

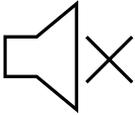
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Fundamentals of Customer Due Diligence

March 2024



Administration

- Please mute your microphones when not speaking 
- Have your mobile phone handy
- Use the group chat if you wish to comment or ask questions
- Raise your hand if you have questions, and unmute yourself
- Parking Lot
- Co-creation of Content
- Participate actively
- Have fun
- Participation Certificate



Have Burning Questions?



<https://app.sli.do/event/wWdpcNVCNptsAaywczdeVv>

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Preliminary Survey - top questions/main concerns do you have with regards to Financial Crime Compliance and/or Correspondent Banking?

1.	Digital technology	
2.	How to identify, detect and prevent fraud and scams	
3.	Applying best practices over conducting due diligence checks and not over checking.	
4.	What are the types of risks associated with the correspondent banking and how do we mitigate the risks?	
5.	Sanctions exposure	
6.	From a correspondent bank's perspective, main concern is on nested payment intermediary (PI) relationship as Banks and PIs may not be subjected to the same level of regulatory scrutiny. Banks will need to scrutinise and monitor more complicated scenarios for nesting involving combination of respondent bank and their Bank customer or PI customers or even another level down.	
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24.	Exploiting the banking system to layer funds related to money laundering investigations.	



Burning Questions

Parking Lot

- Can ISO20022 help expand correspondent banking? Should banks in the global south accept that the US dollar is out of their reach and look for other currencies?
- 10 years ago there were 100 banks offering USD correspondent banking - now less than 60. Considering all issues, what specific actions could a banker take?



Correspondent Banking and the Practical Approach to AML/CFT

Module 1 - Correspondent Banking – An Introduction

Module 2 – Fundamentals of Customer Due Diligence

Module 3 – Sanctions and Terrorist Financing

Module 4 – Enterprise-Wide Risk Assessment

Module 5 – Transaction Monitoring

Module 6 – Anti-Bribery and Corruption

Module 7 – Suspicious Transaction Investigation and Reporting



Recap of Module 1

International regulatory standards setters and bodies – Frameworks and initiatives



International regulatory standards setters and agencies

International regulatory works and initiatives

Country Primary legislation

Secondary legislation

Rules and regulations (Regulators)

Industry guidance/Best Practices

Firm and Compliance Function





Financial Action Task Force (FATF)

Inter-governmental body established in 1989 by G7 countries

The objectives of the FATF:

- Set Standards
- Promote effective implementation of legal, regulatory and operational measures for combating money laundering, terrorist financing and other related threats to the integrity of the international financial system

Tools and methods used to achieve these objectives:

- FATF recommendations, Mutual evaluations
- High-risk and non-cooperative jurisdictions, Guidance and typologies reports

<http://www.fatf-gafi.org/pages/aboutus/>



Asia Pacific Group on Money Laundering (APG)

The APG is part of a global network of similar bodies, referred to as Financial Action Task Force-Style Regional Bodies (FSRBs) and is the largest in terms of membership numbers and geographical size. The APG also has a large number of observers (both jurisdictions and supporting organizations) that participate in its programmes and activities. Some of the key international organizations that support the APG include the International Monetary Fund, World Bank, OECD, United Nations Office on Drugs and Crime, the UN's Counter Terrorism Executive Directorate, Asian Development Bank, Commonwealth Secretariat, INTERPOL and the Egmont Group of Financial Intelligence Units.

Five primary functions:

- Mutual Evaluations
- Technical Assistance and Training
- Typology Research
- Global Engagement
- Private Sector Engagement



Predicate Crime

A criminal activity that generates proceeds that can be laundered (i.e. the crime behind the crime)

Examples:

- Fraud
- Human trafficking
- Illicit wildlife trafficking
- Drug trafficking
- Arms trafficking
- Tax evasion
- Corruption and bribery
- Etc

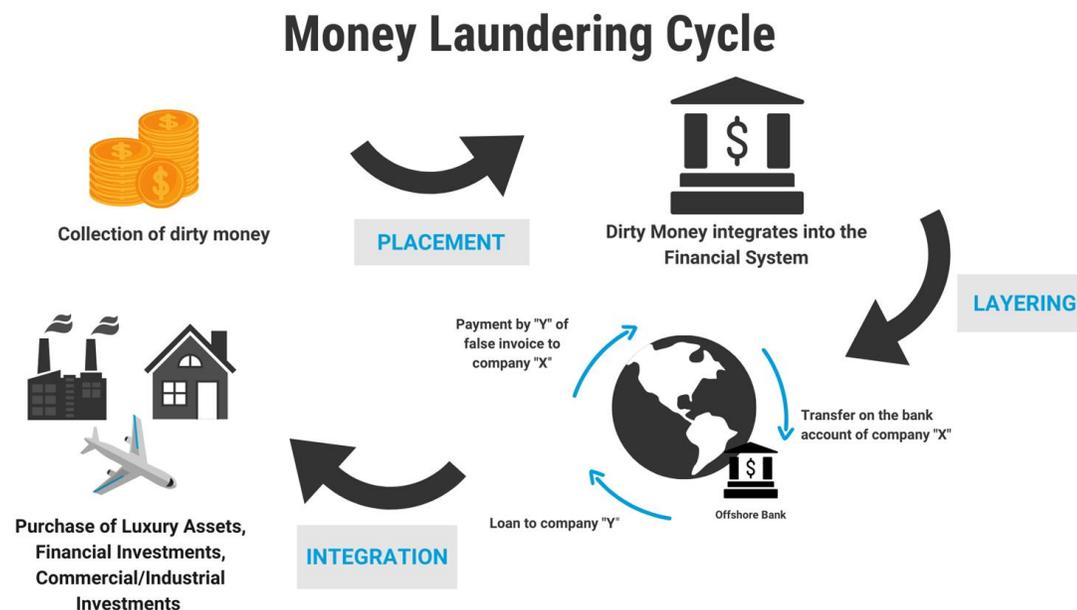
The European Union 6th Anti-Money Laundering Directive (6AMLD), which identifies 22 predicate offenses that can be associated with money laundering

It is not a victimless crime





Key Anti-Money Laundering Concepts

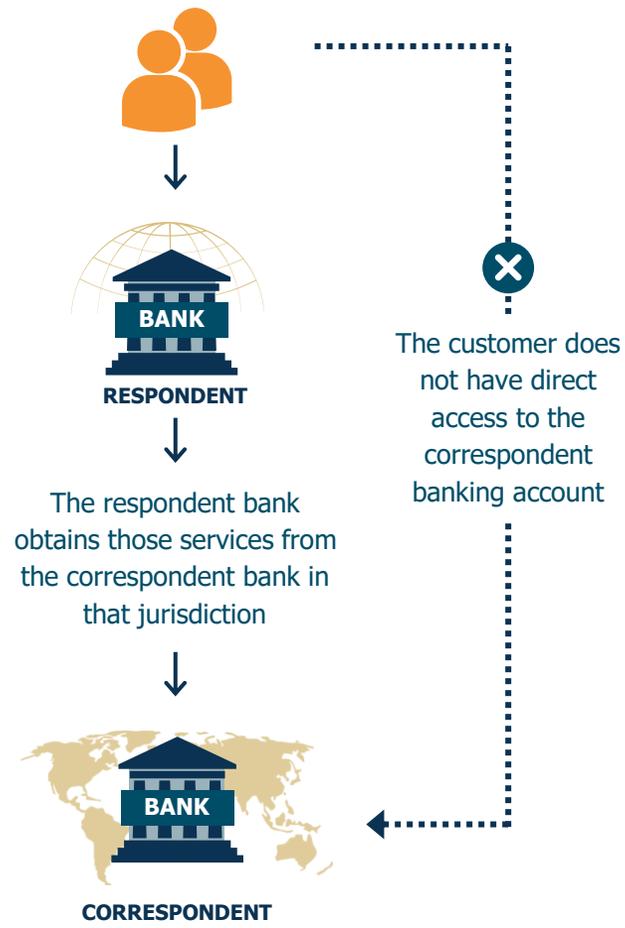


- Customer due diligence
- Identifying suspicious activities
- Risk based approach

Common Correspondent Banking Structures

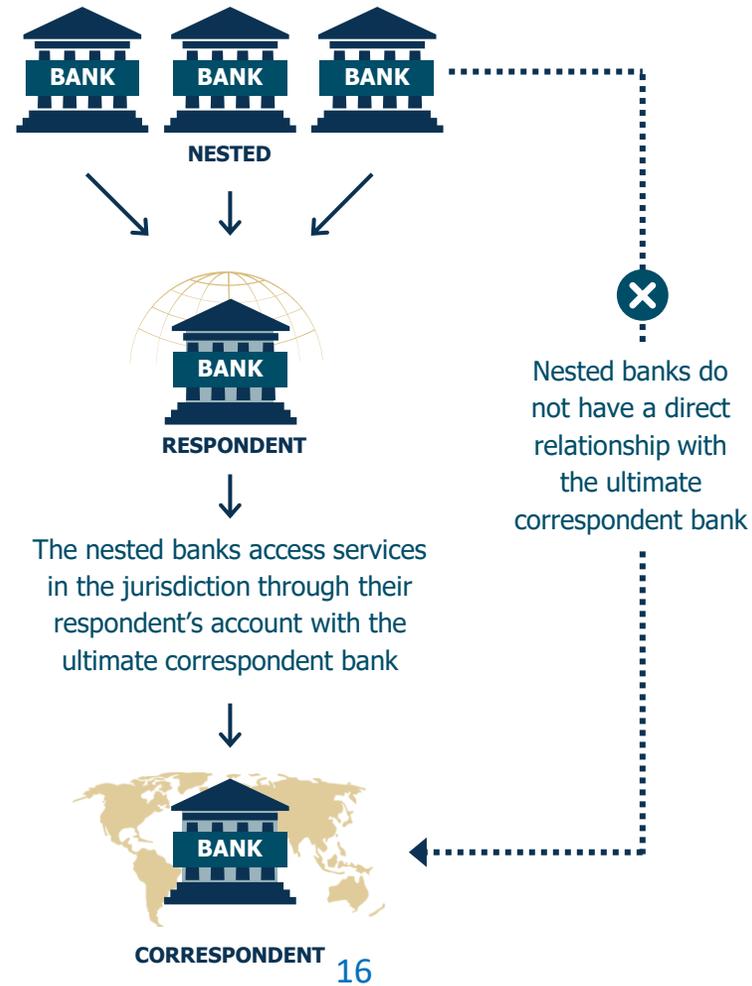
DIRECT

A bank wants to provide its customers with services in foreign jurisdiction



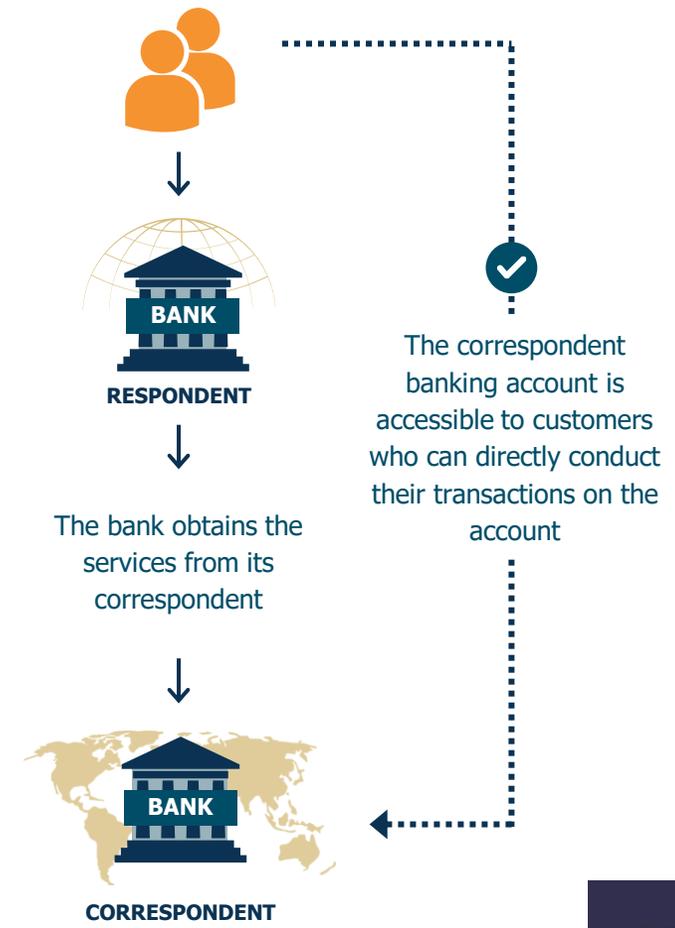
NESTED

A number of banks use another bank's correspondent relationship to conduct transactions and access other financial services



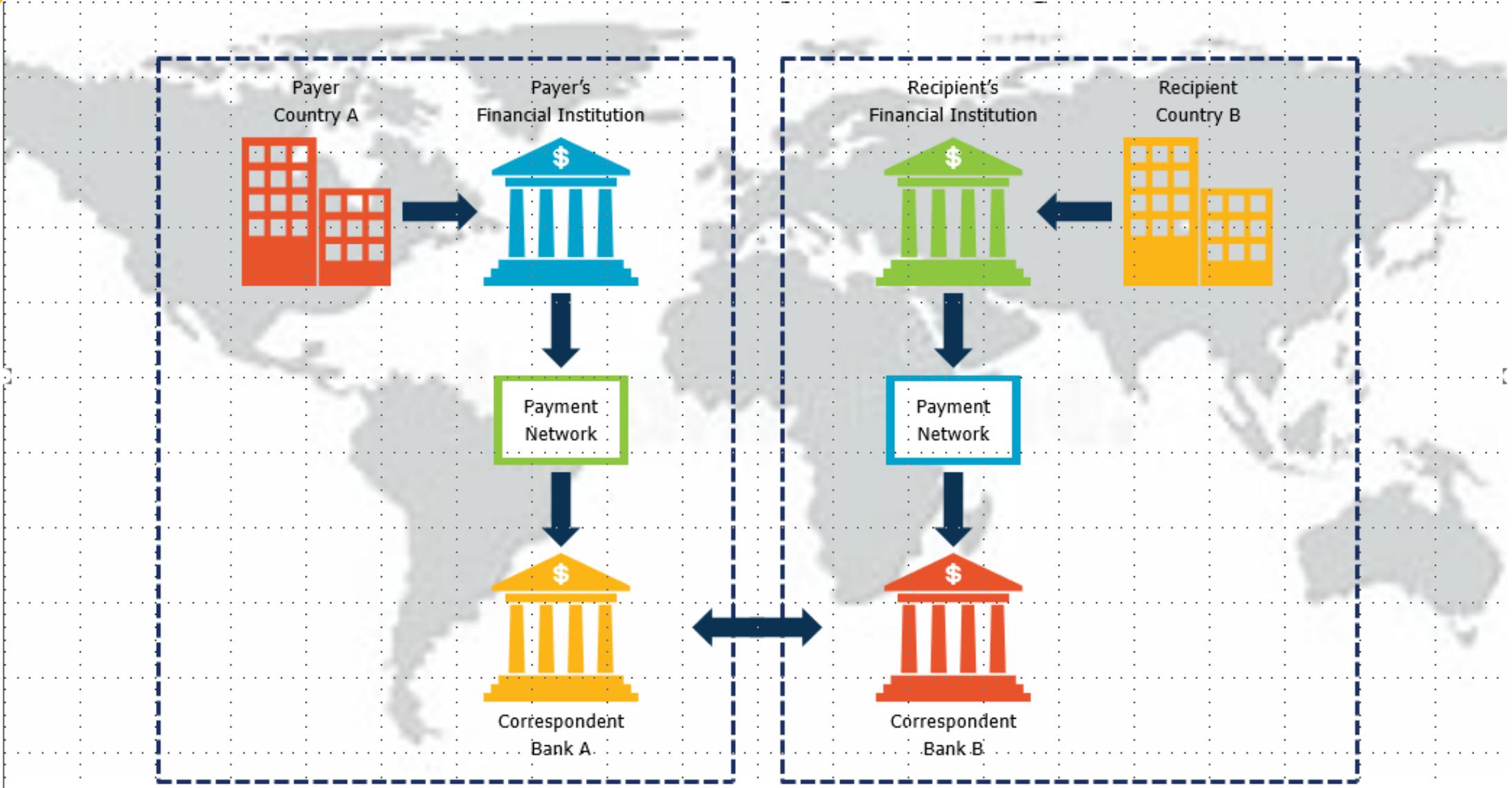
PAYABLE-THROUGH OR PASS-THROUGH

A bank wants to provide its customers with services in foreign jurisdiction





Cross Border Correspondent Banking





What is 'risk' in Correspondent Banking?

- Correspondent often has no direct relationships with the underlying parties to the transactions they process
 - has limited information
 - unable to verify their identities
 - often have to rely on the controls and due diligence programmes the respondent banks have put in place
- Risks of financial crime can arise in the relationship between the correspondent and the respondent, particularly where these two entities operate within different legal frameworks, jurisdictions and perhaps to different standards

New transaction banking initiatives are changing traditional correspondent banking practices and payment processing paradigms



Breaking down the challenges further

- Regulatory compliance
- Security
- Foreign exchange rate fluctuation risk
- Lack of transparency
- High cost
- Interoperability
- Data privacy
- Rise of fintechs and new, innovative payment methods
- Liquidity management
- De-risking leading to the search for alternative channels



What are the expectations of the Respondent

- Partnership – clear and open communication related to FCC matters and the provision of complete and accurate due diligence information
- Responses to Requests for Information – timely and fulsome responses to inquiries related to transactions in the account
- Understanding of the Institutions' risk appetite and compliance with any restrictions communicated



How familiar are you with the Customer Due Diligence Process?

1 - I am unfamiliar

to

5 - I know the process well

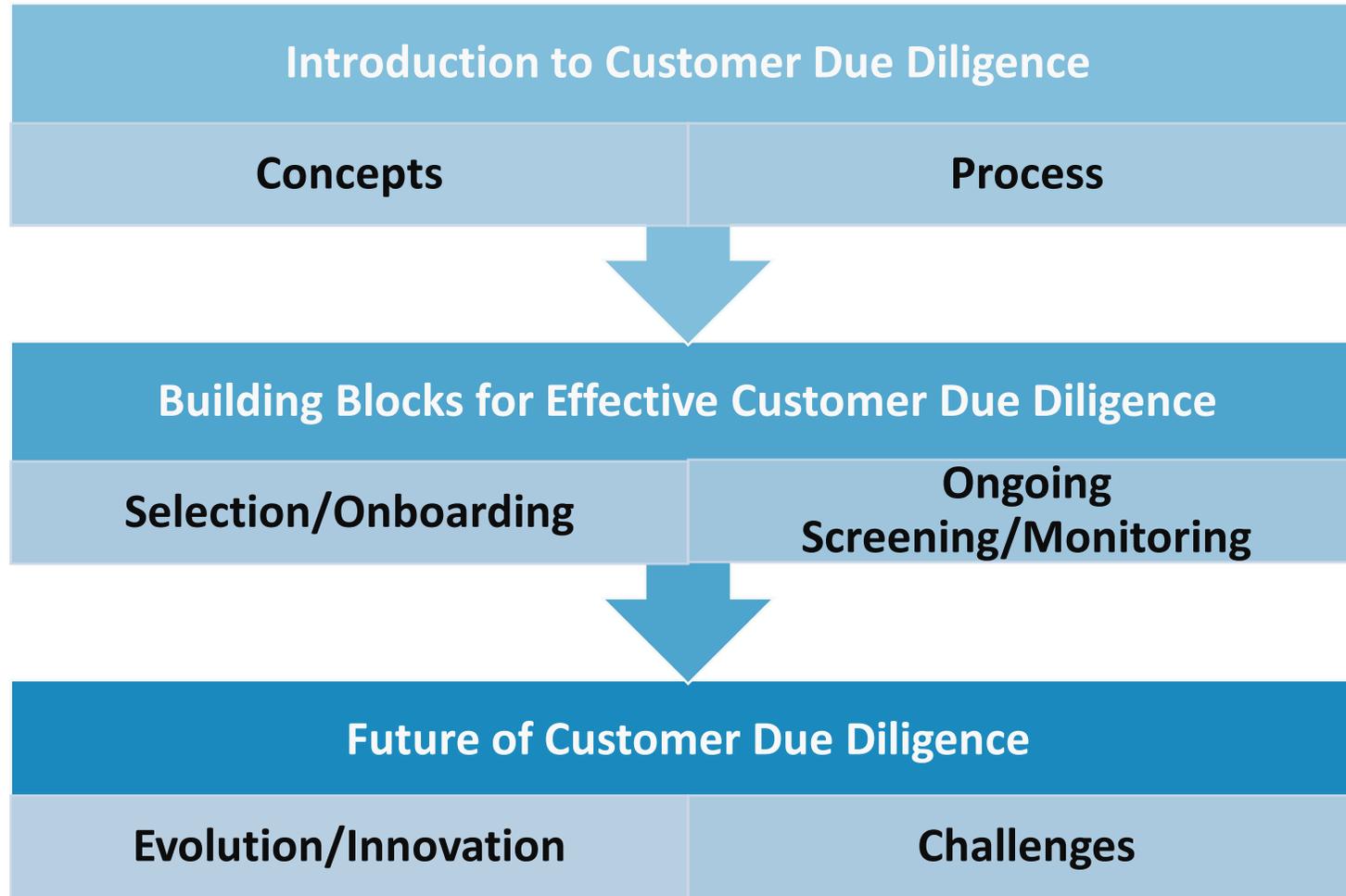
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Learning Objectives of this module





This guy walks into your business premise – what would be his risk rating?



Singapore – August 2023 Headlines

S\$3 Billions worth of assets seized and still counting ...

Arrested and charged



Persons of interest





Name: Su Wenqiang

Age: 31

Nationality: Originally from China, holds a Cambodian passport

Charges: 9 (so far)

Money laundering accused on the run from Chinese authorities, came to S'pore in 2021.

An executive at a remote lottery business operating from the Philippines and Cambodia, and targeting gamblers from China



How we think of #KYC:



How it should be:



Credit:
<https://www.linkedin.com/in/luke-raven>



KYC VS CDD



FATF and FSRB



Credit: Notabene



High-Risk Jurisdictions subject to a Call for Action - Feb 2024

aka FATF Black List



Democratic People's Republic of Korea



Iran



Myanmar



Jurisdictions under Increased Monitoring - Feb 2024

aka FATF Grey List

 Bulgaria	 Kenya	 South Africa
 Burkina Faso	 Mali	 South Sudan
 Cameroon	 Mozambique	 Syria
 Democratic Republic of Congo	 Namibia	 Tanzania
 Croatia	 Nigeria	 Turkiye
 Haiti	 Philippines	 Vietnam
 Jamaica	 Senegal	 Yemen



Customer Due Diligence

FATF Recommendation 1 - Assessing risks and applying a risk-based approach

FATF Recommendations 10/11 – Customer Due Diligence and Record-Keeping

Levels of Customer Due Diligence

- Standard
- Simplified
- Enhanced



Key Elements of Customer Due Diligence Process

Who:

- Legal Entities
- Individuals



3 Processes

What:

- Onboarding – [KYC/B] *New Customers

Collect, screen, verify info	Customer risk score	EDD for high risk	Approve
<ul style="list-style-type: none"> • General info and profile • E.g. Workplace / Wealth / Trust and Beneficiary 		<ul style="list-style-type: none"> • Politically exposed persons • Criminals • Terrorists • Sanctioned individual / entity • On watchlist 	<ul style="list-style-type: none"> • Your existing customers 

- Periodic Screening / Monitoring for *Existing Customers. Based on Trigger Events.
 - ✓ Ensure update on Information
 - ✓ Check for suspicious transaction reports, trend analysis, investigation outcome

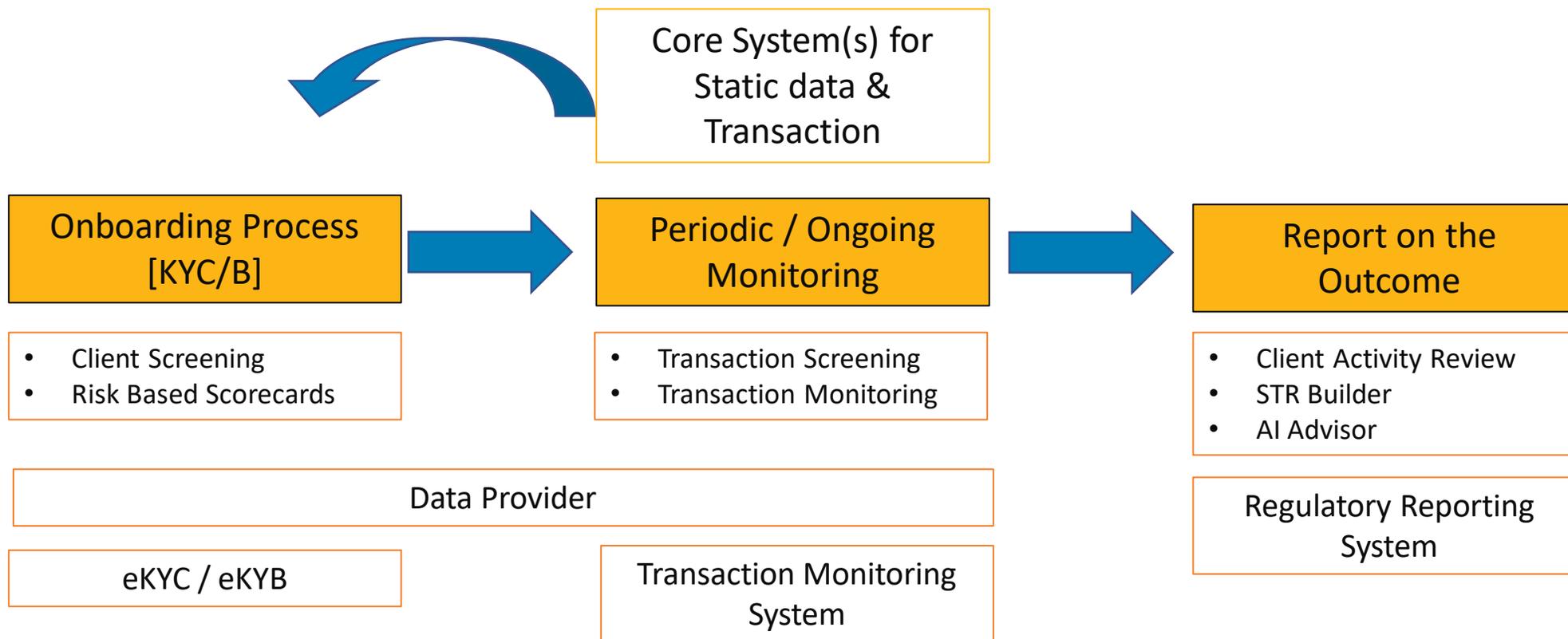
- Ongoing screening / Monitoring for *Existing Customers

Extract report from database	Analyse report	Highlight potential redflags
<ul style="list-style-type: none"> • To check internal database with Data Providers e.g. <u>Worldcheck</u> / Dow Jones 	Pattern analysis <ul style="list-style-type: none"> • No. of submission • Content of submission 	<ul style="list-style-type: none"> • Frequent loans • Unusual withdrawal activity 



Tools

Implementation of Tools into the Processes





Identification & Verification



Customer Identification & Verification

Identity + Location +
Ownership
(Documents)

Name Screening

Documents/ Ownership
Validation

- **Activity**
- Purpose
- Basic Financial Information
- FATCA/ CRS

Verification:
- Telephonic
- Field

Additional Documents:
If Required



Name Screening

ISIL (Da'esh)
& Al-Qaida*

1988 Sanctions List
(Consolidated & Taliban)*

Other UNSCR Lists
(Per Regulator)

National Sanctions List
(UAPA)

Criminals/ PEPs Lists/
Adverse Media

OFAC (SDN & Others),
HMT, MAS, etc. Lists



Ongoing monitoring

- Ongoing names screening
- Transaction screening
- Transaction monitoring
- Red flags
- Risk modelling and threshold and detection scenario setting
- False positives
- Periodic review

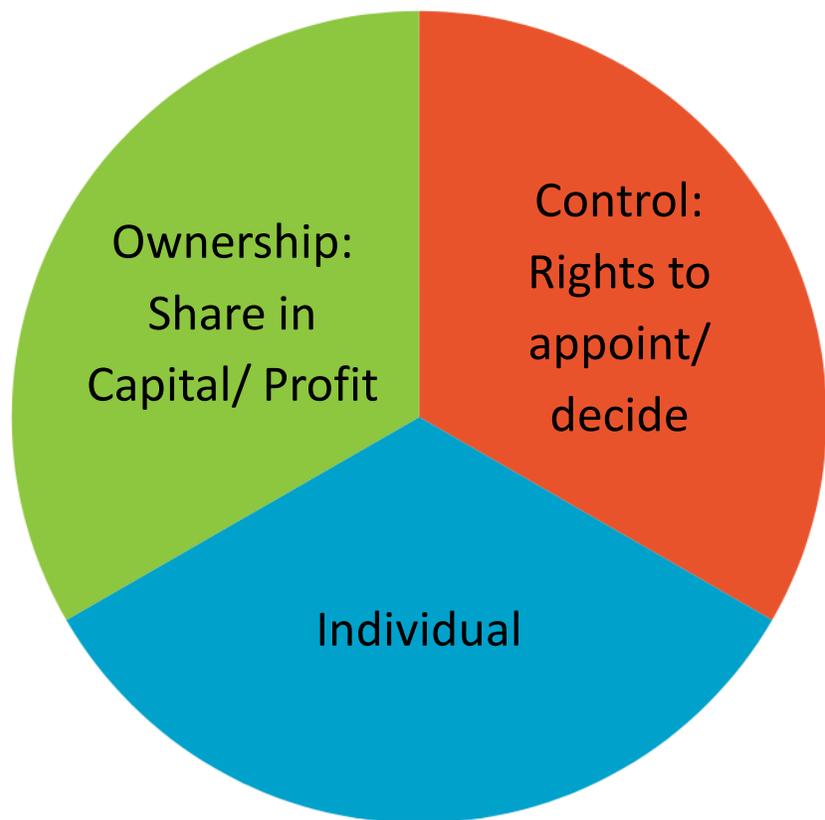


Beneficial Ownership



Beneficial Ownership

FATF Recommendations 24/25 – Transparency and Beneficial Ownership of Legal Persons and Arrangements



Controlling Executive Position

Company (Not for Listed Co./ Its subsidiaries)

Partnership (Registered)

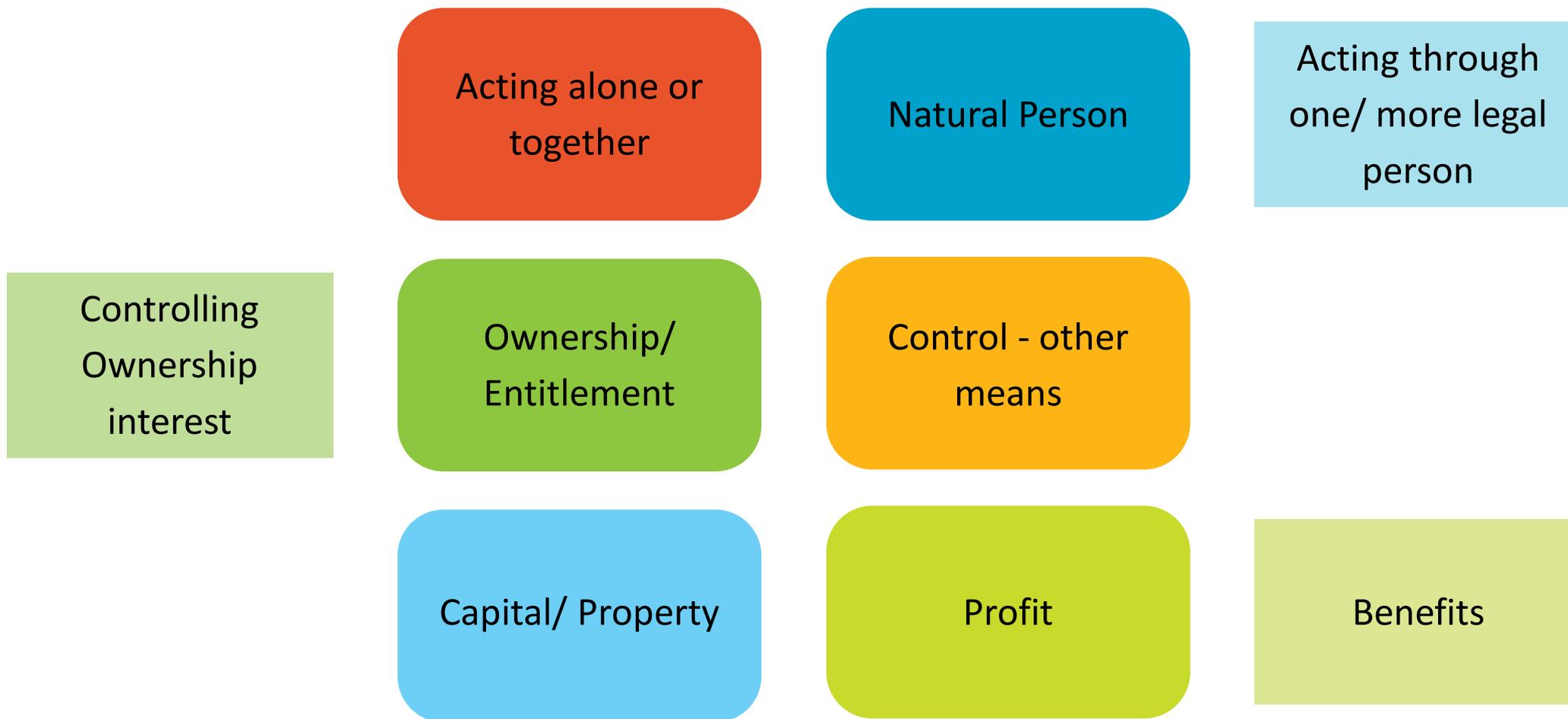
Association/Body of Individuals*

*Also: Society/ Partnership & Trust (Not registered)

Trust (Registered)

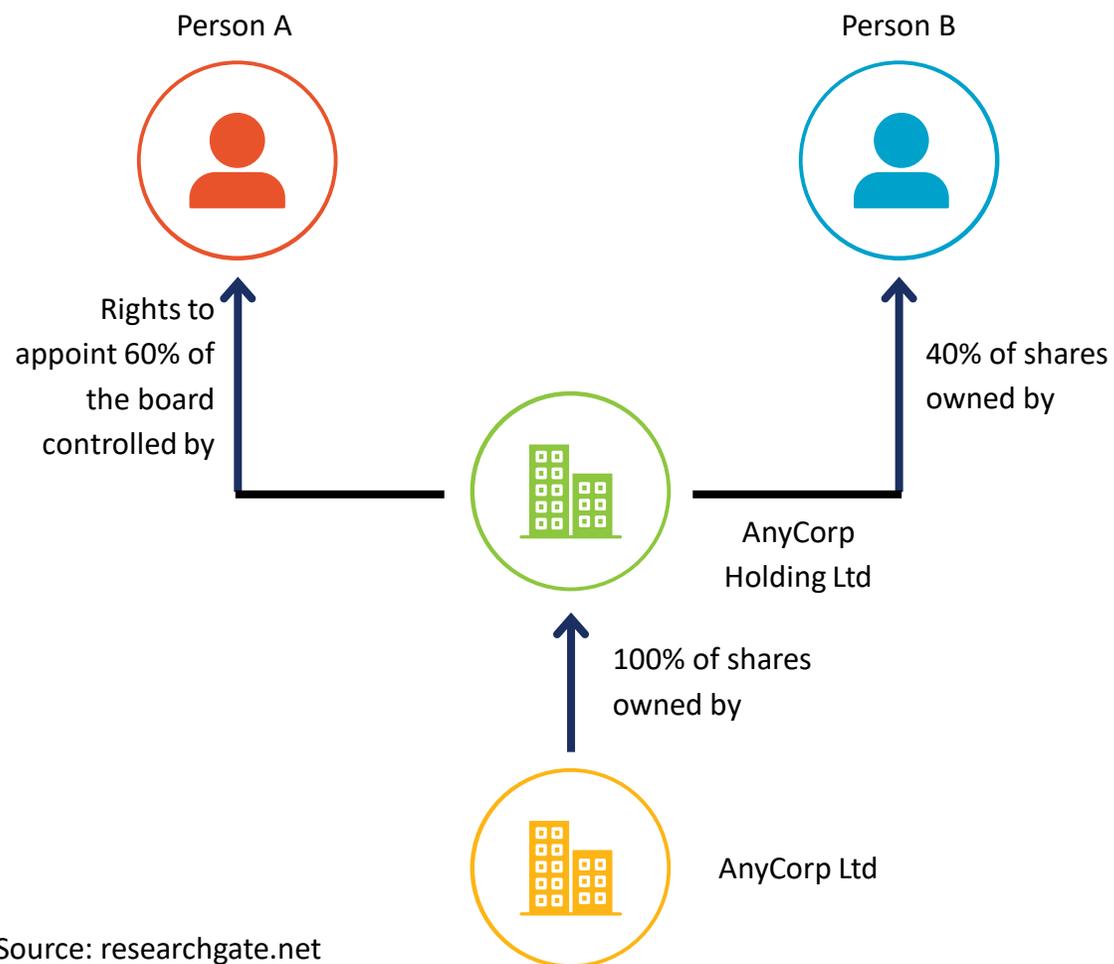


Beneficial Ownership: Concept





Beneficial Ownership: Illustration



Source: researchgate.net

Diagram based on the Beneficial Ownership Data Standard Primer, showing two beneficial owners of AnyCorp Ltd.

While the direct legal owner of AnyCorp Ltd is a holding company, it is the natural persons further up the ownership or control chain who are the ultimate beneficial owners

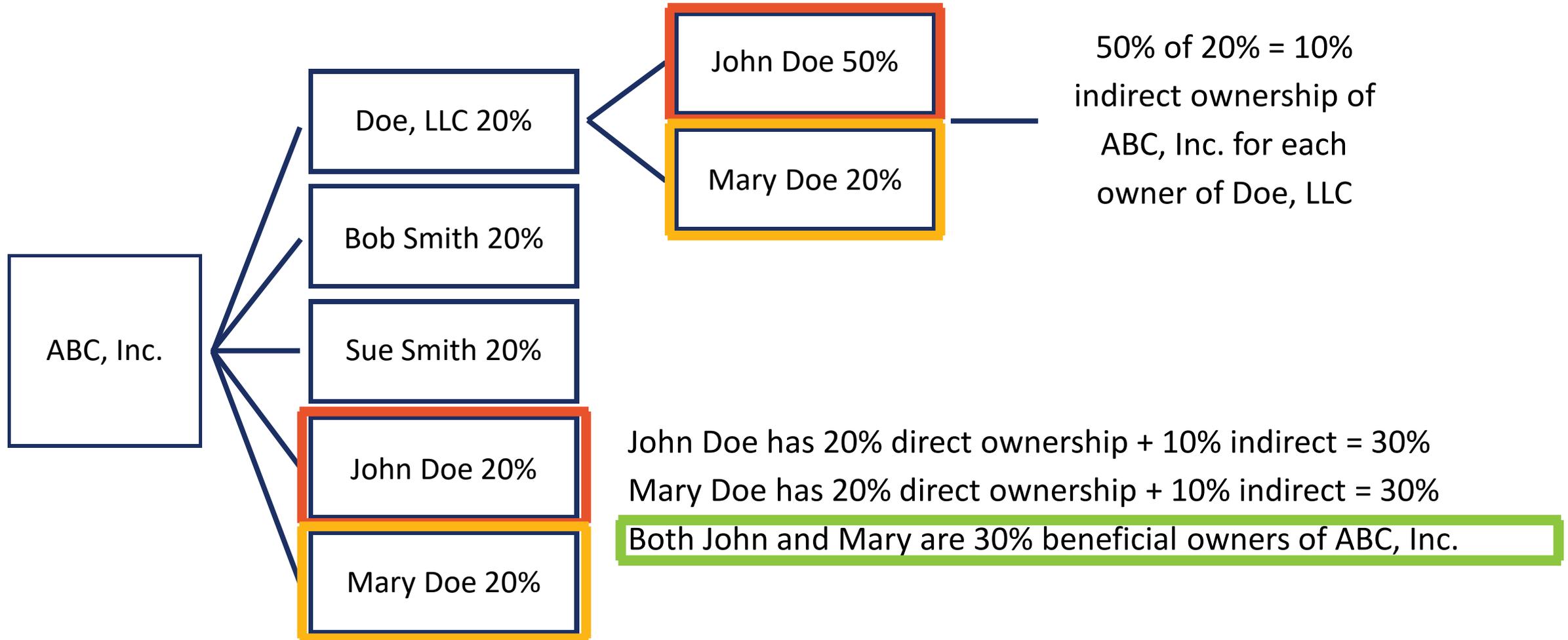


Beneficial Ownership: Company

- Controlling ownership interest:
> 25% shares/ capital/ profit
(OPC – Shareholder/Nominee) (LLP – Designated Partners)
- Control Rights:
Appointing majority of directors/ Control management/ Policy decisions
- Through: Shareholding/ Management rights/ Shareholders agreements/
Voting agreements
- Exception: ‘Customer’ or ‘Owner of Controlling interest in Customer’ - Listed
Company or Subsidiary of Listed Company agreements

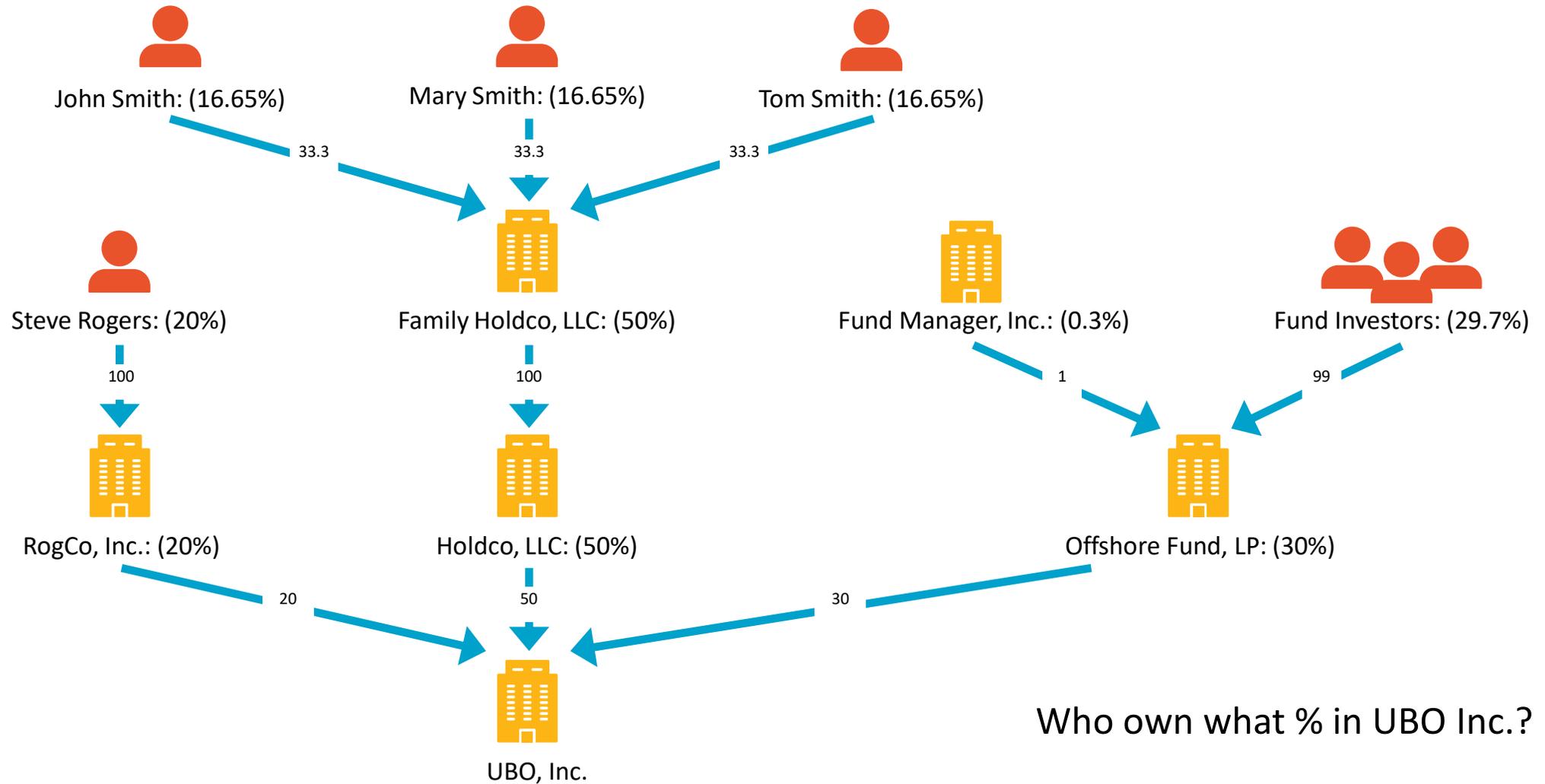


Beneficial Ownership: Illustration





Beneficial Ownership: Illustration





Customer Risk Assessment & Rating



Customer Risk Assessment

Client Risk

- Type of Client (Individual, Corporate, State Owned, Public Listed, Private, Trust, Foundation)
- Verified Sources of Wealth/Funds
- Regulation status
- Years in Operation

Industry Risk

- Industry type (Primary)
- Industry type (Secondary)

Jurisdiction Risk

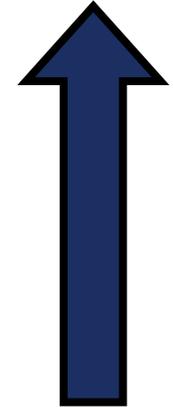
- Country of Incorporation
- Country of Operation

Delivery Channel Risk

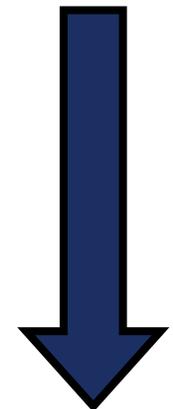
- Channels of Delivery

Products Risk

- Screening at onboarding
- Approval at senior level
- Existing customer – continuing approval
- Enhanced on-going monitoring



**PEP/Sanctions/
Adverse Media**





PEP – Enhanced Due Diligence

Why?



PEP: Enhanced Due Diligence

Criteria	<ul style="list-style-type: none">• Prominent public function - foreign country• Domestic Also (FATF)
Functionaries	<ul style="list-style-type: none">• Heads of Govt., Senior politicians, Party officials• Senior Govt., Public sector officers• Cover also: Entities (BO's), Relatives, Associates
EDD	<ul style="list-style-type: none">• Sufficient info. – also a/c of family, relatives• Info on associates• Search public domain• Sources: funds, wealth
Procedure	<ul style="list-style-type: none">• Screening at onboarding• Approval at senior level• Existing customer – continuing approval• Enhanced on-going monitoring



PEP – Enhanced Due Diligence

Once a PEP always a PEP

What is your view?



Sanctions

What is your appetite?



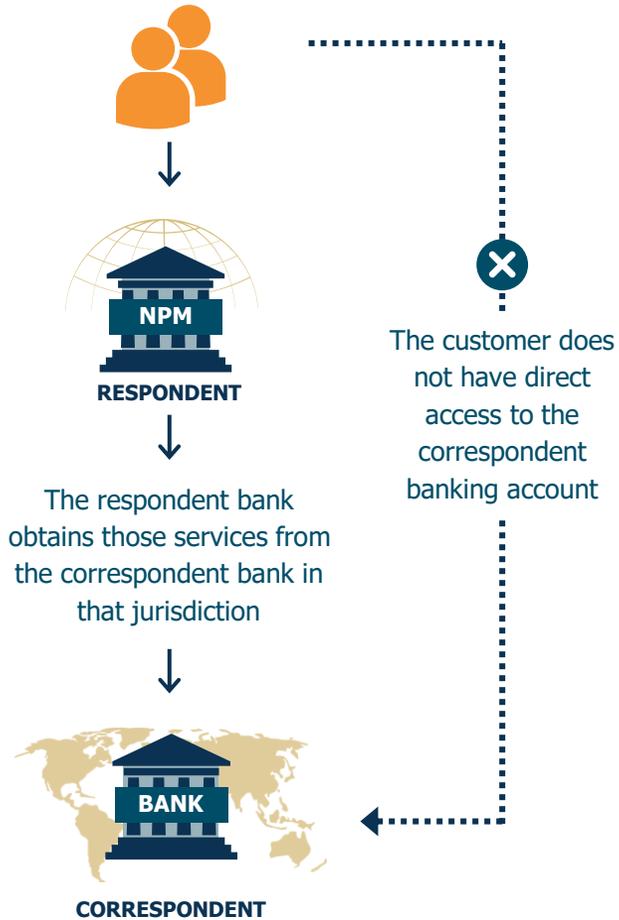
Adverse Media: Assessment

How?

NEW PAYMENT METHODS (NPM)

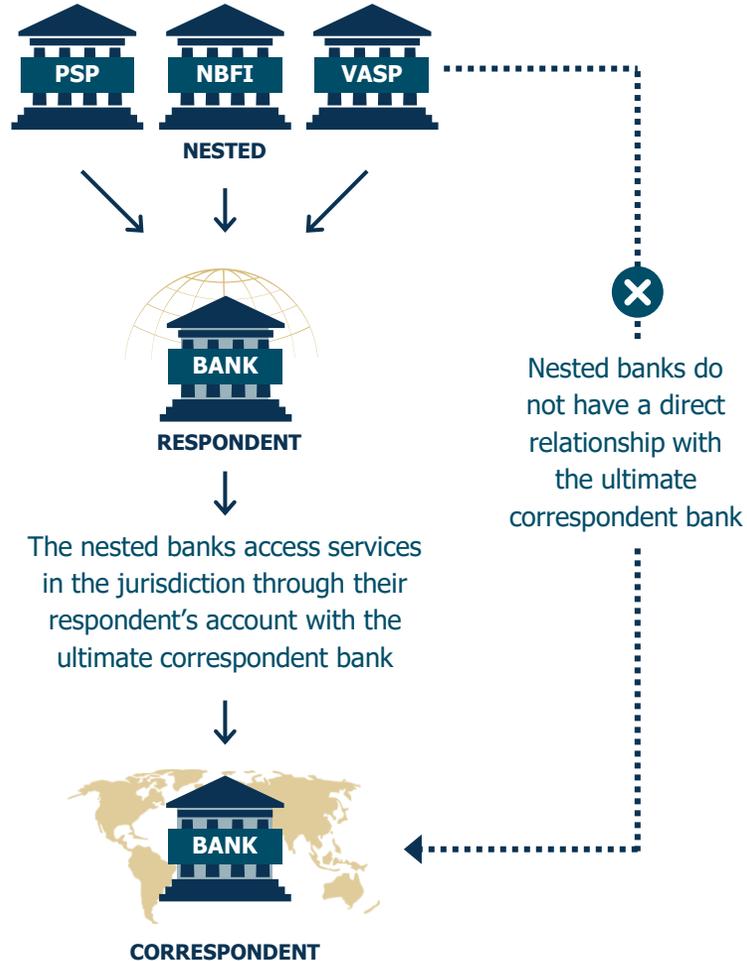
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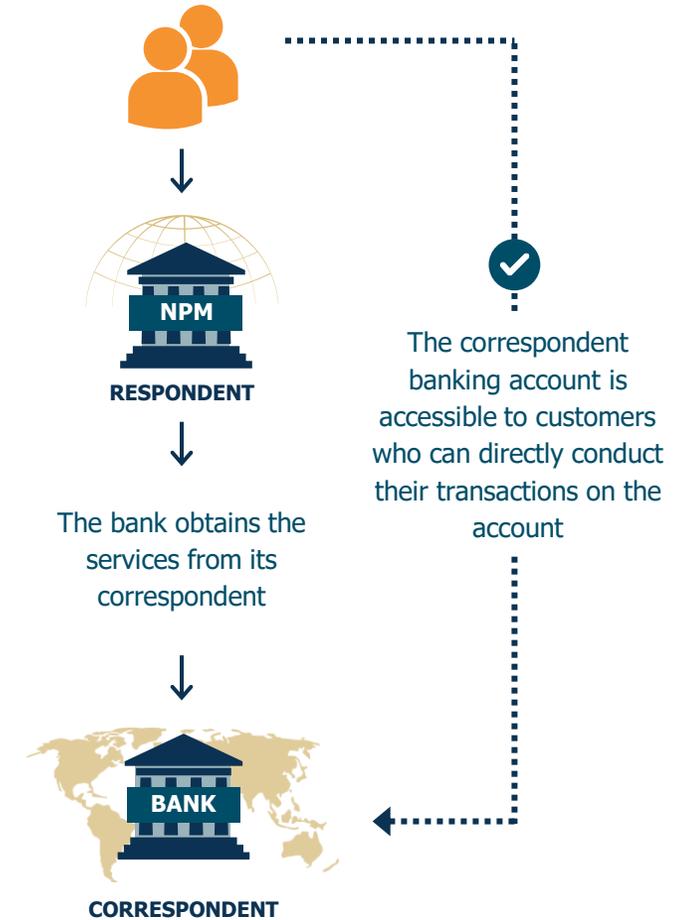
NESTED

A number of banks use another bank's correspondent relationship to conduct transactions and access other financial services



PAYABLE-THROUGH OR PASS-THROUGH

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Breakout/Discuss (10 min)

1. A Crypto Exchange approaches your bank to open an account
2. Identify material inherent ML/TF/PF and sanctions risks
3. What would be your considerations to decide to onboard or not?



Organizational roles in Effective Customer Due Diligence



Organizational roles in Effective Customer Due Diligence

- Robust enterprise-wide risk management and internal control framework
- Risk governance and control environment, including 3 lines of defence
- Effective customer lifecycle governance framework
- Effective communication and training programme

Everyone must be his own compliance officer. That means everything you do can be put on the front page of the newspaper, and there will be nothing that cannot stand up to scrutiny

– Warren Buffett



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<https://app.sli.do/event/wWdpcNVCNptsAaywc zdeVv>

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Resources

- FATF Recommendations: <https://www.fatf-gafi.org/en/publications/Fatfrecommendations/Fatf-recommendations.html>
- FATF Guidance of the Risk-Based Approach to Combating Money Laundering and Terrorist Financing – High Level Principles and Procedures: <https://www.fatf-gafi.org/en/publications/Fatfrecommendations/Fatfguidanceontherisk-basedapproachtocombatingmoneylaunderingandterroristfinancing-highlevelprinciplesandprocedures.html>
- FATF Guidance on Correspondent Banking: <https://www.fatf-gafi.org/en/publications/Fatfrecommendations/Correspondent-banking-services.html>
- Risk-Based Approach for the Banking Sector: <https://www.fatf-gafi.org/en/publications/Fatfrecommendations/Risk-based-approach-banking-sector.html>
- Guidance on Transparency and Beneficial Ownership: FATF Guidance: Politically Exposed <https://www.fatf-gafi.org/en/publications/Fatfrecommendations/Transparency-and-beneficial-ownership.html>
- Persons: <https://www.fatf-gafi.org/en/publications/Fatfrecommendations/Peps-r12-r22.html>
- Wolfsberg Correspondent Banking Principles 2022: <https://db.wolfsberg-group.org/assets/431f9f38-d56d-426d-b929-620371131654/Wolfsberg%20Correspondent%20Banking%20Principles%202022.pdf>
- Wolfsberg CBDDQ: <https://db.wolfsberg-group.org/assets/3964cedf-a462-4e55-a1e7-ca7c70dfa7ec/CBDDQ%20v1.4.pdf>
- Wolfsberg FCCQ: <https://db.wolfsberg-group.org/assets/8f28b4be-5808-485f-aba0-ff79ebce8294/FCCQ%20v1.2.pdf>



Thank you.