BSA/AML in Brief

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- A sound BSA/AML compliance program is critical in deterring and preventing a series of activities related to money laundering or terrorist financing at, or through, banks and other financial institution. In general, Money Laundering does not involve currency at every stage of the laundering process. Although the process is diversified, more often than not it's a complex process where it involves three steps that can occur simultaneously and independently.

- Principles behind Money Laundering includes and not limited to PLI namely "placement", "layering" and "integration"

  - **Placement**

    Nature : The first and most ***vulnerable*** stage of laundering money is placement.

    Goal : To bring in unlawful proceeds into the financial system without attracting the attention of financial institutions or any law enforcement or regulatory body.

    Techniques : of which, include ***structuring*** currency deposits in amounts in order to evade reporting requirements, or commix currency deposits of legal and illegal business entities

    Example : *splitting* large sum of currency into less-conspicuous smaller chunks which will be *deposited* directly into a bank account, or *purchasing* a series of monetary instruments which are then collected and deposited into accounts at another location or financial institution, or to deposit a fund returned from an invalid events or financial instrument such as insurance policy.

  - **Layering**

    - **Nature** : Step Two. It involves ***moving funds around*** the financial system
    - **Technique** : Usually disguised as a ***series of transactions*** that create confusion and complicate traceability.
    - **Example** : it involves exchanging monetary instruments for a larger or smaller amounts, or transferring funds to and *through multiple bank accounts with more than one financial institutions*.

  - **Integration**

    - **Nature** : the ultimate stage. It's used to ***create an impression*** of legality through multiple and additional transactions
    - **Goal** : The purpose is to integrate the illegitimate funds after the ***thinning process*** through layering above.

- **Technique** : Once the funds are in the financial system and become insulated through earlier process, the integration will then utilize these transactions further to *shield the culprit* from original source or connection to the funds through a *credible explanation or protocol*.

- In view of the principles and various techniques employed, the development of an effective AML risk assessment to address the risk and compliance requirements should generally involve two steps:

  - *Identification of* specific risk categories, whether they fall under financial products, financial institute services, customers, business entities, transactions, and geographic locations which are unique to the bank; follow by

  - *Performing* a detail analysis of the data identified to better assess the risk within these categories

- Apart from the risk assessment, an effectiveness way to build a Compliance program will usually involve <u>Internal control</u>, <u>independent testing</u>, <u>personnel roles</u>, <u>Board accountability</u> as well as **<u>transaction testing</u>**, which serve as the basic fundament to begin with. Notwithstanding the approach aforementioned, the list below should be elaborated as part of the considerations for an overall effective governance

  - Customer identification Program
  - Customer Due Diligence
  - Suspicious Activity Reporting, SAR
  - Currency Transaction Reporting and its exemption, CTR
  - Recordkeeping for Purchase & Sales of Monetary instrument & Fund Transfer
  - **<u>Foreign Correspondent Account</u>** Recordkeeping, Reporting and Due Diligence
  - **<u>Private Banking Due Diligent</u>**
  - Foreign Bank and Financial Accounts Reporting

  And etc.… to list a few

Further to the above, you may contact frankchin@itgrc.asia or visit http://iTGRC.Asia