



AML/CFT ONSITE EXAMINATION Programme



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ON-SITE EXAMINATION PROGRAMME

Introduction

The Financial Services (Regulation and Supervision) Department continues to conduct its on-site examination to assess the extent to which regulated entities are operating in accordance with their obligations under the relevant AML/CFT legislation, i.e. the Anti-Money Laundering Regulations, No. 46 of 2011 ("AMLR"), the Anti-Terrorism (Prevention of Terrorism Financing) Regulations No. 47 of 2011 ("ATR"), the Financial Services (Implementation of Industry Standards) Regulations No. 51 of 2011 ("FSIISR"), and the Proceeds of Crime Act, Cap 4.28 ("POCA"). Findings from these examination underpin the Department's continued concern at the lack of effective implementation of the jurisdiction's AML/CFT regime.

This month's newsletter highlights areas where regulated entities' performance require improvement and seeks to provide advance warning to regulated entities not yet assessed who can use the information provided to enhance their operations.

Scope

The Department's on-site examination programme covered a range of regulated entities including registered agents/service providers, lending institutions, money service businesses, management companies, attorneys, banks, and insurance managers.

Thirteen (13) on-site examinations were undertaken between January 2014 and December 2014. The scope of the AML/CFT examination is to gather information on the regulated entity's organizational structure, administration and operations in order to assess the quality of its corporate governance, training policies and AML/CFT program.

The AML/CFT examination considers the adequacy and completeness of the measures which are in place for AML/CFT with special attention

on the internal policies, procedures and controls for client acceptance, monitoring risks, record keeping, training and suspicious activity reporting to authorities.

Prior to the on-site examination, regulated entities are asked to complete a preliminary off-site questionnaire and to provide supporting documentation as requested by the Financial Services Regulatory Commission ("FSRC").

The Examiners review on a sample basis records maintained by the regulated entity to ensure that they comply with the statutory requirements of the AMLR, the FSIISR and the Financial Services Regulatory Commission Act ("FSRCA").

Examination Objectives

To achieve the objectives of the on-site examination, the following activities were performed:

1. An assessment of the regulated entity's policies, practices, procedures and internal controls for compliance with the Act, the Regulations and the adoption of these in the regulated entity's ML/TF prevention programmes;
2. An assessment of the adequacy and competency level of compliance staff with respect to AML/CFT by conducting interviews and reviewing AML certification;
3. Assessing training adequacy, including its frequency, comprehensiveness, training schedule and attendance tracking.
4. An assessment of the internal systems used to prevent or detect ML/TF;
5. A review of the Suspicious Activity Report (SARs) and Register of Enquiries;
6. An evaluation of the regulated entity's program for monitoring transactions; and
7. An evaluation of the record keeping systems, retention period and condition of records.

Preliminary Observations

The Department found a significant number of areas where regulated entities demonstrated unsatisfactory levels of compliance with the AML/CFT legislation, with only a few of those examined achieving acceptable standards. It must be noted that the Department recognizes that the findings were based on a small percentage of regulated entities and may not be representative of the financial services industry as a whole. The areas of sub-standard performance

are outlined in the section below.

Areas of Substandard Performance

1. Failure to prepare and record customer risk assessments and to assess and document the risk that business relationships involve;
2. Failure to maintain a training program to test effectiveness of the employee's AML/CFT awareness and to maintain and have readily available evidence of that training;
3. Failure to comply with the requirement to appoint a Compliance Officer and to submit for approval to the Department the name of the designated individual;
4. Failure to establish an AML/CFT Compliance Manual to document KYC policies and procedures, and internal systems and controls adequately;

5. Failure to establish an internal audit function to test and validate activities associated with the mitigation of ML/TF risks ;
6. Failure to maintain requisite CDD documentation on files, especially as it relates to notarized and up to date IDs;
7. Failure to prepare and to submit to the Department Audited Financial Statements and Certificates of Compliance;
8. Failure to maintain STR registers and Registers of Enquiries;
9. Failure to execute a written agreement with professional service clients/intermediaries/introducers and to take reasonable steps to ensure that PSCs/intermediaries/introducers are properly licensed/regulated and have adequate CDD procedures in place.

(To be continued in next month's issue)

APPOINTMENT OF NEW REGULATOR OF INTERNATIONAL BANKING

Effective July 01, 2015, Mr. James Simpson assumed the role of Regulator of International Banking.

Mr. Simpson was previously employed by the Eastern Caribbean Central Bank (ECCB) for twenty-five (25) years as the Deputy Director — Bank Supervision Department, Director — Accounting Department, Advisor — Bank Supervision Department and Director — Internal Audit Department. He is also a Lecturer and Course Coordinator at the UWI Open Campus and developed the following courses that were offered on the Elements of Banking and Finance Courses: Regulatory Environment of Banking & Finance, Sales & Marketing for Banking and Finance, Credit Analysis and Lending and Financial Institutions and Markets.

Mr. Simpson holds a Bachelor of Science Degree in Accounting, MBA in Banking and Finance and is a Member and Fellow of the Institute of Financial Accountants.

We welcome Mr. Simpson as he leads the International Banking Division.

FATCA UPDATE

On August 31, 2015, the Government of St. Kitts and Nevis and the Government of the United States of the America signed the agreement to implement the Foreign Account Tax Compliance Act (FATCA).

RECAP OF FATCA WOKSHOP

On July 7 and 8, 2015, the Ministry of Finance held a FATCA Workshop at the Mount Nevis Hotel.

The Workshop was facilitated by representatives of BDO, LLC and was awarded twelve (12) CPD Credits.

The primary goal of the Workshop was to provide information and in-sight on FATCA's background, objectives, reporting forms, due diligence requirements and next steps. Efforts were made to provide answers on what transitional arrangements institutions ought to implement within the coming months to enable them to operate effectively in a post-FATCA era.

The Department takes this opportunity to thank ALL attendees for ensuring that the Workshop was a success.

Below is a chart showing the overall ratings as they relate to the evaluation of speakers, presentations and the facility.

