



Banc Ceannais na hÉireann  
Central Bank of Ireland

Eurosystem

Issue 4 / May 2018

# Anti-Money Laundering Bulletin

Welcome to the first publication of the Anti-Money Laundering bulletin in 2018. This edition contains information on the Central Bank's supervisory engagements with Investment firms. While Investment firms consist of a wide variety of firm types, including Stockbrokers, Asset Managers and Trading Platforms, this bulletin may also be of interest to firms operating in other sectors.

## Background

The Central Bank has conducted a number of Anti-Money Laundering / Countering the Financing of Terrorism & Financial Sanctions (AML/CFT) supervisory engagements with Investment firms to monitor compliance with the Criminal Justice (Money Laundering and Terrorist Financing) Act 2010, as amended (the CJA 2010). Through these engagements, the Central Bank has identified a number of emerging trends in the sector which may have an impact on Money Laundering / Terrorist Financing (ML/TF) risks, including:

- Firms are moving away from traditional face-to-face relationships with customers and are using online platforms to distribute their products. The removal of the direct face-to-face customer relationship may increase the risk of ML/TF and firms must ensure they take appropriate steps to enhance their procedures to identify these risks; and
- Some firms are also facilitating trading through options or futures in new products such as cryptocurrencies which could pose a heightened risk of ML/TF.



*Domhnall Cullinan  
Head of Anti-Money Laundering Division  
Central Bank of Ireland*

**Links to useful sources of information  
available on the Central Bank website:**

[Risk Based Approach to Supervision](#)

[Financial Sanctions](#)

[Guidance on Risk](#)

[Countering the Financing Terrorism](#)

The Central Bank expects that Investment firms will fully assess all additional or changing risks associated with any new product or service prior to it being offered to customers. In addition, firms must ensure that their documented risk assessment and policies and procedures are updated to take account of these changes prior to the product or service being launched.

## Central Bank Findings

The Central Bank has identified AML/CFT compliance issues in the following areas:

1. AML/CFT Risk Assessments;
2. Politically Exposed Persons (PEP) screening and Transaction Monitoring ; and
3. Resourcing and Training.

Details on the issues identified and on the Central Bank's expectations around compliance in these areas are outlined below.



### REMINDER

The European Supervisory Authorities issued Risk Factor Guidelines in June 2017. All Designated Persons in Ireland are expected to have considered, and where applicable implemented, these Guidelines by 26 June 2018.

[Risk Factor Guidelines](#)

### FOURTH ANTI-MONEY LAUNDERING DIRECTIVE

The Criminal Justice (Money Laundering and Terrorist Financing) (Amendment) Bill 2018 has now been published. The Bill gives effect to the Fourth Anti-Money Laundering Directive and proposes a range of amendments to existing anti-money laundering legislation.

[Criminal Justice \(Money Laundering and Terrorist Financing\) \(Amendment\) Bill 2018](#)

### FIFTH ANTI-MONEY LAUNDERING DIRECTIVE

In December 2017, the European Parliament and the Council reached a political agreement on the Commission's proposal to further strengthen EU rules on anti-money laundering and counter terrorist financing.

This revision of the Fourth Anti-Money Laundering Directive aims at:

- increasing transparency on who really owns companies and trusts by establishing beneficial ownership registers;
- preventing risks associated with the use of virtual currencies for terrorist financing and limiting the use of pre-paid cards;
- improving the safeguards for financial transactions to and from high-risk third countries;
- enhancing the access of Financial Intelligence Units to information, including centralised bank account registers.

[http://ec.europa.eu/newsroom/just/item-detail.cfm?item\\_id=610991](http://ec.europa.eu/newsroom/just/item-detail.cfm?item_id=610991)

## 1. AML/CFT Risk Assessments

In general the Central Bank has found firms have a documented AML/CFT risk assessment which is subject to review on a regular basis. However, the quality of AML/CFT risk assessments varied considerably.

### Central Bank Expectations

In relation to the preparation of AML/CFT risk assessments, the Central Bank expects that:

- Firms have a documented AML/CFT risk assessment, which should include an assessment of the Firm's inherent risks, their controls and the residual risk resulting from this assessment. The AML/CFT risk assessment should be subject to regular review and approval by the Board of Directors / Senior Management;
- The AML/CFT risk assessment is a comprehensive review of all ML/TF risks facing the business, and the firm can demonstrate an awareness of external risk reviews (such as the National Risk Assessment and the Supra-national Risk Assessment) and the impact they have had on the firm's view of risk;
- A proactive review should be conducted on the AML/CFT risk assessment to ensure it adequately reflects the ML/TF risks pertaining to the firm. In particular, this should be done when there are significant changes in the firm's activity or customer profile, such as an acquisition of another firm or book of business; and
- Firms have reviewed and considered the Risk Factor Guidelines issued by the ESAs (the Guidelines). Firms should ensure the relevant Chapters of the Guidelines are sufficiently assessed, noting that investment firms may perform activities covered under multiple headings (Wealth Management, Investment Firms, etc.)

## 2. Politically Exposed Persons (PEP) Screening and Transaction Monitoring

Screening customers and reviewing customer transactions for suspicious activity are key controls in the fight against money laundering and terrorist financing. Firms are required to conduct ongoing monitoring of customer activity for the identification of suspicious activity, commonly referred to as Transaction Monitoring. Firms are required to ensure that they have a robust Transaction Monitoring processes in place to monitor customer activity and to ensure that they meet the obligations set out in the CJA 2010.

### Central Bank Findings

In relation to firm's AML/CFT risk assessment, the Central Bank found:

- A number of AML/CFT risk assessments appeared to follow a particular predefined format/standard group template and were not tailored to address the specific ML/TF risks facing the firm;
- Some AML/CFT risk assessments were also based on a poor understanding of the ML/TF risks posed by that particular firm's business model, and consequently were susceptible to incorrect and inconsistent application;
- Firm's AML/CFT risk assessments were not reviewed often enough and as a result were no longer an up to date assessment of the firm's ML/TF risks;
- Where firms had conducted an AML/CFT risk assessment, many failed to adequately assess the residual risk arising from the inherent risk and controls implemented by the firm. Firms may have had access to a significant level of information on their ML/TF risks but did not utilise this information in assessing their overall level of ML/TF risk; and
- Many firms had failed to adequately consider the Terrorist Financing risk presented by their activities.

### Central Bank Expectations

In relation to PEP/Financial Sanctions (FS) screening, and Transaction Monitoring, the Central Bank expects that:

- Firms have considered their obligations under the CJA 2010 and have implemented adequate Transaction Monitoring processes and systems to meet these obligations;
- Firms will subject their Transaction Monitoring process to regular reviews including frequent assurance testing, to ensure their Transaction Monitoring process is functioning adequately and is identifying any potential suspicious activity. Firms should consider documenting the rationale for including or excluding this review in their annual assurance and/or audit plans; and
- Firm's PEP and FS screening processes and systems are reviewed on a frequent basis to ensure that they adequately capture any PEP customers or any potential FS exposure.



### 3. Resourcing & Training

It was observed by the Central Bank from engagement with Investment Firms that many firms have experienced high levels of staff turnover in their compliance departments, including MLRO and Head of Compliance positions. This appears to have negatively affected the operations of the AML/CFT programmes in place.

All firms are required under the CJA 2010 to provide regular, ongoing training to their staff and Directors on AML/CFT. The purpose of this training is to ensure that all staff are aware of the legal obligations imposed on both them personally, and to the firm. Regular AML/CFT training is also an opportunity for firms to ensure that all staff and Directors are aware of the

### Central Bank Findings

In relation to PEP & FS screening and Transaction Monitoring, the Central Bank has found:

- Firms could not demonstrate adequate controls in place to ensure that all customers are subject to regular PEP & FS screening in order to identify any changes in their PEP status, or any potential FS exposure;
- Firms have not conducted adequate assurance testing on their PEP & FS screening processes and systems. The Central Bank noted this was particularly prevalent where firms were using a third party system for PEP & FS screening;
- The Central Bank identified a number of instances where firms implemented Transaction Monitoring rules/parameters which appeared to be generic and not tailored to the firm's activities, and were not reviewed or approved by compliance and/or Senior Management. As such it was not clear that firms had considered if the Transaction Monitoring rules/parameters were fit for purpose and as a result could be missing a significant level of suspicious activity; and
- Firms did not apply known information about the customer such as expected investment amounts or the customer's income, in monitoring that customer's activity for potential suspicious transactions.

ML/TF risks posed by their activities and what controls the firm has in place.

### Central Bank Expectations

In relation to Resourcing and Training, the Central Bank expects that:

- Firms have a clear understanding of their AML/CFT requirements including staff and system resources;
- Firms have appointed a suitably qualified MLRO / Head of Compliance who is sufficiently senior in the firm to make decisions on AML/CFT matters;
- Firms will have adequate resourcing plans in place and they will take steps to minimise key AML/CFT compliance person risk; and
- Firms provide a tailored training programme to their staff which adequately covers the legal obligations placed on designated persons and individuals, the firm's AML/CFT activities and policies and procedures, and any unique ML/TF risks the firm may face.

### Central Bank Findings

In relation to Resourcing and Training, the Central Bank has found:

- The lack of a permanent MLRO or Head of Compliance with responsibility for AML/CFT has meant some firms have not initiated improvements in their processes, and may have paused existing projects in order to manage business-as-usual tasks. This has left some firms with insufficient AML/CFT compliance infrastructure where the firm has expanded and in some instances systems and processes are no longer adequate for the firm's activities.
- Many firms are solely reliant on a generic training programme for AML/CFT. No additional steps have been taken by some firms to provide tailored training for staff in different roles who may face different ML/TF risks and no consideration has been paid to the firm's activities in identifying ML/TF risks or suspicious behaviour.

