

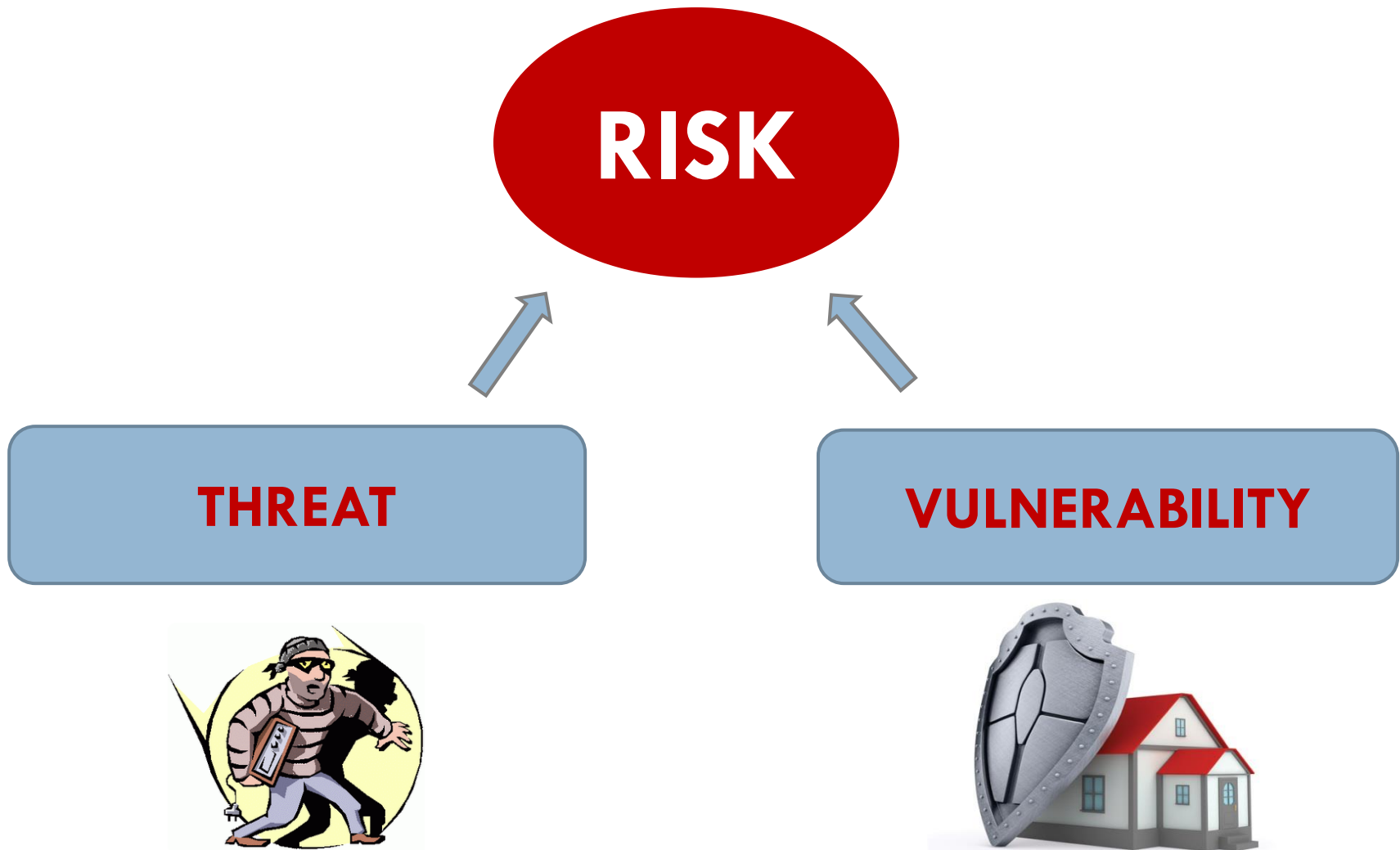
The fundamentals of Money Laundering/Terrorist Financing **RISK ASSESSMENT**

Outline of the presentation

- ❑ **What is ML/TF risk?**
- ❑ **Why do we need to assess the risks?**
- ❑ **What is a risk-based approach?**
- ❑ **How can we assess the risks?**

What is ML/TF risk?

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What is “threat”?

ML threat refers to

- The proceeds of crimes in a country. This includes:
 - ▣ The proceeds generated in the country (internal threat)
 - ▣ The proceeds that come from other countries (external threat)

ML Threat Assessment should analyze

- The frequency of predicate crimes that generate illicit proceeds
- The scale of illicit proceeds in the country
- The scale of ML in the country
- ML methods and trends in the country

TF threat

- Refers to the scale of funds raised/used/transiting to support TF activities and groups
- TF is assessed in same way as ML, but with focus on TF

What is “vulnerability”?

Vulnerability

- Is about the weaknesses and gaps in defense mechanisms against ML/TF, and
- Can be at the national and/or sector level.

A vulnerability assessment should analyze

- Lack of awareness, commitment, knowledge, resources
- Weaknesses/gaps in AML/CFT laws and regulations
- Weaknesses/gaps within institutional frameworks (FIU, police, judicial, etc.)
- Weaknesses in infrastructures (ID infrastructure, STR collection and analysis)
- Economic, geographical, or social environment factors
- Low awareness and general or specific control mechanisms:
 - In the banking, securities, and insurance sectors and other financial institutions
 - Designated Non-Financial Businesses & Professions (DNFBPs)

FATF Recommendation 1:

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Assessing risks and applying a risk-based approach

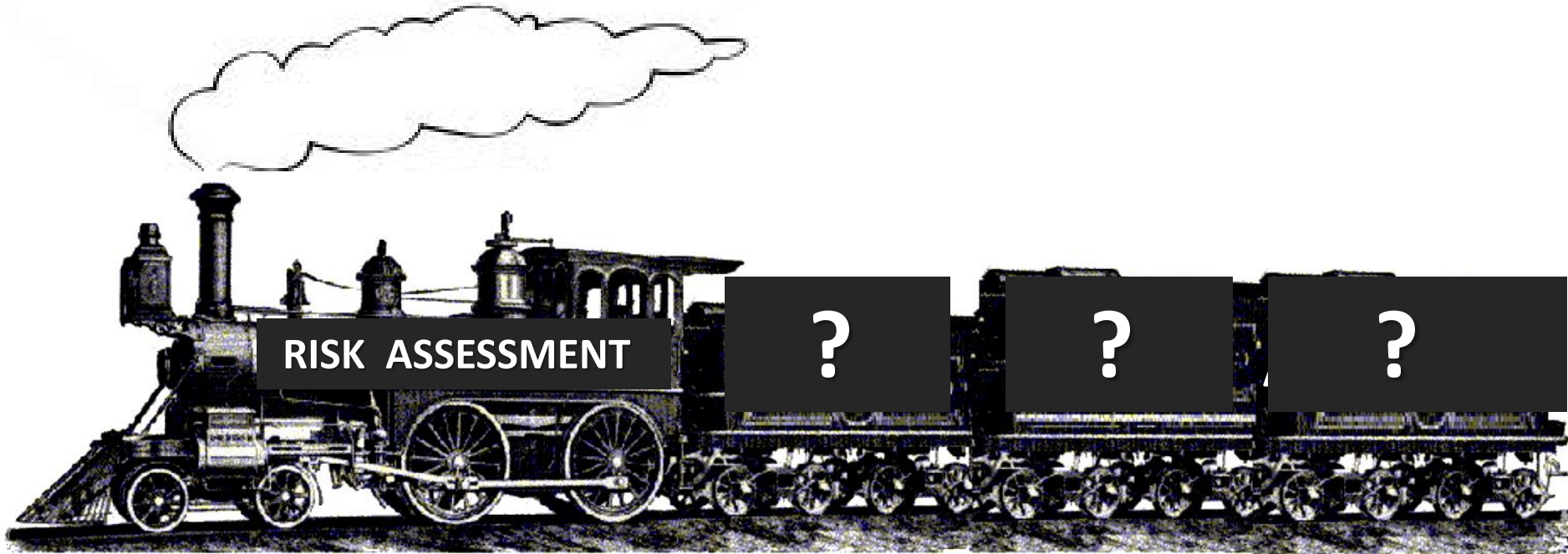
Countries should **identify, assess, and understand** the **money laundering** and **terrorist financing** risks for the country, and should take action, including **designating an authority or mechanism** to coordinate actions to assess risks, and apply resources, aimed at ensuring the risks are mitigated effectively. Based on that assessment, countries should apply a **risk-based approach (RBA)** to ensure that measures **to prevent or mitigate** money laundering and terrorist financing are commensurate with the risks identified.

FATF Recommendation 1:

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Where countries identify **higher risks**, they should ensure that their AML/CFT regime **adequately addresses** such risks. Where countries identify **lower risks**, they may decide to allow **simplified measures** for some of the FATF Recommendations under certain conditions.

Why do we need a risk assessment?



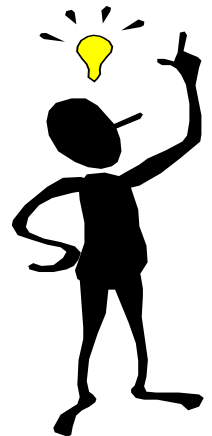
Why adopt a risk-based approach?

- ❑ Jurisdictions are very different (in terms of geography, population, economy, crimes level, and so on)
- ❑ Even within a single jurisdiction the various financial and non-financial sectors differ from each other
- ❑ **A solution is needed to implement an international standard that takes into account these differences!**



Response:

A risk-based approach to AML/CFT



How to apply a risk-based approach?



- ❑ Enhanced CDD, Standard CDD, Simplified CDD
- ❑ Licensing vs. registration
- ❑ Supervision vs. monitoring
- ❑ Intensity and scope of supervision/monitoring
- ❑ Intensity and range of compliance obligations
- ❑ Extra coverage, standard coverage, limited exemption

Implications of Risk Based Approach

On Countries

- Assessing and understanding the risks at national level and taking actions for risk mitigation,
- Establishing a mechanism for this purpose,
- Risk based design of AML/CFT regime,
- Risk-based regulation of relevant sectors.

On Supervisors

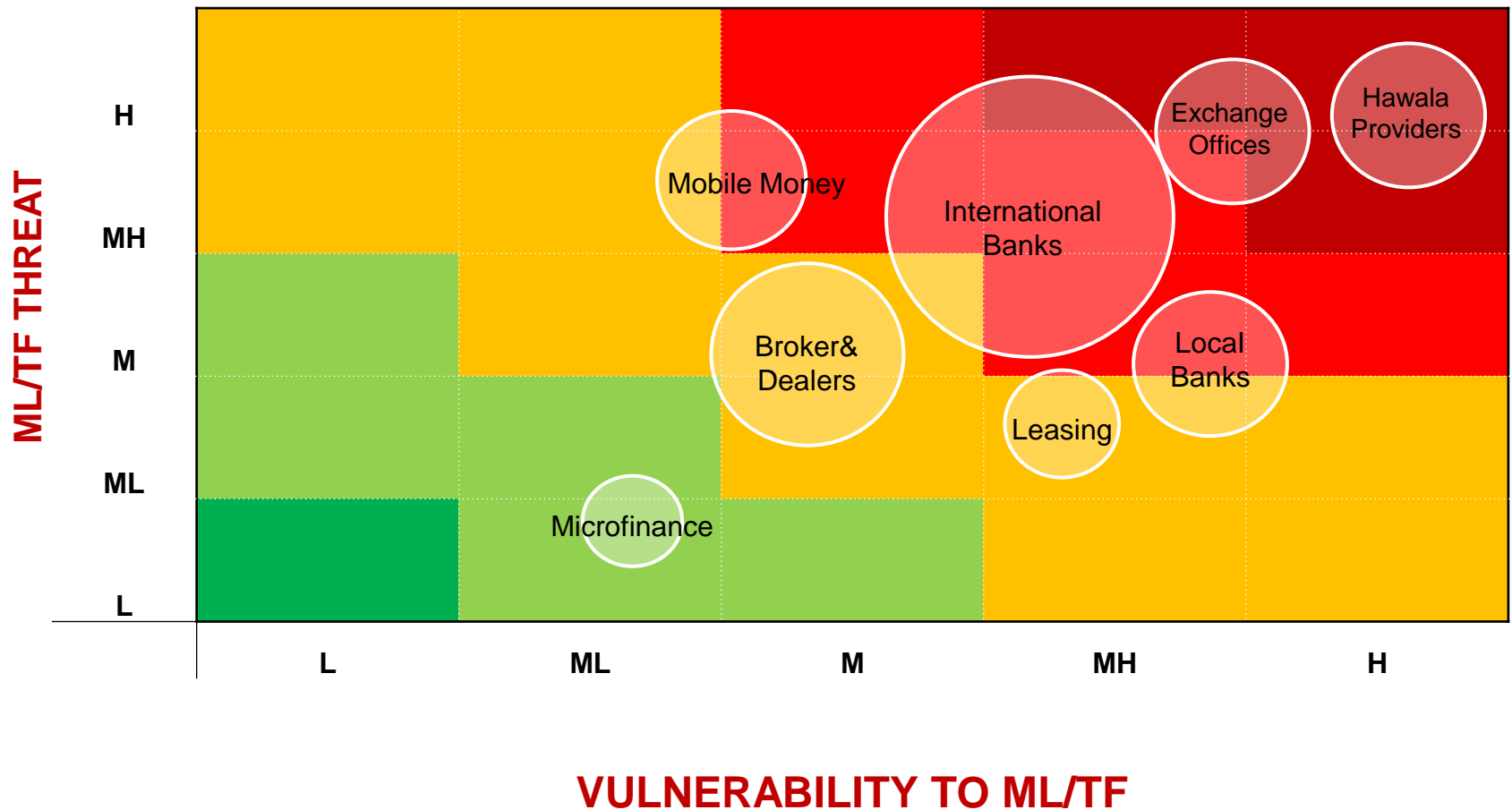
- Assessing and understanding the risks at sectoral level and taking actions for risk mitigation,
- Risk based supervision of the sector, including the risk-based prioritization and focus of on-site visits,
- Ensuring that the institutions appropriately assess their risks and a apply risk-based approach.

On Institutions

- Assessing and understanding the risks at the institution,
- Applying a risk-based approach at the institution to mitigate the risks,
- Cooperating with national authorities in assessment and understanding of the risks, as necessary.

Why is the National Risk Assessment important?

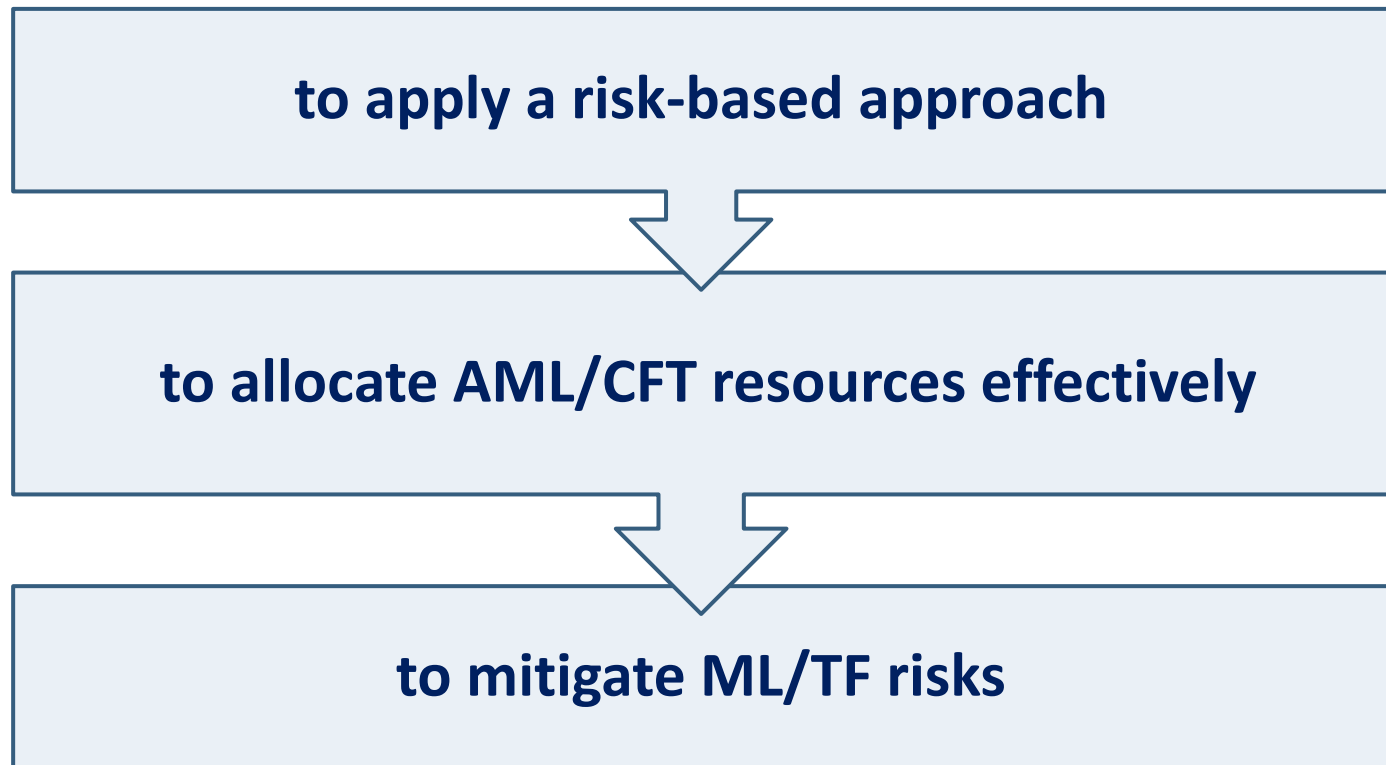
ML/TF RISK as a function of threat and vulnerability*



*The mapping of the sectors is based on an imaginary scenario and is not associated with any particular country.

Summary

Threats and vulnerabilities need to be assessed:



The challenge!



**How can we
assess the risks in a
systematic and reliable way**

A MECHANISM AND METHODOLOGY IS NEEDED...

This will be discussed later today.

QUESTIONS?

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