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Current preventive measures required under the 4AMLD

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◊ Prevention is the cure

- Corporate & Personal Liability for failing to take the necessary measures to help keep proceeds of crime out of the financial system
- Failures will result in the types of issues & enforcement which will be addressed by Alex Ktorides
- The cure for this potential liability is take the necessary preventative measures in the first place
- Prevention is broadly accomplished by Screening, Detection, Analysis, Intervention and Reporting
- The foundation for all this prevention is the **AML & TF Risk Assessment**





Building the Foundation: AML & TF Risk Assessment

Legal Providence:

- 2005: 3AMLD – Article 34 “Institutions ...establish adequate and appropriate processes and procedures of risk assessment”
- 2007: AML Regulations – Article 20 “A relevant person must establish and maintain appropriate and risk-sensitive policies and procedures relating to— (e) risk assessment and management”
- 2012: FATF International recommendations improving money laundering and terrorist financing standards: identification process should be **comprehensive** and also **dynamic**
- 2015: 4AMLD - Article 8 is dedicated to Risk Assessment for Obligated Entities
- 2017: The Money Laundering, Terrorist Financing and Transfer of Funds (Information on the Payer) Regulations, Article 18
- 2018: 5AMLD – Requires further specific risks to be addressed



◇◇ AML & TF Risk Assessment: Regulatory Requirements

2017 AML Regulation: **Articles:** 16(2); 18; 19(1,4); 21(7,10); 28(12); 33(6); 37 (4,7)

Review risks by taking into account:

- Information made available by the relevant Supervisory Authority
- Group Entity's:

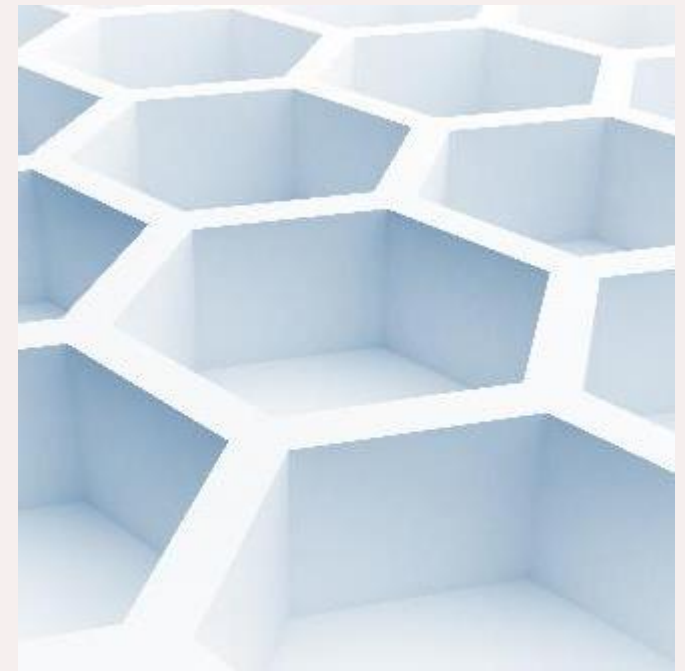
*customer base, geographical reach, transactions,
products, services, delivery channels*

- Record all steps to achieve the above
- Provide a documented Risk Assessment to Supervisory Body upon request
- Update the Risk Assessment in line with the entity's changing risk landscape
- Carry out CDD in line with Risk Assessment



Supervisory Bodies Requirements & Guidance

- Supervisory Bodies Requirements / Guidance
 - FCA: Supervise 7 categories of financial & credit institutions
 - JMLSG June 2017 Guidelines, Chapter 4
 - Gambling Commission
 - AML Guidance under consultation : Oct 2017
 - HMRC: Supervise of 7 diverse categories, incl Estate Agents, TCSPs, High Value Dealers
 - HMRC Guidance
 - RICS, NFOPP, ARP,ARMA
 - Approved Professional Bodies:
 - CCAB
 - Law Society





5AMLD: Additional Risk to be Factored in

- High Risk 3rd Countries
- Prepaid Cards
- Cyber currencies
- Beneficial Ownership Registers
- CDD Refreshers



◇ How: Research

Risk Identification

Generic

SA's own Risk Assessments & Guidance - Art17(9),
Published failings, FATF Reports, 5AMLD specific risks:

- Geographical, Product, Delivery channel & Transactional

Entity Specific

Historical SAR Analysis, AML Flow Analysis,
Operational, IT Systems, 3rd party verification providers:

- Customer base & services/operations
- Create questionnaire, broken down into the 5 categories

Question	Answer
Describe your country blocking system, giving specifics of platform (web, mobile, flash, download, etc) orientated controls, proxy server identification, amazon cloud, etc	
Which countries do you block players from holding a real money gambling account & why (i.e. rogue/terrorist state, weak AML regime, strict prohibition against privately operated gambling with no license in place/ not possible etc)	
Do you have fraud rules in your (automated) risk system which prioritises increased due diligence/checks on players per country	
What Definition of Sanctioned countries do you use	
How & when do you screen for sanctioned countries	

Risk Evaluation

Review completed questionnaire & conduct a follow up session to evaluate the current controls by further questioning to determine the extent to which each existing control mitigates the risk of money laundering & terrorist financing – helps identify the gaps.

Category	Risk Factor	Current Status	Evaluation Action to determine control gap	Results of evaluation – Identification of Actions to closer control gap.
Geographical	Players based in certain countries may pose greater inherent ML & Terrorism Financing (TF) risk given higher levels of corruption	On boarding processes do not highlight / have extra DD for high risk countries	Rank Countries according to international recognised corruption indexes	<p>According to the Corruption Perception Index – the following countries were ranked in 2016- as having the highest corruption:</p> <p>Somalia, S.Sudan, N.Korea, Syria, Yemen, Sudan, Libya, Afganistan, Guinea- Bissau, Venezuela, Iraq, Eritea, Angola, Republic of Congo</p> <p>Supporting Documentation: Sch 1</p>

◇ Risk Quantification

Quantify the risks and control gaps using an AML Risk Scoring Matrix.

Risk Factor	Frequency	Impact	Score	Gap	Control Priority

Description	Score
Involves 75% of all transactions / continuous	3
Involves 5-75% of all transactions	2
Involves less than 5% of all transactions	1

Description	Cumulative Score
Involves Criminal (4) Reputational (3) & Financial risk (1)	10
Involves Reputational (3) Regulatory (2) & Financial risk (1)	6
Involves Regulatory (2) & Financial risk (1)	3
Involves Financial Risk (1)	1

AML & TF Risk Assessment

The AML & TF Risk Assessment Spreadsheet:

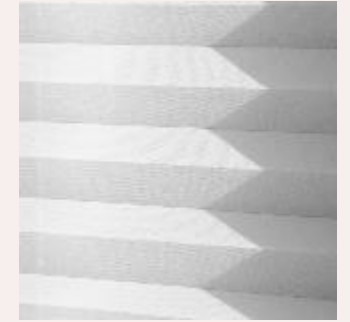
EVALUATION ACTION TO DETERMINE CONTROL GAP	RESULTS OF EVALUATION - IDENTIFICATION OF ACTIONS TO CLOSE CONTROL GAP	Quantification Freq x Impact = Total Risk Score TRS x Gap Score = Gap Priority				0 – 20 Very Low 21 – 35 Low 36 – 59 Medium 60 – 75 High 76 – 90 Critical
		FREQUENCY (3)	IMPACT (10)	TOTAL RISK SCORE (30)	GAP SCORE (3)	GAP PRIORITY (90)
<p>Investigate whether the backend admin system can support the generation of tasks/ emails/ prompts if not or too difficult then are 3rd party systems an option? Otherwise will need to rely on manual checks and be subject to human error and inconsistency where high turnover of staff. In addition out of office high alerts would help mitigate suspicious activity arising during these times.</p> <p>See if the backend admin system can create reminders to assigned tasks (also to be determined).</p> <p>This will be necessary in the future for the UKGC upgraded complaints handling requirements.</p>	<p>Purely manual communication via email, phone. Admin Back end is used to denote "Fraud" status when player accounts are sanctioned</p> <p>No possibility of adapting admin to create tasks, escalations, etc.</p> <p>Links into GRPR consolidation, record keeping, information request</p>	3	10	30	3	90

Control Gap Analysis

The final step is to create an AML controls project scoring to prioritise those controls in most need of fixing taking into account the entity's risk appetite. This needs to be signed off by senior management (Art 19 (2))

RISK FACTOR	GAP PRIORITY	What do we need to do?	How do we need to do it?	Timeframe/ implementation – how we get there	Resource/ Time/ Cost	Actions	Actionee
CB 18. Customers who are financial officers/ directors/ corporate controllers/ accountants may have access to corporate funds where they could easily misuse the same & be able to hide their activity by changing records/ accounts	60	Focus on finding out VIP customer job title & employer	Customise VIP information cards to ensure that as player rises through VIP levels job description fields will need to be completed	Q1/17 – manual processes & may require changes to CRM	Minimal Time & Cost	Set up meeting with to discuss the CRM VIP card, amend to add AML requirements, discuss incentivisation for agents to complete	XX
O.10 Lack of internal controls and measure of effectiveness and meeting requirement	54	Need to create self-audit and annual AML review & Report	Draft self-audit methodology & process	Q4 – Manual process	Minimal Time & Cost – internally 1 st year cost for external audit	Design a process of a self-audit/ mystery shopper	XX
T 6. Use of payment systems which allow easy P2P transfers as part of collusion ca be indicative of AML	54	Need to review which payment methods allow inter-wallet transfers	Conduct a survey of current payment methods	Q4	Minimal Time & Cost	This will form part of Threshold Scoring Matrix	XX

◇ Control Gap Analysis



This ensures compliance with:

Article 19(1)

(1) A relevant person must—

- (a) Establish and maintain policies, controls and procedures to mitigate and manage effectively the risks of money laundering and terrorist financing identified in any *risk assessment undertaken by the relevant person under regulation 18(1)*

(2) Article 18(4)

- A relevant person must keep an up-to-date record in writing of all the steps it has taken under paragraph (1), unless its supervisory authority notifies it in writing that such a record is not required.

Change Control

AML & TF Policies & Procedures


- Article (19 (1) (b). Where material changes in risk landscape need to trigger re-assessment of existing or new risks & subsequent changes to policies & procedures: signed off by Senior Management.
- Annual review of Risk Assessment & Audit of performance & efficiency of policy and procedures. Report prepared by MLRO with recommendations. Senior Management meeting.
- Shifting Risk Appetite will need to be factored into the Risk Assessment
- The introduction of new technology needs to be taken into account (Article 19(4)(c))

◇ Proportionality

Risk Assessments must take into account the nature and size of the Business (Art 18 (3))

- AML & TF Controls need to be proportionate (Article 19 (2))





International AML & TF Risk Assessments

- Article 20: Group Company Application of all UK compliant Policies & Procedures required under Article 19 (1) across all subsidiaries & branches
- Must factor in EEA requirements
- Must adopt UK standard in third countries where group companies are based unless prohibited from doing so, in which case - report to SA & take additional measures

The Benefits

- You are now compliant in this regard
- You have seriously mitigated the risk of Personal and Corporate Liability
- Your AML & TF Controls are now directly relevant and tailored for your business
- You have streamlined existing controls, potentially reducing costs & introducing greater efficiencies (i.e. use of newer verification technologies)
- You are now future proof by continually evaluating and reviewing your controls
- You have centralised your AML & TF controls across your group making oversight and management much easier
- Your whole organisation is now aware of AML & TF risks and is in some way contributing to the fight against money laundering and terrorist financing
- Your senior management are involved and responsible for the success of your AML & TF controls, so will need to ensure this is properly resourced



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Thank you

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