FATF Updates,

Common AML Exam Deficiencies

&

AML Supplement Amendments

29 September 2010

FATF Updates (1)

- **The FATF reviewing the standards for the 4th round of evaluations**
  - RBA
  - R.5, R.9, R.33 & R.34
  - tax crime
  - international co-operation
  - cross border information exchange
  - UNCAC

- **Proposals to Plenary in October 2011**

FATF Updates (2)

- **Completed reviews**
  - tax crime as a predicate offence
    - existing predicate HK (sec. 82, Cap.122)
  - domestic PEPs

- **Obstacles to cross border information exchange**
  - will review the sharing of STR information between group entities
  - obstacles: banking secrecy, tipping off, data privacy
  - existing practice in certain jurisdictions
    - Art.28 3MLD, Sec.333 POCA, FINCEN Note (20 Jan 2006)
  - enhance group risk management

FATF Updates (3)

- **Increased transparency of all wire transfers**

  – **triggered by cover payments issue**

  – **review of SR VII**

  – **mandatory beneficiary information**

- **Sanction screening "blind spots"**

  - **connected parties not screened at account opening**

  - **no ongoing screening of connected parties**

  - **rescreening only upon specific transaction basis**

Common AML Exam Deficiencies (2)

- **Initial CDD on corporates**

  - **failure to verify still exists/registered (i.e. not wound-up, dissolved, struck-off, suspended, etc.)**

  - **insufficient information regarding ownership & control structure**

Common AML Exam Deficiencies (3)

- **Ongoing review**

  - implementation issues - failure to adequately define what constitutes a "trigger event"

  - no evidence reviews on "trigger event" undertaken

  - no efforts to verify no change in ownership/control of a corporate

  - confirm corporate still exists/registered (i.e. not wound-up, dissolved, struck-off, suspended, etc.)

- **Correspondent banking**

  - **no due diligence on SWIFT / BKE authorisation exchange for payment purposes**

  - **blanket adoption of due diligence performed by head office**

  - **no risk assessment & enhanced monitoring of higher risk relations**

  - **no periodic review of due diligence**

AML Supplement Amendments

- **Amendments published in July 2010**

  - address the issues raised in the FATF MER

  - better reflect international standards

- **Effective date 1 November 2010**

Amendments (2)

Address verification

- record and verify the address of direct customer

- record the address of all connected parties and verify on the basis of risk & materiality

Directors

- identify all directors

- verify the identity of at least <u>one (previously two)</u>

- verify additional directors on the basis of risk & materiality

Amendments (3)

Non account holder transactions

- **CDD on all transactions $120,000 or more (single/ multiple operations with obvious connection)**

- **identify and verify customer and beneficial owners**

- **wire transfers $8,000 or more - verify originator's identity**

- **currency exchange $8,000 or more - verify customer's identity**

Amendments (4)

Third party Reliance

- **restricted reliance on domestic intermediaries to**
  - **AIs, LCs, IAs**
  - **lawyer, auditor, accountant, trust company and chartered secretary**

- **restricted reliance on overseas intermediaries to**
  - **FIs, lawyer, auditor, accountant, tax advisor, trust company and chartered secretary,**
  - **from an equivalent jurisdiction,**
  - **regulated and supervised for AML compliance**

Amendments (5)

Politically Exposed Persons

- appropriate system to determine whether the customer/connected parties are politically exposed at

  - a/c opening & on periodic basis thereafter

  - e.g. periodic screening against commercial electronic database

- senior management approval for continuing business relationship with individual subsequently found to be politically exposed

Amendments (6)

Ongoing Review

- **high risk customers on an annual basis**
- **standard risk customers on "trigger event" basis**
- **"trigger event" to be clearly defined**

Thank You