Risk Based Supervisory Framework for Anti-Money Laundering/ Combating Terrorism and Proliferation Financing

FINANCIAL SERVICES REGULATORY COMMISSION
- Nevis Branch -

ST. KITTS BRANCH
Financial SERVICES Regulatory Commission

FSRC
St. Kitts & Nevis

Approved by the FSRC Board of Commissioners
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LIST OF ACRONYMS

AML/CFT/CPF	Anti-Money Laundering/Combatting the Financing of Terrorism and Countering Proliferation Financing.
AMLR	Anti-Money Laundering Regulations, No. 46 of 2011
APR	Anti-Proliferation (Financing of Weapons of Mass Destruction) Regulations, No. 9 of 2021
ATR	Anti-Terrorism (Prevention of Terrorist Financing) Regulations, No. 47 of 2011
BOC	Board of Commissioners
CIU	Citizenship by Investment Unit
DNFBPs	Designated Non-Financial Businesses and Professions
DPMS	Wholesale dealers or Manufacturers in precious stones and metals
FATF	Financial Action Task Force
FI	Financial Institution
FIU	Financial Intelligence Unit
FSR	Financial Services (Implementation of Industry Standards) Regulations, No. 51 of 2011
FSRC	Financial Services Regulatory Commission
ML/TF/PF	Money Laundering / Terrorist Financing / Proliferation Financing
RBA	Risk-Based Approach
SAR	Suspicious Activity Report

1. INTRODUCTION

The Financial Services Regulatory Commission (FSRC) is the regulatory body which licenses, supervises and regulates the operations of the financial services sector in St. Kitts and Nevis. All regulated entities and individuals are expected to adhere to the relevant laws and regulations, which includes onsite and follow-up examinations, off-site analysis and regulatory reporting requirements. The FSRC monitors regulated financial services activities to safeguard the public against any illegal, illicit or unauthorised financial services business operating within or from St. Kitts and Nevis.

The authority of the FSRC emanates from the Financial Services Regulatory Commission Act, Cap 21.10. The FSRC's mission is to promote good governance, accountability in a strong regulatory environment and a risk-based supervisory regime, aimed at protecting and strengthening the reputation and viability of the St. Kitts and Nevis Financial Services Industry.

The core functions of the FSRC inter alia, are to:

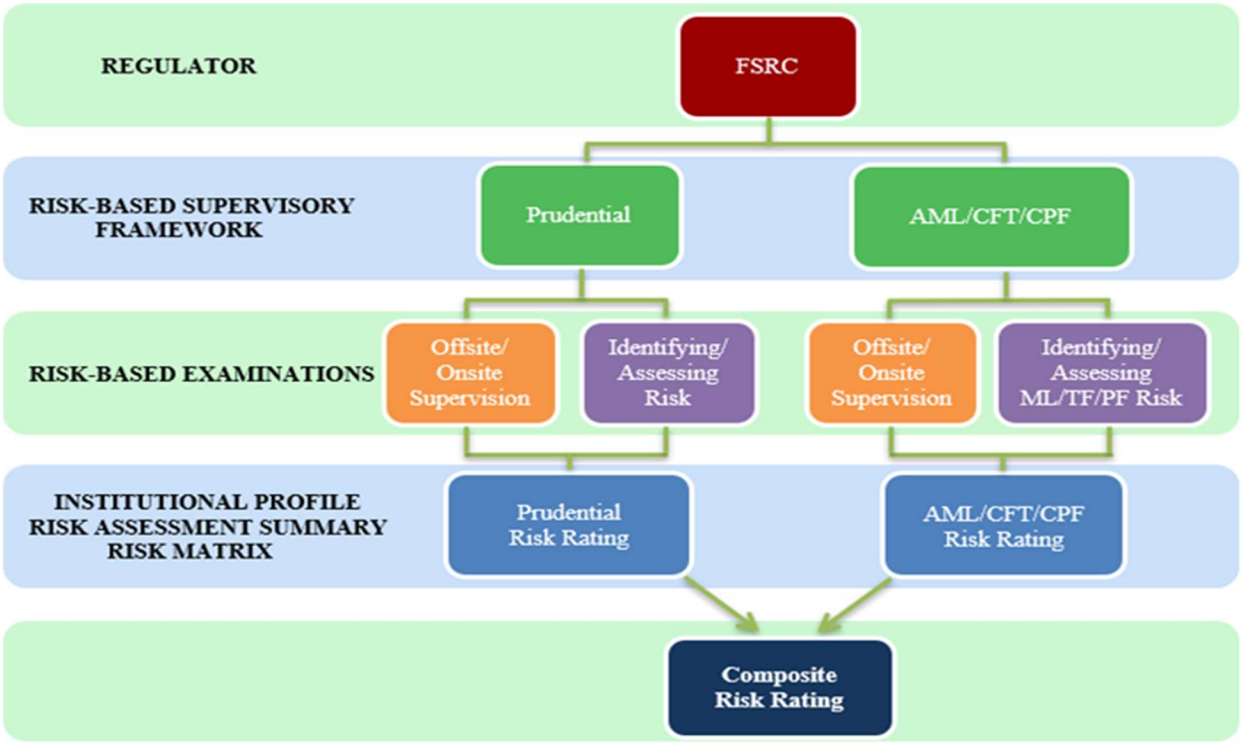
- Be the ultimate regulatory body for financial services and for anti-money laundering and counter terrorist and proliferation financing for St. Kitts and Nevis;
- Maintain a general review of the operations of all regulated entities;
- Monitor financial services business carried on in or from St. Kitts and Nevis and to take appropriate action(s) against persons carrying on unauthorised business;
- Monitor compliance by regulated entities with the Proceeds of Crime Act, the Anti- Terrorism Act, Anti-Proliferation Act and such Acts, regulations, codes or guidelines relating to money laundering, financing of terrorism and proliferation financing;
- Monitor the effectiveness of the relevant enactments in providing for the supervision and regulation of financial services business carried on in or from within St. Kitts and Nevis in accordance with internationally accepted standards;
- Authorise and examine the affairs or business of a regulated entity for the purpose of satisfying itself that the provisions of relevant legislation and regulations are complied with and that a regulated entity is in a sound financial position, is managing its business in a prudent manner and has effective AML/CFT/CPF internal controls and risk management systems;
- Evaluate the regulated entity's risk profile, financial condition, governance and risk management frameworks, internal controls and compliance with the AML/CFT/CPF legislation and the applicable legislation and guidelines which govern the licensed financial services business;
- Enforce statutory obligations, and cooperate and share information with domestic and foreign regulators and AML/CFT/CPF agencies on matters of common interests, including sharing information with other AML/CFT/CPF regulators, law enforcement and tax agencies;
- Imposing sanctions and penalties on regulated entities for non-compliance and contravention with the requirements of the AML/CFT/CPF legislation and the laws governing the licensed financial services business activities;
- Monitor compliance by regulated entities with Core Principles, Financial Action Task Force (FATF)

Recommendations and regulatory and supervisory measures that apply for AML/CFT/CPF purposes; and

- Provide outreach and guidance in relation to developing suitable and effective internal controls and risk management systems. This includes the issuance of advisories and public statements in relation to AML/CFT/CPF risks and countermeasures, emerging trends and new technologies.

The overall effectiveness of this Framework requires recognition of the synergies that exist between AML/CFT/CPF, prudential regulation and market conduct supervision *(See Figure 1)*. The FSRC's AML/CFT/CPF assessment analyses the effectiveness of the overall regulation and supervision of regulated entities.

Figure 1: FSRC AML/CFT/CPF Supervision Framework



2. BACKGROUND AND RATIONALE

The FSRC's main activities can be divided into two broad functions: regulation and supervision.

Regulation involves the development, consultation, enactment and enforcement of appropriate legislation, regulations and guidelines for regulated entities, including authorising regulated entities to operate in and from St. Kitts and Nevis.

Supervision involves dynamic assessments of the operations of supervised regulated entities to ensure they continue to operate in a safe and sound manner and comply with their governing statutes or supervisory requirements. This involves intervening effectively on a timely basis in cases where money laundering/terrorist financing/proliferation financing (ML/TF/PF) issues or concerns are identified.

The supervisory framework is a principle and risk-based structured methodology designed to facilitate proactive and dynamic AML/CFT/CPF assessment of supervised regulated entities. It is outcome focused with sufficient flexibility to enable supervisors to identify, assess and respond to new and emerging risks through an integration of AML/CFT/CPF assessment, macro-economics and industry perspectives in the assessment of individual regulated entities. It is not a 'tick box' approach and requires judgement in understanding the characteristics and situation of every regulated entity.

The framework applies to all regulated entities. It is applicable to both on-site assessment and off-site surveillance and includes the actions to be performed during the supervisory process. The framework provides a structured approach for understanding and assessing ML/TF/PF risks inherent in a regulated entity's activities, whether its risk management processes (i.e. identification, assessment, measurement, monitoring, controlling, mitigating and reporting of risks) are adequate in the context of the key risks.

As the ultimate regulatory body for AML/CFT/CPF for St. Kitts and Nevis, the FSRC monitors compliance of all regulated businesses and activities with the AML/CFT/CPF legislation.

In 2021, the Financial Action Task Force (FATF) updated its recommendations to strengthen global requirements and to further protect the integrity of the financial system. One of the most important changes was the increased emphasis on the Risk Based Approach (RBA) to AML/CFT/CPF, particularly in relation to identification, assessment and mitigation of risks and the implementation of preventive measures. The establishment and implementation of the RBA to supervision not only complies with FATF's recommendations but allows for a more effective supervisory approach to AML/CFT/CPF in St. Kitts and Nevis.

The RBA is not a "zero failure/zero tolerance" approach and does not exempt the supervision of regulated entities considered to possess a low risk of ML/FT/PF. It facilitates increased focus, monitoring and supervisory resource allocation for those regulated entities with higher ML/TF/PF risks.

3. LEGISLATIVE FRAMEWORK

The FSRC has responsibility for the administration of the following pieces of legislation:

- Financial Services Regulatory Commission Act, Cap. 21.10
- Anti-Money Laundering Regulations, No. 46 of 2011 (as amended)
- Anti-Terrorism (Prevention of Terrorist Financing) Regulations, No. 47 of 2011 (as
- amended)
- Anti-Proliferation (Financing of Weapons of Mass Destruction) Regulations, No. 9 of 2021 (as

amended)

- Financial Services (Implementation of Industry Standards) Regulations No. 51 of 2011
- Proceeds of Crime Act, Cap 4.28 (as amended)
- Anti-Terrorism Act, Cap 4.02 (as amended)
- Anti-Proliferation (Financing of Weapons of Mass Destruction) Act, No. 10 of 2020

Table 1 below highlights the list of regulated entities and individuals under the FSRC's supervision and the statues under which they are licensed and registered.

Table 1: List of Entities and individuals Under FSRC's Supervision and the Related Statutes

ST. KITTS	
ENTITIES	**LEGISLATION**
Development Bank of St. Kitts and Nevis	Development Bank of St. Kitts & Nevis Act, Cap. 21.05
Domestic Insurance Companies & Private Pension Plans	Insurance Act, Cap 21.11
Captive Insurance Companies	Captive Insurance Companies Act, Cap 21.20
Credit Unions	Co-operative Society Act, Cap. 21.04
Money Services Businesses	Money Services Business Act, Cap. 21.21
Escrow Agents/ Business	The Saint Christopher and Nevis (CBI Escrow Accounts) Act, No. 16 of 2017
Trust Companies	The Trust Act, Cap 05.19
Corporate Service Providers	Financial Services (Trust and Corporate Business) Regulations, No. 3 of 2019.
Virtual Asset Service Providers	Virtual Asset Act, No. 1 of 2020
Gaming Entities	Gaming (Control) Act, No. 11 of 2021
Other DNFBPs (Real Estate Agents, Accountants, Independent legal professionals and DPMS)	FSRC Guidelines for DNFBPs

NEVIS	
ENTITIES	**LEGISLATION**
Trust and Corporate Service Providers	Nevis Trust and Corporate Service Providers Ordinance, 2021
International Banks	Nevis International Banking Ordinance, 2014
Money Services Businesses	Money Services Business Act, Cap. 21.21
International Business Corporations	Nevis Business Corporation Ordinance, Chapter 7.01
Limited Liability Companies	Nevis Limited Liability Company Ordinance, Chapter 7.04
International Trusts	Nevis International Exempt Trust Ordinance, Chapter 7.03
Multiform Foundations	Nevis Multiform Foundations Ordinance, Chapter 7.08
International Insurance Business	Nevis International Insurance Ordinance, Chapter 7.07
Mutual Fund Administration	Nevis International Mutual Funds Ordinance, Chapter 7.09
Designated Non-Financial Businesses and Professions (DNFBPs)	FSRC Guidelines for DNFBPs

4. SCOPE AND APPLICABILITY

The FSRC Risk-Based Supervisory Framework applies to all entities and individuals outlined in Section 3 that collectively are classified as regulated entities which includes Financial Institutions (FIs) and Designated Non-Financial Businesses and Professions (DNFBPs).

The Framework also applies to financial institutions licensed under the Banking Act, Cap 21.01 for the purposes of AML/CFT/CPF supervision.

5. BENEFITS OF A RISK-BASED APPROACH

The principle benefits of adopting a risk-based approach to AML/CFT/CPF are:

- ensuring compliance with international standards and best practices from international agencies such as the Financial Action Task Force (FATF) and International Association of Insurance Supervisors (IAIS);
- better evaluation of risk through separate assessment of ML/TF/PF inherent risks and risk management processes resulting in a deeper understanding of a regulated entity's operations, its risk

appetite and the key drivers of its ML/TF/PF and overall risks profile;

- ensuring that the level of supervisory intensity/engagement is aligned with the level of ML/TF/PF focused risks and controls of DNFBPs;
- cost effective utilisation of resources through prioritisation of supervision based on risks;
- reporting risk focused assessments to DNFBPs for desired outcomes;
- ensuring early identification of emerging ML/TF/PF risks, and system-wide concerns;
- closer AML/CFT/CPF supervision, with focus on early identification of emerging risks to facilitate timely interventions;
- assessments parallel how a regulated entity is managed; reducing regulatory burden on compliant and well managed regulated entities;
- encouraging a strong risk management culture in regulated entities; and
- providing flexibility for the FSRC to use professional judgment within a structured approach.

6. KEY PRINCIPLES

Key Principles of the AML/CFT/CPF Supervisory Approach

The following are the key principles of the supervisory approach:

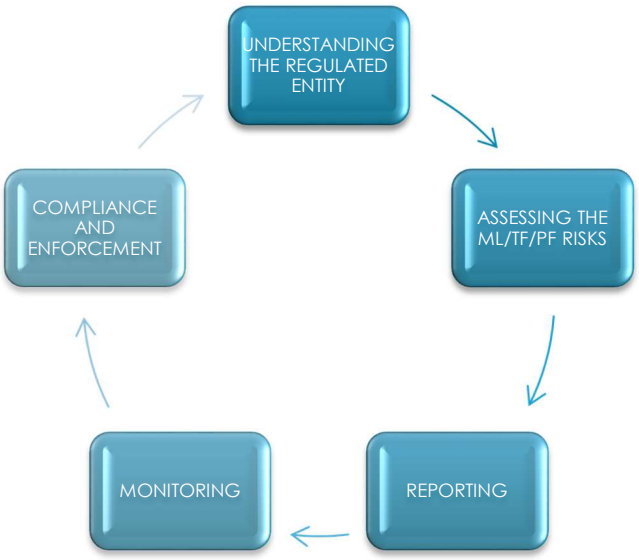
1. The process of AML/CFT/CPF risk-based supervision is continuous and not a one-time application.
2. The ML/TF/PF risks present in the country would be considered when determining the frequency and intensity of on-site and off-site supervision.
3. The systemic impact of a regulated entity is not based on size but on the scope, characteristics and location of their core business and operations. Smaller regulated entities that are not systemically important can pose higher ML/TF/PF risk.
4. Supervision of regulated entities is conducted on a consolidated basis, in coordination with other regulators and using information from them as appropriate. It includes an assessment of all material entities, both national and international.
5. The exercise of sound judgment in identifying and evaluating ML/TF/PF risks is central to the effectiveness of the supervisory approach.
6. Communication to regulated entities on the findings of on-site and off-site assessments and recommendations are risk focused and timely.
7. The level and frequency of supervisory scrutiny and the degree of intervention depends on the composite and ML/TF/PF risk rating determined for the relevant regulated entity. Regulated entities that are well managed relative to their risks will require less supervision. Not all areas within a regulated entity need to be reviewed every year.
8. It enables the assessment of the ML/TF/PF risk profile of a regulated entity to be current and provides an objective basis for allocating supervisory resources across regulated entities and within a regulated entity.
9. The ML/TF/PF risks will vary for each regulated entity given the size, the type of product offered, cross border business interactions, and complexity and scope of their business.

10. The frequency and intensity of the on-site and off-site AML/CFT/CPF supervision of the regulated entity would be determined by the ML/TF/PF risks identified and the FSRC's assessment of the internal controls and risk management systems.

7. FSRC's RISK-BASED APPROACH TO SUPERVISION

FSRC's supervision involves activities geared towards establishing whether the regulated entities under its supervision have measures in place to mitigate ML/TF/PF risks using a risk-based approach. The supervision also includes undertaking enforcement actions when non-compliance is detected. See *Figure 2* below for an overview of the process involved in implementing the Risk Based Approach to Supervision.

Figure 2: Risk Based Approach to Supervision



STEP 1 - Understanding the Regulated Entity

By developing the risk profile of the regulated entity through awareness and knowledge of:

i. the regulated entity's profile and business model to determine the level of exposure to ML/TF/PF risks. Knowledge of the regulated entity allows for an understanding of where vulnerabilities reside. Key questions would include "Who are the regulated entity's customers?", "What type of products/services does the regulated entity offer?", "What sectors of the economy is business concentrated in?" etc.

ii. the risks identified at the national level or during the course of routine supervision, in order to identify any risk factors that would impact the ML/TF/PF or overall risk assessment of the regulated entity.

STEP 2 - Assessing the Regulated Entity's risk

By evaluating:

i. the extent to which the ML/TF/PF risk factors identified under Step 1 impact the overall risk assessment of the regulated entity; and

ii. the effectiveness of the compliance and risk management systems and internal controls that are in place to mitigate the risks that the regulated entity is exposed to.

It should be noted that each regulated entity is required to conduct an Enterprise-Wide Risk Assessment and an independent audit. The reports generated from these functions should be reviewed as well in determining the regulated entity's risks.

STEP 3 – Reporting to the Regulated Entity

By reporting:

i. the findings of the on-site and off-site analysis to the regulated entities including the statistical data;

ii. the deficiencies along with the recommended actions and the timeframe in which to complete or rectify the recommended actions; and

iii. the ML/TF/PF and overall risks to the regulated entity.

STEP 4 - Monitoring the Regulated Entity

By:

i. applying the appropriate level of supervisory oversight (on-site and off-site supervision) based on the assessed, AML/CFT/CPF and overall risks. This includes follow-up or targeted examinations based the level of risk and severity of the deficiency; and

ii. reviewing the ML/TF/PF and overall risks of the regulated entity to ensure that they are up-to-date and relevant. This review can be done at least annually but should consider the occurrence of events that would trigger an increased frequency in the reassessment such as a breach or new product/service. Additionally, the annual review will include an assessment of the responses of regulated entity's periodic AML/CFT/CPF self-assessment questionnaire and inherent risk return. The regulated entity's external audit report, annual compliance reports, independent audit reports and enterprise-wide risk assessments would be reviewed to determine the ML/TF/PF risks and areas of concern, if applicable.

STEP 5 - Compliance and Enforcement

By taking:

i. early action to mitigate emerging and increasing ML/TF/PF risks. This would include enhanced monitoring and issuance of penalties, warning letters and cease and desist orders; and

ii. the necessary proportionate enforcement measures to ensure compliance, prevent the commission of an unsafe or unsound practice and minimise risks of financial crime.

8. AML/CFT/CPF SUPERVISORY PROCESS

8.1 Understanding the Regulated Entity – Building the Regulated Entity's Profile

i. The first step in an effective AML/CFT/CPF risk-based supervisory framework requires a thorough understanding of the regulated entity in order to develop its ML/TF/PF risk profile.

ii. The risk profile is based on, inter alia, knowledge of the regulated entity ownership and structure, and who is directing the business, the business model, the profile of the regulated entity's customers, the significant products/services/activities offered, the delivery channels utilised to engage with customers including the use of agents, intermediaries and non-face-to-face channels, number and location of branches or subsidiaries and counterparties, in particular, whether they are located in high-risk jurisdictions or local areas, business strategy, financial performance, major sources of income/profitability, and jurisdictions where the regulated entity does business.

iii. Information for compiling and updating the regulated entity's profile initially and on an ongoing basis should be collected from various sources including information gathered during the prudential onsite and offsite supervisory process, information provided by the regulated entity itself during the application/ licensing process and other returns/ reports submitted by the entity e.g. quarterly returns, new product approvals/ financial statements/ annual returns or reports/ large exposure reports etc. In developing the ML/TF/PF risk profile for the regulated entity, the risk profile developed for prudential supervision should be leveraged as much as possible. As noted in Figure 1, information obtained from AML/CFT/CPF risk assessment also flows back into the overall risk assessment of the regulated entity.

iv. There should be adequate knowledge, awareness and understanding of the ML/TF/PF risks where the regulated entity has significant links with other jurisdictions, especially where these jurisdictions have strategic deficiencies in their AML/CFT/CPF regimes, or where the regulated entity is part of a group. Where the regulated entity is part of a group, the group structure must be fully understood in building the risk profile, including whether the group is foreign or locally owned and controlled. The number and location of subsidiaries and branches in other jurisdictions as well as the ownership structure of the parent and subsidiaries must be known. It is important to understand which entities in the group are regulated and by which regulator.

v. There should be adequate knowledge and understanding of the risk factors that are relevant for all sectors under supervision. The sectoral risk assessment provides an overall view of the ML/TF/PF risks to which the sector is exposed, and the relevance of individual risk factors to the regulated entities in the sector. The assessment would also provide information on the impact of sectoral risks on each regulated entity, including identifying new risk factors that are common to the regulated entities in the sector. The sectoral risk assessments should be conducted at minimum, every two (2) years;

vi. The assessment of ML/TF/PF risk at a group level, entails a holistic view of ML/TF/PF risks to which regulated entities which are part of a group are exposed. The risk profile of the regulated entity should be developed taking into account all relevant domestic and foreign risk factors. Particular attention should be paid to the risks associated with a regulated entity cross-border operations and the business activities of branches and subsidiaries in the group in other jurisdictions, which may have a bearing on the overall risk profile of the regulated entity. In particular, the risk assessment should reflect at least the risks arising from the regulated entity's exposure to jurisdictions:

a. That have been identified by reliable sources as having strategic deficiencies in their AML/CFT/CPF regime;
b. Where the law prohibits the implementation of group-wide policies and procedures;
c. Which, in accordance with credible and reliable sources, are exposed to high levels of corruption or other predicate offenses to ML;
d. Jurisdictions where terrorist organisations are known to be operating or that have been subject to economic financial sanctions, embargoes or measures related to ML/TF/PF; and
e. Where, according to information from more than one credible and reliable source, serious concerns have been raised about the effectiveness and quality of the jurisdiction's AML/CFT/CPF controls, including information about the quality and effectiveness or regulatory enforcement and oversight.

vii. Necessary information to inform the risk assessment for entities which are part of a group includes:

a) The ML/TF/PF risk profile of branches and subsidiaries as assessed by relevant competent authorities in those jurisdictions;
b) The ML/TF/PF risk profile of the sector that has branches or subsidiaries as assessed by the relevant competent authorities in those jurisdictions;
c) Findings from competent authorities' assessments of the quality of controls in place within branches or subsidiaries of regulated entities;
d) Serious breaches or material weaknesses in branches or subsidiaries identified by the relevant competent authorities in their jurisdictions;
e) Any supervisory measures and sanctions imposed on branches or subsidiaries by relevant competent authorities in their jurisdictions.

viii. The FSRC should cooperate and exchange all relevant information with other stakeholders, including prudential supervisors, financial intelligence units, tax authorities, law enforcement agencies, judicial authorities and AML/CFT/CPF supervisors of other jurisdictions to ensure adequate information is received to obtain a comprehensive understanding of the regulated entity and to ensure the effective AML/CFT/CPF supervision of the entity. All relevant information should be exchanged without delay. Where the regulated entity operates on a cross-border basis, such cooperation should extend to the relevant cross border competent authorities.

The extent and objective of the cooperation and information exchange with other stakeholders should be considered, to determine the most effective way for this cooperation, as the same approach may not be suitable in all circumstances. This means that more frequent cooperation and exchange of information may be necessary with other competent authorities and prudential supervisors, which are involved in the supervision of the same regulated entity, than with financial intelligence units, tax authorities and law enforcement agencies.

When cooperating and exchanging information with other stakeholders, including law enforcement agencies, tax authorities, and other bodies or agencies, competent authorities should do so to the extent possible under national law. This exchange of information with all competent stakeholders would help the FSRC to understand the resulting ML/TF/PF risks to which the regulated entity or its sector may be exposed. It may also exchange information on possible preventative actions in this area.

8.2 Assessing the Regulated Entity's MLTF/PF Risks – Preparing the AML/CFT/CPF Risk Matrix

i. The second step in the AML/CFT/CPF risk-based supervisory framework involves assessing the materiality and inherent risks in the significant activities. It should be noted that information gathered in understanding the entity (Step 1) helps inform the assessment of the regulated entity's ML/TF/PF risk.

ii. Consequently, examiners must conduct an assessment of the regulated entity's overall risk environment, the ML/TF/PF risks associated with each of its significant business activities, the reliability of its risk management framework, the quality of the internal governance arrangements, the effectiveness of the policies and procedures, and the adequacy of its information technology systems and internal controls.

iii. Source information which will assist the examiner with this risk assessment includes external and internal audit reports, on-site examination reports, reports from other regulators assessments/feedback whereapplicable, regulatory returns, self-assessment questionnaires, the regulated entity's own ML/TF/PF Risk Assessment, National Risk Assessment Reports, any ML/TF/PF-related board reports and papers, statistics on accounts closed, statistics on SARs filed or otherregulatory concerns from the FIU, feedback from the CIU, information from law enforcement and tax authorities, and any other reliable, public-source information.

iv. The AML/CFT/CPF Risk Matrix (Appendix A) is a tool to assist with completion of the risk assessment, which identifies, records and assesses the level of ML/TF/PF risks inherent in the regulated entity's activities, utilising the regulated entity's profile and the information collected in (iii) above. The matrix also allows for an assessment of the adequacy/ effectiveness of the AML/CFT/CPF risk management function in controlling or mitigating identified ML/TF/PF risks. It facilitates an assessment of the direction of those risks after taking into account both internal and external factors which may affect the regulated entity's ML/TF/PF risk profile. It should be noted that the effectivenessof the ML/TF/PF controls/ risk management function can generally only be determined by an on-site examination.

v. The ML/TF/PF risk rating derived from completing the Risk Matrix will feed into the overall Composite

Risk Assessment rating for the regulated entity. In addition, the ML/TF/PF risk rating will inform the level of supervisory oversight – that is, monitoring and enforcement actions- to be applied to the entity (see Table 2 below).

8.3 Monitoring the Regulated Entity

i. The risk assessment conducted in Step 8.2 and the overall AML/CFT/CPF risk rating of the regulated entity will form the basis for determining the level of supervisory engagement necessary for each regulated entity.

ii. Supervisory engagement refers to the processes and tools used by the FSRC to monitor adherence to AML/CFT/CPF regulatory requirements. This includes desk-based reviews, on-site examinations, self-assessment questionnaires, review of board minutes and resolutions, assessment of internal and external audit reports and meetings with the regulated entity.

iii. The recommended level of supervisory engagement, as it relates to the overall AML/CFT/CPF risk rating of the regulated entity, is shown in Table 2. The supervisory engagement approach places more intense supervisory measures, for example, more frequent on-site examinations for those regulated entities that pose greater ML/TF/PF risk and utilisation of other supervisory tools, such as self-assessment questionnaires and desk-based reviews, for those regulated entities that are deemed to be of lower ML/TF/PF risk and impact.

iv. It should be noted that the supervisory engagement levels set out below are the minimum standard applicable to regulated entities in the different risk categories. The FSRC may apply additional supervisory measures if it determines that there is emerging or elevated risk of regulated entities being exploited for ML/TF/PF purposes.

Table 2: Supervisory Engagement Based on ML/TF/PF Risk Rating

	High/Above Average ML/TF/PF Risks	Moderate ML/TF/PF Risks	Low / Negligible ML/TF/PF Risks
RATINGS	**4 - 5**	**3**	**1 - 2**
AML Desk Based Reviews	NA	As needed	2-3 years
AML On-site Examination	18-24 months	3-5 years	Targeted reviews at least every 5 years
AML Self-Assessment Questionnaires	Annually	Every 2 years	Every 2 years
Board Minutes/Papers Review	Quarterly	Semi-Annually	Annually
External Audit Reports	Annually	Annually	Annually
Institutional Meetings e.g. Chair of Audit Committee/ External Auditor	18-24 months	As needed	As needed
Institutional Relationship Meetings	As scheduled	As scheduled	As scheduled

NOTE: *Notwithstanding, the FSRC reserves the right to vary the level of supervisoryengagement for any regulated entity, which can be triggered by issues or concerns that have not yet given rise to an actual problem or situation.*

8.3. Monitoring the Regulated Entity (Continued)

v. An AML/CFT/CPF risk focused on-site examination can take any one of the following forms:

1. Full Scope Examination (most resource intensive)
   - This involves a comprehensive assessment of the ML/TF/PF risk of the regulated entity, including the nature and complexity of products and services, size, business model, customer profiles, geographiclocation etc., and quality of the risk management structures implemented to mitigate thoserisks.

2. Targeted Examination
   - In targeted examinations, focus is placed on one or more but no more than three (3) keyareas.

3. Follow-up Examination
   - As the name implies, follow up examinations are scheduled to verify whether the regulator's recommendations from the last on-site examination have been adequately addressed. A

regulated entity's or group's AML/CFT/CPF rating can be upgraded based on the results of the follow- up examination.

4. Consolidated Examination
   - Consolidated on-site examinations focus on the group and may include conducting cross-border on-site examinations of overseas subsidiaries and branches. Consolidated onsite examinations focus on the adequacy and effectiveness of enterprise wide policies and controls to mitigate group risks, including ML/TF/PF risks and how these are integrated within the entities in the group inorder to arrive at an assessment of the overall strength of the group.
   - The frequency and intensity of an on-site AML/CFT/CPF consolidated examination should be determined on the basis of:
     a) The ML/TF/PF risks and the policies, internal controls and procedures associated with the group, as identified through an assessment of the group's risk profile; and
     b) The characteristics of the group, in particular the diversity and number of entities and the degree of discretion allowed to them under the risk-based approach.

5. Thematic Examination
   - Thematic examinations are designed to gather information on how several regulated entities treat with common issues facing a sector and may include assessment of the risks associated with features such as the type of products and services, types of customers and delivery channels.

   - Thematic examinations may focus on a particular sector (e.g. banks only), particular issue (e.g. screening of customers, source of funds process), particular product (e.g. annuities) or a combination of the aforementioned (e.g. product and sector).

   - While the reasons for carrying out a thematic examination can vary, generally a thematic review may be prompted from the following circumstances:

     - Unusual results are found following off-site analysis of annual / quarterly financial statements or statutory returns;
     - Unusual complaint volume either in respect of one line of business or business activity;
     - Concerns expressed by stakeholders; and
     - Recent developments in the licensee e.g. change in a key / management position, significant merger or acquisition.

8.4 Compliance and Enforcement

i. The FSRC takes firm and appropriate enforcement actions when necessary, in the supervision and regulation of regulated entities, in order to promote financial stability and soundness, protect depositors and policyholders, assist with the prevention of financial crime and monitor compliance with AML/CFT/CPF requirements.

ii. Enforcement powers are generally set out in the enabling legislation and include, inter alia, criminal and administrative sanctions, powers to remove directors, issuance of compliance directions and restriction/ revocation/suspension of licenses. Other interventions and enforcement measures include actions taken by the regulator to influence through moral suasion (e.g. stakeholder outreach, meetings, guidance on industry best practices); written warnings and directing the regulated entity to provide remedial actionplans with timelines to address compliance deficiencies.

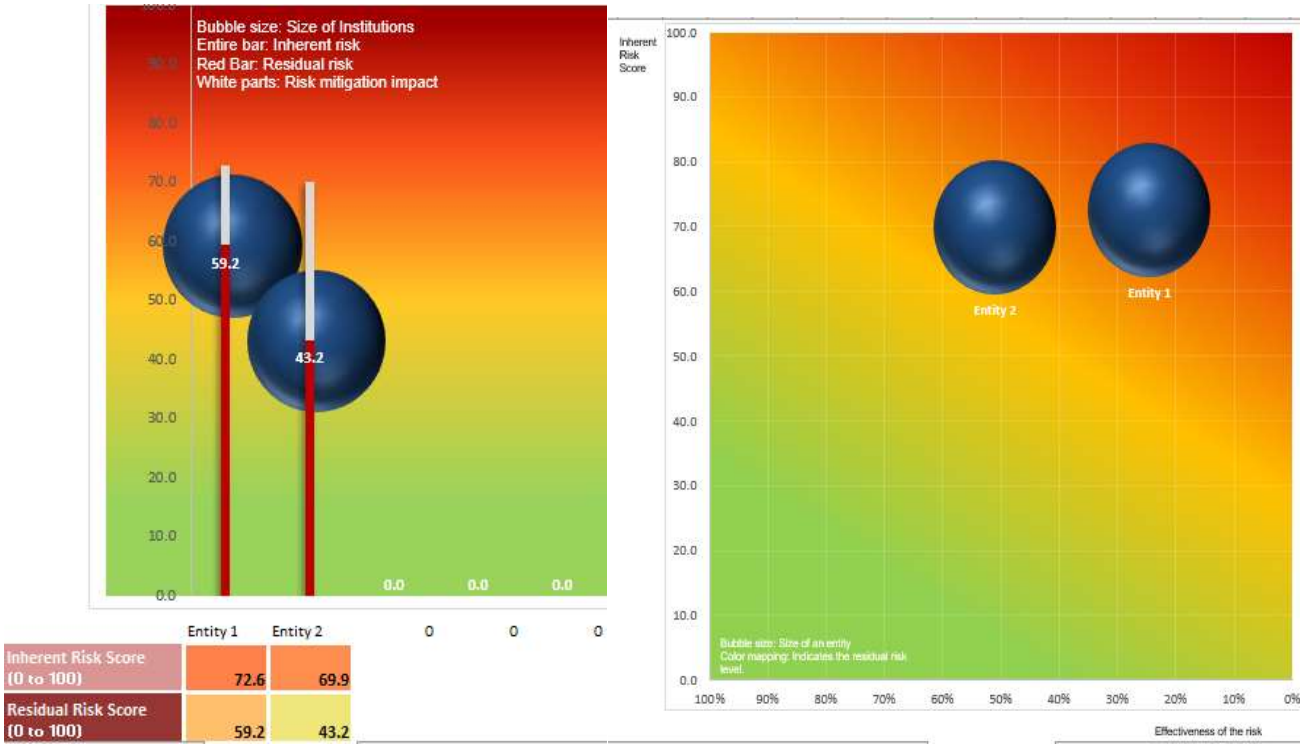
iii. Where there are identified areas of concern, the degree of intervention will be commensurate with the materiality of the deficiencies and in accordance with the Financial Services Regulatory Commission Act, Cap 21.10.

iv. The FSRC will communicate clearly with regulated entities when issues arise to ensure that regulated entities understand the materiality of the deficiencies noted, supervisory expectations, including the remedial action required and the timeframe within which remedial work/actions must becompleted.

v. The FSRC will consider whether the finding impacts one regulated entity or whether there is asystemic issue and communicate its views accordingly.

APPENDIX A: Risk Matrix

	Inherent Risk Factors	Entity 1	Entity 2
	Size	High	Medium
	Risk Appetite	Medium	Medium
	High risk clients	Medium-High	Medium-High
	High risk products/services (in terms of nature and complexity)	Medium-High	Medium-High
	International operations and transactions.	High	High
	High risk geographic locations of operation (domestic or international).	High	High
	Reliance on third parties, agents, and remote processess (delivery channels)	Medium-Low	Low
	Risk Mitigation Factors	**Entity 1**	**Entity 2**
AML/CFT/CPF Controls	Management's commmittment to AML/CFT/CPF	Medium	Do not exist
	Understanding of ML/TF/PF risks	Medium-Low	Medium
	Independence and Effectiveness of Compliance Function	Medium-Low	Medium
	Adequacy of the AML//CFT/CPF Policy and Procedures	Medium	Medium
	Effectiveness of CDD	Medium	Medium-High
	Effectiveness of Monitoring (including MIS)	Medium	Medium-High
	Effectiveness of STR Analysis and Reporting	Medium-Low	Medium-High
	Effectiveness of Report Keeping	Medium	Medium-High
	Effectiveness of Internal Audit	Medium-Low	Medium
	Effectiveness of Training Activities	Medium	Medium-High
Other Mitigating Factors	Corporate Governance	Medium-Low	Medium
	Clarity of the Ownership	Medium-Low	Medium-High



In the case of the risk mitigation and other mitigating factors, the following assessment should be considered:

- High = Strong Operational Management, Corporate Oversight and Governance
- Medium High = Satisfactory Operational Management, Corporate Oversight and Governance
- Moderate = Operational Management, Corporate Oversight and Governance Needs Improvement
- Medium Low = Operational Management, Corporate Oversight and Governance is Critically Deficient
- Low = Operational Management, Corporate Oversight and Governance is Deficient

APPENDIX B: EXPLANATION OF THE AML/CFT/CPF RISK RATING

RATING	DESCRIPTION OF RISK	DEFINITION OF RISK
1	Low	The regulated entity has a low ML/TF/PF risk profile. Any inherent ML/TF/PF risks are well mitigated and there are little or no vulnerabilities to structural ML/TF/PF risks.
2	Medium-Low	The regulated entity has low to moderate ML/TF/PF risks. Minor improvements may be necessary but these can be readily remedied by management and the board.
3	Medium	The regulated entity has a moderate ML/TF/PF risk profile. AML/CFT/CPF risk management function and internal controls need improvement.
4	Medium-High	The regulated entity has an above average ML/TF/PF risk profile. Evidence that certain key AML/CFT/CPF risk management functions are nonexistent or inadequate and this is coupled with weaknesses in key functions such as compliance or internal audit and/or the board. Structural risks increase Ml/TF/PF exposures.
5	High	The regulated entity has a high ML/TF/PF risk profile. The regulated entity has been unable to address critical deficiencies in the AML/CFT/CPF risk management function. The structural risks of the regulated entity make it highly susceptible to ML/TF/PF vulnerabilities.