Key take-aways from AML/CFT off-site banking supervision

Diane Friez

CSSF, AML/CFT Off-Site Division

Forewords

- Update on the 2018 AML/CFT questionnaire
  - Calculation of the ML/FT risk of the banks based on the AML/CFT questionnaire already performed
    - → In 2018, ML/FT risk is on average decreasing as a result of derisking exercises, remediation plans, etc.
    - → Implementation of the guidance provided by the CSSF (i.e. trainings, policy and procedure updates, IT systems, etc.)
  - New IT platform for the 2019 AML/CFT questionnaire
    - → Through the eDesk portal: More user-friendly & identification via LuxTrust
    - → No major change to the content of the questionnaire

- 2018 expert judgement currently ongoing
  - → Final AML/CFT score of the banks available beginning of 2020
  - → Quality of the internal control function reports has mostly improved for CSSF supervision purposes

- Reinforcement of the AML/CFT off-site division team of the Banking Supervision department
  - → More frequent interactions with banks

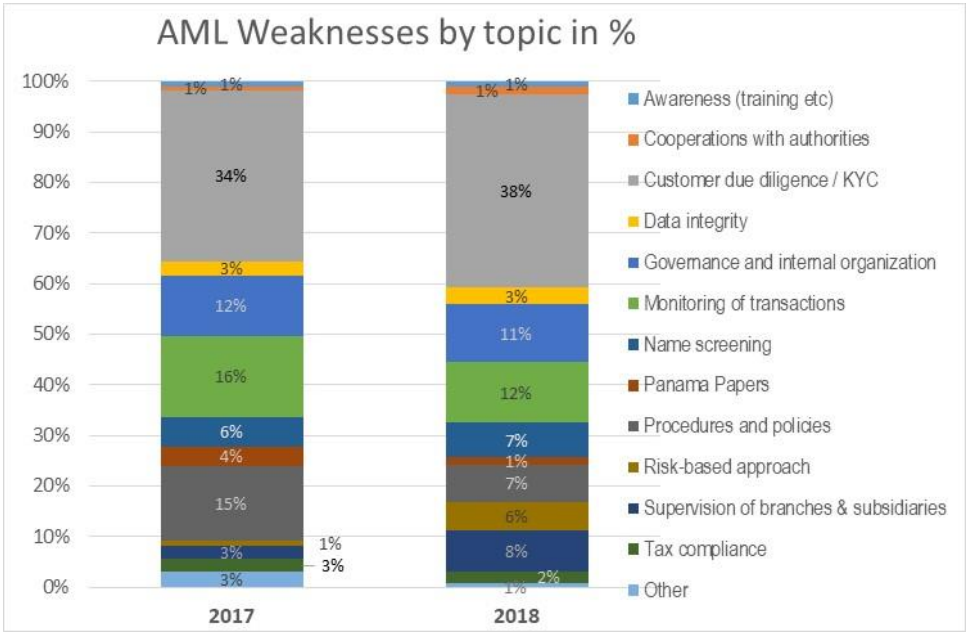
Update on international reviews

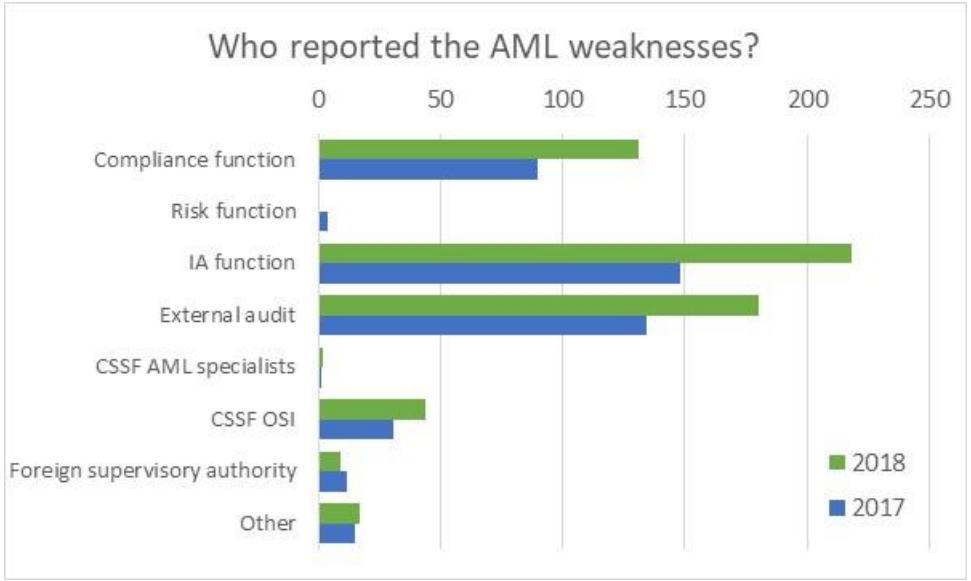
EBA review on the **CSSF**'s approach to the AML/CFT supervision of banks:

- Carried out between November 2018 and April 2019
- Only an assessment of the CSSF's AML/CFT supervision of banks
- Assessment according to European Regulation and Guidelines and not according to FATF recommendations
- Included meeting with banking sector representatives
- Overall positive outcome with some recommendations to further strengthen the approach

Outcomes of the AML/CFT weaknesses identified by the AML/CFT Off-site division

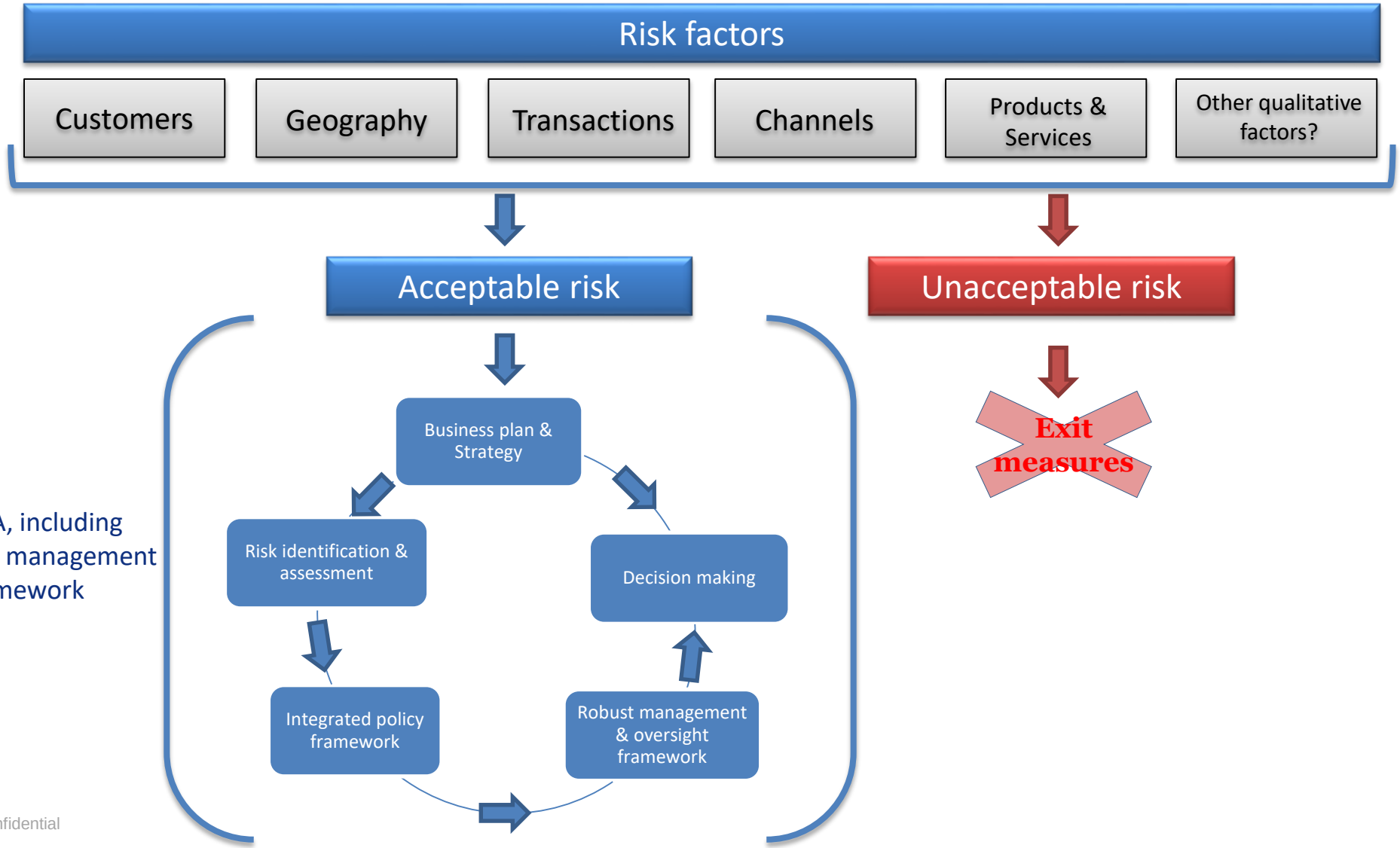
- Main weaknesses related to “CDD/ KYC” (~35%) and “monitoring of transactions” (~15%)
- AML weaknesses are concentrated in the private banking sector
- AML weaknesses are mainly raised by internal audit function and external audit





ML/FT risk appetite framework

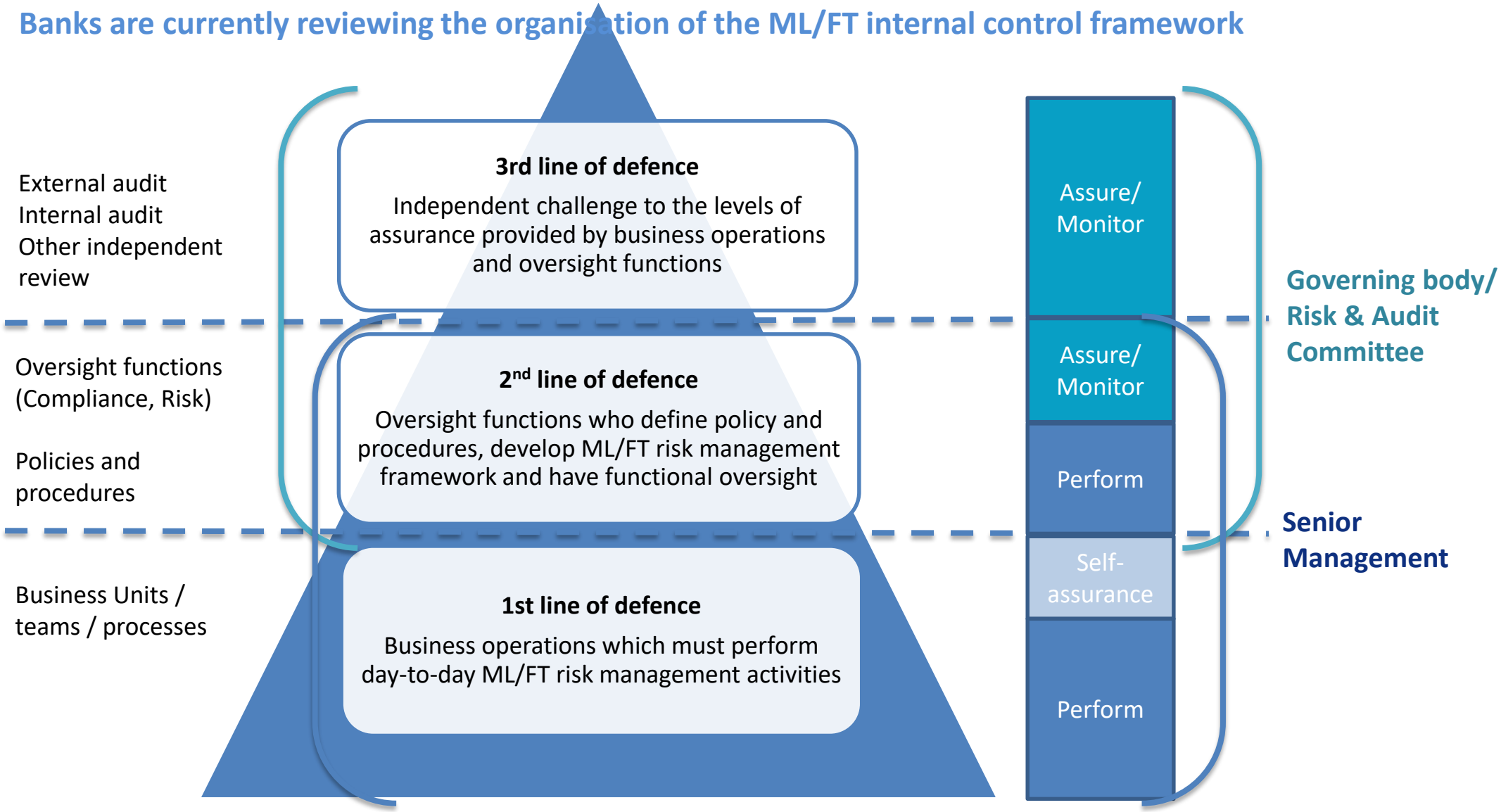
What is the level of risk your institution is willing to take?



RBA, including risk management framework

ML/FT risk management organisation

Banks are currently reviewing the organisation of the ML/FT internal control framework



https://www.oag.govt.nz/good-practice/audit-committees/what-works/three-lines-of-defence

Key take-aways from off-site banking supervision

- **Overall accountability** for AML/CFT
- Define the ML/FT Risk Appetite Framework
- Ongoing review through KPIs/KRIs that the AML/CFT RBA is appropriate for implementing the chosen strategy

- **NOT THE 1ST LOD!**
- Must implement an AML/CFT compliance monitoring plan and KPIs/KRIs
- Escalate higher risk situations
- Perform controls on IT systems, even when delegated to the Group (i.e. review log errors, review appropriateness of TM scenarios in a test environment, run systems in parallel, etc.)

- Are **primarily responsible** and accountable for AML/CFT
- Must **understand** and identify ML/FT risks (i.e. importance of trainings)
- Execute actions to manage ML/FT risks

- Cover every activity of the professional from an AML /CFT point of view
- Apply a risk-based approach in its methodology (i.e. if 20% of the accounts are closed and only 3 accounts were opened during the year, perform sample testing on the account closing process)

Key take-aways for the depositary activity

Dedicated AML/CFT questionnaire for the depositary activity → Evolution between 2017 and 2018

Mitigating factors	Rationale
Fund risk scoring by depositary banks	*"Medium High" scoring for the AM industry increased while "Medium Low" decreased → In line with NRA*
	Limited improvement of banks taking into account the "assets of the funds" component in the ML/FT risk scoring
AML/CFT procedures	*Significant number of banks do not address "Initiator acceptance" in their procedures*
	Improvement of the "asset due diligence" component in the procedures. However, a significant number of banks in 2018 did not perform ADD for UCITS.
	→ EWG AML OPC chaired by the CSSF is currently working on AML/CFT DD on assets' guidelines
	Controls on shell banks must be in place (i.e. what to do in case of a payment?)
Training	*100% of the banks MUST provide training to their staff in 2019 (vs 98% in 2018)*
	Must include ML/FT typologies relevant to the Fund industry (in 2018, too many banks still do not include those typologies) → Use FATF RBA Guidance for the Securities Sector dated 26/10/2018, ESA Risk Factors Guidelines (CSSF Circular 17/661), FIU cases, internal cases
Sanctions screening	*Unsatisfactory TFS screening of assets while it is a legal requirement (UN, EU) → TFS screening to be performed both for safe keeping and record keeping*
	Improvement on TFS screening of senders and recipients in SWIFT messages

Actions will be taken by the CSSF based on the results of the 2019 AML/CFT questionnaire

Closing remarks

- Reminder: Zero tolerance regarding AML/CFT issues
- The CCO can always turn in last resort to the CSSF if not finding the necessary support or hearing from the governing bodies at the bank

  → Inform the CSSF at your own initiative of AML/CFT deficiencies rather than letting the CSSF discover that the AML/CFT control environment is not working properly
- Information provided in the AML/CFT questionnaire must be absolutely reliable

  → The CCO must double-check data before submitting the questionnaire

Thank you for your attention !

http://www.cssf.lu/surveillance/criminalite-financiere/