



Anti-Money Laundering - Managing the Risk I



Due Diligence



Key to reducing the risk of a financial firm being used for **money laundering** is understanding:



Who your **clients** are



Where their **money** has come from



What type of **transaction**

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Due Diligence



Customer Due Diligence (CDD)



Enhanced Due Diligence (EDD)

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Customer Due Diligence (CDD)

CDD is broader than just **knowing-your-customer (KYC)**



Customer's
sources of wealth



The source of funds for the
**customer's deposits,
business or occupation**



The **products**
and **services**

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Customer Due Diligence (CDD)

CDD includes determining the **identities of the ultimate beneficial owners (UBOs)** of the company and **conducting due diligence on them if:**



Ownership exceeds a certain **percentage**

Low and **medium risk** customers

>25%

High risk customers

>10%

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Customer Due Diligence (CDD)

CDD also includes **obtaining the names of the customer's major counterparties**



KNOW IN ADVANCE

Which parties are likely to **remit money into the account**

Who the account will be **making payments to**

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Due Diligence



Customer Due Diligence (CDD)



Enhanced Due Diligence (EDD)

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Enhanced Due Diligence (EDD)

High-risk customers require further checks to be carried out, since they are an **increased risk** of carrying out **money laundering**

High Financial Crime Risk:



Comprehensive enquiries by the financial institution



Frequent periodic reviews of the due diligence

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Enhanced Due Diligence (EDD)

High-risk customers require further checks to be carried out, since they are an **increased risk** of carrying out **money laundering**

Bank's policy:



Documentary proof of a "**politically exposed person's**" source of wealth

AML policy:



Periodic **due diligence reviews** on **high-risk clients annually**

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Source of Wealth and Source of Funds

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Fundamental to carrying out customer due diligence is understanding where a **customer's money comes from**

**SoW**

Source of Wealth

**SoF**

Source of Funds

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SoW

Source of Wealth

How the **customer's net worth** was **accumulated**



Period-of-time
it took to accumulate



Business activities which
generated the wealth

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SoW

Source of Wealth

How the **customer's net worth** was **accumulated**



New customer has accounts
showing a **net worth of:**

\$3.5 million



Accumulated from **trading**
profitability in the used car business:

15 years

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Fundamental to carrying out customer due diligence is understanding where a **customer's money comes from**



SoW

Source of Wealth



SoF

Source of Funds

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SoF

Source of Funds

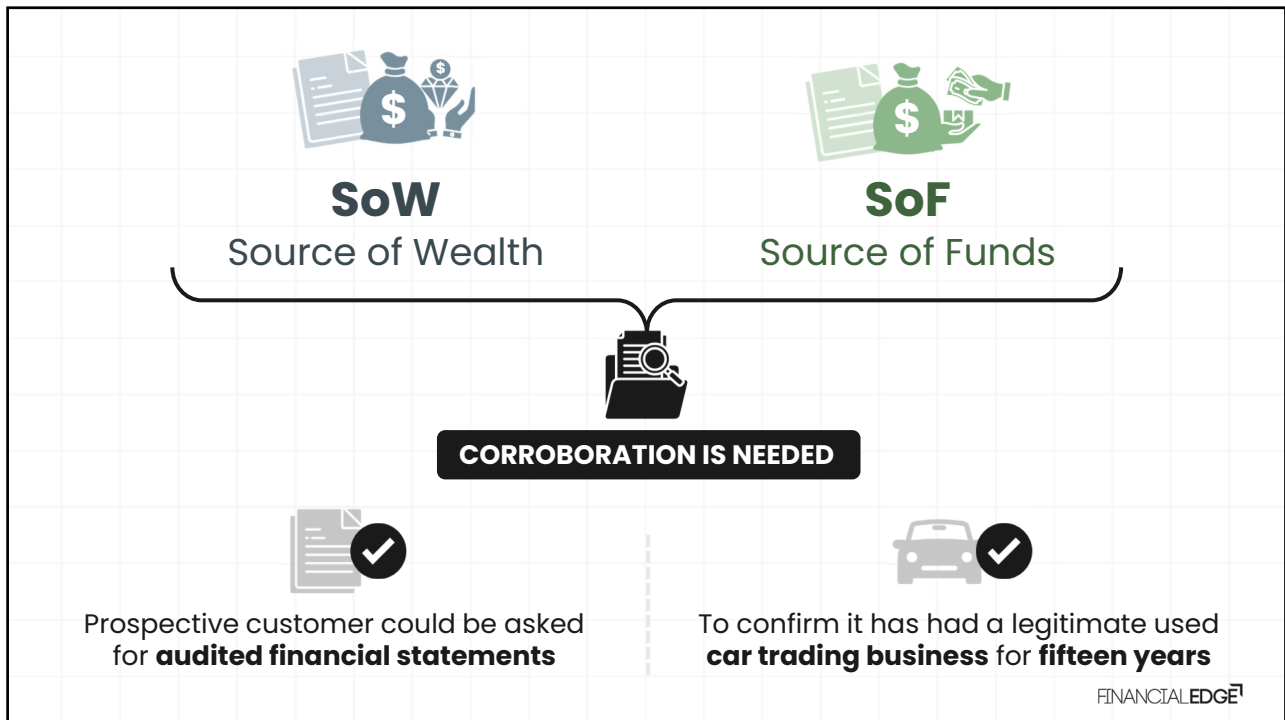
Explains where the **customer's deposit** is coming from



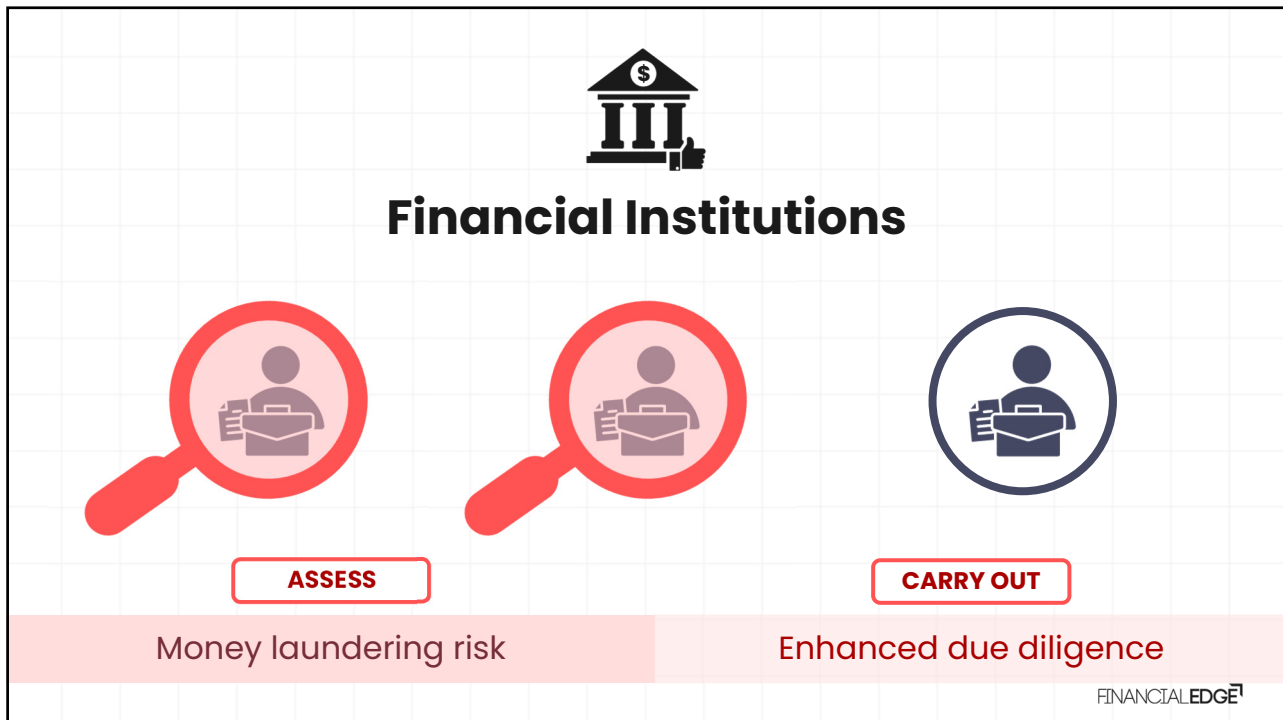
The initial deposit will be funded from the customer's **existing account with J.P.Morgan**

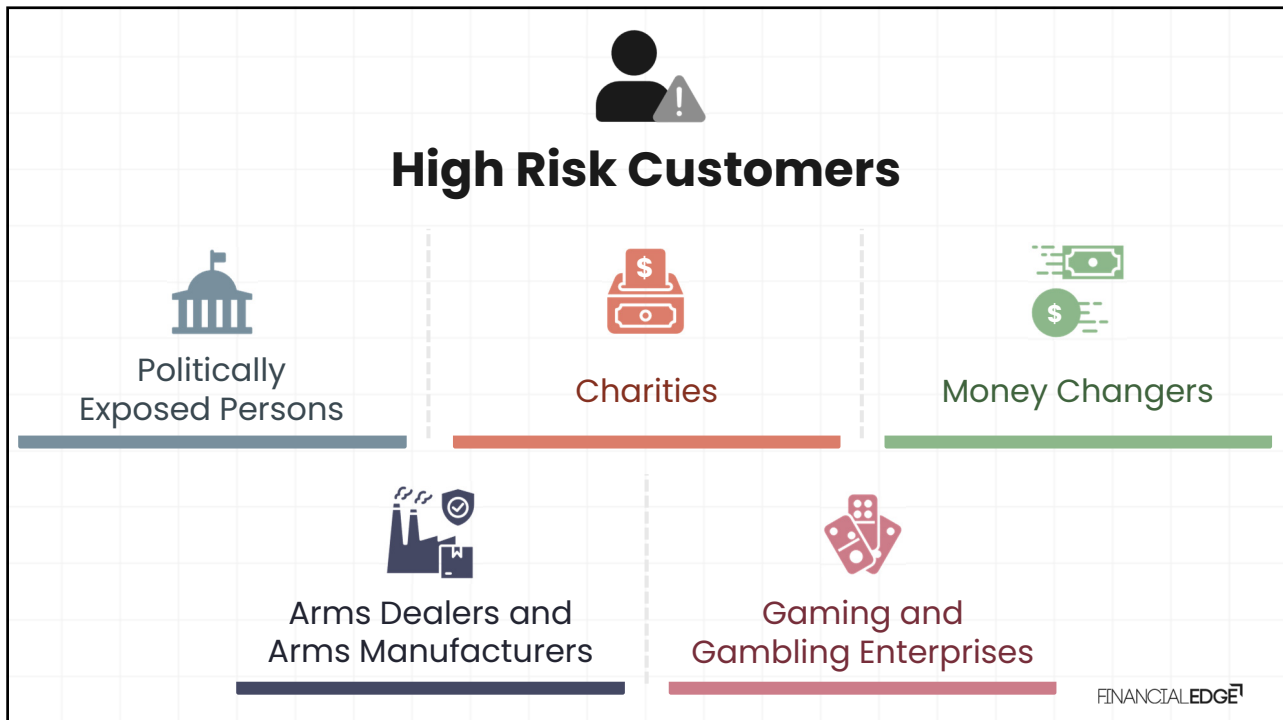
\$150,000

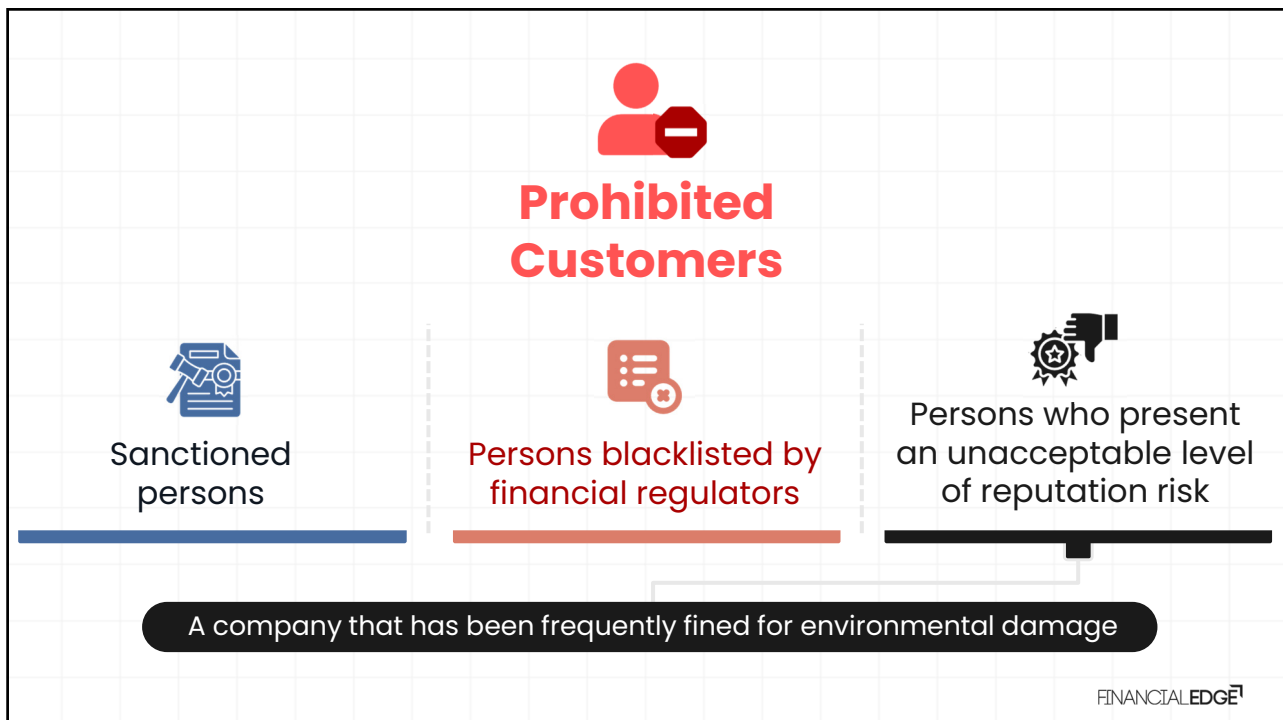
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High Risk Customers







High Risk Customers - PEPs

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Politically Exposed
Persons (PEPs)

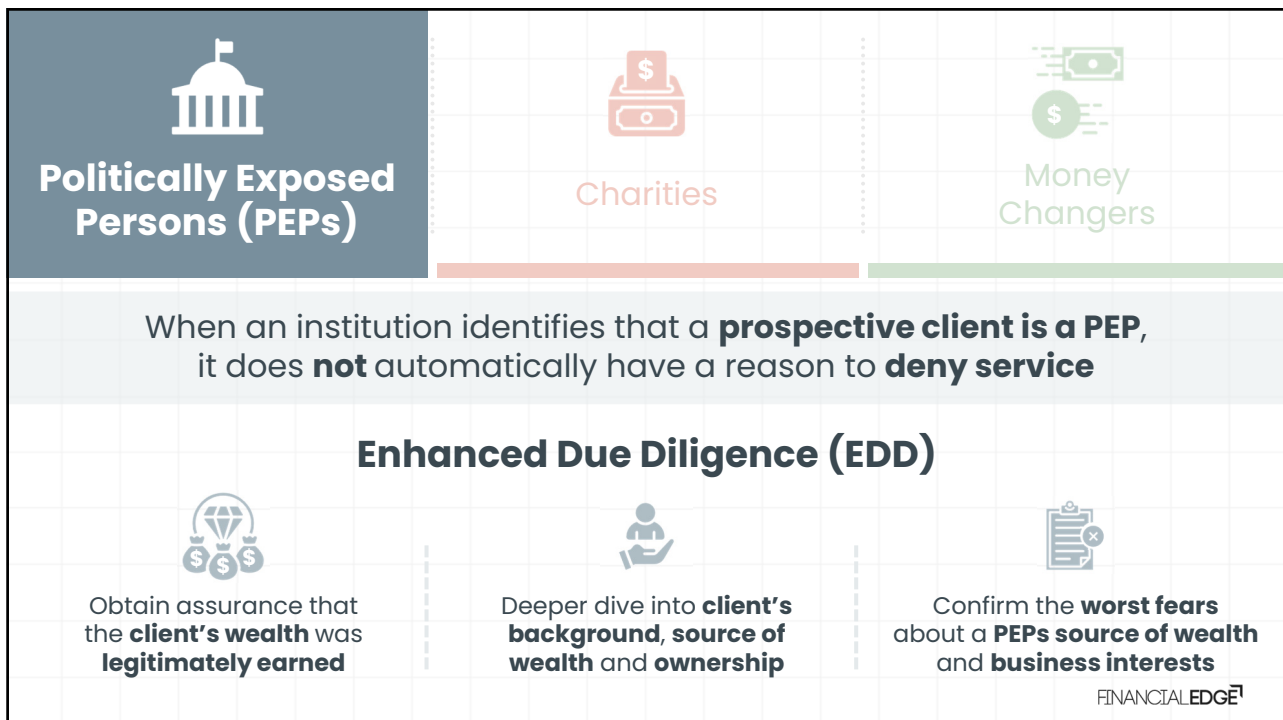
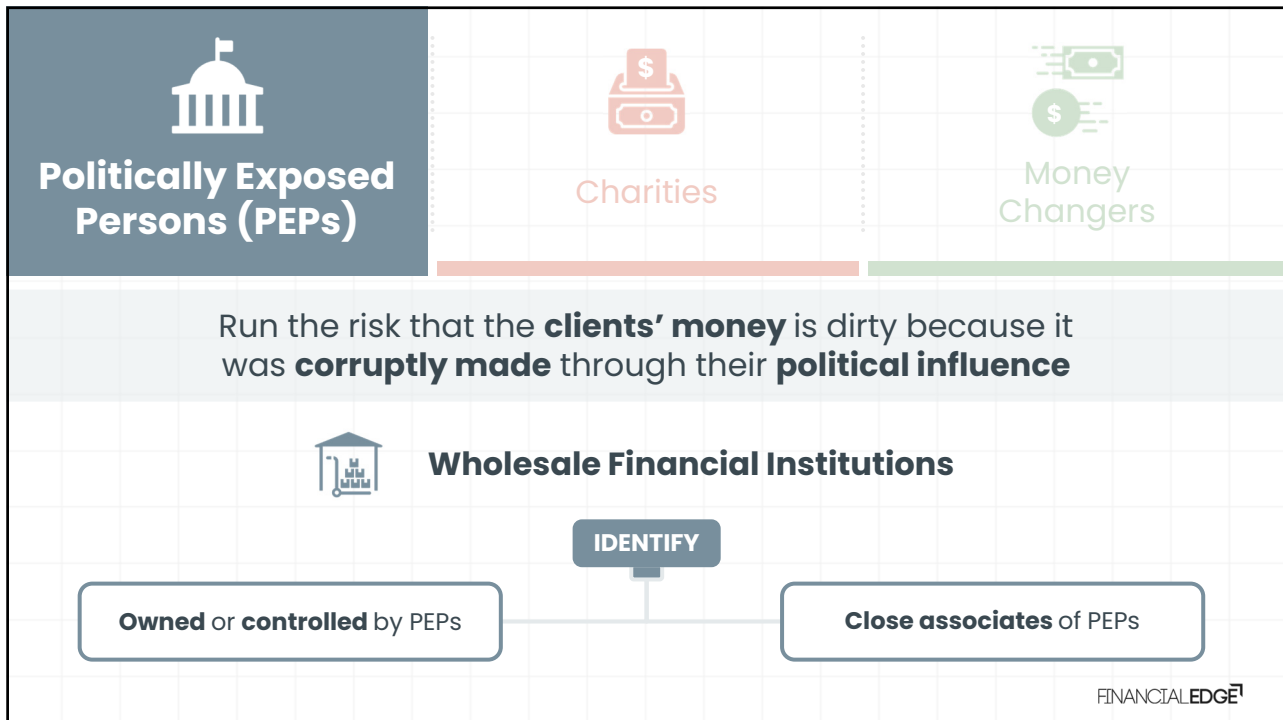



Charities




Money
Changers

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Politically Exposed Persons (PEPs)




Charities



Money Changers


Can a PEP ever **cease** to be **politically exposed**?
What about PEPs who **no longer hold high office**?



HILLARY CLINTON

Still has broad influence despite not having been directly involved in politics since 2016

Classified as a PEP



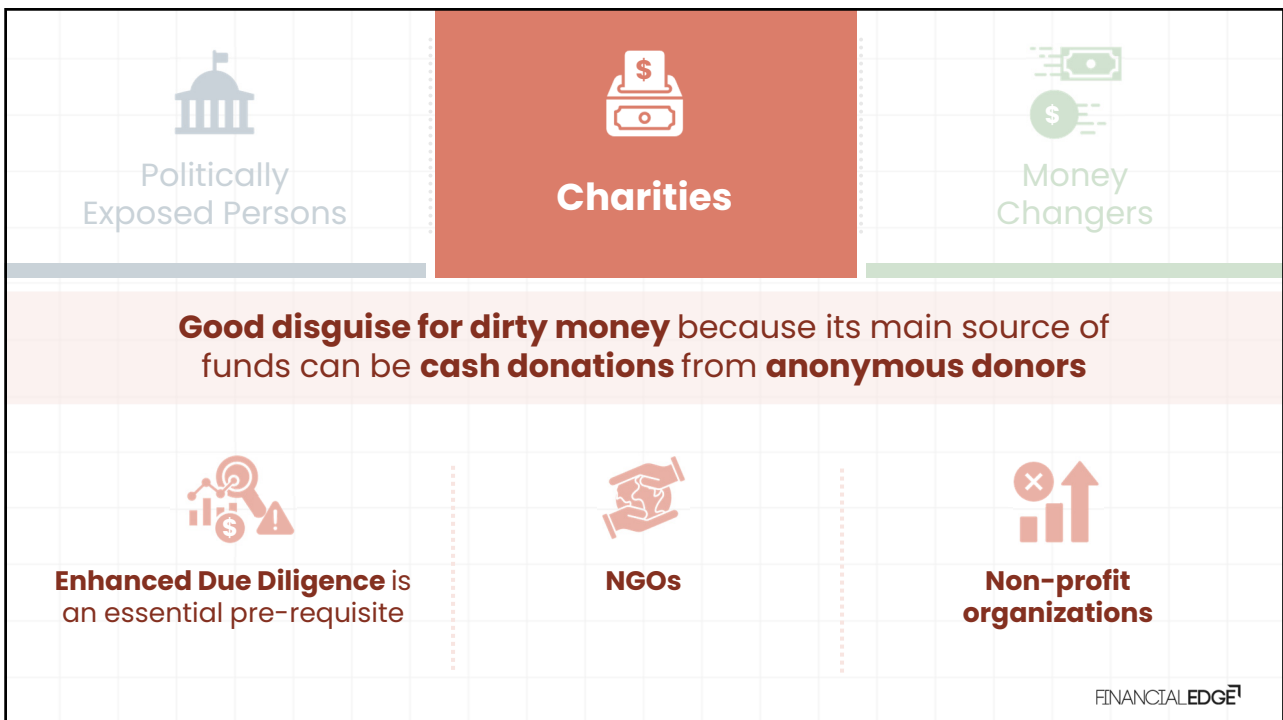
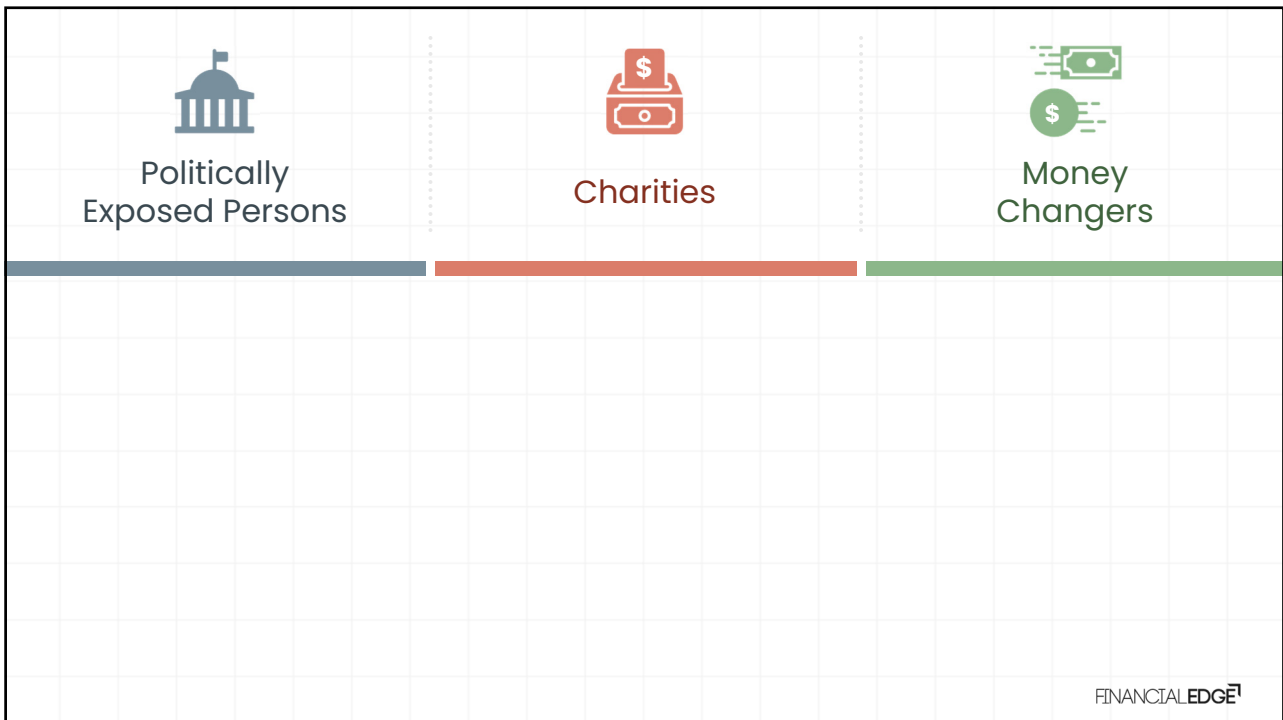
ANGELINA JOLIE

Until 2022, she was a Special Envoy to the UN High Commission for Refugees

Potentially a PEP

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High Risk Customers – Charities



High-Risk Customers – Money Changers

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Politically
Exposed Persons

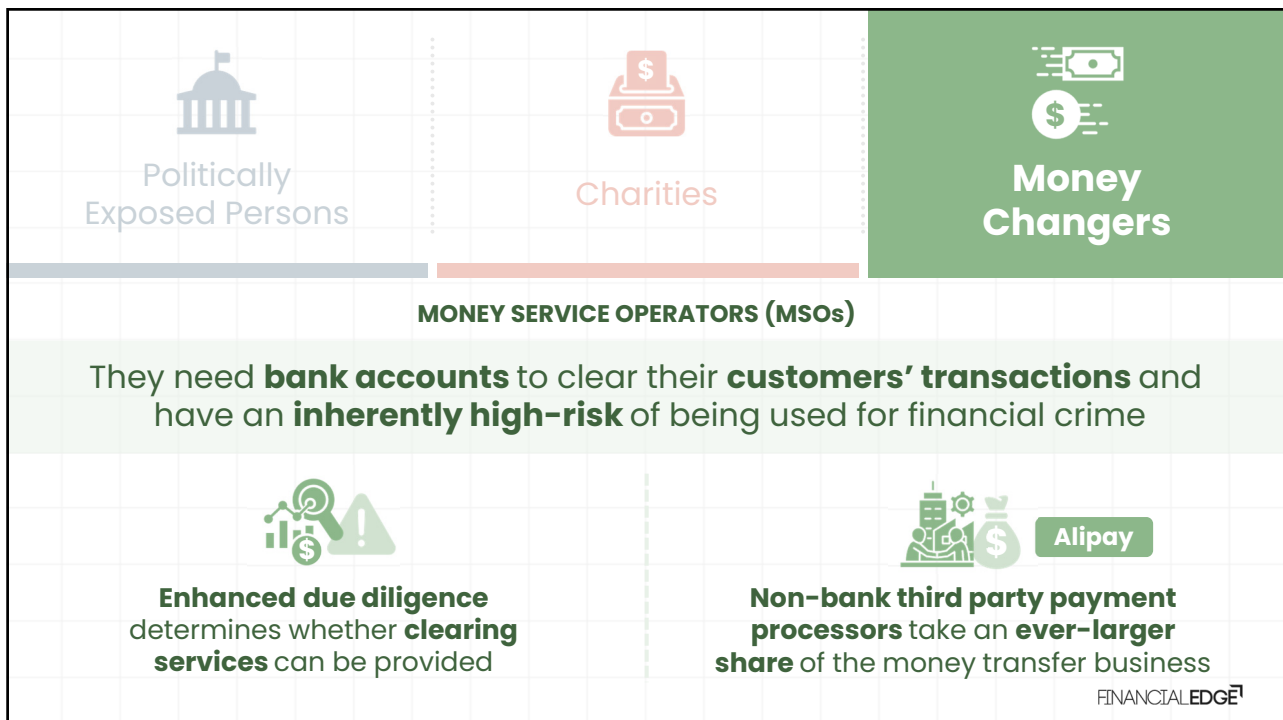
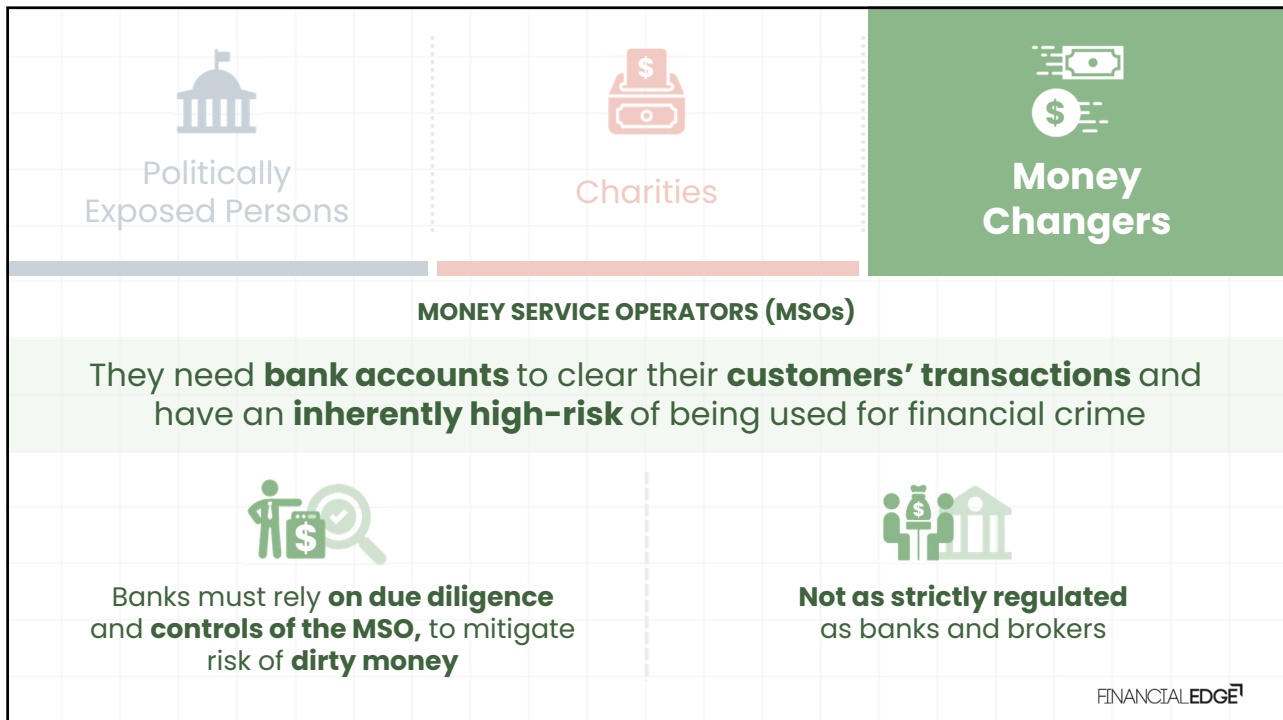


Charities



Money
Changers

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Ultimate Beneficial Owners

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Who are the **Ultimate Beneficial Owners** (UBOs)?



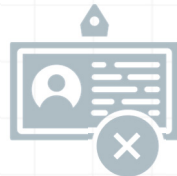
UBOs are the **natural persons who own corporate and institutional customers**

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Who are the **Ultimate Beneficial Owners (UBOs)**?



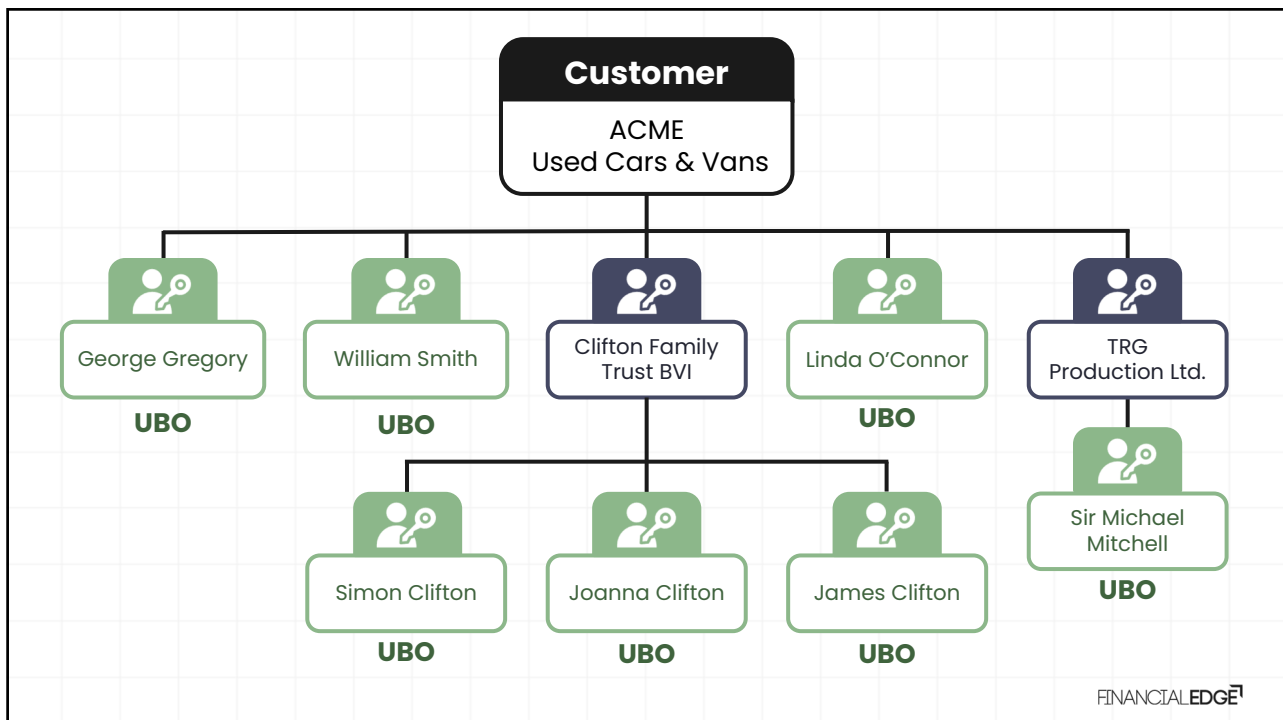
If due diligence reveals that an owner is **not a natural person**, financial services providers must **investigate further**

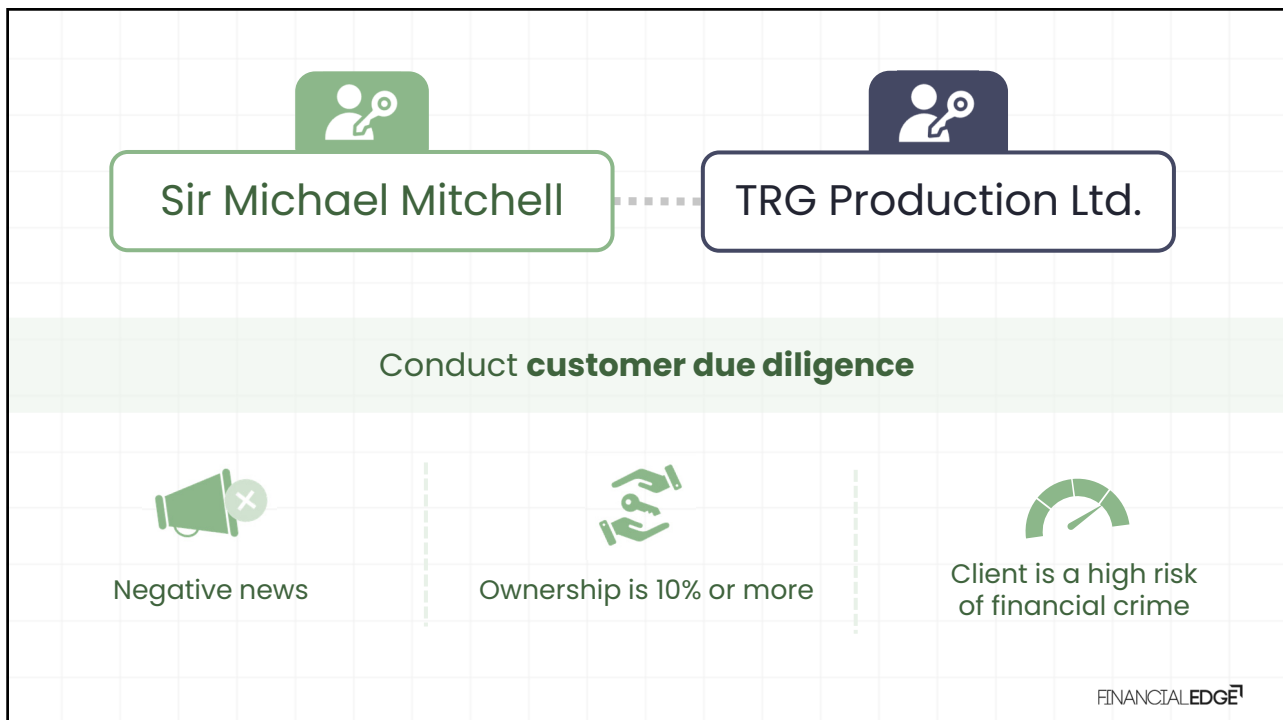


Failure to do so would **allow the customer to conceal the identity** of its beneficial owners



Resulting in the risk that the finance services firm **provides services**, indirectly, to **prohibited clients**

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What should the **firm do next?**



Deny service to **Acme**?



Continue **providing service**,
with **Acme rated high risk**
due to the PEP connection?

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Finding **the identity of UBOs** can be
difficult in certain circumstances

Listed Companies



Unduly Complex Corporate Structures

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Listed Companies



Rely on an **internally-approved shortlist** of stock exchanges

FIRM RELIES ON

When a **client is listed** on an **approved exchange**



Due diligence



Disclosures



Transparency checks

Performed by the **exchange**

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Finding **the identity of UBOs** can be difficult in certain circumstances

Listed Companies



Unduly Complex Corporate Structures



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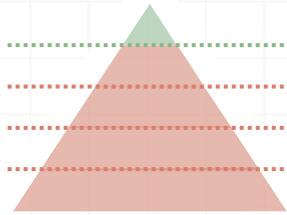


Unduly Complex Corporate Structures

A financial services firm's risk owners **must question corporate structures** if they appear to be unduly complex



Customer has
four layers of
corporate owners



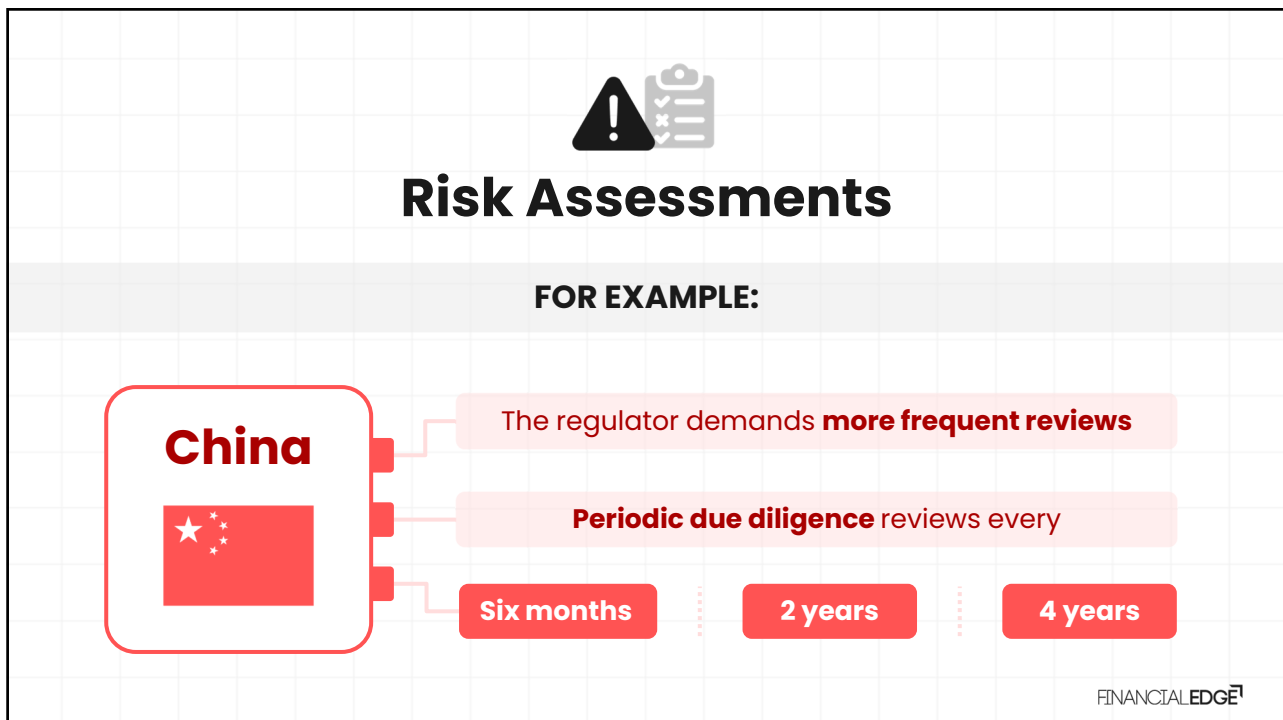
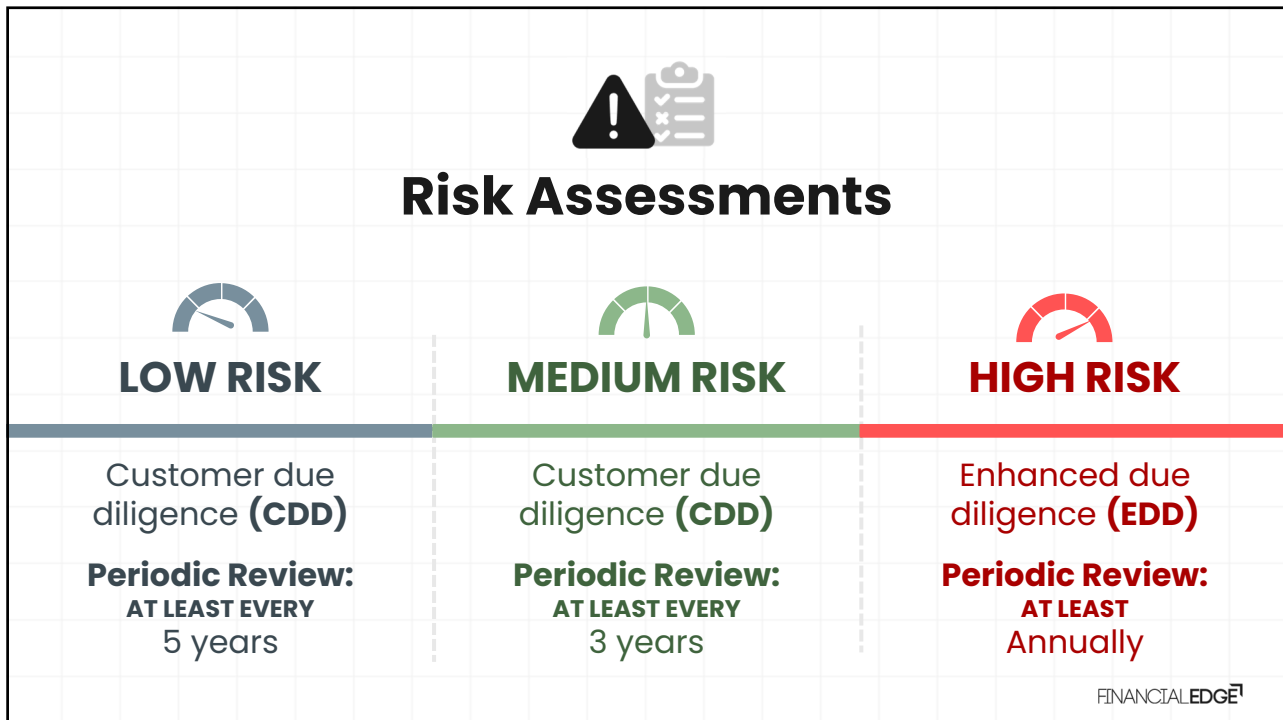
Natural persons
only at the **fifth**
layer of ownership

? Explain the **commercial purpose of the ownership structure** to help the firm decide if it is legitimate ?

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Ongoing Money Laundering Risk Assessments

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Trigger Reviews



Material adverse news about the client

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Trigger Reviews



Unusual transactions across the **client's account**

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Trigger Reviews



Changes in the client's **business, ownership,**
or its **usage** of the firm's **products** and **services**

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Trigger Reviews

Enables client's rating to reflect changes
in **underlying risk factors**



Five-yearly refresh
of due diligence



Due diligence will
not be **revisited** for
another **5 years**



Must be **refreshed**
immediately if a
trigger event occurs



Low-risk client

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The Risk-Based Approach

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The Risk-Based Approach



WHOLESALE BANK:

Medium money
laundering risk customer



CLIENT RELATIONSHIP:

10 years old

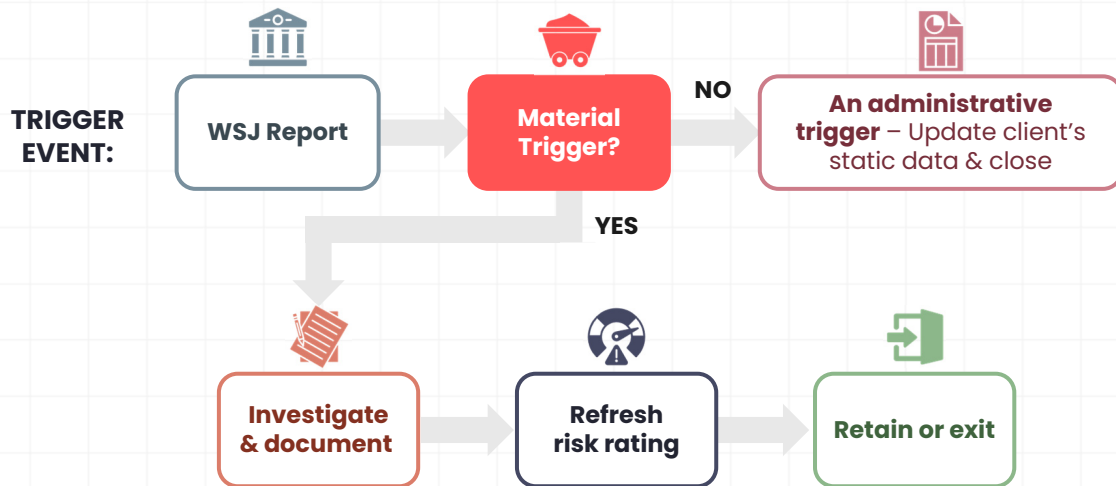


BANK SUPPORTS CLIENT:

Financing and
payment products

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The Risk-Based Approach

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