

AML/CFT Risk Based Approach

Meeting with the Private Sector

December 2024

INTERNATIONAL BODIES AND STANDARDS

What is the FATF?

- International standard-setter on AML/CFT
- Defines requirements that countries must implement and eventually determine the obligations of the private sector
- Assesses compliance with standards and implementation
- AML/CFT is always a collaborative effort between public authorities and private sector
- Outcome assessment is vital both for reputation of Monaco but also for operational stability of the financial and non-financial sectors.



FATF Recommendations

1. Assessment of Risks
2. National Cooperation and Coordination
3. ML Offense
4. Confiscation
5. TF Offense
6. TFS
7. PF
8. NPOs
9. Financial Institution Secrecy Laws
10. CDD
11. Record Keeping
12. Politically Exposed Persons
13. Correspondent Banking
14. MVTs
15. New Technologies
16. Wire Transfers
17. Reliance on Third Parties
18. Internal controls foreign branches and subsidiaries
19. High-risk countries
20. Reporting of suspicious transactions
21. Tipping off and confidentiality
22. DNFBPs CDD
23. DNFBPs other Measures
24. Transparency of UBO's legal entities
25. Transparency of UBO's legal arrangements
26. Regulation and Supervision of FIs
27. Powers of Supervisors
28. Regulation and Supervision of DNFBPs
29. FIU
30. Responsibilities of LEA
31. Powers of LEA
32. Cash couriers
33. Statistics
34. Guidance and feedback
35. Sanctions
36. International instruments
37. Mutual legal assistance
38. Mutual legal assistance freezing and confiscation
39. Extradition
40. Other forms of cooperation

FATF International standards on combating ML and TF

Recommendation 1 & interpretive note:

- Countries should require financial institutions to identify, assess and take effective action to mitigate their money laundering, terrorist financing risks and proliferation financing risks.

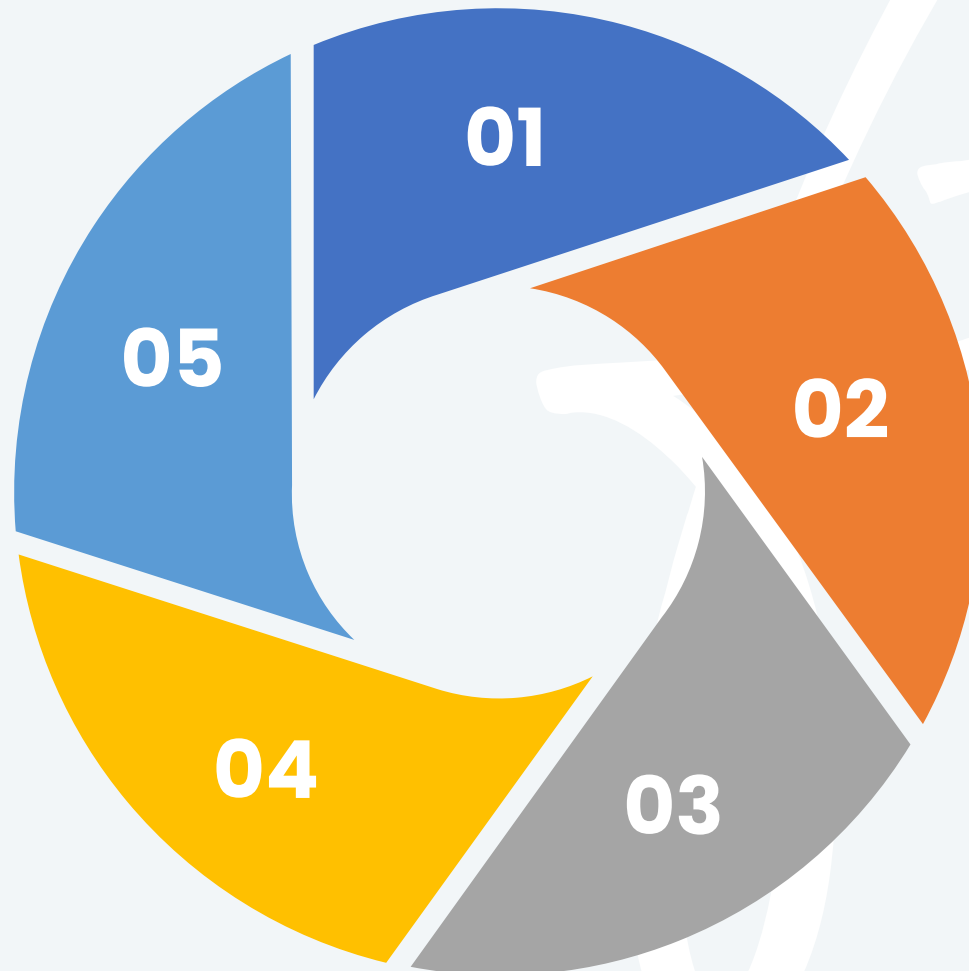
Recommendation 10 & interpretive note:

- Financial institutions should determine the extent of CDD measures using a risk-based approach (RBA):
 - Where the risks are higher, FIs should be required to conduct enhanced CDD measures
 - Where the risks are lower, FIs could be allowed to conduct simplified CDD measures

AML/CFT FRAMEWORK



AML/CFT FRAMEWORK



RISK UNDERSTANDING

National Risk Assessment
Policy and Coordination

LEGAL SYSTEM

FIU
ML/TF/PF Investigation and
Prosecution
ML/TF/PF Confiscation

PREVENTIVE MEASURES

AML/CFT obligations for FIs
and DNFBPs

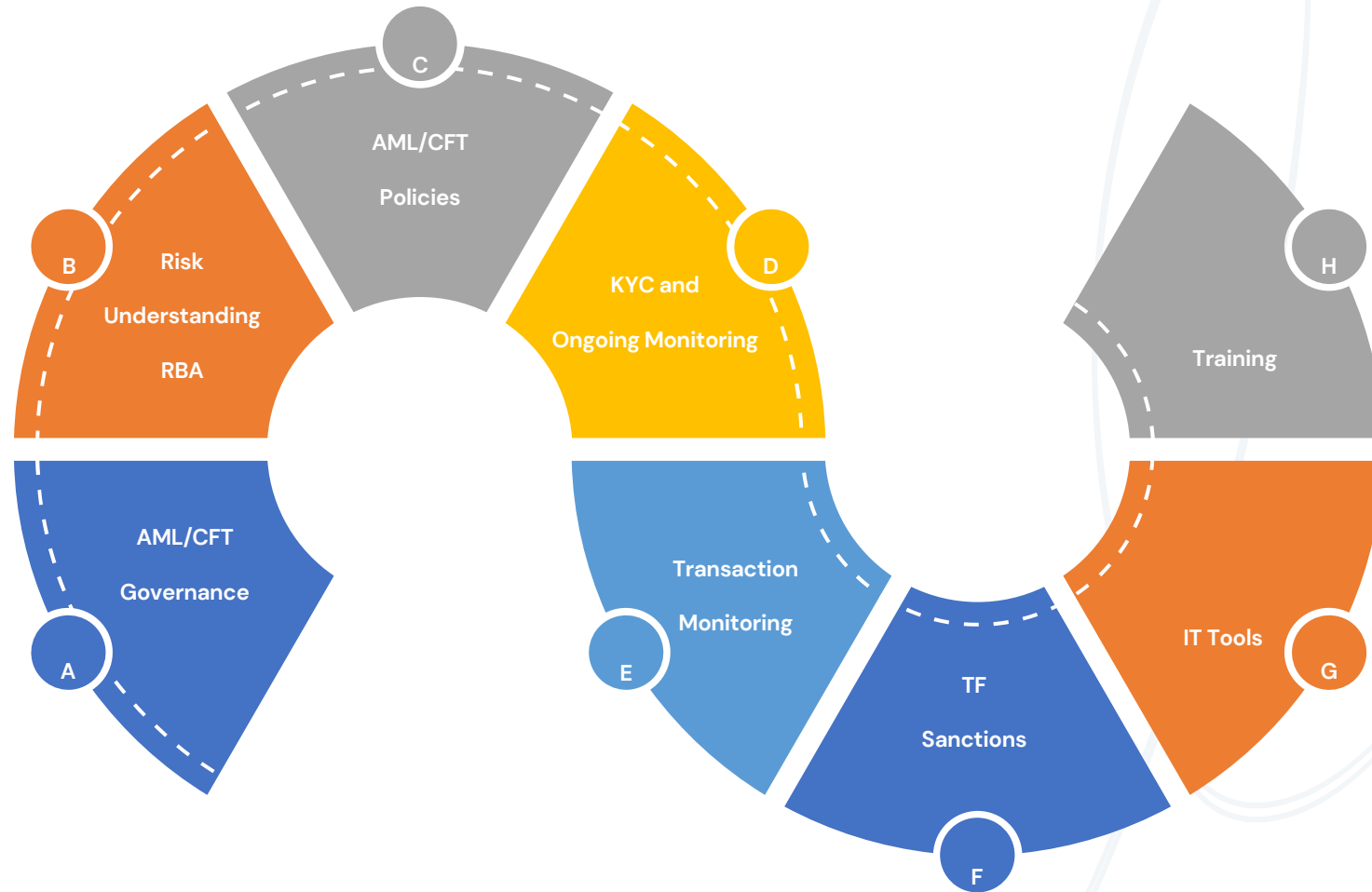
COOPERATION

International Cooperation
Investigations

SUPERVISION

Supervision of FIs and DNFBPs
to ensure compliance with
AML/CFT Obligations

Key Blocks of AML/CFT Risk Management



Risk Based Approach



RBA to AML/CFT

- The risk based approach (RBA) to AML/CFT means that countries, competent authorities and FIs, DNFBPs identify, assess and understand the ML/TF risks to which they are exposed and take the required AML/CFT measures effectively and efficiently to mitigate and manage the risks.
- Identify and maintain an understanding of the ML/TF risk faced by the sector, obliged entities and individuals specific to their services, client base, the jurisdictions where they operate, and the effectiveness of their controls in place, will require the investment of resources and training.
- For supervisors, this will also require maintaining an understanding of the ML/TF risks specific to their area of supervision and the degree to which AML/CFT measures can reasonably be expected to mitigate such risks.

RBA in Practice

Risk Identification & Assessment

- Identifying ML/TF risks facing your firm, given its customers, services, countries of operation, also having regard to publicly available information regarding ML/TF risks and typologies

Risk Management & Mitigation

- Identifying and applying measures to effectively and efficiently mitigate and manage ML/TF risks

Ongoing Monitoring

- Putting in place policies, procedures and information systems to ensure ongoing compliance and monitor changes to ML/TF risks

Documentation

- Documenting risk assessments, strategies, policies and procedures to monitor, manage and mitigate ML/TF risks

RBA in Supervision



AML/CFT Supervision

- The FATF Recommendations (R.26/28) (reflected in domestic laws) requires that financial institutions and DNFBPS are subject to adequate AML/CFT regulation and supervision.
- Supervisors should have appropriate powers to perform their supervisory functions (including powers to monitor and to impose effective, proportionate and dissuasive sanction), and adequate financial, human and technical resources.
- The frequency and intensity of their supervisory or monitoring actions should follow a risk-based approach, taking into account inherent ML/TF risks in the legal sector, and mitigation by legal professionals and their firms.

Supervisory Responsibilities

A supervisor must fulfil obligations across:

1. Licensing/registration
2. Risk understanding in the supervised population
3. Conduct risk-based supervision
4. Ensure appropriate action to remediate or sanction for breaches
5. Demonstrate actions are having an effect on mitigating risks
6. Build awareness of ML/TF risks and AML/CFT obligations among supervised population

Supervisors' obligations

- A requirement that FIs/DNFBPs have appropriate risk management frameworks – e.g. risk assessment at firm, client and transactional level, CDD
- Procedures that ensure the system for licensing FIs/DNFBPs prevents criminals from owning or controlling those entities
- A requirement that FIs/DNFBPs having AML/CFT training
- A requirement that FIs/ DNFBPs report suspicious transactions, comply with tipping-off and confidentiality requirements, internal controls requirements and higher-risk countries requirements
- A requirement that FIs/DNFBPs adequately document the risk management framework, systems and processes (e.g. risk assessment, CDD, reporting, policies & procedures)

RBA in Firms



Firms' obligations

- Required to apply a risk-based approach – a framework that can Identify, Assess and Mitigate Risks
- In practice, business-wide risk assessment and also conduct individual risk assessments (customers/beneficial owners)
- Ensure measures taken reflect the risk assessment – allocate resources commensurate with the risk assessment
- Be specific to the business (avoid generic approaches)- document risk assessments – individual and business-wide
- Keep risk profiles up to date – continuous exercise
- Reasonable and proportionate (not zero risk)

Focus on risk and compliance takes care of itself

FATF Guidance on implementing the RBA for FIs



GUIDANCE FOR A RISK-BASED APPROACH

THE BANKING SECTOR

OCTOBER 2014



GUIDANCE FOR A RISK-BASED APPROACH

MONEY OR VALUE TRANSFER SERVICES



GUIDANCE FOR A RISK-BASED APPROACH

SECURITIES SECTOR



GUIDANCE FOR A RISK-BASED APPROACH

LIFE INSURANCE SECTOR



Conducting a Risk Assessment

- Required to have a business-wide risk assessment and also conduct individual risk assessments (customers/beneficial owners)
- Access to accurate, timely and objective information about ML/TF risks is a prerequisite for an effective RBA
- A range of sources to identify risks (e.g. NRA, supervisory guidance, open source material)
- Main risk factor categories include:
 - Customer;
 - Geography;
 - Product & Services
 - Distribution

Risk Assessment

Stages

Types



Business Risk Assessment

Identifies the risk of ML /FT-P-C posed to FI as a whole based on its activities

Customer Risk Assessment

Assessment which specifically identifies the risks that each individual customer (private or corporate) pose to the business

AMSF Guidance: Business Risk Assessment (Feb 2024)

LUTTE CONTRE LE BLANCHIMENT DE CAPITAUX, LE FINANCEMENT DU TERRORISME
ET DE LA PROLIFÉRATION DES ARMES DE DESTRUCTION MASSIVE ET LA CORRUPTION

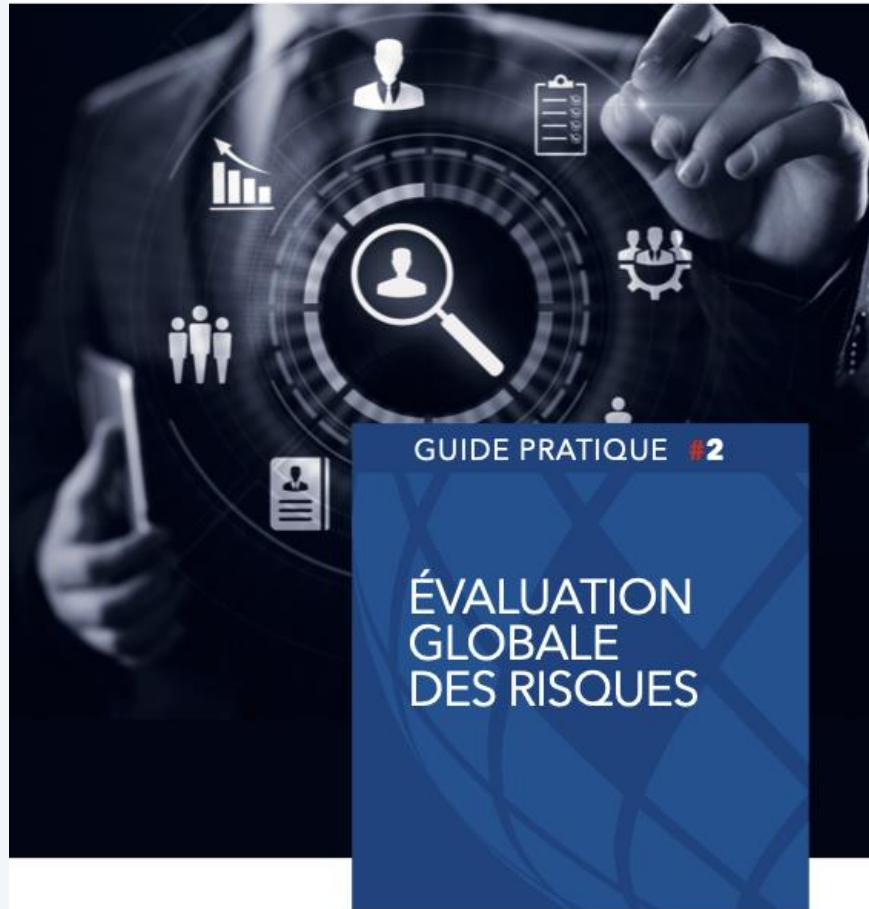
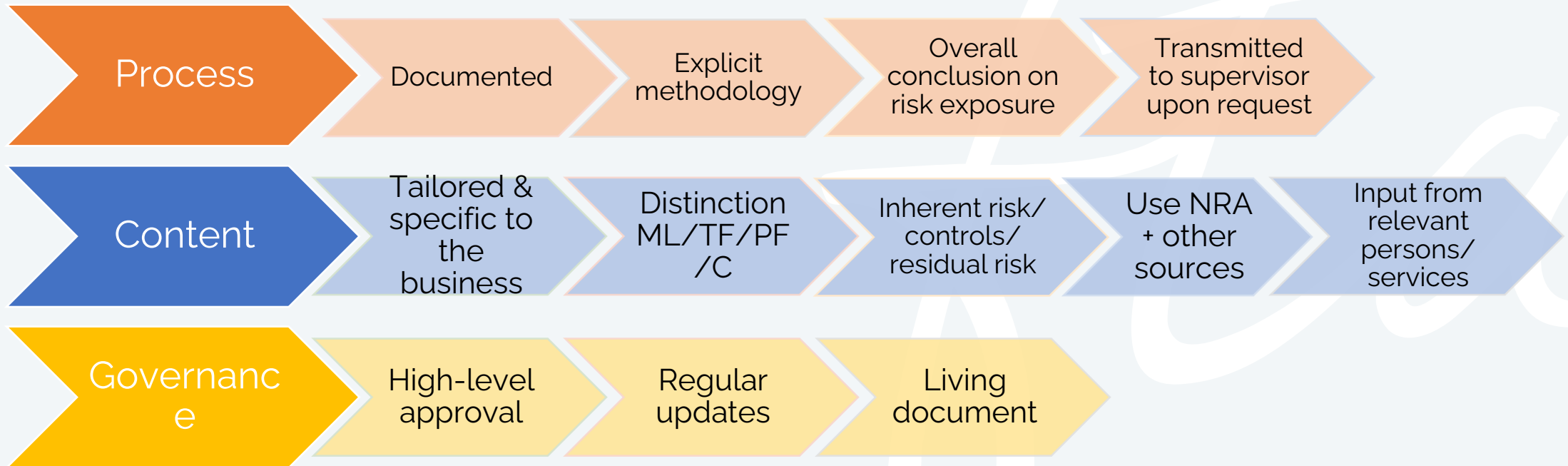


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Business Risk Assessment



Risk Assessments in Monaco



Follow-up by private sector



BRA Review

Review BRA in light of SRA findings



Review CRA

Is there a need to introduce new risk factors?



Review Transactions and Customers

Select customer profiles

Select transactions based on risks reported in SRA



Review Existing Controls

Are sufficient controls in place to address risks reported in SRA?



*Thank you for your
time*

Financial Transparency Advisors GmbH
Zieglergasse 38/7/1070 Vienna, Austria

Phone: +43 1 890 8717 11

www.ft-advisors.com

<http://www.ft-advisors.com>

