AFS Singapore

"Money Laundering"

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AML TOPIC: Combating Money Laundering, The Frontline Solider Compliance Officer: Why Is PEP Important? Part 2

Why Is PEP Important? Part 2, is the fourth article, an extension of the previous article or the third article.

In the previous article, I shared with you the issue of the potentiality of corruption and bribery is the first element or ingredient of Article 52, UNCAC. FATF is concerned with the financing of terrorism; potentially the PEP could involve carrying out an activity relating to terrorist financing after the Islamic extremist expanded in the Middle East.

I shall now discuss and share with you the second element or ingredient of Article 52, UNCAC. It is here that Article 52 defines Foreign PEP, Domestic PEP, international Organisation PEP, Family Members related to a PEP and Close Associates of a PEP was defined.

In the early days, it is common to use the term "Revolution". History tells us that the French Revolution began in 1789, 1830 and then 1848. The Chinese Xinhai Revolution began in 1911 and then another revolution in 1949. The Irish Revolution occurred in 1919. The term "Terrorism" or "Terror" became popularly used after the 1983 Beirut barracks bombings, September 11, 2001 attacks on New York City, Washington, d.C. and the 12 October 2012 Bali bombings.

From news media since 2013, we were informed that severe extremist in the struggle with terrorism wants to change the existing world through violence. Terrorism is not an ideology like capitalism, communism or socialism instead of the use of a strategic tactic to achieve a specific aim. Therefore, terrorists aimed to achieve their goals on the ground of social, economic and political unfairness or injustice or taking inspiration from religious beliefs and spiritual principles. Terrorists struggle to achieve these goals by attempting to balance the element of race, the rich and the poor, and of a political and social outcast.

In 2014, the emergence of Islamic State ("IS") in Iraq and Syria ("ISIS") gave concern and brought about a significant challenge to the world. The al-Qaida, IS and ISIS or ISIL claimed that their violent acts justify as part of the crusade against non-believers and "Jihad." IS wants to establish an Islamic-ruled State. On the other hand, al-Qaida declared itself an Islamic "caliphate" on the territory they captured in Iraq and Syria and called on fractions around the world to pledge their allegiance. There were extremist issues too in other countries such as Turkey, Yemen, Tanzania, Kenya, Pakistan and Nigeria. Lately, North Korea also gave the concern to nuke threat. With all these extremist activities of terror, where do they get the money to finance their activities?

Reports from the Directorate-General for External Policies, European Parliament, International Centre for the Study of Radicalization and Political Violence ("ICSRI"), Centre for the Analysis of Terrorism ("CAT"), Conflict Armament Research ("CAR"), France's external intelligence agency, Rand Corporation, Congressional Research Services and Security Council committee identified the various ways and method of financing terrorism for IS. They are:

1. Own natural and economic resource management;

2. Receiving donation from outside state or another country;

3. Illicit proceeds from the occupied territory;

4. Trading of black market oil for cash and barter trade (*Source*: the Boston Globe);

5. Sale of looted antiques and property (*Source*: Washington Post, June 8, 2015, by Loveday Morris); and

6. Kidnap for ransom (*Source*: Congressional Research Services).

In summary, some of the activities relating to terrorist financing are:

(a) Trading of oil with the IS;

(b) Trading of looted antiques and property;

(c) Participation or aiding in the kidnapping for ransom;

(d) Donating to foreign fighters to fight in IS (*Source*: a Report from Brookings Institution in 2013); and

(e) Donating to charities aimed to support terrorism.

Therefore, FATF Recommendation 6 (for FATF member and Financial Institutions) and FATF Recommendation 12 (for DNFBPs) was introduced to combat money laundering and financing of terrorism. FATF Recommendation 12 shall mean to include FATF Recommendation 22 which share the same interpretation meaning of PEP. These two FATF Recommendations are among the FATF 40 Recommendations.

As a Compliance Officer under the Financial institution category, you are required to adopt and apply the Risk-Based Approach ("RBA") under FATF Recommendation 1. When you assessed a transaction deemed to be on a "high" risk, you need to exercise enhanced CDD measures and after you a suspicion on the transaction, you must promptly report an ST to the Senior Compliance Officer or the management for a decision to report an ST and file an STR. However, a specific transaction such as money transfer and money change may require some attention and a requirement for a threshold policy.

FATF is also concerned with the use of cash for making payment for goods and services, and that is why many countries introduced credit cards and debit cards, but these credit and debit cards may give rise to particular problems too. Travellers carry with them cash, not just credit or debit cards as they travel. Money transfers company such as Western Union and MoneyGram provides wire transfer services transferring of money from one country to another (FATF Recommendations 10 and 16). Money changers exchange or trade currency with any person who wants to sell or buy currency. Either money transfer or money change, the person in question may not be the real owner, he/she may e a third party or agent (*re* "Hawala" intermediaries).

As a Compliance Officer under the DNFBP category, you probably need to assess and take a position as to what type of services to customers your firm or company is providing. There are the Company Services Providers ("CSPs") providing nominees to act as a director and company secretary to form and register a company. Likewise, some CSPs provide services to register a company in a tax haven country. Some countries, their company law, permits a company or entity to become a shareholder. All these services are sensitive and call for enhanced CDD measures. To understand the potential risk, I suggest Compliance Officer refer to or re-visit my second article titled "Compliance Officer: What Is Beneficial Ownership? FATF Recommendation 12 requires the financial institution to determine the beneficiaries of a life insurance policy at the time of payout.

This is the final part of the topic "Compliance Officer

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