Nevis Financial Services
Regulation and Supervision Department

NEWSLETTER

Recap of 2016 AML/CFT Workshop & Risk Based Supervisory Framework

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Recap of 2016 AML/CFT Workshop

Under the theme "Powerful Insights, Practical Ideas, Real Solutions: Financial Crime Prevention - the Way Forward" the Nevis Financial Services (Regulation and Supervision) Department ("**FSRC—Nevis Branch**") held its annual AML/CFT Awareness Seminar and Training Workshop on Monday March 21 and Tuesday March 22, 2016 at the Four Seasons Resort, Nevis.

The training workshop was facilitated by Stephen Platt and Associates LLP ("**SPA**"), a consultancy firm based in Jersey and the United Kingdom. SPA advises regulators, businesses and governments on financial regulatory matters globally. SPA was ably represented by Senior Associate, Mr Alex Young, an engaging and accomplished public speaker.

The two-day training was assigned ten (10) CAMS/CPD credits. The CAMS credits are recognised by the Association of the Certified Anti-Money Laundering Specialists ("**ACAMS**").

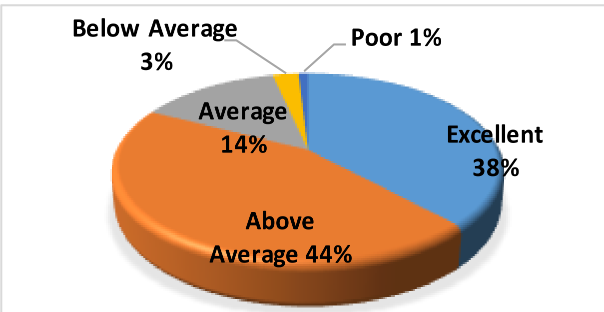
The 2016 Awareness Seminar and Training Workshop recorded the largest number of attendance ever with registration reaching its maximum capacity. The increase in this year's participation demonstrates a commitment by all to ensure that the necessary training is received as we continue to identify emerging money laundering and terrorist financing risks/threats and develop and implement counter measures in the fight against money laundering and terrorist financing. It is anticipated that the numbers will continue to rise as the jurisdiction broadens its scope to address these issues.

The attendees for this year included management and staff from all regulated sectors. The format of the Workshop was further enhanced with a panel discussion. The panellists shared with attendees their views on the topic, "*Navigating the waters of a rapidly evolving regulatory and enforcement regime - compliance successes and challenges in a climate of heightened expectations.*"

A heartfelt thank you is extended to ALL the participants, presenters, moderators, technicians and anyone who assisted the Branch in hosting this auspicious event and we look forward to your continued patronage.

For further information on the 2016 AML/CFT Awareness Seminar and Training Workshop, please visit our website: http://www.nevisfsrc.com/publications/press-releases.

Below is the pie chart showing the overall ratings as evaluated by the attendees of the Workshop as it relates to the various presentations:



2016 AML/CFT Workshop Ratings

Risk Based Supervisory Framework

The FSRC - Nevis Branch has taken the decision to supervise and monitor regulated entities using a Risk Based Supervisory Framework in accordance with FATF Recommendation 26. The framework provides a structured approach for understanding and assessing inherent risks in a regulated entity's activities and whether its risk management processes are adequate in the context of these risks and whether its earnings, capital and liquidity are sufficient to enable the regulated entity to support its risk profile and withstand unexpected shocks. The scope of the Branch's on-site examinations has therefore been expanded to address these risks.

Supervisory Processes Under the Risk Based Supervisory Framework

The Risk Based Supervisory Framework calls for a structured approach towards supervision involving:

- Planning a supervisory strategy;
- Monitoring the regulated entity/assessing the risk profile of a regulated entity;
- On-site examinations/documentation of findings; and
- Intervention and follow-up.

Regulatory activities under the Framework include:
- ◊ Review of regulatory returns;
- ◊ Review of audited financial statements;
- ◊ On-site examination; and
- ◊ Follow up discussions with the regulated entity.

Understanding Risk Profile of a Regulated Entity

An understanding and assessment of the broader economic and industry environments and the regulated entity's profile provides the supervisor with the necessary context for assessing the regulated entity's risk profile.

The risk profile of a regulated entity is assessed using the following steps:

1) Identifying Significant Activities;
2) Assessing Materiality of each Significant Activity;
3) Assessing Key Risks Inherent in each Significant Activity;
4) Assessing Operational Management, Corporate Oversight and Governance for each Significant Activity;
5) Assessing Residual Risk in each Significant Activity;
6) Assessing Overall Residual Risk for all Significant Activities;
7) Assessing Earnings, Capital and Liquidity; and
8) Assessing the Risk Profile of the Regulated Entity.

Identifying Significant Activities

A regulated entity's activities can include a line of business such as Citizenship by Investment or Corporate Services; business unit, such as human resource, compliance, accounting; and enterprise-wide processes such as information technology. Activities can be identified from various sources of information, including the organization structure, strategic/business plans, capital allocations, etc.

Assessing Risks Inherent in Significant Activities

Inherent risks are intrinsic to an activity and arises from exposure to and uncertainty from potential future events. Inherent risks are evaluated by considering the degree of probability and the potential size of an adverse impact on a regulated entity's capital or earnings.

Inherent Risk Categories

A thorough understanding of the environment in which a regulated entity operates and its various business activities is essential to effectively identify and assess risks inherent in its activities. For assessment purposes, inherent risks are grouped into the following nine categories:

- **Credit** - Credit risk results from financial transactions with a debtor, borrower, broker or guarantor and arises from a borrower's inability or unwillingness to fully meet its on and/or off-balance sheet contractual obligations;
- **Market** - Market risk arises from changes in market rates or prices. Exposure to this risk can result from market-making, dealing and position-taking activities in markets such as interest rate, foreign exchange, equity, commodity and real estate;
- **Insurance** - Insurance risk arises from claims and/or policy benefits exceeding the pure premiums charged for the products;
- **Operational** - Operational risk arises from problems in the performance of business functions or processes. Exposure to this risk can result from deficiencies or breakdowns in internal controls or processes, technology failures, human errors or dishonesty and natural catastrophes;
- **Legal and Regulatory** - Legal and regulatory risk arises from a regulated entity's non-conformance with laws, rules, regulations, prescribed practices, or ethical standards in any jurisdiction in which the regulated entity operates;
- **Strategic** - Strategic risk arises from a regulated entity's inability to implement appropriate business plans, strategies, decision-making, resource allocation and its inability to adapt to changes in its business environment;
- **Reputation** - Reputational risk is the risk of potential losses arising from negative public opinion, whether based on facts or merely public perception and the adverse impact this could have on the regulated entity's revenues, liquidity, capital, operations or customer base; and
- **Concentration** - Concentration risk can arise from uneven distribution of exposures (or loan) to its borrowers. Such a risk is called Name Concentration risk. Another type is sectorial concentration risk which can arise from uneven distribution of exposures to particular sectors, regions, industries or products;
- **AML/CFT** - AML/CFT risk can arise from lack of money laundering and terrorist financing policies and procedures as it relates to capturing the requisite due diligence documents when on-boarding clients, staff training, filing of suspicious transactions reports; maintaining a complete and up to date compliance manual and on-going monitoring.

Risk Matrix

A risk matrix prepared by the FSRC - Nevis Branch examiners internally is used to summarize the assessments made through the supervisory process. The risk matrix is then reviewed by the FSRC, Board of Commissioners to determine the risk profile of each regulated entity.

The risk matrix highlights the regulated entity's significant activities, inherent risks for those activities, how well those risks are managed and overseen, residual risk for each significant activity, adequacy of its capital, earnings and liquidity and the direction and stability of the regulated entity's risk profile. The risk matrix provides a one page window into the regulated entity's operations and facilitates visualization of the components that are the key drivers of the regulated entity's risk profile.

Source

CARTAC Risk Based Supervisory Framework as adapted by the FSRC - Nevis Branch , May 2015

NEVIS FINANCIAL SERVICES DEPARTMENT