

AML Tuesday's Session #20 on:

High Risk Customers, EDD Measures (incl. verification of SoF/SoW)

June 25, 2024

Enhance Due Diligence

Risk Based
Approach

Managing
Risks

Regulatory
Compliance

EDD Under Monaco Requirements

Complex
Transaction

Abnormally
High
Amount
Transaction

Transaction
Carried in an
unusual
scheme

Transaction
that has no
apparent
economic or
lawful
purpose

High Risk
Jurisdictions

PEPs

AML/CFT Law

Enhanced Due Diligence

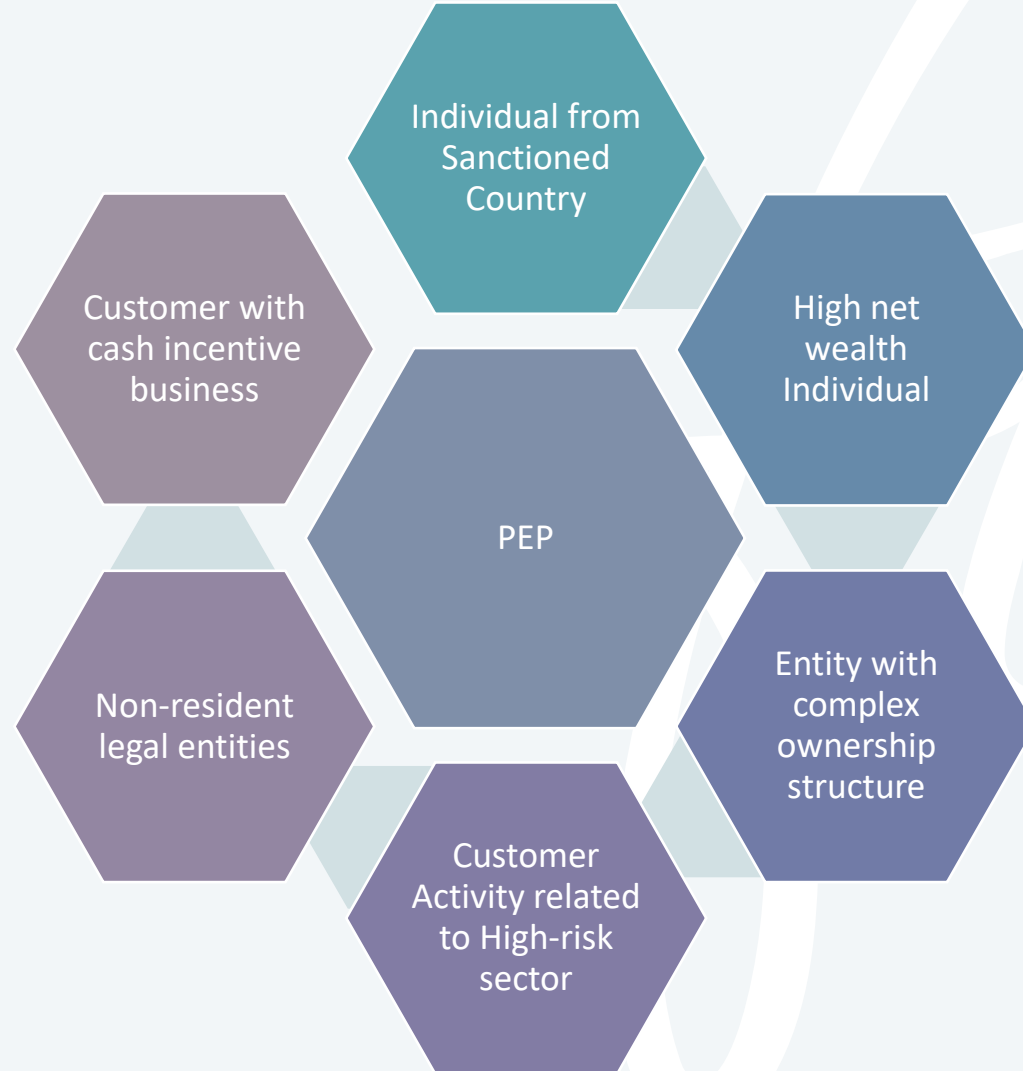
EDD on Customer

- Objective is to gain a deeper understanding of the client's profile, transaction patterns, and risk factors

EDD on Transaction

- Objective is to establish the purpose of the transaction, economic rationale, and consistency with declared activity

High Risk Customers Examples



Examples of EDD Measures

Request Information

Verification of information by using multiple reliable and independent sources v. Relying on Customer Information

Conducting search through database or through public sources

Establish SoF/SoW

Senior management approval

Conduct Enhanced monitoring of Transactions

Request to receive payment from FI subject to CDD requirements similar to Monaco

EDD Measure – Obtaining Additional Information

Obtaining additional information on Occupation/Activity
Volume of assets

Obtain information on the Source of Funds and Source of Wealth

Obtaining information about counterparties and business associates
Jurisdictions

Obtaining information about the reasons for proposed transactions

Obtaining Documentation about Ownership Structure

EDD Measure – Conducting Search

Objective is to establish whether there is any negative media on customer

Identify close associates

Conduct searches on counterparties

Conduct search on any third party involved in the transaction

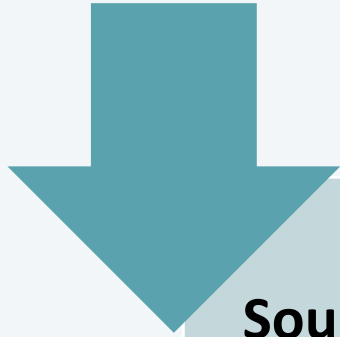
EDD Measure – Verification of Information

Documents issued by a
government Authority or a
court

Documents issued by
other public sector bodies
or local authorities

Documents issued by
regulated professionals

EDD Measure – Establishment of SoF/SoW



Source of Funds

- Activity that generated the particular funds for a business relationship or occasional transaction.
- Amount being invested/deposited/or wired as part of Business Relationship
- Establishment should cover the provenance of such funds and not only Institution from which the funds will be received



Source of Wealth

- Size of wealth of the customer
- Picture of how the individual acquired such wealth
- How the total net wealth of the customer or beneficial owner has been generated

Establishment of Source of Funds or Wealth

01

It should be conducted
on a Risk Sensitive Basis

02

Verification requirement
will also depend on the
availability of publicly
accessible information

03

Collected evidence
should be reasonable in
terms of risk related to
the customer

04

Collected evidence
should contribute to
forming an accurate
picture on customer
financial profile

Source of Wealth – AMSF Guidance

01

UNDERSTAND

A broad picture of the Customer's total wealth and how such wealth was acquired over time (information can be directly obtained from a customer or obtained via public sources)

02

REQUEST

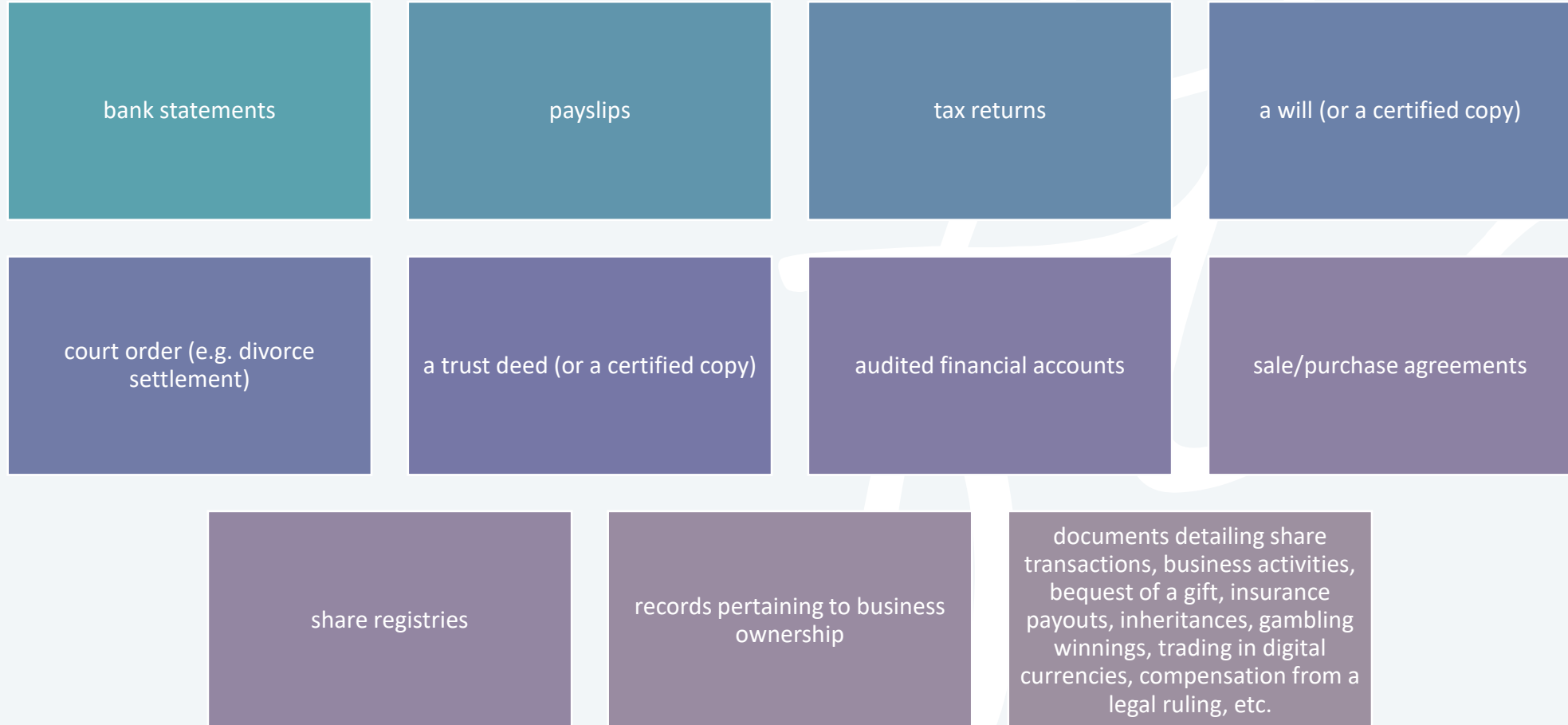
Documentary Evidence where there are doubts about the veracity of specific information provided by the Customer or where the risks are higher (e.g., PEP from Jurisdiction with high corruption risks.)

03

ASSESS

The legitimacy and reasonableness of customer's wealth

Source of Wealth – Documented Verification Examples



Reasonable Measures – Example 1

- Customer A is an executive chairman of a listed company. Customer stated that the wealth was generated through the income from listed company.

Option 1

- Request documents from Customer, bank statement, employment contract

Option 2

- Conduct internet research
- Review information available publicly – Annual reports of the company, information on the web site of the company, news and information provided on the stock exchange
- Analyze the value of the company and the customer's personal wealth based on share prices

Reasonable Measures – Case Discussion

- Customer A is a politically exposed person from jurisdiction Y with high corruption risks. Source of funds of the customer is sale of real estate in jurisdiction X 10 ml.
- The institution has requested to provide information and documents regarding source of wealth. The customer provided that the wealth was generated before the individual took the public position, when he was the owner of the biggest supermarket retail chain in Jurisdiction Y. He provided the abstract from the registry where it is shown he was the sole owner of the enterprise. The compliance officer has also undertaken search via public sources and has confirmed that the individual did own the enterprise.

EDD Measure – Senior Management Approval

Policy and Procedure

Type of Customers subject to approval by level of seniority

Form of approval

Timing of Approval

Record-keeping

EDD Measure – Transaction Monitoring

01

Economic Rationale

What is the purpose of the transaction

02

Parties involved

Analysis related to counter-party
Any third party involved

03

Jurisdiction

Jurisdiction analysis related to the transaction


04

Accompanying Documents

Documents to justify the transaction and its economic rationale

EDD on a Transaction

Whether the transactional activity of a business relationship is consistent with the customer's profile



The nature of the product provided



The entity's understanding of the customer's and beneficial owner's source of wealth.

EDD Consequences

01

Increase the risk Rating of the Customer

02

Place thresholds on customer activity/transactions/products

03

Subject the customer's transactional activity to heightened monitoring

04

Terminate the customer relationship

EDD Measures - Conclusion

1. EDD Process should Be described under AML/CFT Internal Procedure

2. EDD Measures should be reasonable in proportion to the risk of a customer

3. Information obtained should be sufficient

4. Information obtained and analyzed and measures taken should be properly kept as Customer Profile



*Thank you for your
time*

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Next Session:

2 July, 2024

Topic:

Sector-Specific CDD and
EDD measures to be
applied in Practice
**Lawyers, Legal Advisors,
Accountants**

Today's Host and Presenter: Tamar Goderdzishvili