Banc Ceannais na hÉireann
Central Bank of Ireland
Eurosystem

Anti-Money Laundering & Countering the Financing of Terrorism (AML/CFT) - *Deirdre Lowry/Suzanne Geraghty/Orna McNamara*

Topics Covered

1. Background and Context
2. Role of the Central Bank
3. Supervision Process
4. Central Bank AML/CFT Governance Expectations
5. FATF MER
6. 4th Anti Money Laundering Directive

Background and Context

- The terms of money laundering and financing of terrorism are becoming more prevalent.
- Money laundering is the processing of criminal proceeds through the financial system to disguise their illegal origins.
- Predicate offences associated with money laundering include:
    - Drug offences, financial crime, theft and burglary, fuel smuggling, tobacco smuggling, human trafficking, prostitution, bribery and corruption, tax evasion, cybercrime etc.

Background and Context

The offence of Terrorist Financing involves the **provision, collection or receipt of funds** with the **intent or knowledge** that the funds will be used to carry out an **act of terrorism** or any act intended to cause death or serious bodily injury.

Costs of terrorist attacks are often small.

Funds used for obtaining weapons to carry out attacks on the *Charlie Hebdo* in Paris in January 2015 were relatively small and were obtained through the following sources:

- a €6,000 consumer loan, obtained with forged documents;
- an overseas used car sale;
- cash transfers linked to the sale of counterfeit goods.

It is estimated that the London bombings in July 2005 cost no more that **£8,000** to carry out.

The funds primarily came from Mohammad Sidique Khan who had been in full time employment as a teaching assistant prior to the attack.

Role of the Central Bank

Under Section 63 of the **Criminal Justice (Money Laundering and Terrorist Financing) Act 2010**, as amended in 2013 (“**CJA 2010”),** the Central Bank, as the State’s competent authority, must:

- Effectively monitor credit and financial institutions (“designated persons”); and
- Take measures (i.e. criminal and/or administrative sanctions) that are reasonably necessary for the purpose of securing compliance by those designated persons with the requirements in Part 4 of the CJA 2010.

Financial Sector Risk Assessment

High	Medium High	Medium Low	Low
• **Bureaux De Change** • **E-Money Institutions** • **Payment Institutions** *(Money Remitters)* • **Retail Banks**	• **Fund Administrators/Funds** • **Investment Firms** • ***(Other than Asset Managers)*** • **Non-Retail Banks** (*engaging in higher risk activities such as Corporate Banking, Corporate Finance, Private Banking, Corporate Trust, Treasury, Aircraft Finance, Maritime Finance and Depositary Services*)	• **Credit Unions** • **Investment Firms** • *(Asset Managers)* • **Life Insurance Firms** • **Money Lenders** • **Non-Retail Banks** *(engaging in Asset Finance, Bonds, Money Market Services and Covered Banks*) • **Payment Institutions** *(Other than Money Remitters)*	• **Retail Intermediaries** • **Trust or Company Service Providers** *(subsidiaries of credit or financial institutions only)*

How we supervise – Supervisory Processes and Tools

- Onsite Inspections
- Review Meetings
- Risk Evaluation Questionnaires
- Other measures

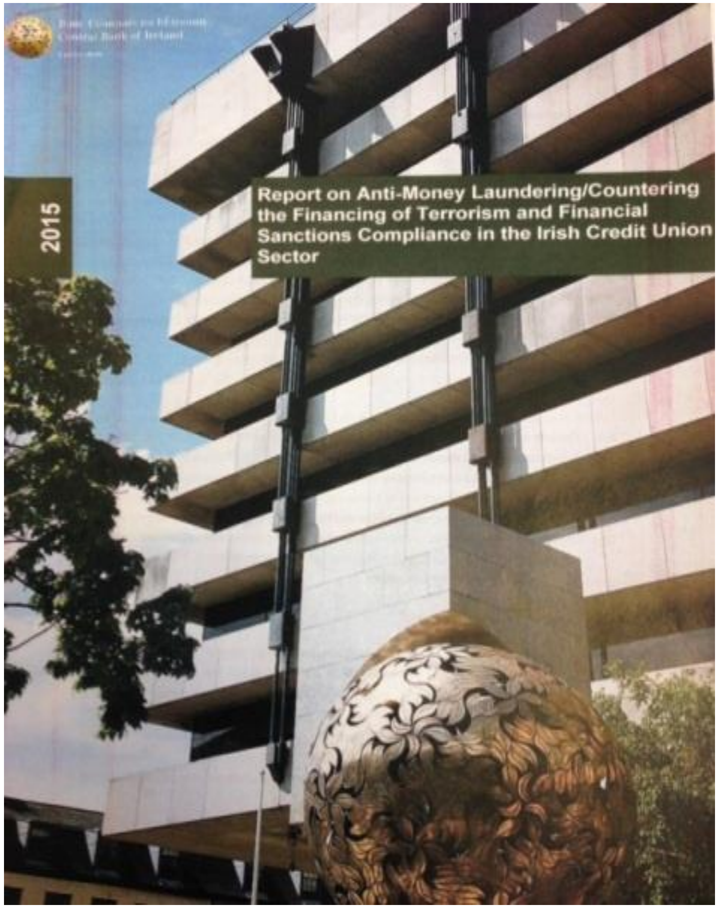
Other Supervisory Measures

Communications & Outreach

- ❑ Sectoral Reports
- ❑ Thematic Bulletins
- ❑ Website
- ❑ Industry events

2015 Credit Union Sectoral Report

- Report on Anti-Money Laundering/ Countering the Financing of Terrorism and Financial Sanctions Compliance in the Irish Credit Union Sector – Published in May 2015.
- Set out Central Bank's findings from our supervisory engagements and the Central Bank's expectations in terms of AML/CFT Frameworks in Credit Unions.



AML/CFT Governance Framework

- **Board of Directors** have ultimate responsibility for ensuring compliance and embedding AML/CFT compliance culture.
- **An effective Risk Assessment** is essential to the development of effective **AML/CFT policies and procedures.**
- **Money Laundering Reporting Officer ("MLRO")** is central to the oversight and reporting process of the AML/CFT function.

AML/CFT Governance – Central Bank Expectations

- **Board of Directors**
  - Defined and documented roles and responsibilities;
  - Ability to demonstrate that there is a strong awareness of the AML/CFT legislation, regulatory requirements and relevant publications;
  - Appropriate training for Board to enable them to discharge their obligations (may not be same training as for staff);
  - Ability to **demonstrate** that AML/CFT **discussion** and **challenge** takes place regularly at board meetings and is appropriately documented. Discussions should include:
    - Existing, new and emerging risks;
    - Approval of policy and procedures;
    - Review of qualitative and quantitative information contained within the MI reports;
    - Regulatory and legislative updates and the impact on the existing AML/CFT framework.

AML/CFT Governance – Central Bank Expectations

Risk Based Approach

- A documented risk assessment is in place, which assesses geographic risk, member risk, channel and distribution risk and products/services risk.
- Supporting documented methodology determining the relevant risk ratings.
- Documented evidence of review of the risk assessment at least annually to identify any new and emerging risk factors.
- The risk assessment should outline controls and mitigating factors in place.

AML/CFT Governance – Central Bank Expectations

Policies and Procedures

- Covers all relevant aspects of the Part 4 of the CJA 2010.
- Should be documented and relevant to the existing business/operations and practices of the credit union.
- Should include the roles and responsibilities of key personnel involved in the AML/CFT function, including the MLRO.
- Subject to regular review and updated as required.
- Be able to demonstrate review and approval.

AML/CFT Governance – Central Bank Expectations

- **Money Laundering Reporting Officer:**
  - Necessary skills and expertise and autonomy to carry out the role effectively;
  - Sufficient time to dedicate to the role;
  - Involved in the development and ongoing review of the policy and procedures;
  - Produce regular MI to the Board;
  - Produce an annual MLRO Report;
  - Act as point of escalation for AML/CFT issues;
  - Role in the review and reporting of suspicious transaction/activity reports;
  - Facilitate AML/CFT training for management and staff;
  - Importance of Board support for the MLRO function.

FATF Mutual Evaluation Review of Ireland

Report published on 7 September 2017

<u>Characteristics of an effective system under IO4 – Preventative Measures</u>

- FI's and DNFBPs understand the nature and level of their money laundering and terrorist financing risks;
- Develop and apply AML/CFT policies, internal controls and programmes to adequately mitigate those risks;
- Apply appropriate CDD measures to identify and verify the identity of their customers (including beneficial owners) and conduct ongoing monitoring;
- Adequately detect and report suspicious transactions; and
- Comply with other AML/CFT requirements.

Implementation of 4AMLD

- Primary legislation amending Criminal Justice (Money Laundering and Terrorist Financing) Act 2010-2013 [CJA 2010]
- Transposition led by Department of Justice – Department of Finance consulted
- Central Bank provides technical assistance on regulatory amendments
- Delay in transposition- Bill not yet published
- AMLD considering what guidance/secondary legislation (if any) required

Changes to AML/CFT Compliance Measures

- Risk Assessment and Risk Management
- Politically Exposed Persons (PEPs)
- Beneficial Ownership
- Customer Due Diligence (CDD)
- Country of Equivalence regime
- Policies and Procedures

Outreach Regarding 4AMLD

- Raising awareness via interaction with industry
- Publications – CBI website, bulletins
- Guidance – revised guidelines planned, these will go through consultation process.
    - Notwithstanding, the law will need to be followed once in effect.

Takeaways

- Risk based approach – Risk Assessment is key
- Role of Board in oversight and challenge of the AML/CFT framework
- Monitor legislative developments
- Implement legislative changes once enacted