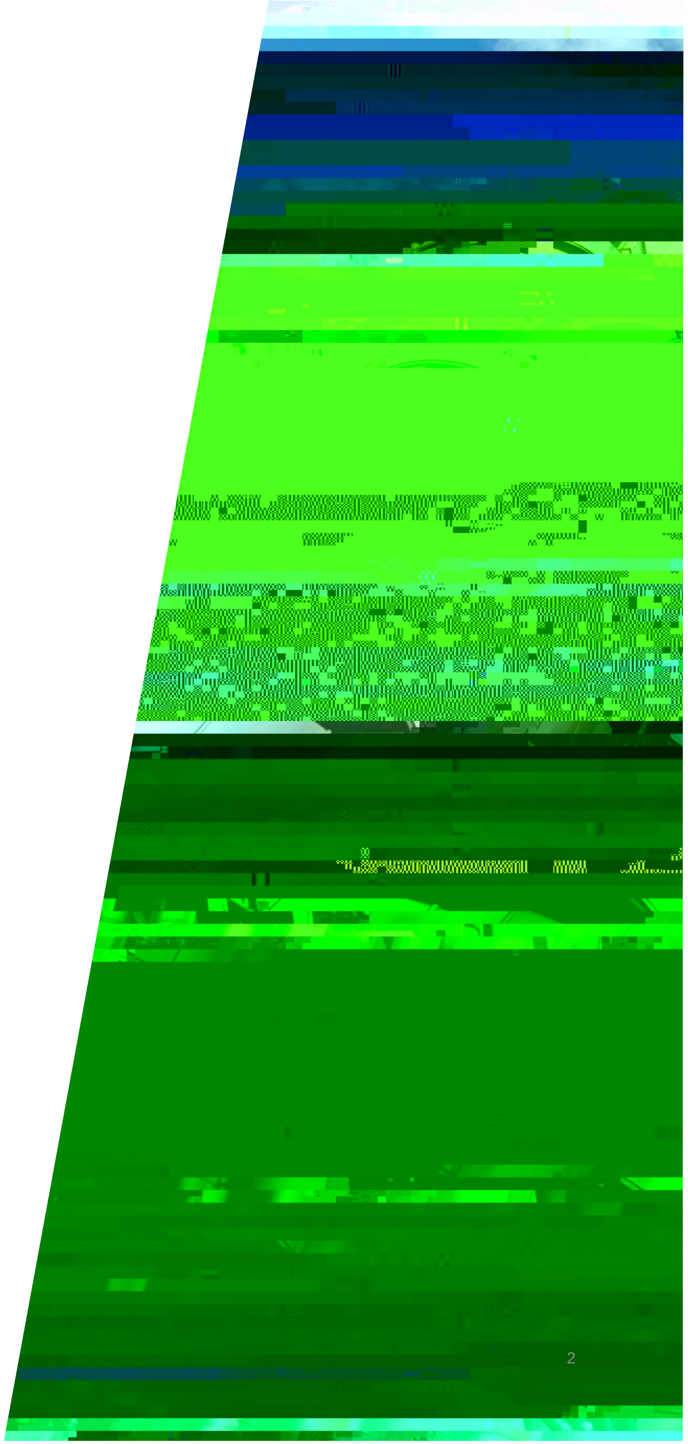
SFC AML/CFT Seminar

Governance, PEPs & Transaction Monitoring

Philip Rodd

Agenda



ML/TF Vulnerabilities for the Securities Industry

ML/TF Vulnerabilities for the Securities Industry

Politically Exposed Persons (PEPs)

- PEPs and customers associated with PEPs create higher risk for financial institutions because of their prominent political profile which may increase exposure to bribery and corruption

- Examples of information sources to identify PEPs
  - Internet search
  - Commercial database
  - In-house database
  - Customer self-declaration and Relationship Manager knowledge

Robust PEP Policy & Procedure

- Definition of both domestic and foreign PEPs, with examples
- Define who is an associated parties, e.g. which level of interest/ influence the PEPs hold/ exercise may trigger a PEP assessment
- Define the PEP assessment processes
- Define the approval chain

- Establish a robust name screening system to identify PEPs and PEP associated parties
- Ensure the vendor provides all PEP lists which you have defined in the policies and procedures
- Lists are not exhaustive and Relationship Manager identification is also key

- Conduct detailed analysis of PEP's source of funds and source of wealth, e.g.:
  - whether his/her properties and assets align with his/her income
  - any corruption related negative news for that particular PEP

- Perform periodic review on:
  - PEP definitions;
  - name screening systems;
  - Existing PEP clients
- Sample checks of the PEP assessments to ensure that PEPs are duly analyzed and approved and all records are retained

	Retail Brokerage Account	Business Counterparties

Transaction Monitoring

Red Flags

- Redeeming a long-term investment within a short period
- Customer's inflow of funds / assets are not consistent with the expected income/ resources of the client
- Transactions with no business sense / legitimate purposes or inconsistent with the customer's strategy
- Customer demonstrates a lack of concern of risks, costs or even, losses
- Third party payments / transfers, with no apparent business purpose

Transaction Monitoring

Identif5179 ction

3rd Party Payments / Transfers

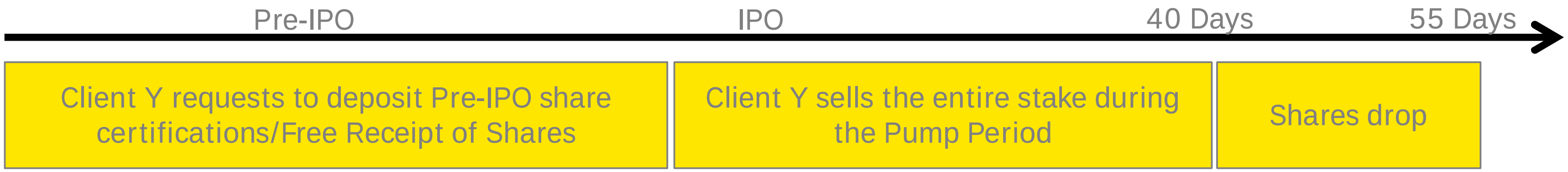
- 3rd party payments / transfers are commonly found in the brokerage businesses
- A third party makes payments / transfers to the institution's customer account OR the customer makes a funds deposit followed by an immediate transfer request to a third party
- Controls deficiencies for 3rd party payments / transfers can be present in each of the ph

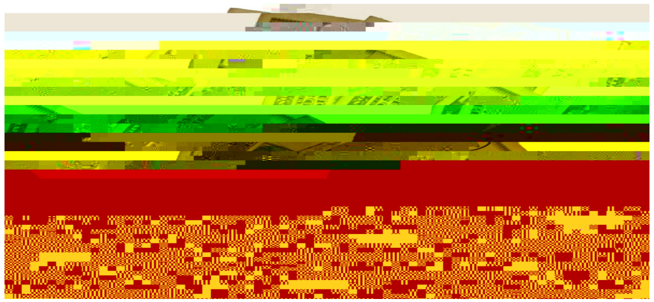
EY 安永

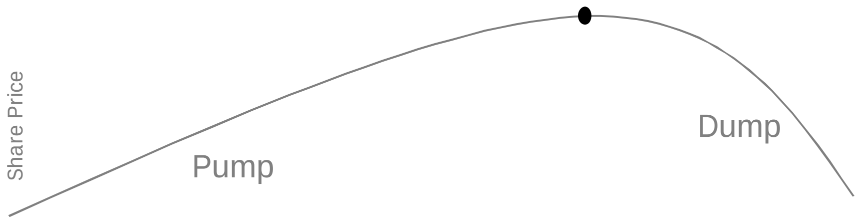
Case Study

Pump & Dump

Mechanism:







This material was provided during seminars