



How to Undertake A Assessment



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Based on the regulatory reviews conducted in 2014 and 2015, Examiners of the FSRC noted that one recurring area of weakness is the absence of a risk assessment being conducted by regulated entities. This month's newsletter highlights how to develop and implement a risk assessment as an important component of a regulated entity's AML/CFT Compliance Program.

Regulation 3 of the *Anti-Money Laundering Regulations, 2011* ("AMLR") stipulates that:

For the purposes of this regulation, a reference to maintaining "internal controls and communication procedures for the purposes of forestalling and preventing money laundering," means internal control measures that include but are not limited to:

- appointment of a compliance officer pursuant to regulation 12;*
- developing independent internal audit programmes to test and validate activities associated with the mitigation of money laundering risks, including processes for*
 - identification of trends in criminal activity and other areas of vulnerability;*
 - monitoring of transactions and reporting of suspicious activities to competent authorities;*
 - maintaining ongoing staff training programmes;*
 - implementing adequate screening procedures to ensure high standards when hiring employees;*
 - development of an independent audit function to test internal systems;*
- application of the type and extent of measures to be taken having regard to the risk of money laundering and terrorist financing and the size of the business.*

Based on the above, regulated entities are required to perform an independent internal audit on a periodic basis to test measures that are in place to aid in mitigating against ML/FT risks. A risk assessment should be conducted as part of this review. Most regulated entities may not consider how important the development and implementation of a risk assessment may be in their daily operations. However, many AML/CFT risks can be mitigated through an annual risk assessment.

Additionally, pursuant to Paragraph 34 of the *Financial Services (Implementation of Industry Standards) Regulations, 2011* ("FSIISR") it is a legislative requirement that regulated entities conduct risk assessments.

Prior to the establishment of a business relationship with the applicant for business and periodically thereafter, the regulated business shall assess the risk or otherwise of the applicant for business, the required financial services product and any other relevant factors. Based on this assessment, the regulated business must decide whether or not to accept the business relationship or to continue with it.

Recommendation 1 of the FATF Recommendations also provides further information on the importance of a risk assessment and applying a risk based approach.

Steps Involved

Undertaking a risk assessment means assessing the risks that a regulated entity may reasonably expect to face in conducting its day-to-day business activities. Paragraph 34 of the FSIISR also outlines several factors that ought to be considered when a regulated entity is conducting its risk assessment.



When developing and implementing its risk assessment, a regulated entity must first of all document the policies and procedures that ought to be followed. The regulated entities must outline the steps that are to be considered in identifying the relevant ML/FT risks that their customers, products and transactions may present in their Compliance Manual. These elements, inter alia, will then be combined and assessed to assist the regulated entities in assigning a specific risk rating.

The development and implementation of a risk assessment can be broken down into two (2) areas:

1. Identifying the specific risk categories e.g. products, services, customers, transactions, geographic locations, etc;
2. Conducting a detailed assessment of each category to better understand the risk involved in each category.

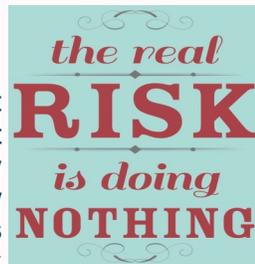
Along with the FSIISR, the AMLR and the FATF Recommendations which provide guidance in assisting regulated entities in conducting their risk assessment., the FSRC's AML/CFT Policies and Procedures Manual Template gives information on a

number of factors that ought be considered by a regulated entity when conducting its risk assessment. Additionally, Appendix D of FSRC's AML/CFT Manual Template contains a Risk Matrix that provides a listing of risk based questions broken down into specific categories. This is a standard template that can be modified to fit the particular regulated entity's needs.

Part of the risk assessment process is to assign a risk rating to each customer, which will assist the regulated entity in recognising which clients pose the highest risks. Based on this assessment, the regulated entity could then make an informed decision whether or not to accept the client.

Be Proactive!

Completing a risk assessment does not have to be a complicated task. However, it needs to be done thoroughly, accurately and then documented, along with any supporting documentation used. This detailed written analysis of the risk assessment should be shared with appropriate members of staff.



A risk assessment is critical for proactively identifying deficiencies and for ensuring that the regulated entity maintains AML/CFT functions and programs that are aligned with supervisory requirements and the expectations of the FSRC.

The role of the Compliance Officers in helping their entity to manage risk and sustain an AML/CFT Compliance Program that is aligned with regulatory and international standards continues to be a key factor. The regulated entity must pay careful attention to setting its level of risk tolerance and ensuring that proper controls and some degree of testing is in place. The implementation of a risk assessment can mitigate against compliance, legal and reputational risks relating to AML/CFT functions.

Ongoing Risk Assessment

The risk assessment process itself is an opportunity for the board of directors, senior management and the compliance and audit units to look at their operations and determine which areas of risk are significant. Actions can then be taken to minimize the areas that pose greater risk, thus enhancing the effectiveness and efficiency of the operations of the regulated entity.



The risk assessment process is an ongoing one. Even after the formal process is completed, staff of the regulated entity must make themselves continually aware of potential risks.

The results of a risk assessment can help the regulated entity in identifying AML/CFT emerging risks and trends that may warrant further review. The risk assessment can also provide "snapshots" of

AML/CFT risks which allows for yearly comparisons. It allows the regulated entity to inspect internal controls, to test the validity of its AML/CFT Compliance Programme and to maintain effective risk management behaviours to ensure that potentially material issues are recognized, understood and addressed. As such, a risk assessment is a vital line of defence in protecting the regulated entity and in ensuring compliance with regulatory standards and international best practices.

Sources

Financial Services (Implementation of Industry Standards) Regulations, 2011

Anti-Money Laundering Regulations, 2011

The FATF Recommendations, February 2012

How to Build an Audit Risk Assessment Tool to Combat Money Laundering and Terrorist Financing: Equipping Your Last Line of Defense: A White Paper by Jonathan Estreich, Dec 2013

Risk Assessment: Overlooked and Under Tested, Robert J. Bradley, CAMS (Macstreet Compliance Services, LLC)

Save the Date  **MARCH 06 & 07, 2017**

The Nevis Financial Services Department's Annual AML/CFT Awareness Seminar & Training Workshop to be held at the prestigious Four Seasons Resort, Nevis

Gentle Reminder

All regulated entities are reminded of the requirement to submit the Application of Renewal of Licence as a Service Provider/Registered Agent/Insurance Manager in order to have their 2017 licenses issued. The completed application must be submitted along with all supporting documentation and the prescribed fee to avoid delays. A copy of the application form can be accessed via the following link: <http://www.nevisfsrc.com/regulatory-framework/supervision>

This link may also be used to access the Renewal of Compliance/Reporting Officer form.

