

Guidance for Effective AML/CFT Transaction Monitoring Controls ("Guidance Paper")

On 24 September 2018, the Monetary Authority of Singapore ("MAS") issued a **Guidance for Effective AML/CFT Transaction Monitoring Controls** ("Guidance Paper").

MAS conducted a series of anti-money laundering and countering the financing of terrorism ("AML/CFT") inspections to examine the effectiveness of banks' transaction monitoring ("TM") frameworks and processes. The Guidance Paper reiterates the key recommendations by MAS to the inspected banks, setting out MAS' supervisory expectations of sound practices for the effective conduct of TM. These supervisory expectations and best practices which are non-exhaustive, are equally relevant and applicable to other financial institutions ("FIs").

This Update provides a brief summary of the key recommendations. The Guidance Paper may be obtained from MAS' website [here](#).

Transaction monitoring

TM is a key control in FIs' AML/CFT policies and procedures.

An effective TM system requires: (a) a well-calibrated framework; (b) robust risk awareness; (c) meaningful integration; and (d) active oversight.

A properly executed TM allows FIs to gain deeper insights into their customers' profiles and behaviours, and conversely, TM lapses expose FIs to the heightened risk of abuse as they allow illicit fund flows to be manoeuvred through

Singapore's financial system without being detected.

The inspections conducted by MAS scrutinised the effectiveness of banks' TM systems in the context of their broader AML/CFT regimes, using the following three pillar framework: (a) governance; (b) risk awareness; and (c) execution.

Three Pillar Framework

Governance

Strong AML/CFT governance and management oversight are vital in setting the right tone for TM controls execution and effective risk management. FIs' board and senior management should, therefore, exercise active oversight of the key money laundering and terrorism financing ("ML/TF") risks and their mitigation, which includes continually assessing and enhancing the effectiveness of their organisations' AML/CFT framework and controls. To facilitate such oversight, it is recommended that FIs:

- ensure that clear, current and appropriate AML/CFT policies and procedures are put in place;
- implement effective reporting systems to ensure that their board and senior management are updated on key ML/TF risks in a timely manner;

- ensure the generation of TM statistics to provide their senior management with an adequate overview and context of the timeliness and quality of the organisation's TM alerts handling and resolution;
- ensure the implementation of adequate interim risk mitigating measures where required;
- strengthen governance and oversight of tax crimes risk management; and
- ensure that outsourced functions¹ are adequately staffed by personnel with the requisite ML/TF risk awareness and expertise to handle the alerts.

Risk Assessment

The second pillar involves FIs fostering a strong AML/CFT culture and risk awareness throughout their organisations. FIs may facilitate this by, among others:

- instilling risk consciousness and embed good practices amongst staff, to facilitate vigilance in identifying TM red flags and to escalate and handle these appropriately;
- providing TM training to strengthen staff's knowledge and expertise; and
- embedding AML/CFT-related performance indicators in staff appraisal frameworks and compensation practices.

Execution

Execution of TM is done by monitoring and ensuring effective performance of TM at each stage of the TM process chain: (i) Knowing the Customer (ii) Risk-based calibration; (iii) Robust implementation and (iv) Resolution and enhancement.

- (i) **Knowing the Customer** - At the 'Knowing the Customer' stage, effective TM is based on

FIs' sound understanding of their customers, before and after establishing the business relations. FIs are, therefore, required to:

- *Perform customer due diligence ("CDD") checks* and assess the level of ML/TF risks posed by their prospective customers, before establishing the business relations; and
- *Maintain current and accurate knowledge of their customers* through the performance of periodic reviews/reviews based on trigger events, subsequent to establishing a business relationship.

MAS intends to set out further guidance on the conduct of risk assessments and CDD in its upcoming **Guidance Paper on the findings and best practices from its AML/CFT inspections on capital markets intermediaries**.

- (ii) **Risk-based Calibration** - The risk-based calibration requires FIs to ensure that their TM systems are configured in view of their specific risks, contexts and needs. FIs must, therefore, take into account the following factors:
- *Parameter, Threshold and Scenario Setting*, to ensure approaches are developed and calibrated in view of the risks they face, based on customer types, range of products, types of business activities, geographical exposures, and cross-border nature;
 - *Back testing*, which refers to testing and refining TM rules to ensure they remain current and effective in targeting riskier transactions and behaviours. Therefore, before effecting material recalibrations, FIs should assess whether to back-test the changes using sample data to ensure the proper functioning of new rules. FIs

¹ Outsourcing of first level alert reviews constitutes a material outsourcing arrangement under MAS Outsourcing Guidelines

should also consider whether post-implementation testing should be performed to verify that the updates function according to expectation; and

- *Data integrity*, which requires FIs to periodically review the completeness and validity of data used in their TM systems, and to put in place appropriate detection controls to identify abnormally functioning TM rules or scenarios.

(iii) **Robust implementation** - A fundamental challenge in operationalising any TM system is ensuring the quality, accuracy and consistency of staff's handling of TM alerts generated. FIs must, therefore, perform:

- *Pre-transaction Checks*, which include:
 - Inquiring on the background and purpose of transactions that exceed predefined thresholds;
 - Engaging customers, filing call reports on the transaction date and attaching supporting documents; and
 - Obtaining approvals before executing higher risk transactions.
- *Alerts Handling and Documentation* – This would require FIs to improve on the timeliness and quality of their staff's alerts clearance and documentation, by:
 - Ensuring that clear and concise procedures exist for their TM staff to assess and escalate alerts generated by their systems;
 - Exercising adequate due diligence and challenge before dismissing alerts;

- Tasking more complex cases to senior analysts such that higher risk transactions and accounts are viewed with a more experienced eye; and
- Ensuring the clearance of TM alerts in a timely manner.

(iv) **Resolution and Enhancement** - This last stage in the TM process chain would require FIs to:

- *STR Filing*
 - Ensure that suspicious transaction reports ("**STRs**") are made with the Suspicious Transaction Reporting Office in a timely manner;
 - Periodically update ML/TF red flags and communicate the most current risk understandings, along with any new or emerging ML/TF typologies, to senior management and staff.
- *Post-STR Practices*
 - Ensure that appropriate enhanced measures are taken to manage the risks of these accounts being abused for ML/TF activities, should the FI decide to retain the relationship;
 - Subject the accounts to increased scrutiny, and reviewing the risk classification and/or further business relations with the customer.
- *Quality Assurance*
 - Periodically sample the quality of their alerts handling

- Ensure that the level of quality assurance testing they perform commensurates with the size of their business, volume of transactions, and nature and complexity of risks they face.
- *Post-mortem Fine-tuning*
 - Implement processes for the risk-based conduct of post-mortem reviews.

If you would like information and/or assistance on the above or any other area of law, you may wish to contact the partner at WongPartnership that you normally deal with or any of the following partners:



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