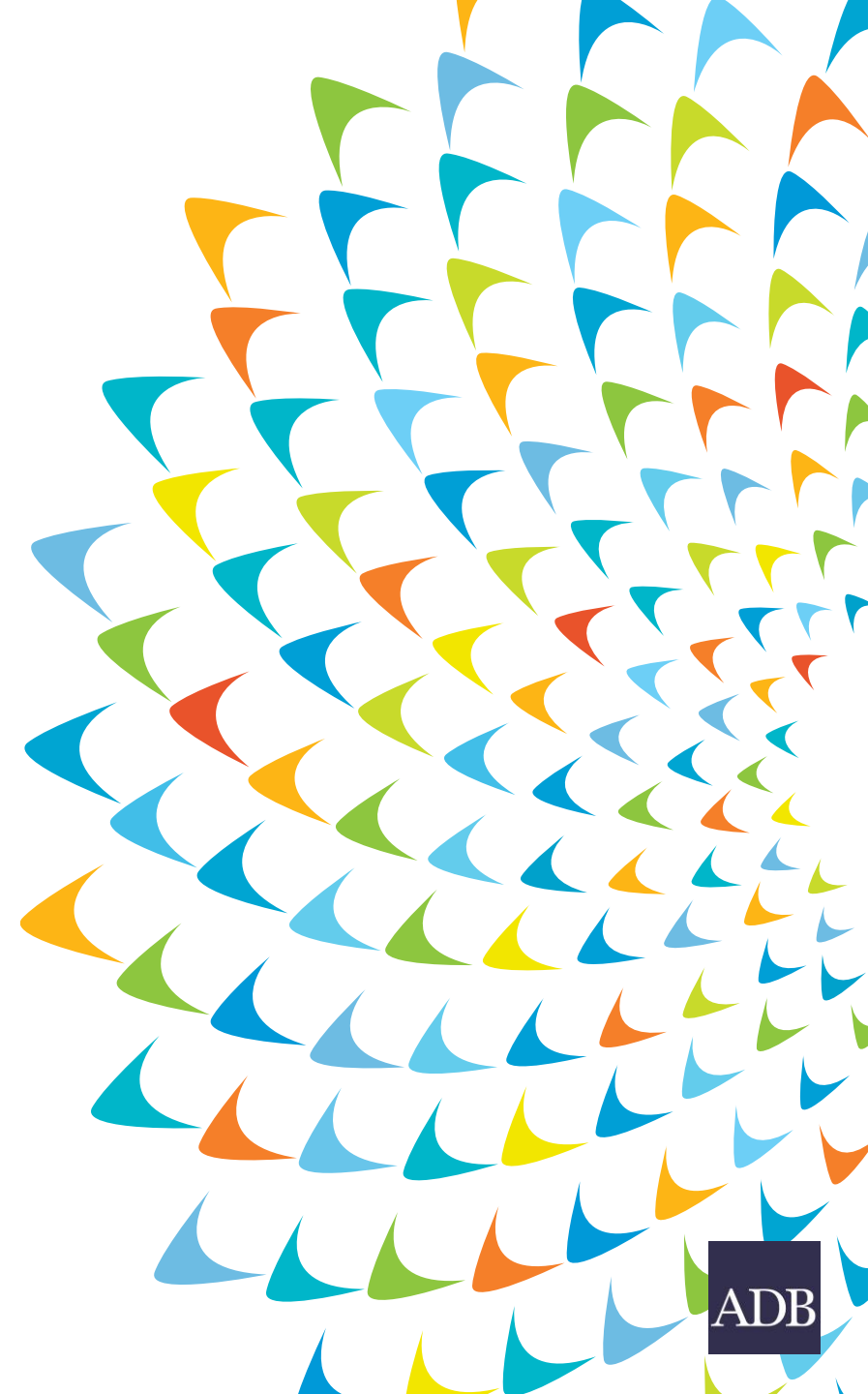


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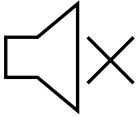
Suspicious Transaction Investigation and Reporting

April 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/f4ogR1nhNvDhpi zHq7X8YV>

Join at slido.com: #3286357

(live until 25 April 2024)





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 6

Exposing corruption and holding the corrupt to account can only happen if we understand the way corruption works and the systems that enable it

Transparency International



Some Global References



Based in Berlin, its non profit and non-governmental purpose is to take action to combat global corruption with civil societal anti-corruption measures and to prevent criminal activities arising from corruption.

The USA Foreign Corrupt Practice Act

It covers U.S. citizens and companies bribing foreign officials, but also foreign nationals if they commit part of the offense of bribery on U.S. territory



OECD Working Group on Bribery in International Business Transactions (Working Group) is responsible for monitoring the implementation and enforcement of the OECD Anti-Bribery Convention. This peer-review monitoring system is conducted in successive phases and is considered by Transparency International to be the 'gold standard' of monitoring.



The UK Bribery Act

Extends not only to UK firms operating in the UK and abroad, but also to non-UK firms carrying on business or part of a business in the UK, even if the bribery has no direct connection to the UK



Recommendation 24: Transparency and beneficial ownership of legal persons

Recommendation 25: Transparency and beneficial ownership of legal arrangements

November 2023: Misuse of Citizenship and Residency by Investment Programmes



Su Wenqiang

Nationality: Originally from China, holds a Cambodian passport

Su Haijin

Nationality: Originally from China, holds Cyprus and Vanuatu passports

Wang Baosen

Nationality: Originally from China, holds Vanuatu passport

Jho Low

Nationality: Originally from Malaysia, held St Kitts & Nevis and Cyprus passports



Tycoon's death penalty in \$12.5 billion fraud case highlights Vietnam's corruption crisis



For consideration

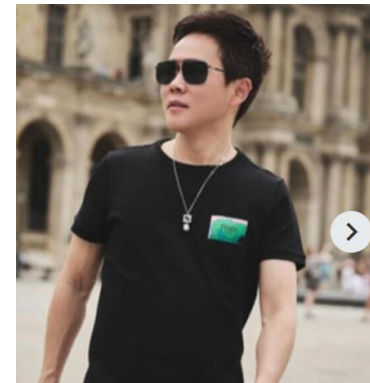


Tycoon's death penalty in \$12.5 billion fraud case highlights Vietnam's corruption crisis

VS



13 months jail



14 months jail



Bribery

Transparency International: the offering, promising, giving, accepting or soliciting of an advantage as an inducement for an action which is illegal, unethical or a breach of trust. Inducements can take the form of money, gifts, loans, fees, rewards or other advantages (taxes, services, donations, favours etc.)



Key Controllers of an Organization



Government Officials



Position of Power

Anything of Value





Corruption

Transparency International: Corruption is the abuse of entrusted power for private gain. Corruption erodes trust, weakens democracy, hampers economic development and further exacerbates inequality, poverty, social division and the environmental crisis.

The Cost of Corruption:

- Political – freedom and rule of law
- Social – erosion of trust in the government
- Environmental – our chance for a healthy environment and sustainable future
- Economical – our opportunity to build and grow wealth

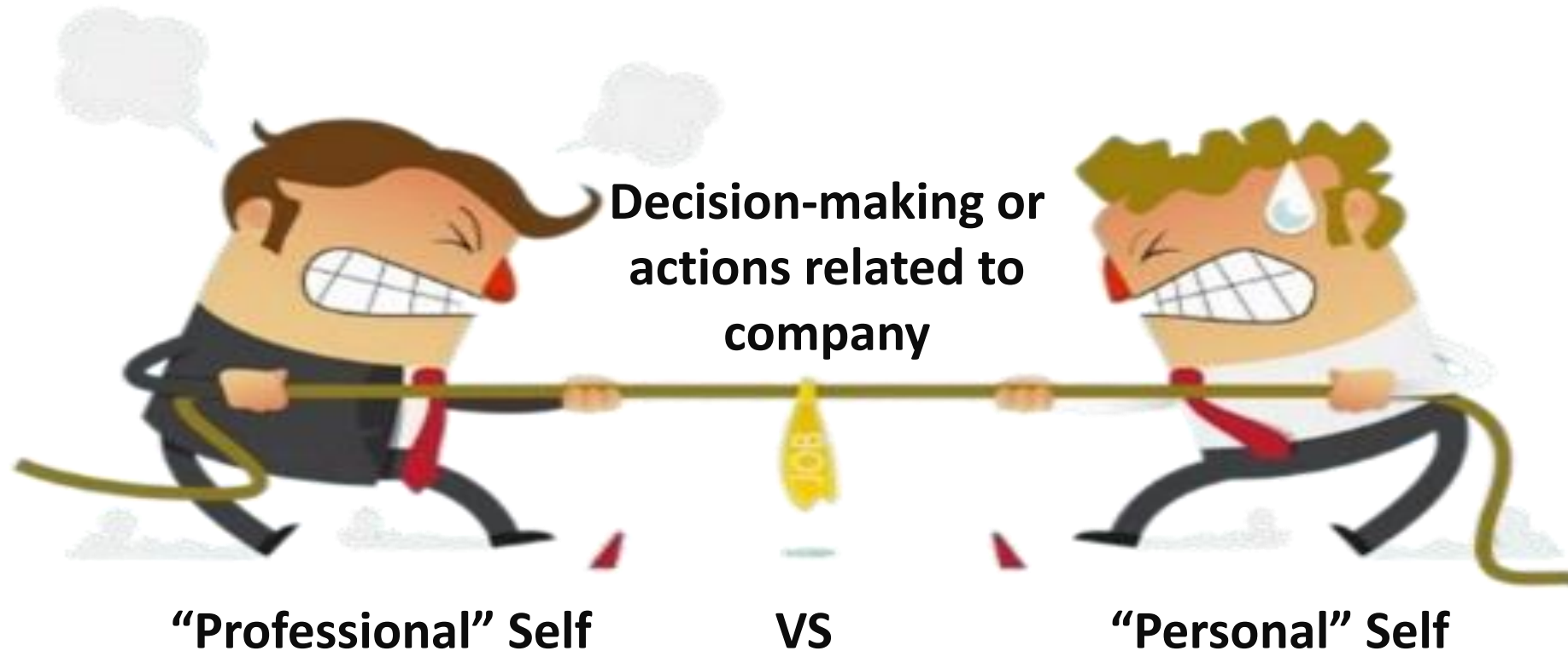




Conflict of Interest

**I need to discharge
my professional
duties!**

**I need to satisfy
my own
interests!**



The case with Central Bank of Angola and Correspondent Banking



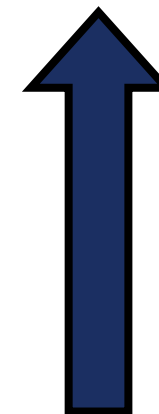
2018: How a teller at an HSBC branch stopped a USD500 million bank heist

A convoluted tale that involves Angolan political and financial authorities, missed SWIFT signals, forged paperwork, a get-rich-quick scheme and a small cast of international characters

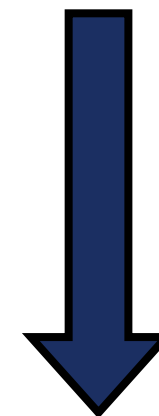


Third Party Due Diligence

Third Risk	<ul style="list-style-type: none">• Type of Vendor/Client (Individual, Corporate, State Owned, Public Listed, Private, Trust, Foundation)• Verified Sources of Wealth/Funds• Regulation status• Years in Operation
Industry Risk	<ul style="list-style-type: none">• Industry type (Primary)• Industry type (Secondary)
Jurisdiction Risk	<ul style="list-style-type: none">• Country of Incorporation• Country of Operation
Delivery Channel Risk	<ul style="list-style-type: none">• Channels of Delivery
Products Risk	<ul style="list-style-type: none">• Screening at onboarding• Approval at senior level• Existing vendor/customer – continuing approval• Enhanced on-going monitoring



**PEP/Sanctions/
Adverse Media**





Internal – Example of Gifts and Hospitality Policy



Gifts	<p>a) No gifts received or given are allowed to occur more than 3 times a year with the same person or organisation; and</p> <p>b) Declare gifts received or given exceeding XXX per individual Headcount (or equivalent currency)</p>
Hospitality	Entertainment involving Meals (per individual Headcount) not exceeding XXX (or equivalent currency).



- ☑ Declaration and Approval of Gifts and Hospitality by **Head of Department and Compliance Team** if above monetary thresholds values **has exceeded**
- ✗ Accepting and offering of lavish gifts and hospitality is **strictly prohibited**
- ☑ Accepting and offering gifts and hospitality are permissible for customary practices and strengthening of business relationships. Declaration and approval is not required if monetary thresholds value has not exceed.
- ✗ Offering gifts and hospitality to Public official is **strictly prohibited**
- ☑ Receiving from Public official is subjected to monetary thresholds value





Hiring Decisions

Your CEO is my close friend.. Hire my son or face the sack!

Hire my son and I'll reduce the contract pricing!

Hiring Manager / Director

Do Not Hire



Third Party

What is Influenced Hiring?



- Do not accept “Anything of Value” for personal benefits, commercial transaction reasons or future business opportunities in exchange for influenced hiring



- Ensure fair and transparent hiring process
- Approval and oversight required by Compliance and Senior Management when close family members or associates of Public officials are involved
- Report to Compliance Department if you face adverse actions or being offered benefits

Political and Charitable Contributions, Sponsorships

- Appropriate level of due diligence must be conducted on the organization(s) or individual (s) involved
- Seek approval from Senior Management
- Same process for similar kind of contributions and sponsorships



Charitable Donations



Charitable Sponsorship

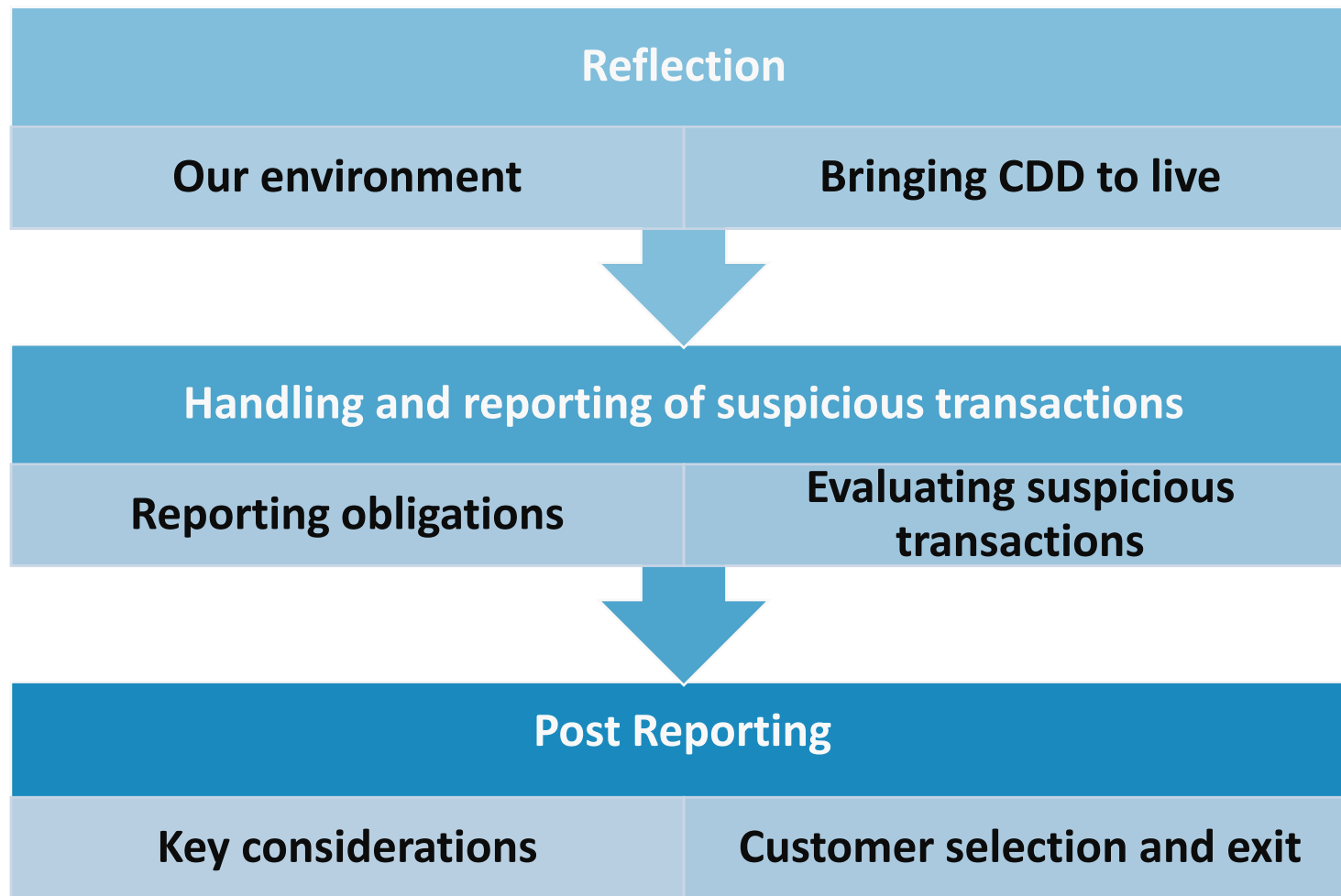




Guest Speaker



Learning Objectives of this module





Number of islands
Over 17,000 with
6,000 inhabited



Armed robbery incidents in the straits of Malacca and Singapore



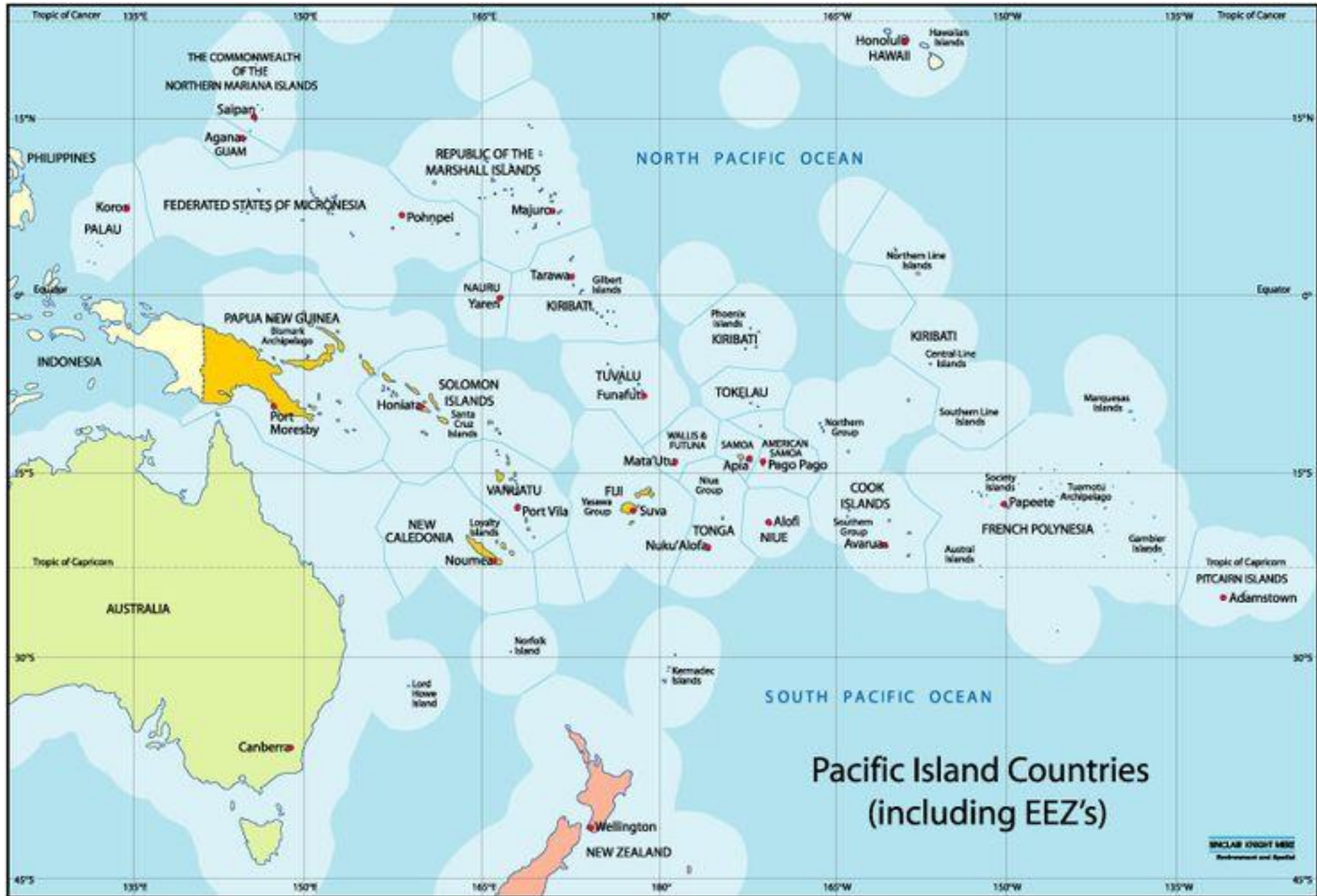
- Eastbound lane: 26
- Precautionary area: 10
- Westbound lane: 4
- Outside the Singapore Strait: 1



- Orange dot:** Incidents with four to nine armed culprits. Crew threatened, held hostage or injured. Cash and equipment such as engine spare parts stolen.
- Blue dot:** Incidents with one to six armed culprits. Crew subjected to duress but unharmed. Ship equipment and engine parts targeted.
- Green dot:** Incidents with one to three unarmed culprits. Crew unharmed. Perpetrators escaped empty-handed after being spotted.



Source: The Straits Times 21 July 2023: Armed robbery in Singapore Strait on the rise in first half of 2023



Pacific Island Countries (including EEZ's)





Reflection

Considering the geographical and economical characteristics

- What are the financial crime and money laundering risks that you think your region is inherently exposed to?



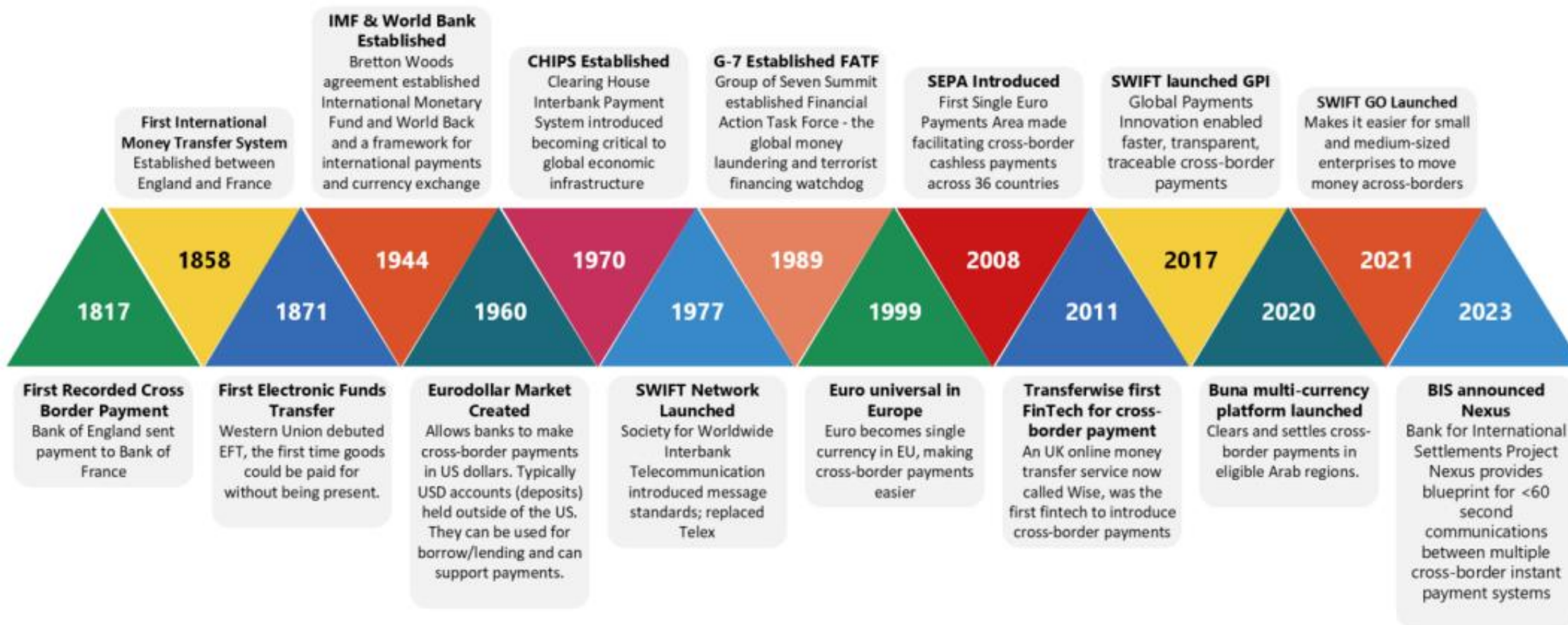


Risks inherent to island nations

- Extensive coastlines and numerous remote islands, making it difficult for authorities to monitor and control cross-border movements
- Islands can be used as transit points for smuggling drugs, weapons, or other illicit goods due to their remote locations and porous borders, especially if they are geographically isolated
- Limited access to banking services. More reliant on money service bureaus
- Less developed infrastructure and cybersecurity measures may be more vulnerable to cybercrime, including hacking, identity theft, and financial fraud
- Islands can be used as transit points for human trafficking due to their isolated locations and porous borders, posing risks to vulnerable populations
- Most island nations have smaller population (with the exception of Japan, Indonesia and Philippines) and hence tend to have regulatory bodies with limited capacity
- Many island nations rely heavily on tourism and offshore banking as key sources of revenue. This dependence can create vulnerabilities to financial crime that exploit these industries
- Island nations often face challenges related to illegal immigration. Money laundering can occur when criminal organizations exploit undocumented migrants and move funds across borders



Refresh - Brief History of Cross Border Payments



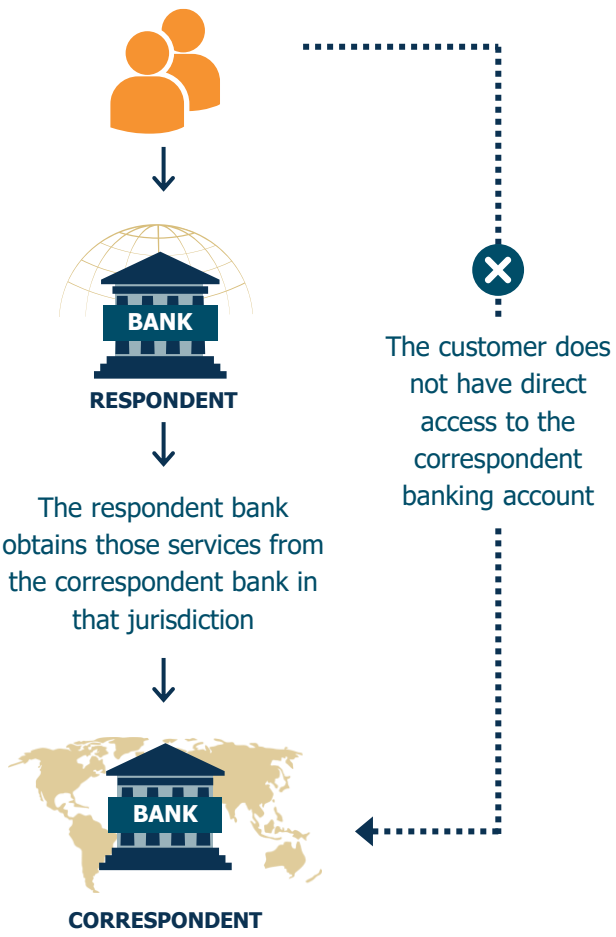
Source: The Practicalities of Cross Border Payments in a Faster Payments World by Faster Payments Council



Refresh - Common Correspondent Banking Structures

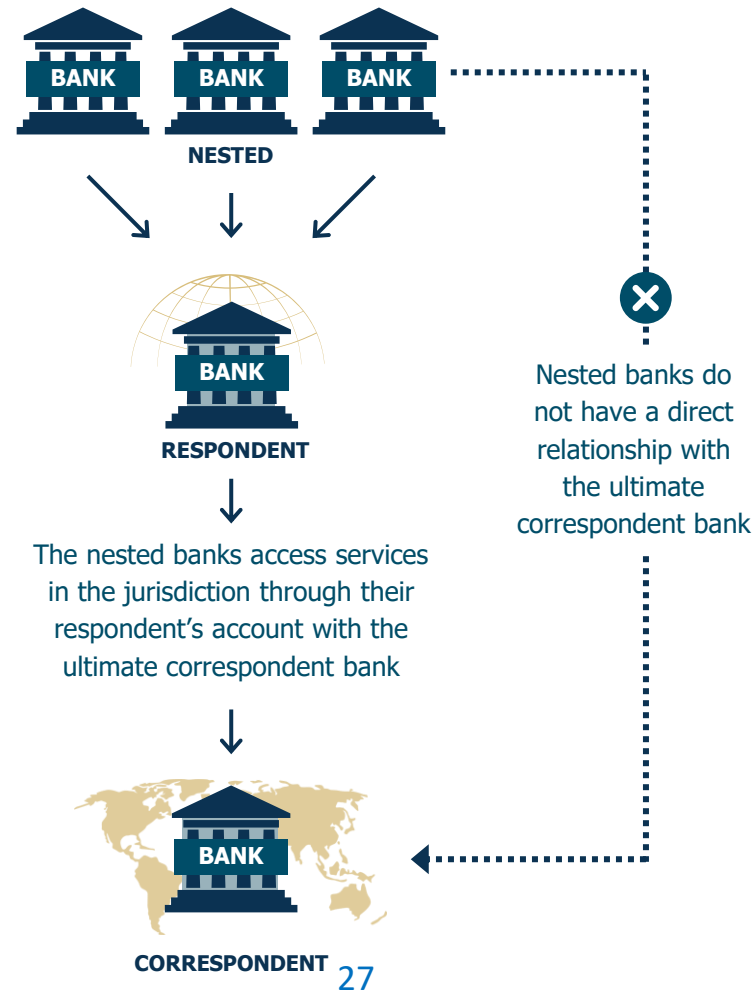
DIRECT

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



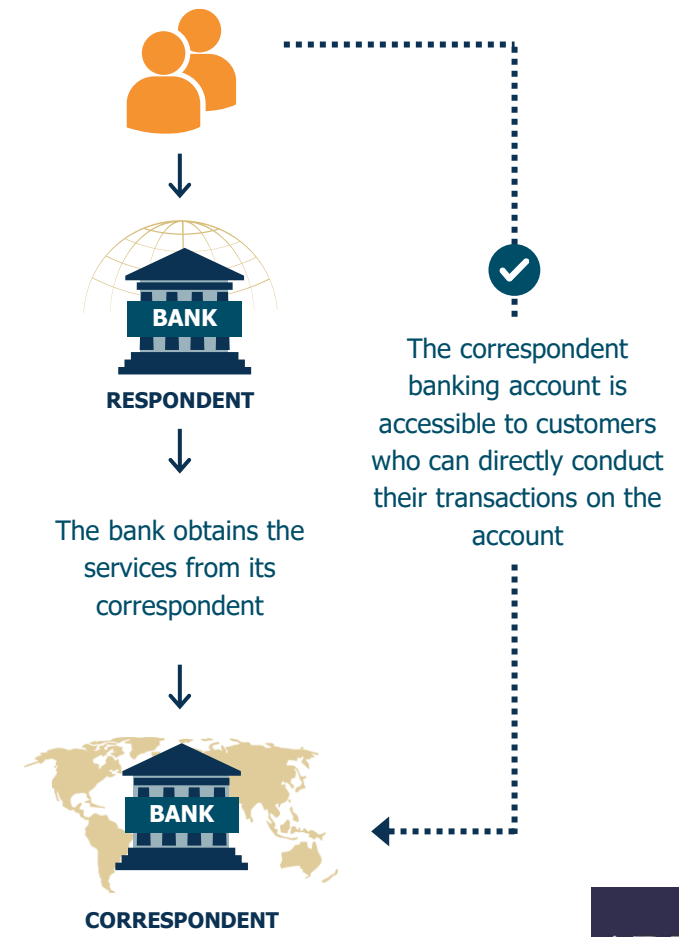
NESTED

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



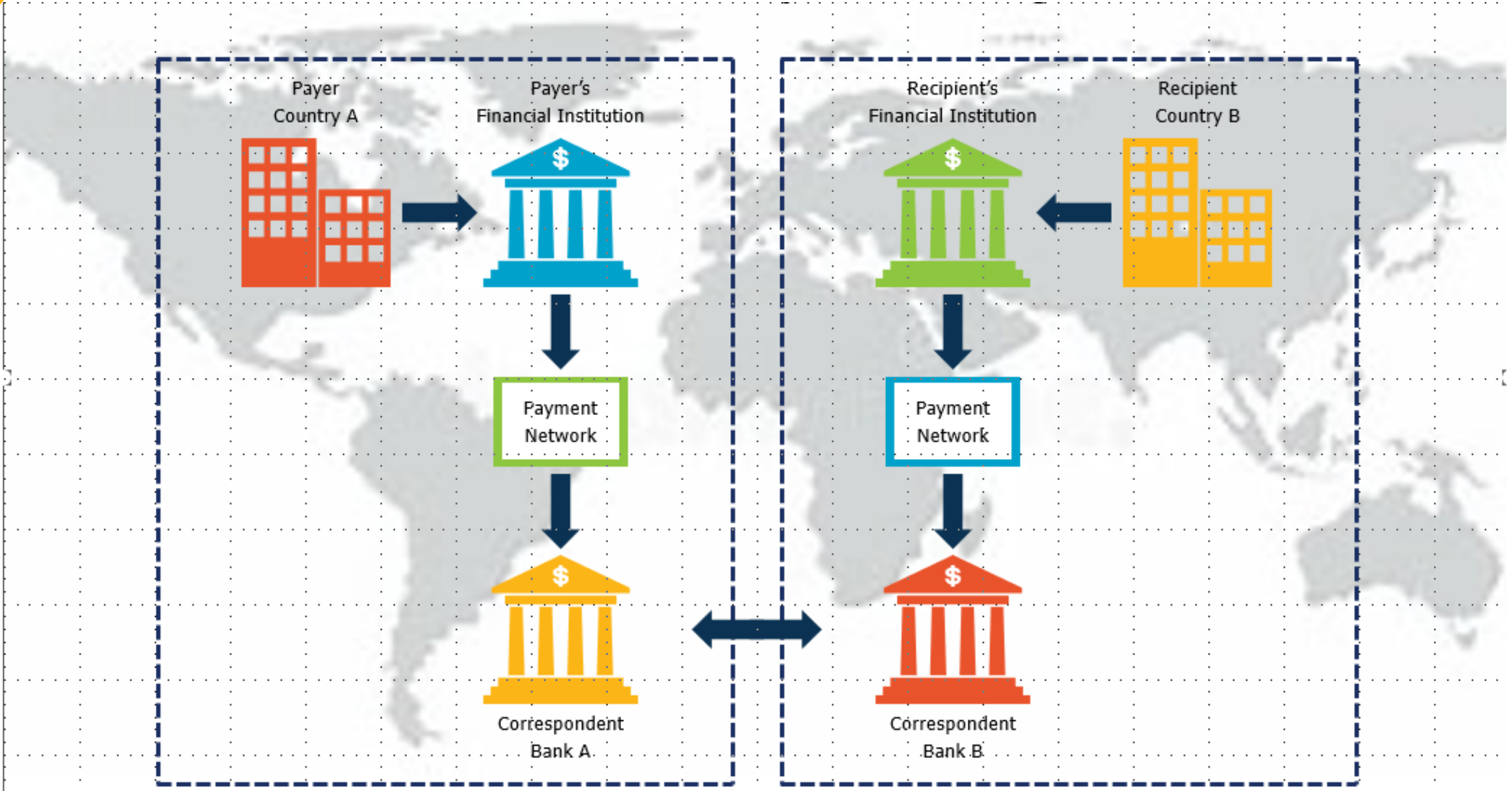
PAYABLE-THROUGH OR PASS-THROUGH

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



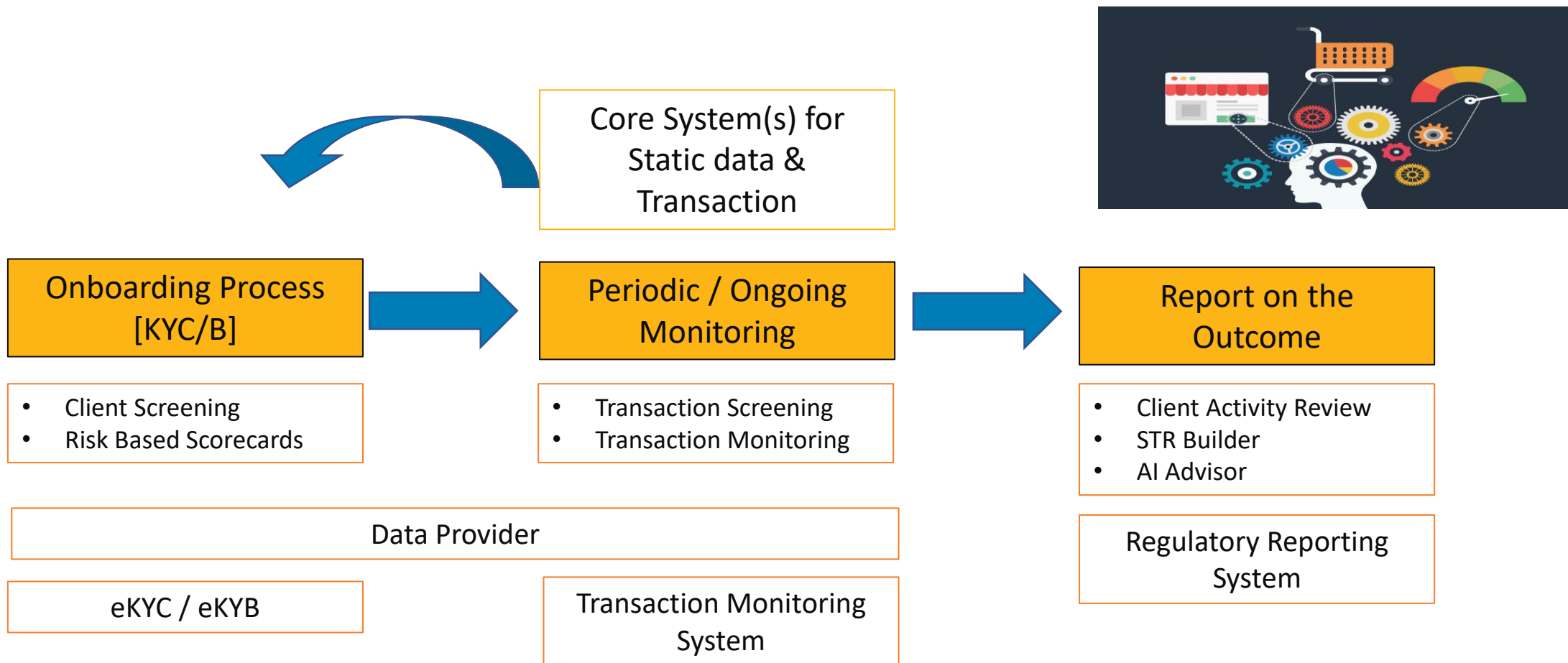


Refresh - Cross Border Correspondent Banking





Refresh - Customer Due Diligence Process



An appreciation of the importance of CDD in the evaluation of Suspicious Transactions



Reporting Suspicious Transactions

FATF Recommendation 20 - Reporting of suspicious transactions

If a financial institution suspects or has reasonable grounds to suspect that funds are the proceeds of a criminal activity, or are related to terrorist financing, it should be required, by law, to report promptly its suspicions to the financial intelligence unit (FIU)



Singapore August 2023

The case first emerged in 2021 when the banks and companies filed STRs





Examples of suspicious activity

- Inconsistent business
- Unusual instructions
- Unusual customer behaviour
- Refusal to disclose information
- Unusual approach/transaction structure (e.g. trade)
- Results from the investigation of alerts from name screening, transactions screening and transaction monitoring



Examples of scenarios to monitor transactions (Module 6)

- Large or complex transactions with no visible/apparent economic reasons
- Deposit or transfer of funds without any specific justification
- Frequent cross-border flow of transactions, especially with high-risk countries/geographies
- Aggregated frequent and small transactions
- Unusual patterns of physical cash deposits or withdrawals, which are large when aggregated over a period
- Transaction inconsistent with customer's business profile
- Payment received in account, not matched with goods shipped
- Significant deviations from past account activity
- The sudden large deposit in the dormant accounts
- Detection of activities or behaviors consistent with certain predicate offences (e.g., possible tax evasion or avoidance, corruption nexus, or terrorism financing)



Typical Investigation process

- Questionable activities alert
- Internal alert handling

- Escalation
- Further investigation

- Request for information
- Documentation

- STR filing
- Post STR practices
- Quality assurance and refinements



The concerns with tipping off

FATF Recommendations 21 – Tipping off and confidentiality

Financial institutions, their directors, officers and employees should be:

- (a) protected by law from criminal and civil liability for breach of any restriction on disclosure of information imposed by contract or by any legislative, regulatory or administrative provision, if they report their suspicions in good faith to the FIU, even if they did not know precisely what the underlying criminal activity was, and regardless of whether illegal activity actually occurred; and
- (b) prohibited by law from disclosing (“tipping-off”) the fact that a suspicious transaction report (STR) or related information is being filed with the FIU.

Key considerations: Staff training and regulatory support



Suspicion, reasonable grounds to believe and knowledge

Speculation	<ul style="list-style-type: none"> • Often founded on nothing more than assumption
Suspicion	<ul style="list-style-type: none"> • No requirement for the suspicion to be clear or firmly grounded on specific facts, but there must be a degree of satisfaction, not necessarily amounting to belief, but at least extending beyond speculation. • In most circumstances suspicion is founded upon awareness of certain facts. • Suspicion can be subjective.
Reasonable grounds to believe	<ul style="list-style-type: none"> • Were there factual circumstances from which an honest and reasonable person, engaged in a business in the regulated sector, should have inferred knowledge or formed the suspicion that another was engaged in money laundering? • Did you suspect? • Should you have suspected?
Knowledge / wilful blindness	<ul style="list-style-type: none"> • Knowledge means actual knowledge. • Can be inferred from the circumstances. • Do not shut your eyes to the obvious: willful and reckless blindness counts.



Writing the Suspicious Transaction Report (“STR”)

The report should:

- describe what the reporter/investigator observed
- detail events/transactions in chronological order
- provide a succinct outline of the behaviour/transactions
- include supporting documentation or facts
- include the reason for suspicion and risk identified, e.g.:
 - series of cash deposits just under the threshold;
 - potential mule activities; and
 - appears to be indicative of structuring.



Key considerations post STR

- Notifying the board of directors and senior management of STR filings
- Record retention and supporting documentation
- Guidance provided to staff on connected accounts to ensure understanding of the relationship to the STR being filed
- Conduct an immediate appropriate review of business relationship upon filing
- Handling of relationship
- Prohibition of STR disclosure (tipping off)
- Sharing STRs with head offices, branches and controlling companies



Exiting customer relationships in practice



How do you do it?



Exiting relationships

An exiting process will have one or more of the following objectives depending on its scope.

- Ensuring that relationships with prohibited customers are terminated lawfully while managing business risk, credit losses, reputation and legal impacts
- Be mindful of the risk of tipping off
- Ensuring that relationships with customers that exceed the firm's risk appetite are terminated lawfully while managing business risk, credit losses, reputation and legal impacts
 - Legal claims
 - Reputational damage
 - Breach of privacy or breach of banker's duty of confidentiality claims



Record Retention

- Based on local regulatory requirements
- May have varying retention periods
- helps prevent financial discrepancies and potential legal actions
- Retaining only necessary records streamlines operations
- Enhance data security by defining how sensitive information should be stored and disposed of





Reflection and Takeaways



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.	*
7.	Correspondent banking CDDs will need to factor in more vostro review and understanding the proper application of the MX SWIFT messages to develop proper tools to identify for correspondent banking monitoring. Traditional review of CBDDQ and questionnaire may be rendered inadequate for risk management especially when providing Vostro accounts.	*



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

8.	Despite they have policies and procedures, what is the comfort level if they are abiding by it	✳
9.	Do we have a robust core banking system, adequate controls and measures for anti-financial crime?	✳
10.	How to address the underlying concerns of OFAC, FDIC and FED to create a correspondent banking model that meets the needs of Asian (and African) banks who have been systemically disenfranchised (de-risked) by US Banks - either directly or through their regional counterparties.	✳
11.	In our quest to find a solution to the CBR problem and given the complexity of it, how do we break it down into smaller actionable steps for the Pacific Island Countries	✳
12.	The lack of harmonization of different domestic laws and policies	✳
13.	What the reason and why derisking of banks in the Pacific.	✳
14.	A country's correspondent banking relationships with other jurisdictions	✳
15.	Compliance is a moving target	✳



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

16.	Rising cost of compliance	*
17.	What role can partner Governments' play to improve financial crime compliance and support an ongoing correspondent banking presence in the Pacific	*
18.	What AI tools are available to assist business and agencies dealing with aspects of FCC	*
19.	Trade Base Money Laundering-lack of understanding	*
20.	How do we ensure financial crime is not facilitated through block chain, smart contracts, and distributed ledgers	*
21.	Customer due diligence conducted by correspondent banks	*
22.	Current regulations	*
23.	Areas where risk to correspondent banking can be misused by criminals?	*
24.	Exploiting the banking system to layer funds related to money laundering investigations.	*



Questions?



Have Burning Questions?



<https://app.sli.do/event/f4ogR1nhNvDhpi zHq7X8YV>

Join at slido.com: #3286357

(live until 25 April 2024)





Thank you.