

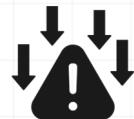
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Anti-Money Laundering - Managing the Risk I



Due Diligence

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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**

Due Diligence



Customer Due Diligence (CDD)



Enhanced Due Diligence (EDD)



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**



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%



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



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**

Source of Wealth and Source of Funds

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



SoW
Source of Wealth



SoF
Source of Funds



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



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

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

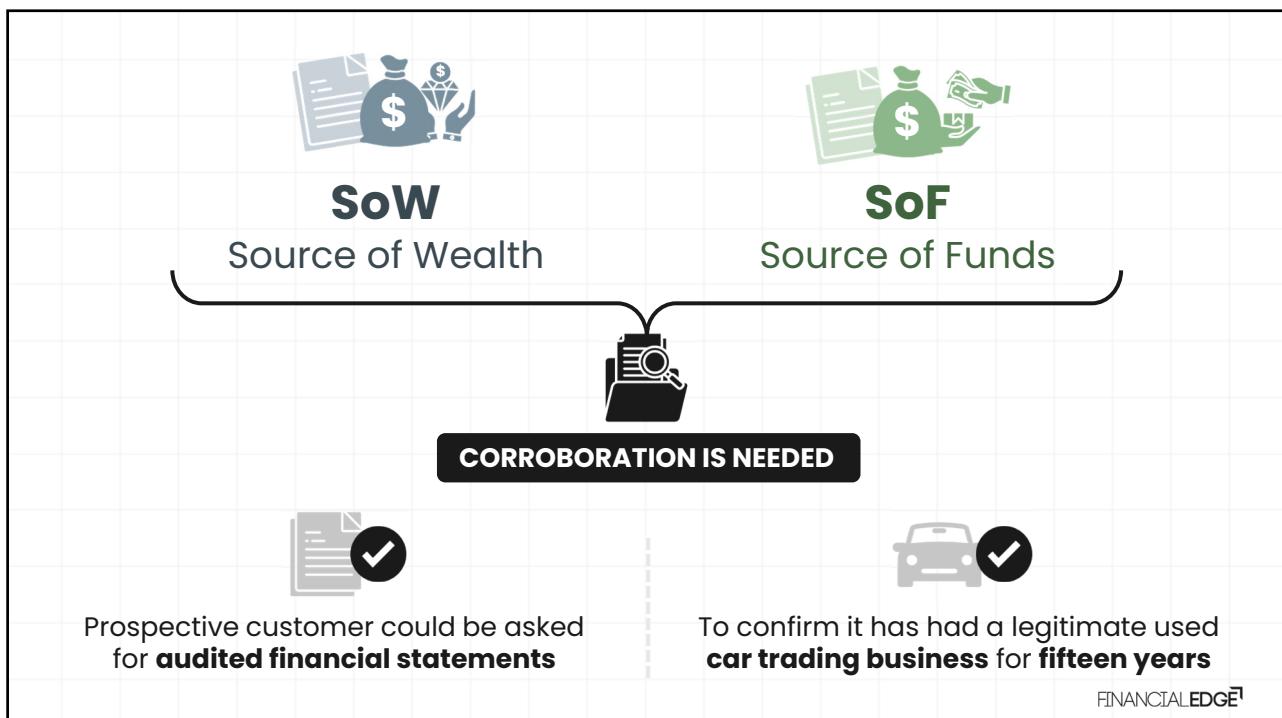
Explains where the **customer's deposit** is coming from



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



Financial Institutions



ASSESS



CARRY OUT

Money laundering risk

Enhanced due diligence

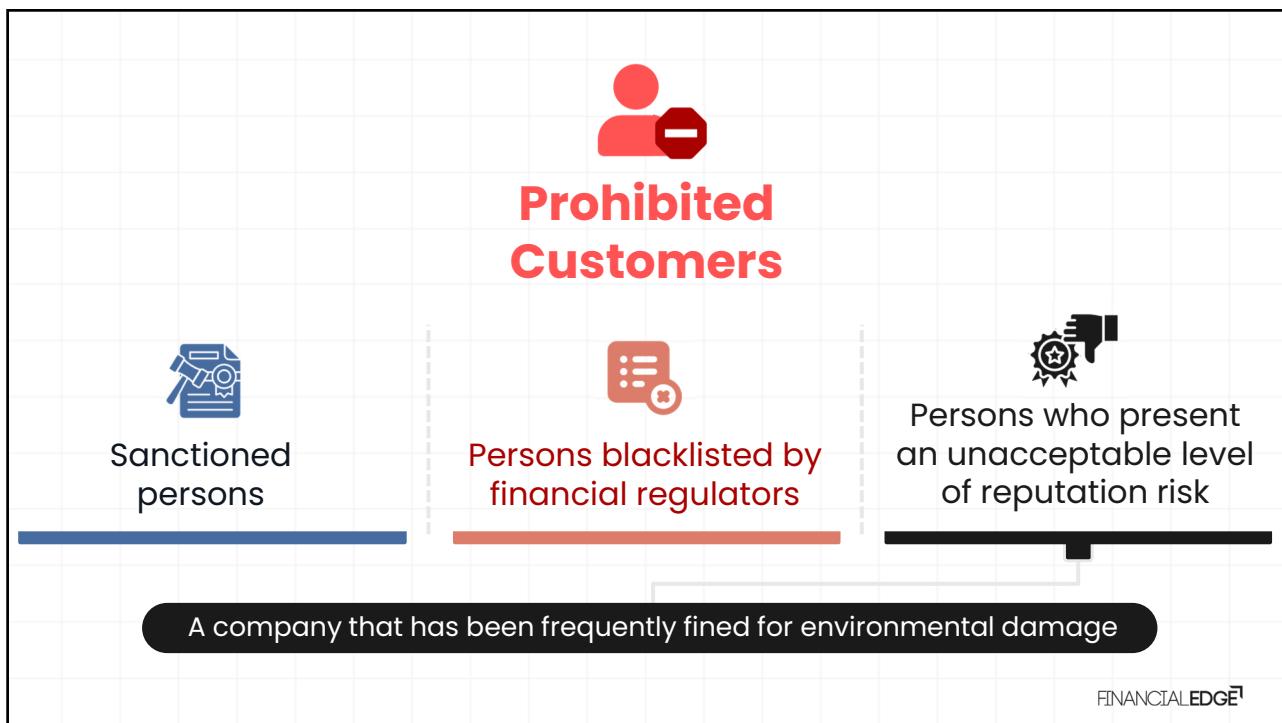


Financial Institutions



Level of risk a client presents depends on **many factors**





High Risk Customers - PEPs



Politically Exposed
Persons (PEPs)



Charities



Money
Changers



Politically Exposed Persons (PEPs)



Charities



Money Changers

Run the risk that the **clients' money** is dirty because it was **corruptly made** through their **political influence**



Wholesale Financial Institutions

IDENTIFY

Owned or controlled by PEPs

Close associates of PEPs

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Politically Exposed Persons (PEPs)



Charities



Money Changers

When an institution identifies that a **prospective client is a PEP**, it does **not** automatically have a reason to **deny service**

Enhanced Due Diligence (EDD)



Obtain assurance that the **client's wealth** was **legitimately earned**



Deeper dive into **client's background, source of wealth** and **ownership**



Confirm the **worst fears** about a **PEPs source of wealth** and **business interests**

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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



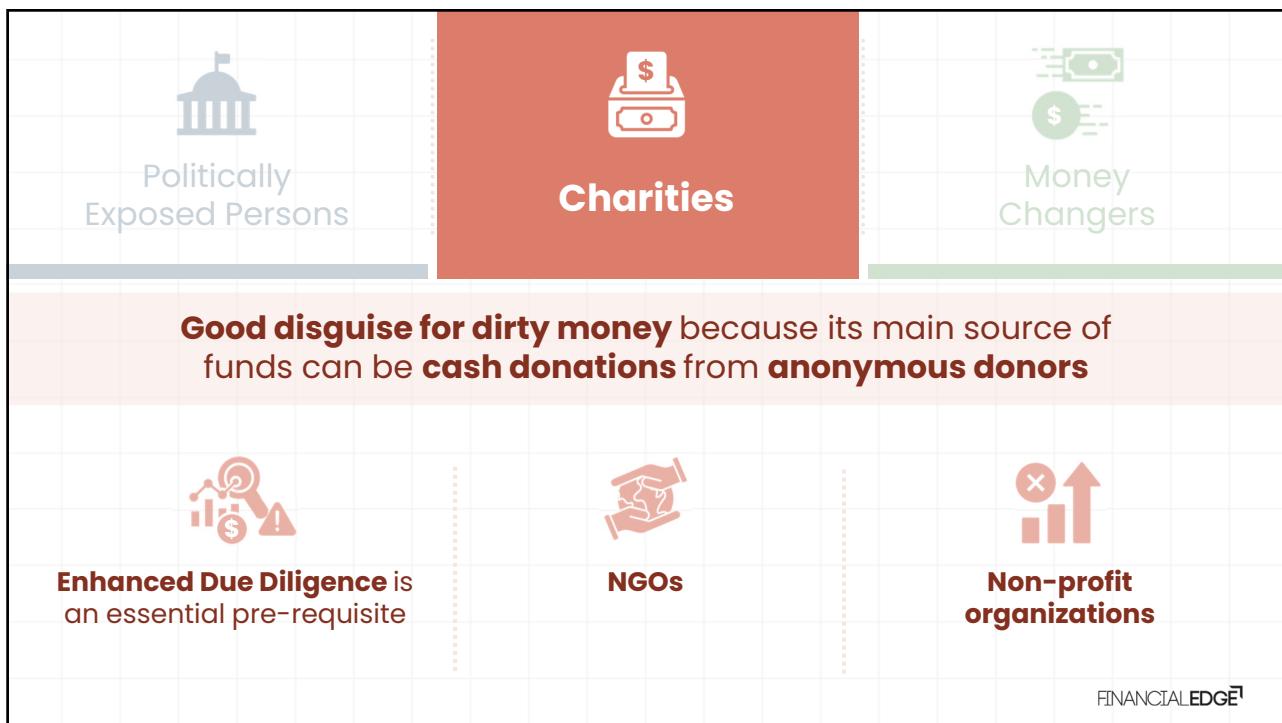
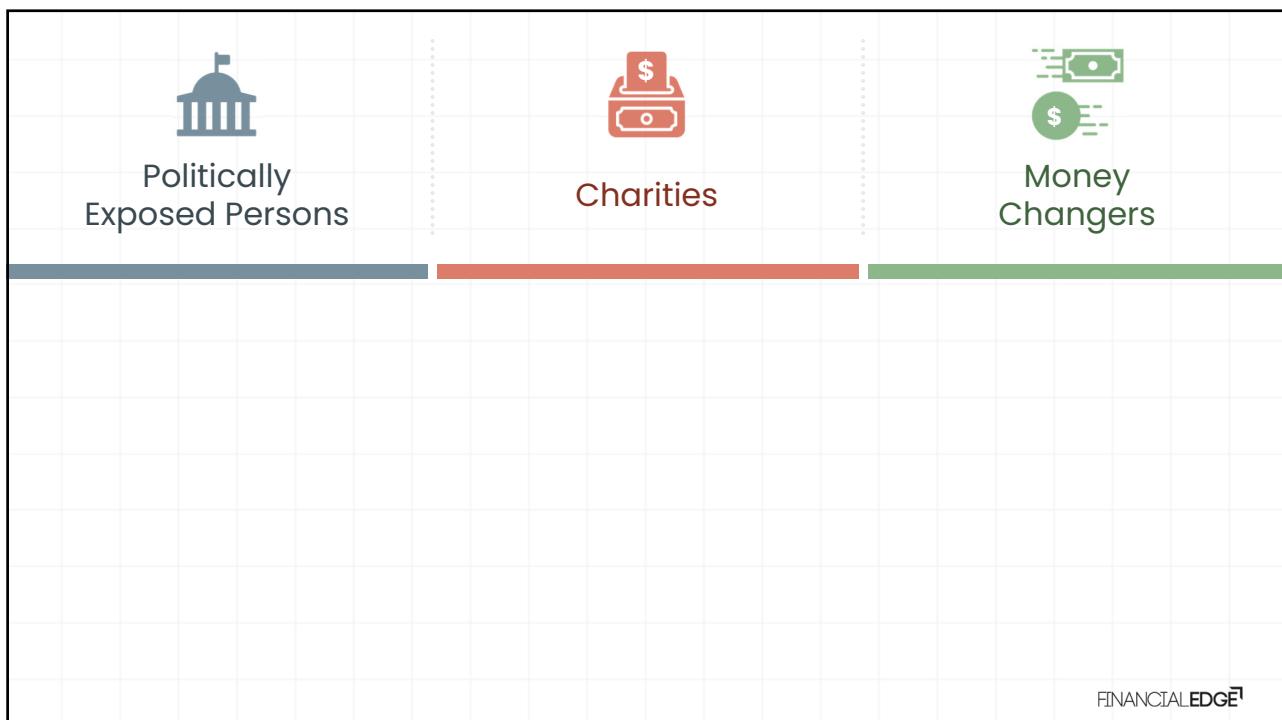
ANGELINA JOLIE

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
MONEY SERVICE OPERATORS (MSOs)		
<p>They need bank accounts to clear their customers' transactions and have an inherently high-risk of being used for financial crime</p>		
 Banks must rely on due diligence and controls of the MSO , to mitigate risk of dirty money	 Not as strictly regulated as banks and brokers	<small>FINANCIALEDGE</small>

 Politically Exposed Persons	 Charities	 Money Changers
MONEY SERVICE OPERATORS (MSOs)		
<p>They need bank accounts to clear their customers' transactions and have an inherently high-risk of being used for financial crime</p>		
 Enhanced due diligence determines whether clearing services can be provided	 Non-bank third party payment processors take an ever-larger share of the money transfer business	<small>FINANCIALEDGE</small>

Ultimate Beneficial Owners

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



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

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



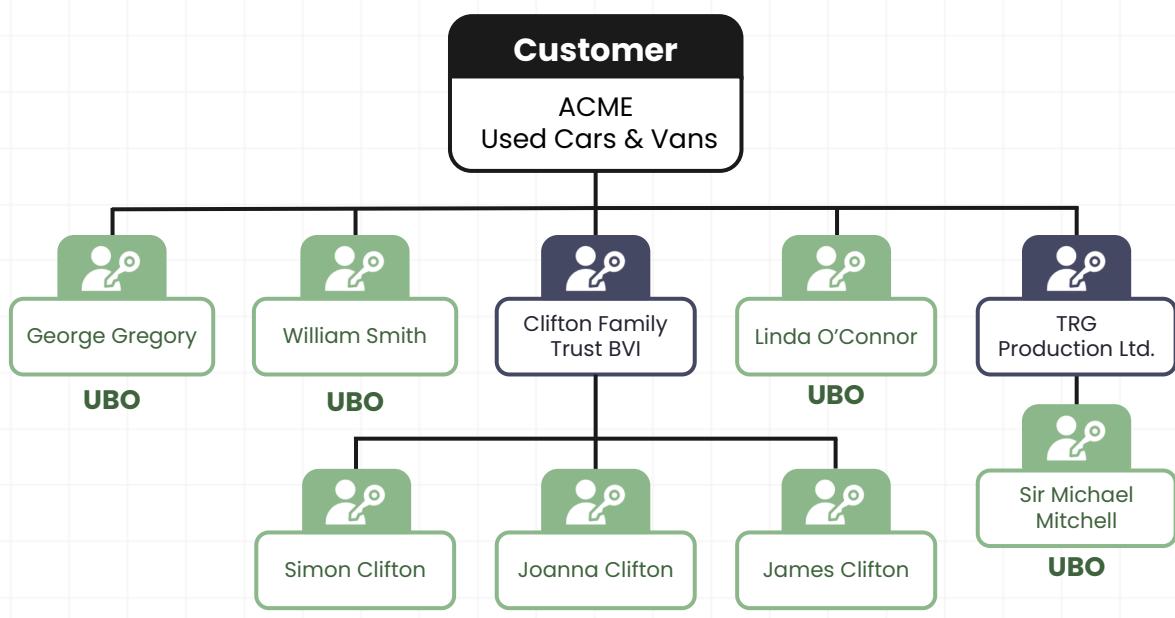
If due diligence reveals that an owner is **not a natural person**, financial services providers must **investigate further**

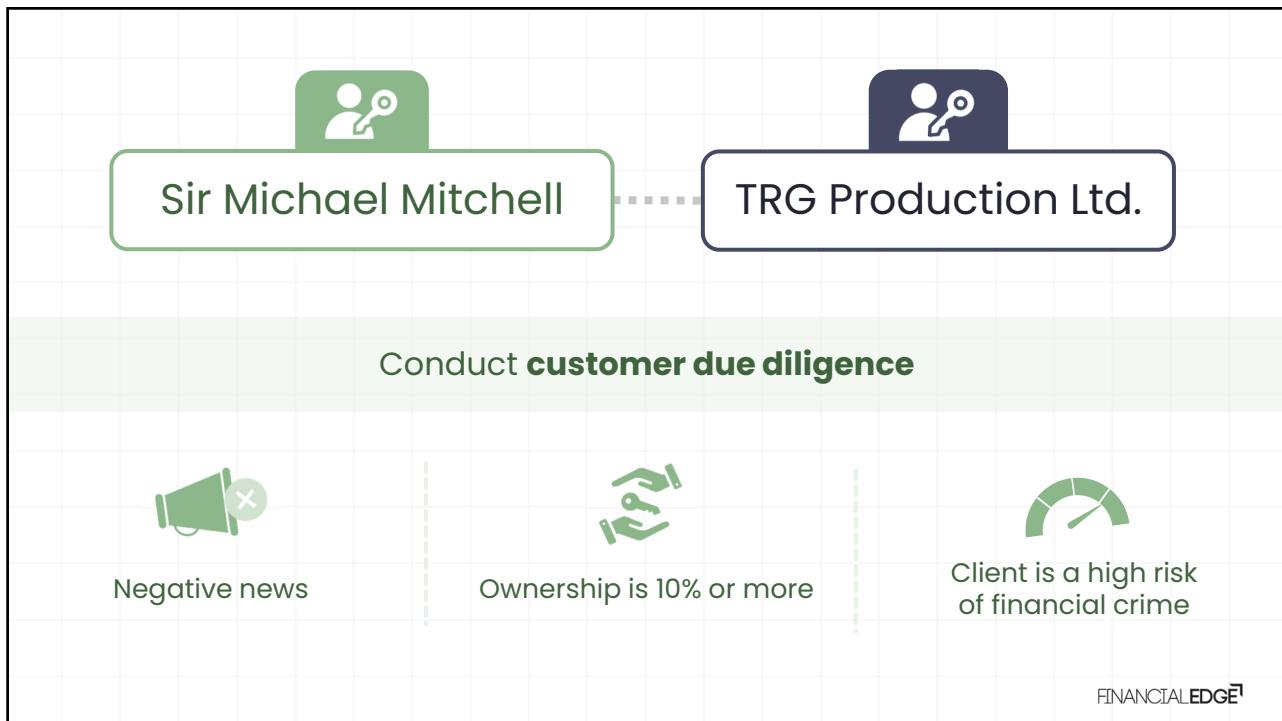


Failure to do so would **allow the customer to conceal the identity** of its beneficial owners



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





What should the **firm** do next?



Deny service to Acme?



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

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

Listed Companies



Unduly Complex Corporate Structures





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**

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

Listed Companies



Unduly Complex Corporate Structures



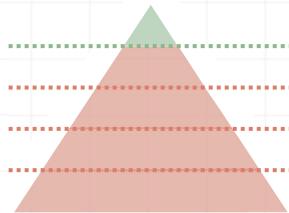


Unduly Complex Corporate Structures

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



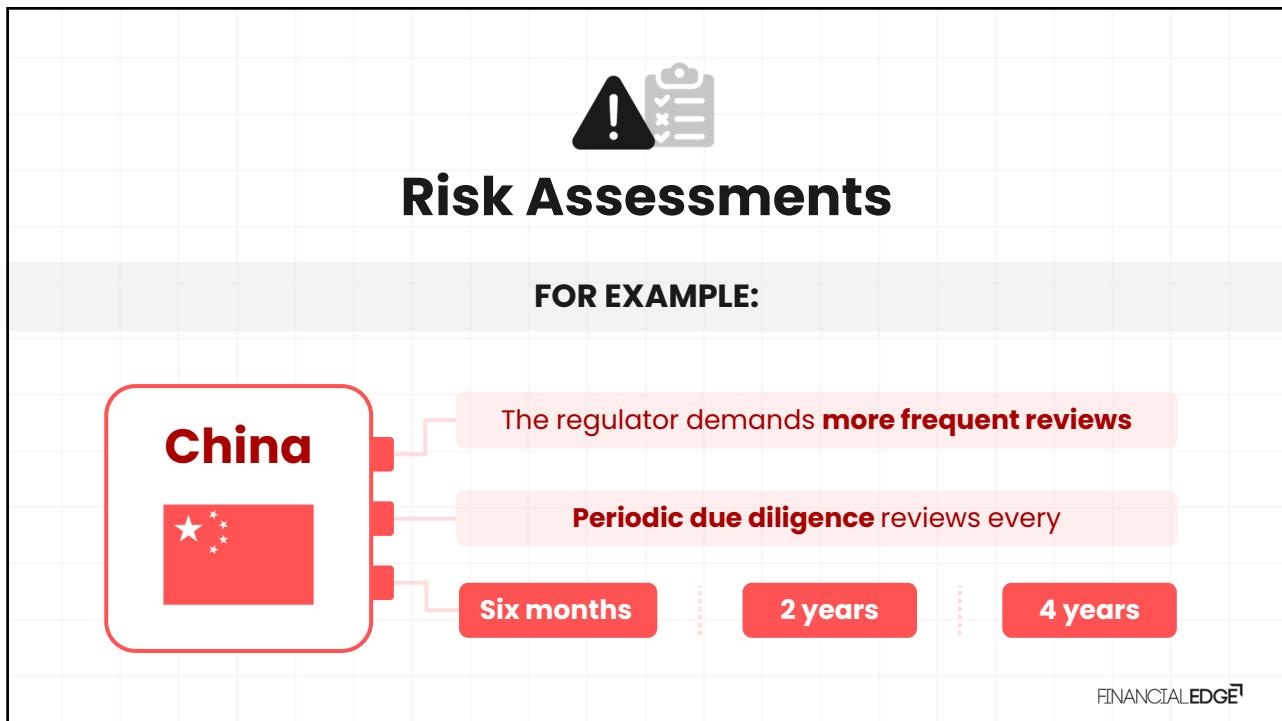
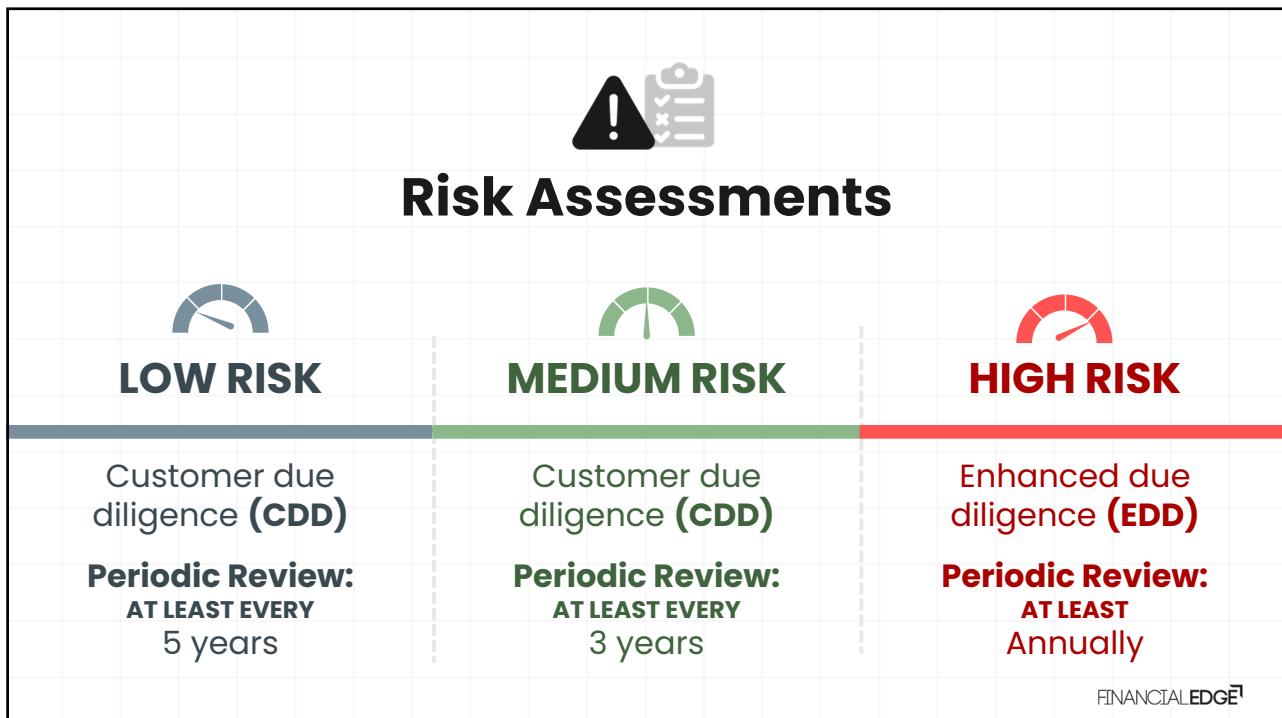
Natural persons only at the **fifth layer** of ownership



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



Ongoing Money Laundering Risk Assessments





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**



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

The Risk-Based Approach

The Risk-Based Approach



WHOLESALE BANK:

Medium money laundering risk customer



CLIENT RELATIONSHIP:

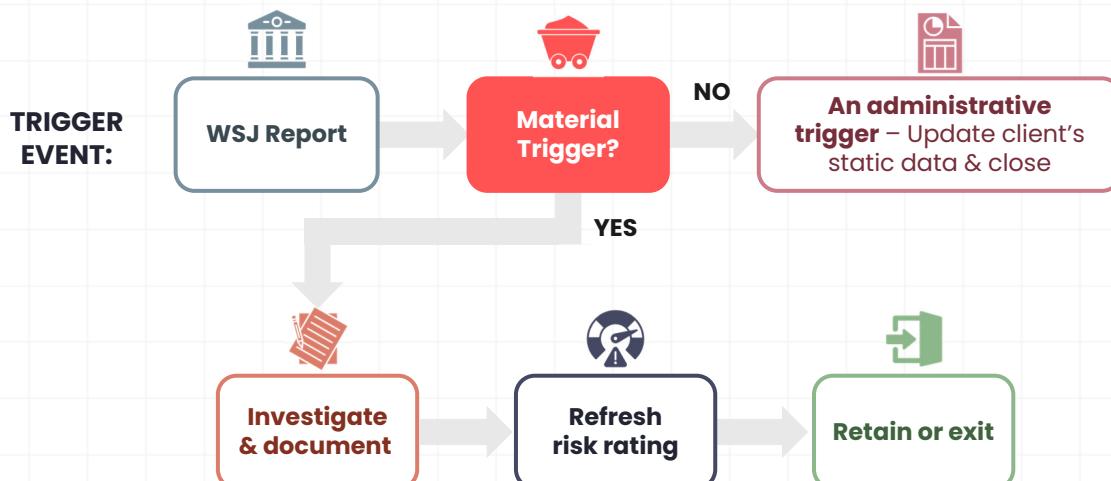
10 years old



BANK SUPPORTS CLIENT:

Financing and payment products

The Risk-Based Approach



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