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

Common AML Exam Deficiencies (1)

- 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.)

Common AML Exam Deficiencies (4)

- 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