



DISCLAIMER

This presentation serves :

- to present findings identified during AML/CFT on-site inspections, and
- to propose guidance in the form of <u>examples</u> of good practice.

The findings and guidance described in this presentation are not exhaustive and other measures could be considered appropriate.



CSSF COMMISSION DE SURVEILLANCE DU SECTEUR FINANCIER

1. INTRODUCTION & BACKGROUND

- ❖ 2010: Creation of the AML/CFT on-site inspection team.
- Risk based approach (« RBA »):
 - Integral part of our AML/CFT control plan;
 - Since 2018 and:
 - the issue of the Law of 13 February 2018 amending the Law of 12 November 2004 on the fight against money laundering and terrorist financing (hereinafter the « Law ») and,
 - the adoption of the joint guidelines issued by the three European Supervisory Authorities (EBA/ESMA/EIOPA) on money laundering and terrorist financing ("ML/TF") risk (June 2018) ("The Risk Factors Guidelines") (CSSF Circular 17/661);
 - CSSF Circular 18/702 on the Developments regarding the fight against ML/TF in the private banking sector;
 - \Rightarrow Point of focus.

Consequences:

- Enhancement of the RBA section of our AML/CFT full scope control plan;
- Development of a dedicated RBA thematic control plan -> 8 on-site inspections conducted;
- On-site inspections targeted on high risk customers.

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1. INTRODUCTION & BACKGROUND

Main objectives:

Assess wether professionals:

- Have defined their ML/TF <u>risk appetite and risk strategy</u>;
- Have identified their <u>inherent ML/TF risks</u> (customers, products & services, countries, channels, transactions, others...);
- Have implemented <u>systems and controls appropriate to the nature, scale and complexities of their business;</u>
- Have systems and controls in place proportionate to their inherent risks and commensurate to their risk appetite.

Results:

- Some examples of good AML/CFT risk management, but also
- Serious findings in particular on the systems and controls for managing <u>high risk</u> <u>customers;</u>

=> Focus of this presentation.



2. OBJECTIVES OF THIS PRESENTATION

- Present findings identified during AML/CFT on-site inspections;
- Propose guidance in the form of examples of good practice.
- Processes covered:



A. Risk self-assessment/Risk appetite



B. Application of the risk based approach



C. Customer due diligence



D. Transaction monitoring



E. Name matching/filtering controls



F. Internal organization



A. Risk self-assessment/Risk appetite



Risk appetite:

Findings No document evidencing how much ML/TF risk professionals are prepared to take on (i.e. no risk appetite and no risk strategy). ML/TF risk appetite and risk strategy clearly defined by professionals: → Risk assessment policies and procedures reflected the professionals' risk appetite and strategy; → Professionals clearly assessed whether the risk associated with individual business relationships corresponded to their risk appetite/strategy.

Risk self-assessment:

Findings	Good practices
No regular review of the risk self-assessment → significant new developments (e.g. new clients, products/services or country risks) not taken into consideration.	Professionals reviewed their risk self-assessment on an annual basis and included <u>significant</u> new developments.

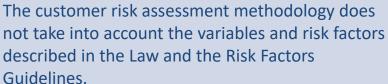


B. Application of the risk based approach



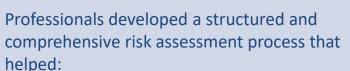
Methodology:

The customer risk assessment take into account the v



The three situations set out in article 3-2 of the Law and article 3 of the Grand-ducal Regulation and one situation set out in article 3 of the CSSF Regulation are not sufficiently discriminating \rightarrow EDD not automatically applied.

Good practices



- take into account all risk factors in relation with one client;
- adapt due diligence measures to the risks identified;
- make <u>well-informed and consistent decisions</u> about whether a potential or existing customer relationship is within the their risk appetite/risk strategy;
- identify and <u>focus on</u> those business relationships that pose <u>the greatest risk of ML/TF.</u>

Professionals had a manageable % of high risk customers.



C. Customer Due Diligence



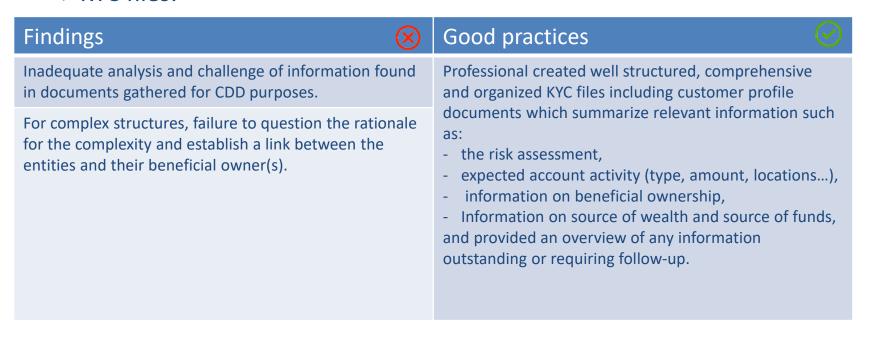
Approval of business relationships:

Findings Good practices Professionals developed clear processes for escalating the approval of high risk relationships to senior management or committees which considered ML/TF

Managers ("RM").

risks and gave appropriate challenge to Relationship

* KYC files:





C. Customer Due Diligence



Source of funds/source of wealth:

Findings	Good practices
Insufficient information gathered.	Professionals had clear risk-based policies and
Failure to obtain supporting document to establish the legitimacy of the source of wealth and source of funds.	procedures setting out the EDD required for higher risk customers, particularly in relation to source of wealth.
	Professionals obtained meaningful information, apply <u>risk-sensitive measures</u> to verify this information, and challenged information where appropriate, <u>especially where the risk associated</u> with the business relationship was increased.

❖ Keeping CDD up to date:





D. Transaction monitoring



Findings



Good practices



Accounts used for purposes inconsistent with the expected activity on the account.

Inappropriate transaction monitoring tool.

Lack of critical analysis of the information received from the client.

Lack of explanation and/or supporting documentation to corroborate large transactions and/or transactions not in line with clients' activity.

Lack of involvement of the Compliance function in the monitoring of high risk customers. Transaction monitoring which took into account up-to-date CDD information including expected activity, source of wealth and source of funds.

Most effective ongoing monitoring regimes combined an automatic system to generate alerts when activity on the account is unexpected or indicate potential ML/TF with regular independent reviews performed by the RMs.

Compliance Function involved in the monitoring of high risk customers and effectively challenged RMs.

More senior involvement in resolving alerts raised for transactions on higher risk customer accounts, including ensuring adequate explanation and, where necessary, corroboration of unusual transactions.



E. Name matching/filtering controls



* Reputation:

Good practices Findings Failure to identify or record adverse information Professionals used, where available, open source about the customer or the customer's beneficial internet checks to supplement commercially available databases when researching potential owner. high risk customers. Dismissal of serious allegations about the customers without adequate review. Where ML/TF risk is very high, professionals supplemented CDD with independent intelligence reports. Professionals implemented adequate training to staff involved with high risk customers.



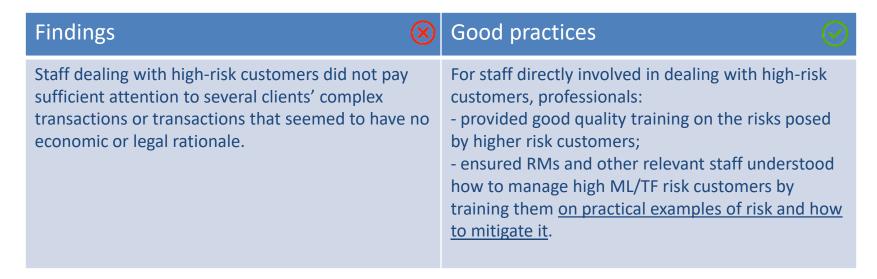
F. Internal organization



❖ AML/CFT resources:

FindingsSecond practicesLack of resources within the Compliance function.Professionals allocated adequate resources to ML/TF control functions → high risk customers require extra due diligence measures (= more resources).

Training & Awareness:





4. CONCLUSION

High risk customers = potential large profit but potential high reputational and regulatory risks & potential higher costs to implement adequate controls.



❖ Given the nature of our findings, the management of high risk customers, will remain a significant focus of our on-site inspections.

