swiss authorities also have taken regulatory action, but this information is not publicly available.

I thank Chairwoman Kelly for her leadership in inviting representatives of the OCC and the Fed here today to discuss these two important cases. We need to understand how these problems could have existed and, more importantly, could have persisted after regulatory inquiries had begun.

I am eager to hear our witnesses review these situations in some detail, especially regarding the apparent failure of the two banks' internal risk management and transaction reporting systems. Further, I want to hear about the regulators' efforts to correct these problems, and consider what recommendations they might have for avoiding similar problems in the future.

Our regulatory systems are designed to identify and stop money laundering as well as to disrupt terrorist financing schemes. While the inappropriate actions under discussion today were eventually exposed and stopped, they did operate for quite some time without American regulatory intervention. I want to know what we can do to prevent such problems now and in the future.

One strength of democratic government is that problems are discussed openly and, when possible, remedied quickly. In both the Riggs and UBS cases, serious remedial action has been taken, and we now seek to learn from the mistakes. The Fed is to be commended for achieving an unprecedented level of cooperation and information-sharing with its Swiss counterpart, the EBK.

Again, my thanks to Chairwoman Kelly for convening this hearing and to our witnesses for their willingness to explore intricate and, often, unresolved matters related to these two cases for the public record. I look forward to an informative session.

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