



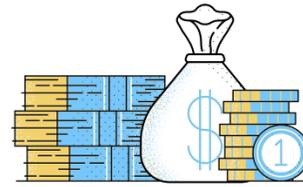
Applying KYC to Detecting Predicate Offences

CFATF Secretariat Research Desk
May 26th, 2021.



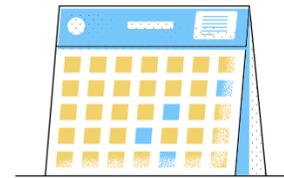


The basis for predicate offences for ML is found in the Interpretive Note for Recommendation 3



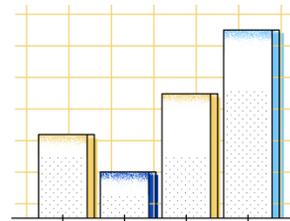
All Crimes Approach

Any crime can be a predicate.



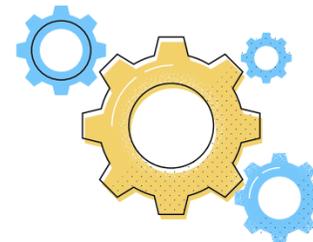
Threshold Approach

Serious offences; Penalty of at least 6 months or more than 1 year.



List Approach

Based on list of offences in FATF Glossary.



Combined Approach



Predicate Offences

Countries should, at a minimum, include a range of serious offences within each of the designated categories as predicate offences for ML.

According to its domestic law, a country may decide how to define predicate offences and the nature of any particular elements that make them serious offences.





'Know Your Customer' (KYC)

Anti-money laundering policies and procedures used to determine the true identity of a customer and the type of activity that is “normal and expected,” and to detect activity that is “unusual” for a particular customer.





Importance of KYC Measures for Detecting Predicate Offences



Predicting Customer Activity

- The more the institution knows about its customers, the greater chance of detecting predicate crimes for ML.

Management of Risks

- Accurate CDD and its intelligent application to detect predicate offences.
- Avoid reputational, operational, legal and concentration risks.





Importance of KYC Measures for Detecting Predicate Offences



Application of RBA to Predicate Offences

- Regulators require validation of the RBA used by institutions.
- Develop risk profiles of customers over time.

Level of Due Diligence

- Processes to consider each level of due diligence that may be necessary.





Challenges in Applying KYC in Detecting Predicate Offences

Institutional Difficulties

- Poor quality data and/or poorly designed screening tools.
- Inability to monitor for both predicate offences and ML.



Poor Application of the RBA

- For Regulators, the focus is on *how* the RBA is applied.





Challenges in Applying KYC in Detecting Predicate Offences

Changing Risk Levels

- Measures for monitoring changes in customer risk levels over time.



Sources of Information for Monitoring

- Must be reliable and objective.
- Sanctions lists, regulatory or enforcement sources, adverse media.





Challenges in Applying KYC in Detecting Predicate Offences

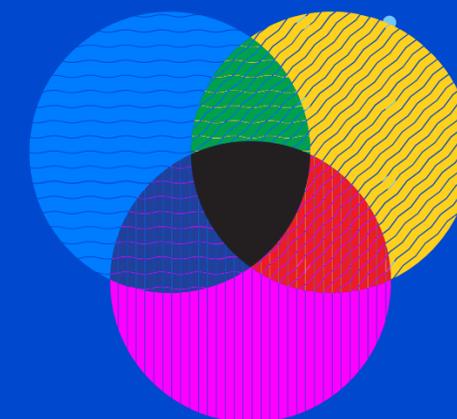
Identifying Vulnerable Customers

- Management of vulnerable customers for predicate offences, for e.g., fraud.
- Monitoring their transactions over time to adjust risk rating.



Different Approaches to Applying CDD

- Different methods and tools for monitoring predicates and applying CDD.
- Access and information sharing on customers.





Challenges in Applying KYC in Detecting Predicate Offences

Robustness of CDD Measures

- Robustness of CDD measures for future use and reference (5 years and more on).



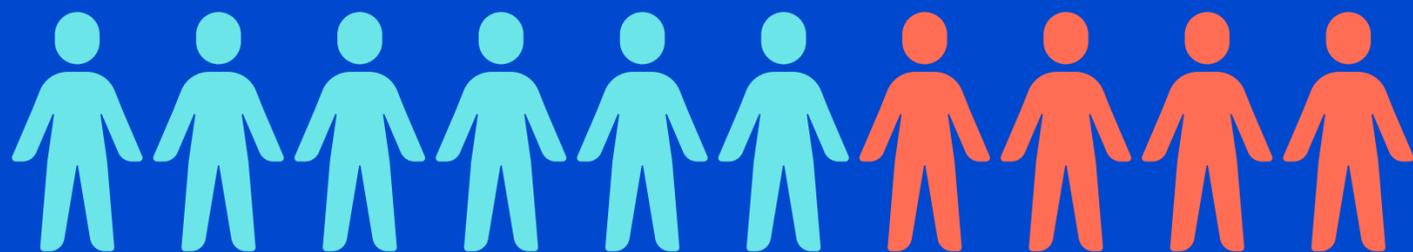
Poor Implementation of KYC measures

- Different methods and tools for monitoring predicates and applying CDD.
- Access and information sharing on customers.





Red Flags to Detect Predicate Offences for ML - Suspicious Transactions/Activities



Divergence from the type, volume or frequency of transactions expected in the course of the business relationship.



Situations where the source of funds cannot be easily verified.



The client cannot provide satisfactory evidence of identity and/or it is difficult to verify identification.



Wire transfer activity to and from secrecy havens or higher-risk geographic locations without apparent business reason or is inconsistent with customer's transaction history.



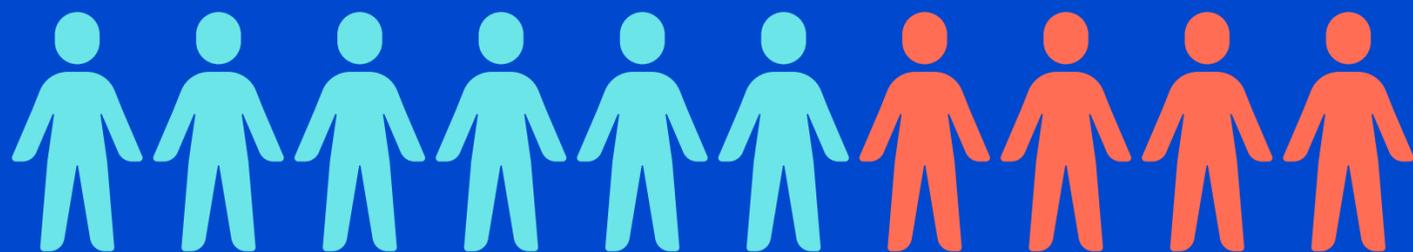
Client's documents such as identification, statement of income or employment details are provided by an intermediary who has no apparent reason to be involved.



Customer receives many small incoming wire transfers and then orders a large outgoing wire transfer to another country.



Red Flags to Detect Predicate Offences for ML - Suspicious Transactions/Activities



Client purchases property in names of other persons or uses different names on offers to purchase, closing documents and deposit receipts.



A business customer is reluctant to provide complete information about the nature and purpose of its business and anticipated account activity.



Customer makes frequent deposits or withdrawals of large amounts of currency for a business that generally does not generate large amounts of cash.



Client deposits a large amount of cash to make payments which are outside of the client's profile.



Customer's cash deposits often contain counterfeit bills or musty or extremely dirty bills.



Client wishes to form or purchase a company whose corporate objective is irrelevant to the client's normal profession or activities, without a reasonable explanation.

Thank you!

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