



DOW JONES
RISK &
COMPLIANCE

Sanctions Overview & Effective AML KYC/CDD

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Dow Jones

International Compliance Standards

- Financial Action Task Force (FATF)
- Basel Committee
- European Union
- Wolfsberg Group
- Regional FATF bodies (e.g. APG – Asia Pacific Group, EAG – Eurasian Group)
- Office of Foreign Assets Control (OFAC)



Financial Action Task Force (FATF)

- 40 recommendations
- Provide guidance for anti-money laundering to government bodies around the world
- Set standards of legal, regulatory and operational measures for AML and CTF
- Taiwan just finished the APG mutual evaluation in 2018/2019

The 36 Members of the FATF

The FATF currently comprises 34 member jurisdictions and 2 regional organisations, representing most major financial centres in all parts of the globe.

Argentina	Finland	Ireland	Russian Federation
Australia	France	Italy	Singapore
Austria	Germany	Japan	South Africa
Belgium	Greece	Republic of Korea	Spain
Brazil	<i>Gulf Co-operation Council</i>	Luxembourg	Sweden
Canada	Hong Kong, China	Mexico	Switzerland
China	Iceland	Netherlands, Kingdom of	Turkey
Denmark	India	New Zealand	United Kingdom
<i>European Commission</i>		Norway	United States
		Portugal	

Anti-Money Laundering Guidelines

AML 聯合反洗錢防制處
FIU, TAIWAN 金融情報中心

工作概況 國內法規 國外資料 應樣分享 年報及出版品 中(通)報專區 外部資源

107年洗錢防制工作年報請至「年報及出版品」內瀏覽

- 資恐防制法公告制裁名單 (以下名單連結聯合國各該制裁委員會專頁)
 - 資恐防制法第五條第一項指定制裁名單
 - 第1267/1989/2253號決議制裁名單(198年11月6日更新)
 - 第1988號決議制裁名單(106年1月30日更新)
 - 第1718號決議制裁名單(107年8月8日更新)
 - 第2231號決議制裁名單(106年12月7日更新)
 - 法務部107年3月31日公告制裁委員會工作準則
 - 資恐防制法第四條第一項指定制裁名單
- 參考資料
 - 聯合國安理會決議
 - 聯合國安理會綜合制裁名單
 - 美國
 - 歐盟
 - 國際刑警組織特別通告
 - CFP TFS相關指引專區
 - 107年國家洗錢及資恐風險評估報告
 - 中華民國聯合資恐反貪腐公約首次國家報告
 - 國際經濟犯罪委員會 (GRECO) 第四屆
- FATF公佈ML/TF高風險國家或地區名單
 - 目的事業主管機關函文
 - FATF文件
 - 防制洗錢與打擊資助恐怖份子有關重要失之國家或地區
 - 其他未儘善或未充分遵循國際防制洗錢組織建議之國家或地區
- 洗錢及資恐防制訊息
 - 詳盡資訊



HONG KONG MONETARY AUTHORITY
香港金融管理局



Guideline on Anti-Money Laundering and Counter-Financing of Terrorism

(For Authorized Institutions)

Revised October 2018

GUIDELINES TO MAS NOTICE 626 ON PREVENTION OF MONEY LAUNDERING AND COUNTERING THE FINANCING OF TERRORISM



SECURITIES AND
FUTURES COMMISSION
證券及期貨事務監察委員會

Guideline on Anti-Money Laundering and Counter-Financing of Terrorism (For Licensed Corporations)

November 2018

Hong Kong: Recent Guidance and Key Documents

- Guideline on Anti-Money Laundering and Counter Financing of Terrorism (Revised – Oct 2018)
- Supervisory Approach on Anti-Money Laundering and Counter-Financing of Terrorism (New – Oct 2018)
- Frequently Asked Questions in relation to Anti-Money Laundering and Counter-Financing of Terrorism, by the Hong Kong Association of Banks (New – Oct 2018)
- Transaction Screening, Transaction Monitoring and suspicious Transaction Reporting (Revised – May 2018)
- Guideline on Exercising Power to Impose Pecuniary Penalty (Revised – April 2018)

Singapore: Recent Guidance and Key Documents

- Enforcement Report (April 2019)
- Guidance to Capital Markets Intermediaries on Enhancing AML/CFT Frameworks and Controls (Jan 2019)
- Guidance for Effective AML/CFT Transaction Monitoring Controls (Sep 2018)
- Sound Practices to Counter Proliferation Financing (Aug 2018)
- Circular on Use of MyInfo and CDD measures for Non Face-to-Face Business Relations (Jan 2018)

OFAC by the Numbers

- OFAC civil penalties 2019 to date: **1.2 Billion USD**
- OFAC sanctioned parties 2019 to date: **770+**
- Current total number of people and entities actively sanctioned by OFAC: **7,900+**
- New OFAC Programs and Executive Orders under Trump Administration: **14**
- Entities under the OFAC 50% rules : **21,206**

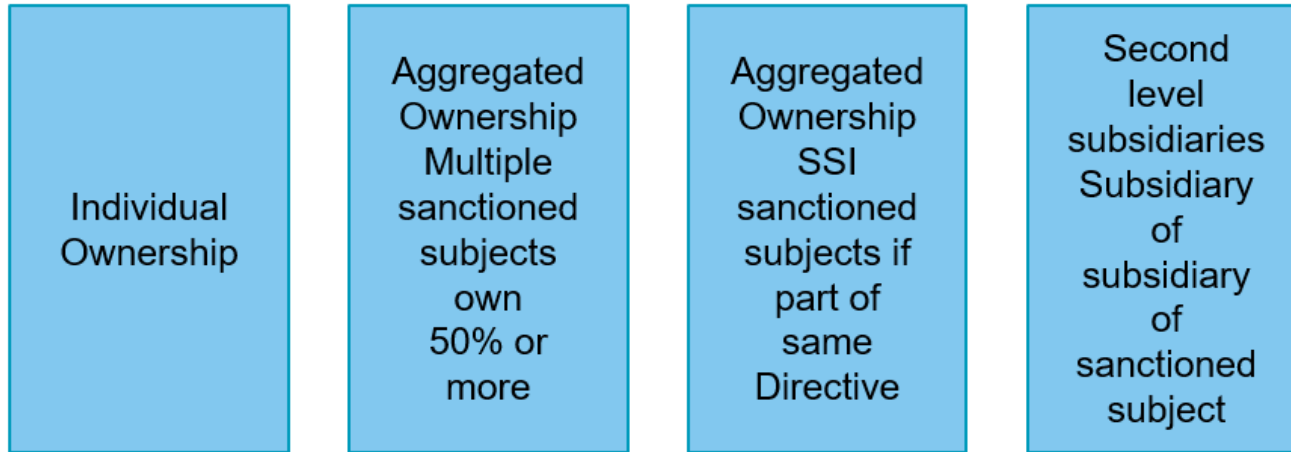


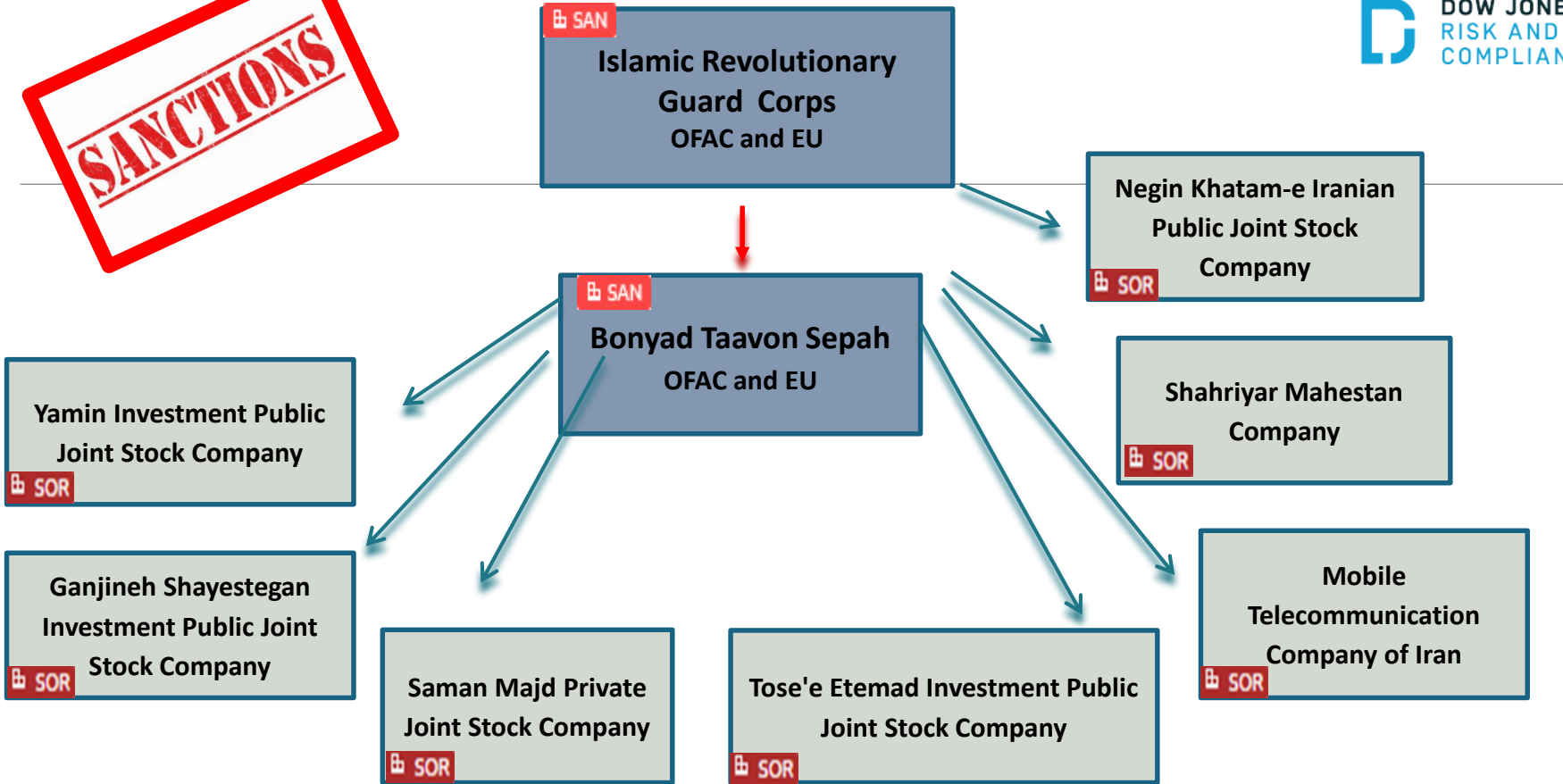
Who must follow OFAC sanctions?

US Persons	Non-US Persons
<p>“US persons” must always comply with OFAC regulations</p>	<p>Non-US persons must also follow OFAC rules under some circumstances</p>
<p>US Persons include:</p> <ul style="list-style-type: none"> • US citizens/permanent residents – regardless of their physical location • All persons in the United States – regardless of their citizenship • Entities domiciled in the US, including branches and offices of non-US banks • Overseas branches of US banks • In the case Cuba and Iran sanctions, US-owned or controlled companies overseas. 	<p>OFAC (and other US authorities) can assert jurisdiction over transactions involving a “US Element”:</p> <ul style="list-style-type: none"> • US Persons • The US financial system (any currency) • US-origin goods and technology

OFAC 50% Rules

- Companies owned or controlled by people or entities sanctioned by OFAC or EU:
 - Minimum ownership stake of 10%
 - A sanctioned individual has a possible controlling interest
- Involved over 21,000 entities across 78 countries





Red Flags of Sanctions Due Diligence

Some Examples:

- High-risk locations** (e.g., Dandong, Jinzhou, Shenyang, etc)
- Shared company addresses**, phone numbers, emails
- No online presence** or apparent business marketing
- Dormant accounts** with sudden **spikes in transactions**
- Ship-to-ship transfers** / automatic identification system (**AIS**) **deactivation**
- Beneficial owners**, directors, or officers who are **sanctioned persons** or who are **located in sanctioned territories**
- Adverse media** about sanctions or sanctions evasion
- Website or marketing material** highlighting **activities with sanctions targets**.

Reference:

FinCEN, Advisory on North Korea's Use of the International Financial System (Nov. 2017)

https://www.fincen.gov/sites/default/files/advisory/2017-11-02/DPRK%20Financing%20Advisory%20FINAL%2011022017_0.pdf

OFAC, State Department, Coast Guard, Sanctions Risks Related to North Korea's Shipping Practices (Feb. 2018)

Commercial IMPACT

Loss of use of funds

- Other party notices violation
- Your customer needs to be made whole
 - And maybe leaves you

Loss of correspondents & other partners

- Your lack of care cost them
- Your business may not be worth it
- You have now lost (some of) your access to that market



Regulatory IMPACT

- **Can be fined(?)**
 - Even with no offices there
- **Loss of access to foreign markets**
 - And that is why ZTE paid its fine
- **Can be sanctioned yourselves**
- **Personal liability, too**
- **Ignorance is not an excuse**
 - Larger & more sophisticated firms need more sophisticated compliance, too



Think beyond your core business

Sanctions exposure may present:

- **Account withdrawals and refunds**
e.g. through securities accounts and insurance policies (especially cash-value life insurance), for example.
- **Insurance claims payments**
- **Third party payouts**

Also good ways to launder money



How to Apply Risk Based Approach?

Main Principals on AML:

Companies should consider the uniqueness of their business and customer portfolio, and adopt the Risk Based Approach in their AML program

Risk Assessment / Risk Based Approach

Companies should keep the full audit trail in their AML screening program, and keep the customer assessment profiles for at least 6 years.

Record Keeping/ Internal Audit

Scope of Due Diligence

Based on the nature of customers and transaction to conduct different levels of CDD/EDD, and ongoing monitoring.

Red Flags

Companies should be aware of the following Red Flags in their AML program, e.g. subject of transaction has abnormal background, suspicious transaction patterns, etc

Identifying risks to your business

In general, parties to keep out for are in three categories:

- Look for people who have more opportunity to break the law
- Look for people with history of regulatory troubles
- Look for companies with commercial difficulties



Do you want their business?

More
opportunity to
commit crimes

History of
regulatory
problems

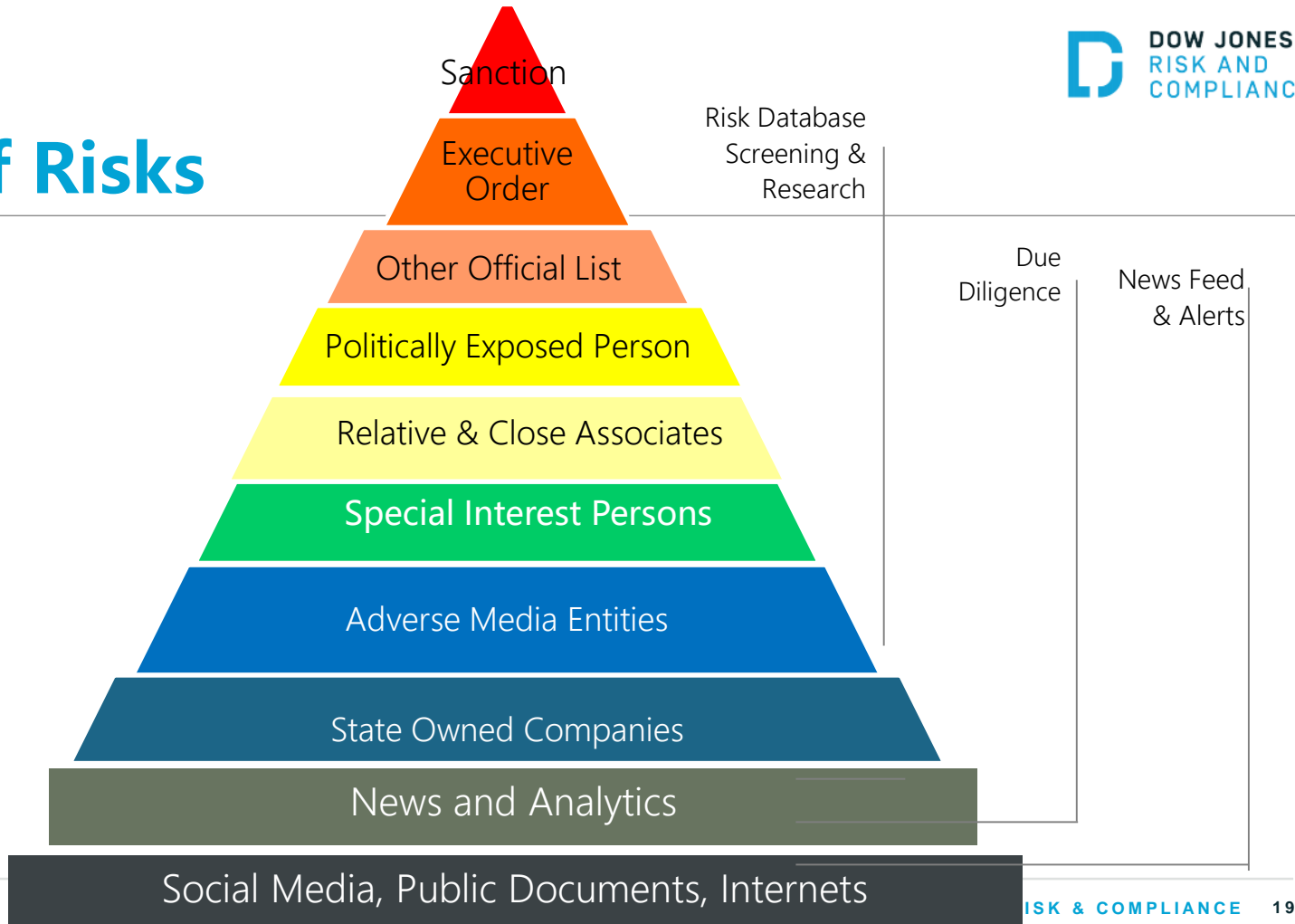
Firms under
commercial
pressure

More specific...

- ❖ Politically Exposed Persons (PEP)
- ❖ PEP's families and close associates
- ❖ Government officials (susceptible to bribery)
- ❖ Fugitives from justice, or with prior criminal activity
- ❖ Person (or Firm) debarred from some activities (e.g. exports, or participation in World Bank contracts)
- ❖ Companies with commercial difficulties

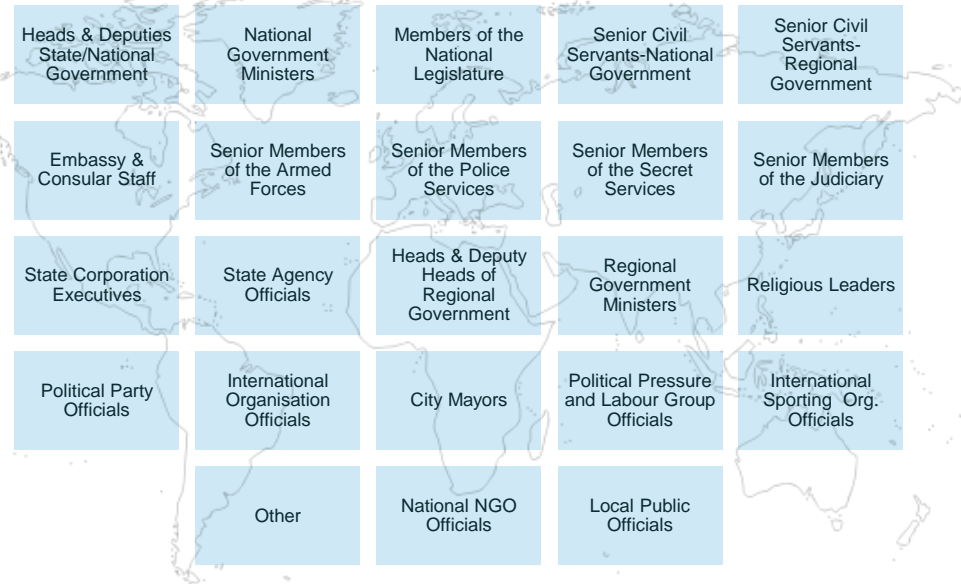


Level of Risks




Definition of PEPs

- **FATF Recommendation #6** →
23 Job Categories of PEPs
- Guideline by local regulators, e.g. Taiwan, Malaysia, Macau, etc
- HKMA : ““An FI should implement appropriate risk management systems to identify PEPs. **Under-classification of PEPs poses a higher ML/TF risk to the FI whilst over-classification of PEPs leads to an unnecessary compliance burden to the FI and its customers.**”



How to minimize false positive, and speed up the client on-boarding process?

Application of 2nd Identifier Info


Date of Birth		18-Sep-1972	
ID Number Types			
Type		Number	
National Criminal Identification Code (USA)		W710456843	
Images			
		https://www.fbi.gov/wanted/counterintelligence/li-fangwei/@images/image/arge	
List References			
Name	Since	To	
Sanctions Lists			
OFAC - VMD Trade Control Regulations List	11-Feb-2013		
OFAC - VMD Proliferators & Supporters List	07-Apr-2009		
DFAT (Australia) Consolidated List	07-Mar-2012		
ISN (US) Sanctions - Executive Order 12938	11-Feb-2013	11-Feb-2015	
ISN (US) Sanctions - Missile Sanctions Laws	11-Feb-2013	11-Feb-2015	
ISN (US) Sanctions - Iran, North Korea, and Syria Nonproliferation Act	05-Feb-2013	05-Feb-2015	
ISN (US) Sanctions - Iran, North Korea, and Syria Nonproliferation Act	14-Jul-2010	12-Jul-2012	
ISN (US) Sanctions - Iran, North Korea, and Syria Nonproliferation Act	19-Dec-2014		
ISN (US) Sanctions - Iran, North Korea, and Syria Nonproliferation Act	23-May-2011	23-May-2013	
OFAC - Iranian Financial Sanctions Regulations	08-Nov-2012		
Other Official Lists			
FBI Crime Alert	29-Apr-2014	May-2014	
FBI Most Wanted Counterintelligence List	May-2014		

- Focus on “High Risk” relationship
 - Structured and consistent profile record
 - Apply 2nd identifier information, e.g. gender, nationality, Original Script Name, Date of Birth, etc

Country Details			
Citizenship	China	Place of Birth	
Resident Of	China	Region Level 1	Hellongjiang
		Country	China

Primary Name

Fangwei	LI
Language	Original Script Name
Chinese - Simplified	李方伟
Chinese - Traditional	李方偉
Chinese - Simplified	李方为
Chinese - Traditional	李方為

Date of Birth		18-Sep-1972	
ID Number Types			
Type		Number	
National Criminal Identification Code (USA)		W710456843	
Images			
		https://www.fbi.gov/wanted/counterintelligence/li-fangwei/@images/image/arge	

Applying Enhanced Due Diligence

EDD Guideline by Regulators



HONG KONG MONETARY AUTHORITY
香港金融管理局

MAS

Monetary Authority of Singapore

**GUIDELINES TO
MAS NOTICE 626
ON PREVENTION OF
MONEY LAUNDERING
AND COUNTERING THE
FINANCING OF
TERRORISM**



**Guideline on Anti-Money
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Revised October 2018



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Financing of Terrorism (For Licensed Corporations)**

November 2018

What is Enhanced Due Diligence (EDD)?

- EDD measures should be applied to a business relationship or transaction to mitigate and manage the high ML/TF risks in:
 - a situation that by its nature may present a high ML/TF risk;
 - a situation specified by the regulator in a notice in writing
- The extent of EDD measures should be **proportionate, appropriate** and **discriminating**

Examples of potentially higher risk factors include:

- (a) customer risk factor
- (b) product, service, transaction or delivery channel risk factors
- (c) country risk factors

Examples of possible EDD measures include:

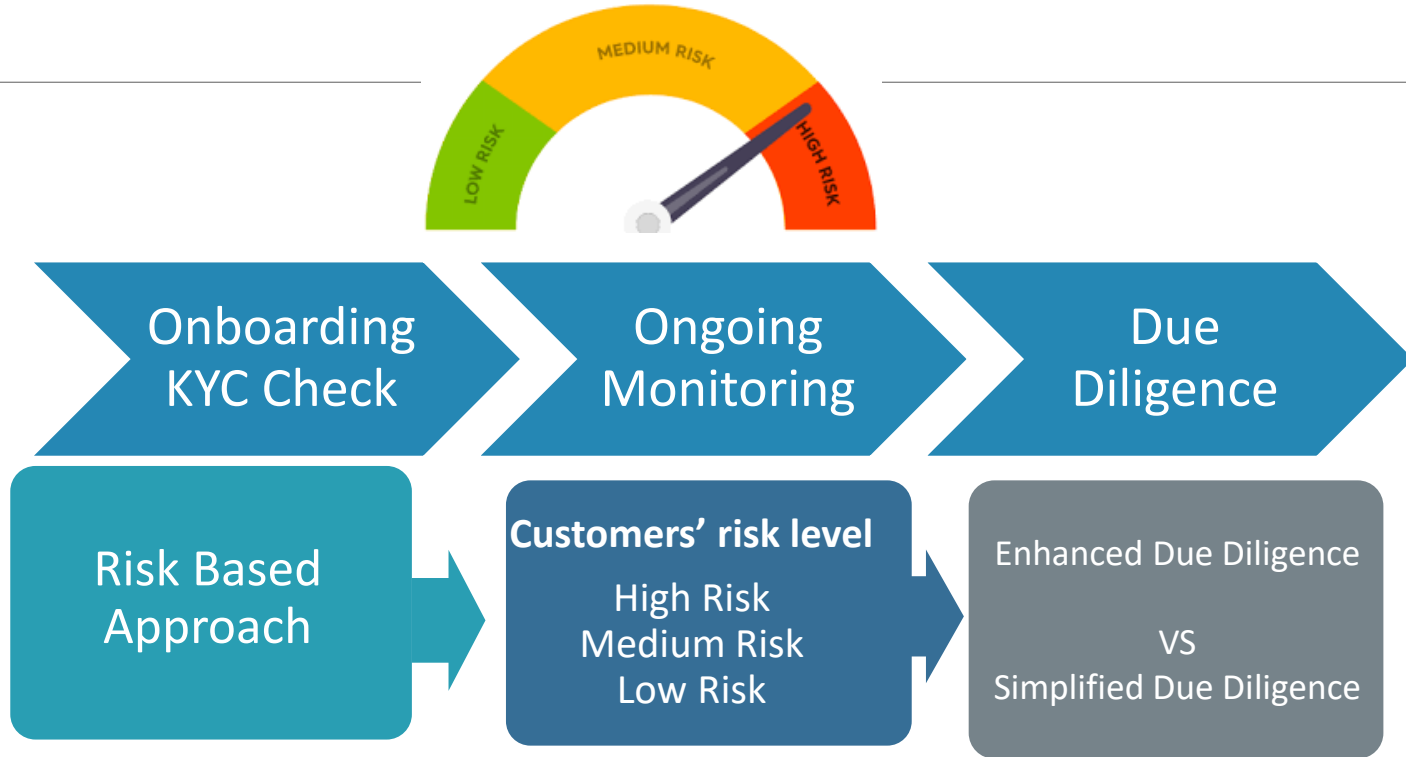
- (a) obtaining additional information on the customer (e.g. occupation, volume of assets, information available through public databases, internet, etc.), and updating more regularly the identification data of customer and beneficial owner;
- (b) obtaining additional information on the intended nature of the business relationship;
- (c) obtaining information on the source of funds or source of wealth of the customer (see paragraphs 4.9.22 and 4.9.23);
- (d) obtaining information on the reasons for intended or performed transactions; or
- (e) requiring the first payment to be carried out through an account in the customer's name with a bank subject to similar CDD standards.



HONG KONG MONETARY AUTHORITY
香港金融管理局

Source: <https://www.hkma.gov.hk/media/eng/doc/key-information/guidelines-and-circular/guideline/g33.pdf>

When to perform negative news screening?



Customer distribution under Risk Based Approach



The Challenges



DATA VOLUME

Millions of news articles a day yet just 0.87% relate to financial crime. Global sanctions and PEPs change constantly.



CLIENT VOLUME

50% of client searches return more data than analysts can read, 30% of searches return no results at all.



FALSE POSITIVES

Simple name matching returns thousands of false positives. <1% of returns relate to actual clients.



UNSCALABLE PROCESS

Resources simply cannot scale fast enough to deal with demand, leading to continuous bottlenecks within workflows.

For millions of clients, risk screening cannot scale.

CASE STUDY 1

Search by negative keywords

Free Text Search Query Genius ⓘ

Search Form

Search History

Examples

```
(ns=GCRIM and ((Due Diligence Target) near20 (abus* or accus* or acquit* or allegati* or alleg* or apprehend* or arraign* or arrest* or bankrupt* or breach* or brib* or cartel or charge* or conspir* or contrab* or convic* or corrup* or counterf* or court case or crime or criminal or deception or defraud* or depra* or derogatory or detain* or detentio* or disciplin* or discred* or discriminate* or disgra* or disquali* or drug* or embez* or evasion or extort* or false or felon* or fined or fraud* or fugit* or guilt* or harass* or illegal or illicit or impris* or improper or incarcer* or incrim* or indict* or inside* or investigat* or judgemen or judgment or jury or jail* or kickback or lawsuit or larcen* or launde
```

Search Period : Past 5 years

Negative Keywords Template :

abus* or accus* or acquit* or allegati* or alleg* or apprehend* or arraign* or arrest* or bankrupt* or breach* or brib* or cartel or charge* or conspir* or contrab* or convic* or corrup* or counterf* or court case or crime or criminal or deception or defraud* or depra* or derogatory or detain* or detentio* or disciplin* or discred* or discriminate* or disgra* or disquali* or drug* or embez* or evasion or extort* or false or felon* or fined or fraud* or fugit* or guilt* or harass* or illegal



CASE STUDY 2

Search by negative news subjects

News Subjects ▶

Corporate Crime/Legal/Judicial ▼ Or Crime/Courts ▼
Or Financial Crime ▼ Or Fraud ▼ Or Money Laundering ▼
Or Acts of Terror ▼ Or Environmental News ▼ Or Corruption ▼
Or Bribery ▼ Or Tax Fraud ▼ Or Insurance Fraud ▼
Or Cybercrime/Hacking ▼ Save As List

- Vast selection of negative news subjects
- Not limited by languages or jurisdictions
- Flexible to choose specific risk categories



CASE STUDY 3

Client's Internal System

Step 1

Choose Content Set ⓘ

Watchlist State Owned Companies Adverse Media Entities Locations

Person Entity Both

ⓘ

Profile Notes Occupation Titles ⓘ

Search Type Precise Near Broad ⓘ

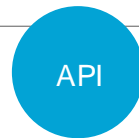
User types search request into internal system's search interface

Step 4

	Name	Country
	Kistruga Incorporated	United States
	Lukoil OAO	Russia
	LUKOIL Technology Services Beograd d.o.o.	Serbia
	Akpet Gaz AŞ	Turkey
	AMIC Latvia SIA	Latvia
	Amic Polska Sp. z o.o.	Poland
	AMIC-Ukraine Foreign Investments Enterprise	Ukraine
	AMIK Aviation Ukraine Limited Liability Company	Ukraine
	Antey-Lukoil Limited Liability Company	Russia
	B&M Overseas Secondment Limited	Cyprus
	Capital Insurance Open Joint Stock Company	Russia

Internal platform displays match/shows risks

Calls the API



Data is securely transmitted over encrypted internet protocol and names are never logged for privacy reasons

Step 2

A secure request reaches Dow Jones



Step 3



Linguistic matching engine runs



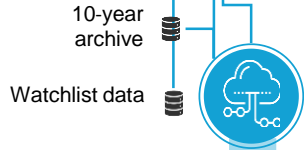
Sanctions lists, PEPs, etc.

See how we could speed up the KYC process in a few seconds?

CASE STUDY 4

SaaS Deployment

1. Data Gathered from Sources



2. Language Detection, Risk Classification, Entity Extraction, Document and Machine Translation



4. Identity Matching, Deduplication



5. Client Risk Alerting
Customizable Risk Templates Match Clients to Risks That Require Attention



3. Clients Screened and Continuously Monitored

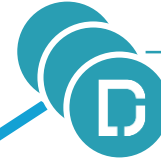


Client Data

ON PREMISE



Risk alerts are displayed in the UI
All data available for ad-hoc search
Deployments scale to cover millions of clients



Essential Program Elements

OFAC Guidance on Sanctions Compliance Program

On 2 May 2019, OFAC the **“Framework for OFAC Compliance Commitments”** outlining the features of a **sanctions compliance program** that will be considered as part of the OFAC Enforcement Guidelines for both US and non-US companies.

The five key elements include:

- Senior Management Commitment
- Sanctions Risk Assessment
- Internal Controls
- Testing and Auditing
- Training

Source: https://www.treasury.gov/resource-center/sanctions/Documents/framework_ofac_cc.pdf



DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

A Framework for OFAC Compliance Commitments

The U.S. Department of the Treasury’s Office of Foreign Assets Control (OFAC) administers and enforces U.S. economic and trade sanctions programs against targeted foreign governments, individuals, groups, and entities in accordance with national security and foreign policy goals and objectives.

OFAC strongly encourages organizations subject to U.S. jurisdiction, as well as foreign entities that conduct business in or with the United States, U.S. persons, or using U.S.-origin goods or services, to employ a risk-based approach to sanctions compliance by developing, implementing, and routinely updating a sanctions compliance program (SCP). While each risk-based SCP will vary depending on a variety of factors—including the company’s size and sophistication, products and services, customers and counterparties, and geographic locations—each program should be predicated on and incorporate at least five essential components of compliance: (1) management commitment; (2) risk assessment; (3) internal controls; (4) testing and auditing; and (5) training.

If after conducting an investigation and determining that a civil monetary penalty (“CMP”) is the appropriate administrative action in response to an apparent violation, the Office of Compliance and Enforcement (OCE) will determine which of the following or other elements should be incorporated into the subject person’s SCP as part of any accompanying settlement agreement, as appropriate. As in all enforcement cases, OFAC will evaluate a subject person’s SCP in a manner consistent with the Economic Sanctions Enforcement Guidelines (the “Guidelines”).

When applying the Guidelines to a given factual situation, OFAC will consider favorably subject persons that had effective SCPs at the time of an apparent violation. For example, under General Factor E (compliance program), OFAC may consider the existence, nature, and adequacy of an SCP, and when appropriate, may mitigate a CMP on that basis. Subject persons that have implemented effective SCPs that are predicated on the five essential components of compliance may also benefit from further mitigation of a CMP pursuant to General Factor F (remedial response) when the SCP results in remedial steps being taken.

Finally, OFAC may, in appropriate cases, consider the existence of an effective SCP at the time of an apparent violation as a factor in its analysis as to whether a case is deemed “egregious.”

This document is intended to provide organizations with a framework for the five essential components of a risk-based SCP, and contains an appendix outlining several of the root causes that have led to apparent violations of the sanctions programs that OFAC administers. OFAC recommends all organizations subject to U.S. jurisdiction review the settlements published by OFAC to reassess and enhance their respective SCPs, when and as appropriate.

Elements of every AML program

- There are 4 required elements of every AML program:

1. Designated Officer
2. Policies and Procedures
3. Independent testing
4. Training

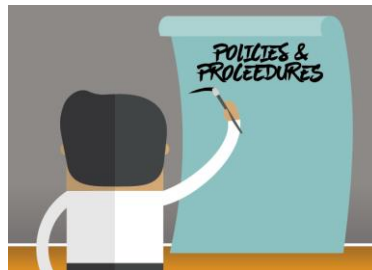
1. Designated Officer

- A designation of a responsible party – the AML officer, who probably also covers your sanctions area as well



2. Policies and Procedures

- AML is Risk-Based, Sanctions less so
- Creates Clarity & Consistency
- Produces Predictable Results
- But... requires oversight & updating



3. Independent Testing

- Independent testing of your program
- Test program controls & effectiveness regularly
- The one who do the test can be internal or external – as long as it's independent



4. Training

- Who gets trained? Everyone
- When? At least on a regular basis
 - Yearly is the norm
- What? Depends on job function
 - Customer Service vs Compliance
- Document all aspects
 - Who got trained (& who was absent) & when
 - The training materials
 - Post-training certifications & results



Good Practices

1. Screen Frequently

- Forewarned is forearmed
 - More time to react (other than sanctions)
- Spreads out the work, manages staff better

2. Use High-Quality Data

- Accuracy, completeness, timeliness
- You can make better decisions
- You can make faster decisions

3. Use high-quality tools

- Drives efficiency
 - Reporting & MIS
 - Workflow
 - False positive reduction tools

Workflow of Customer Due Diligence & Record Keeping

Onboarding
KYC Check

Ongoing
Monitoring

Enhanced
Due
Diligence

Risk Database Search /
API

Search by Name Type | Search by ID Number Type

Choose Content Set

- Watchlist
- State Owned Companies
- Adverse Media Entities
- Locations

Person Entity Both

Profile Notes Occupation Titles

Search Type: Precise Near Broad

Date of Birth: Year of Birth Range

Search Filters:

- Region: All Regions
- PEP Category: All PEP Categories
- Special Interest Category: All Special Interest Categories

Batch Screening /
DataFeed

Filters

Export to Excel

Risk Flag	Alerts	Case	Country	Case Owner	Segment	Status
1	1	No Ping list	China	AME TAO001	Default Segment	Review Status
0	0	Hong Kong Public Safety Center	Taiwan	AME TAO001	Default Segment	No Match Found
0	0	Financial Fraudulent Companies List	Hong Kong	AME TAO001	Default Segment	No Match Found
0	0	Search Search Database	United Kingdom	AME TAO001	Default Segment	No Match Found
0	0	Search Search	United States	AME TAO001	Default Segment	Confirmed (Blocked)
0	1	USA	China	AME TAO001	Default Segment	Review Status

Risk Report/
Negative News tool

DOW JONES RISKREPORTS

PAO Holder

REPORT TYPE: RED FLAG CLIENT: DATE: 17-MAR-2013

FACTIVA

Apple's New Tech Will Peak at User Privacy

Apple's new Tech Will Peak at User Privacy

Apple's new Tech Will Peak at User Privacy

Risk Based Approach
Client Risk
Service Risk
Country Risk

High Risk
Medium Risk
Low Risk

Enhanced CDD
measures
Simplified CDD
measures

4. Document everything

5. Documenting Decisions

- What was the issue
- What were the options
- What you decided
 - And who and when
- Why you did it

6. Standardize

- Not required – but smart
- Better for you, auditors, regulators
- Standardize what? How work is conducted & documented
- Demonstrates consistency, diligence

Compliance is Good Business

Summary

- You learn of potential issues early
- You know your customer better
 - You can tailor offerings better
 - You can price more efficiently
 - Better relationships last longer



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