

# AML/CFT Update

*RBNZ AML/CFT supervision*

May 2018



Welcome to the Reserve Bank of New Zealand's AML/CFT update. This edition focuses on the following:

- Revised National Risk Assessment 2018
- Terrorism Financing
- Themes from 2017 on-sites conducted by RBNZ
- Nature and purpose information
- Transaction Monitoring System Assurance
- Prescribed Transaction Reporting
- Annual Report reminder.

If there are topics you would like covered in our updates, or you have a question about any AML/CFT related issue, please do not hesitate to email the RBNZ team at [amlcft@rbnz.govt.nz](mailto:amlcft@rbnz.govt.nz)



## Revised National Risk Assessment 2018

The New Zealand Police Financial Intelligence Unit has published a National Money Laundering and Terrorism Financing Risk Assessment ('NRA') in March 2018. This replaces the National Risk Assessment from 2010, and along with Sector Risk Assessments published by the Reserve Bank, the Department of Internal Affairs and the Financial Markets Authority, forms part of a comprehensive package of public risk assessments setting out the current understanding of the national-level risks of illicit financing in New Zealand.

A reporting entity's Risk Assessment provides the foundation to its overall AML/CFT Programme. As per section 58(2)(g) of the AML/CFT Act, RBNZ expects a reporting entity to review and take into consideration the NRA, as well as the RBNZ's Sector Risk Assessment, when a reporting entity next reviews its own AML/CFT Risk Assessment.

Visit the NRA page:

<http://www.police.govt.nz/about-us/publication/fiu-reports>



## Terrorism financing

Despite the threat of terrorism being low in New Zealand, the risk of terrorism financing remains. Reporting entities cannot be complacent and should keep abreast of existing and emerging terrorism financing trends and typologies to ensure they are well-equipped to detect and deter terrorism financing activities.

When reviewing your AML/CFT Risk Assessment and Programme the following sources of information should be considered from a terrorism financing perspective.

- National Risk Assessment 2018

- Quarterly Typology Reports published by the New Zealand Police Financial Intelligence Unit
- Financial Action Task Force Guidance

## Themes from on-sites over the past year

During 2017, RBNZ's AML/CFT supervision team completed 18 on-site visits. There were a number of common themes and issues identified during the year including the following:

- AML/CFT risk assessments did not always clearly distinguish between inherent and residual risk and were sometimes blended. This resulted in an inaccurate assessment of money laundering or financing of terrorism risk.
- Policies, procedures, and controls lacked sufficient detail and did not clearly explain the required steps needed to be taken. In some cases, portions of the AML/CFT legislation were simply a 'copy and paste' into procedures.
- Key person risk was observed in a number of reporting entities. This risk was further compounded where activities performed by key people were not documented.
- Confusion in relation to verifying the source of funds/wealth of customers for higher risk customers. Reporting entities were obtaining this information in the relevant circumstances, but were not always verifying it.

- Limited on-going assurance to assess the operational effectiveness of money laundering or financing of terrorism controls. Instead, sole reliance was placed on section 59 independent audits.
- Transaction monitoring rules/scenarios used by smaller entities were not always fit for purpose and instead 'off the shelf'. This resulted in a disproportionate amount of time consumed investigating a high volume of false positives.

## Nature and purpose information

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The collection of meaningful nature and purpose information from a customer is vital for conducting effective transaction monitoring and identifying suspicious activity.

It can sometimes be difficult to determine suspicious activity unless you understand the customer and what is the expected level or type of activity to be conducted.

The level of nature and purpose information you should collect will vary depending on the complexity of the customer.

The following are some examples of nature and purpose information you should consider when establishing a business relationship with a new customer:

- Why has customer decided to open a facility/service with your reporting entity?

- What is the customer's occupation or industry type?
- What types of transactions does the customer expect to conduct through your reporting entity?
- What is the customer's expected value, volume and velocity of transactions?
- Does the customer expect to receive transactions or funds from third parties?
- Does the customer expect to send or receive transactions or funds from overseas?



## Transaction monitoring system assurance

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Transaction monitoring ('TM') systems are commonly used by reporting entities to identify unusual or suspicious activity due to the high number of products and services provided and the volume of transactions conducted by customers. These systems are a key control within a reporting entity's AML/CFT Programme. What assurance do you have on an on-going basis that the TM system is operating effectively? A reporting entity should conduct on-going monitoring and testing of its TM system

to obtain assurance it is operating effectively. A reporting entity should consider the following questions when monitoring and testing its TM system:

- Are all relevant products and services and source systems feeding into the TM system?
- Have transaction types been correctly configured?
- Are the thresholds for the TM scenarios/rules configured correctly?
- What is the process when a new product or service is implemented?
- What changes to supporting systems may impact the TM system?



## Prescribed Transactions Reporting

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As per RBNZ's Prescribed Transactions Reporting update (dated 29 September 2017), RBNZ and other AML/CFT supervisors recognised the need to ensure a smooth implementation of automated reporting of Prescribed Transactions Reports ('PTRs'). This resulted in an assisted transitional compliance period for automated PTRs applying until 1 July 2018. (Note: Reporting entities submitting PTRs manually were expected to submit PTR reports from 1 November 2017).

As has been published earlier, non-compliance beyond 1 July 2018 will be considered by RBNZ to be a breach of the Anti-Money Laundering and Countering Financing of Terrorism Act.

If you have any further questions or PTR issues please do not hesitate to contact RBNZ.



## Annual Report reminder

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All reporting entities are required to complete and submit their Annual AML/CFT Report by 31 August 2018.

If you have any questions regarding the Annual AML/CFT Report please do not hesitate to contact one of the AML/CFT team members.

Visit the RBNZ's AML guidance page for further information:

<https://www.rbnz.govt.nz/regulation-and-supervision/anti-money-laundering/guidance-and-publications>

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