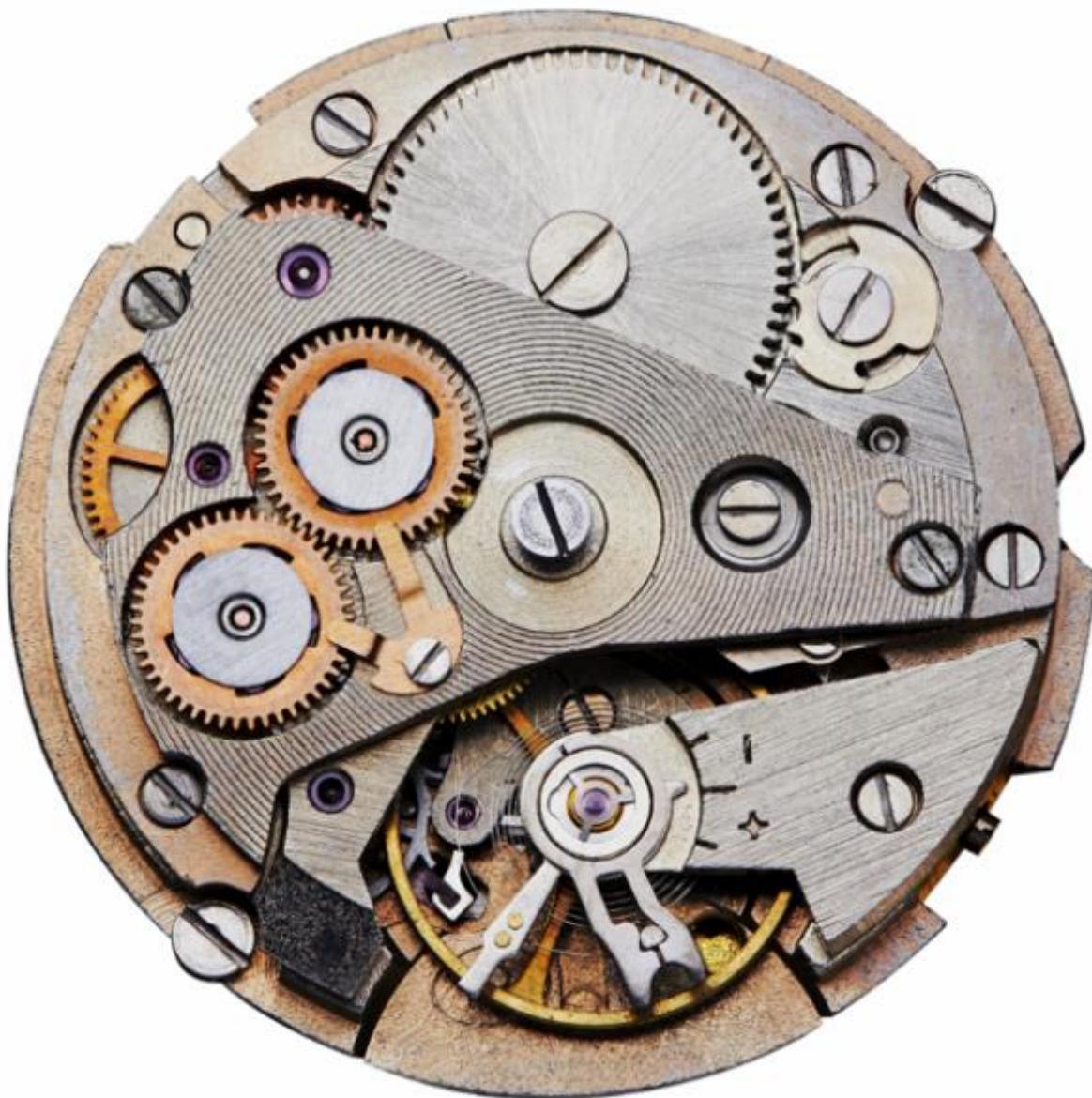


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A closer look at the FATF Mutual Evaluation Report for Singapore

October 2016

Introduction

The Financial Action Task Force (FATF) and Asia/Pacific Group on Money Laundering (APG) recently completed an assessment of Singapore's anti-money laundering and counter-terrorist financing (AML/CFT) system. According to the [FATF's Third Mutual Evaluation Report on Singapore issued on 29 September 2016](#):

- **Singapore's AML/CFT coordination is highly sophisticated and inclusive of all relevant competent authorities.** Driven by the AML/CFT Steering Committee and the Inter-Agency Committee, the coordination mechanism in Singapore is a very valuable tool in AML/CFT policy development. This proved to be true in the development of the National Risk Assessment (NRA) and the cooperation and organisation associated with this mutual evaluation exercise. Singapore has a strong focus on law and order and enforcement, which often results in dissuasive penalties.
- **Singapore has a reasonable understanding of its ML risks and has taken steps to mitigate them.** Nevertheless, moderate gaps remain. In particular the nexus between transnational threats, the inherent risks faced by Singapore as one of the world's largest financial centres, and vulnerabilities within the system are not sufficiently reflected in Singapore's NRA.
- **Singapore's ability to proactively identify and address serious foreign predicate ML, and transnational ML networks will be strengthened with moderate improvements in Singapore's understanding of its foreign predicate ML risks.** Singapore provided information that it was pursuing some complex cases involving transnational fraud and corruption. However, Singapore has prosecuted few foreign predicate ML cases outside of wire transfer frauds involving money mules/shell companies, and has confiscated low amounts of proceeds of crime. Singapore has demonstrated that it has a general understanding of its TF risks; but the weighting placed in the risk methodology on indicators derived from reported incidences in Singapore has somewhat hindered Singapore's ability to appreciate the inherent TF risks associated to its geographical location and its status as a global financial centre.
- **Singapore's Financial Intelligence Unit (FIU), the Suspicious Transactions Reporting Office (STRO), uses well-functioning systems and coordination mechanisms to integrate FIU information into LEA processes.** Singapore's primary investigative agencies routinely make significant use of STRs at early stages of ML and predicate investigations. While financial intelligence information is provided to other agencies, they are yet to make significant use of such information to support investigation. STRs relating to TF, while routinely disclosed to the Internal Security Department (ISD), have not resulted in any criminal investigations.
- **Singapore's financial institutions (FIs) generally demonstrated a reasonably good understanding of ML risks impacting Singapore domestic clients, but a less developed understanding of the risk of illicit flows into and out of Singapore.** FIs and especially Designated Non-Financial Business or Professions (DNFBPs) had a less mature understanding of TF risks, and often failed to distinguish between terrorism and TF risks. Overall, there is a significant difference in the level of understanding of the ML/TF risks between the financial sector and DNFBP sector, therefore limiting DNFBPs' ability to develop a comprehensive risk understanding.
- **For most FIs, AML/CFT supervision appears robust, with a variety of off-site factors examined and comprehensive on-site examinations/follow-up being conducted.** Singapore has recently extended AML/CFT supervision to most types of DNFBPs, but there are significant differences in effective supervision of AML/CFT requirements between relevant supervisory bodies. While Singapore has a range of remedial measures that it can impose on FIs, the financial penalty structure across the DNFBP sector is quite diverse and concerns exist about the differences in approach in terms of dissuasiveness and proportionality. Apart from the casino and TSP sectors, sanctions for non-compliance by DNFBPs have not been tested.

- **Singapore has not undertaken an adequate ML/TF risk assessment of all forms of legal persons and legal arrangements.** Authorities however acknowledge that legal persons and arrangements created in Singapore, and those registered or operating in Singapore from foreign jurisdictions, can be used to facilitate predicate crimes and ML/TF offences. Singapore has implemented some preventive measures designed to prevent the misuse of legal persons and arrangements for ML and TF, including the collection of beneficial ownership information by FIs and DNFBPs. However, in practice, some DNFBPs do face challenges in obtaining beneficial ownership information.
- **On international cooperation, Singapore provides constructive and high quality information and assistance when requested, but faced occasional challenges executing some MLA requests in a timely manner.** Although few outgoing MLA requests were made prior to 2015, Singapore has taken steps to increase outgoing MLA requests in 2015, more than doubling the entire number of MLA requests in the previous 3 years. Singapore also uses informal channels and the law enforcement authorities (LEAs), FIU and financial supervisors are generally well engaged in making and receiving requests where permitted. Singapore shares domestically available beneficial ownership information for legal persons and legal arrangements, however there is limited information available under the domestic framework.

This document summarises the key takeaways from the FATF report and assess the impact of said report on FIs and DNFBPs.

Key takeaways

Themes	Description of gaps/findings	Deloitte's point of view	Impacted parties
Risk Policy & Coordination	<ul style="list-style-type: none"> Transnational ML and TF risks relevant to Singapore's context are not effectively defined. TF risks should further focus on factors such as geographical factors, level and extent of terrorism activity in the region and inherent risks such as Singapore being a financial, transport and people hub. Key information on transnational threats is not made public by authorities, including information on high-risk jurisdictions. 	<ul style="list-style-type: none"> We hope that the regulators will provide more guidance on inherent transnational ML and TF risks and threats that the industry should consider. Such guidance if issued will allow the industry to enhance its current customer, transactions and enterprise risk assessment approach. The current expectations are, in a nutshell, to measure inherent risk on customers, geographies, countries, products, services and delivery channels. The FIs and DNFBPs would need to clearly define, within their own frameworks, definitions of "low risk", "medium risk", "low to medium risk", and "high risk". FIs and DNFBPs would need to develop additional controls to address the broader risks associated with TF threats and activities in the region. 	FIs DNFBPs
Financial Intelligence, Money Laundering & Confiscation	<ul style="list-style-type: none"> Authorities do not aggressively target complex cases of ML as expected. Authorities only pursue criminal prosecutions for more serious cases and do not pursue confiscation. 	<ul style="list-style-type: none"> To ensure alignment with FATF recommendations, Singapore authorities are expected to demonstrate greater levels of enforcement including instituting actions or imposing penalties for ML and TF, and pursuing criminal prosecution. We anticipate greater levels of enforcement. As for the FIs, the MAS has already established a dedicated department for greater oversight over the industry. The message has been clear on greater intrusion in its regulatory approach and higher expectations from the MAS. 	Regulators FIs DNFBPs
Terrorist Financing & Financing Proliferation	<ul style="list-style-type: none"> There is no separate and independent TF criminal investigations as this is not defined in national security framework. Parallel financial investigations are not conducted for TF. DNFBPs' understanding of TF risk is poor. TF related STRs filed by FIs is low. 	<ul style="list-style-type: none"> Other than the need to enhance the national security framework with respect to TF criminal investigations, Singapore authorities during their inspections or investigations would likely pay special attention to assess the control framework for sanctions and compliance with TOFSA, the industry's ability to assess and identify possible "money trail" and preventing or otherwise dealing swiftly with international sanctions breaches, effectiveness of the name screening and list management functions within FIs. We expect greater mandatory training programmes for DNFBPs on TF and STRs. As for DNFBPs, we hope to see relevant authorities driving the agenda on greater awareness of TF risks (including training) and the compliance requirements around this. An example is also considering the knowledge at industry level and investments that can/should be made for name screening and conducting customer identification for high risk/high value goods which may not necessarily be an institutionalised practice across all DNFBPs. 	Regulators FIs DNFBPs

Themes	Description of gaps/findings	Deloitte's point of view	Impacted parties
Preventive Measures	<ul style="list-style-type: none"> FIs and DNFBPs demonstrated a fair understanding of ML risks impacting Singapore domestic clients, but a less developed understanding of the risk of illicit flows in and out of Singapore. 	<ul style="list-style-type: none"> We also expect greater mandatory training programmes or wider engagement from management while developing organisation-wide risk thresholds. We also expect greater levels of expectation in monitoring cross border account or overseas clients during boarding and transactions monitoring. The impact of this would lead to re-assessing, for overseas clients and cross-border relationships, the customer risk classification methodology, effectiveness of tax risk assessment, purpose of opening of accounts or transacting into/from Singapore, greater monitoring of cross border flow of funds and enhancement of product risk assessment especially for products that easily facilitate cross border flow of funds. The spillover effect will be on the real estate sector and other DNFBPs, which facilitate such flow of funds in and out of the country. 	FIs DNFBPs
Preventive Measures	<ul style="list-style-type: none"> DNFBPs' implementation of CDD and PEP requirements is basic. 	<ul style="list-style-type: none"> We anticipate additional guidance from regulators on CDD and PEP requirements with increased oversight and inspections to ensure that all requirements are being implemented across DNFBPs. We may see greater harmonisation of standards across for DNFBPs which currently arguably may not be the case, open to interpretation on the depth of CDD required and lacks clarity on regulatory expectations. 	DNFBPs
Preventive Measures	<ul style="list-style-type: none"> Number of STRs filed by DNFBPs, except casinos, is low. 	<ul style="list-style-type: none"> We hope to see greater guidance and setting regulatory expectations from regulators for DNFBPs to encourage them to enhance their overall compliance framework, controls and file STRs (rather than simply rejecting certain customers and transactions). This sector is in need of guidance on regulatory expectations such as the requirements and implications of the CDSA and enabling them to comply given the nature of their business and perhaps the lack of investment in compliance and knowledge on filing STRs. As mentioned earlier, certain sectors of DNFBPs may not have made the investments to screen customers or understand anomalies in transactions or unusual activities. It is arguable that the unintended consequences may well be "defensive filing" of STRs with low quality data. 	DNFBPs
Preventive Measures	<ul style="list-style-type: none"> More complex STRs may require more than 15 days (current stipulated requirements) to file. 	<ul style="list-style-type: none"> The regulator is likely to issue clarification on the timeline for STR filing. 	FIs DNFBPs

Themes	Description of gaps/findings	Deloitte's point of view	Impacted parties
Transparency of Legal Persons and Arrangements	<ul style="list-style-type: none"> Singapore authorities have not performed a ML/TF risk assessment of all forms of legal persons and legal arrangements. 	<ul style="list-style-type: none"> Regulators are likely to engage or otherwise push on the enforcement agenda on the more sophisticated industry sector (including lawyers which the report discusses extensively) for ML/TF assessment for all forms of legal persons and legal arrangements, UBO identification/verification and assets held by customers. Beyond this, it would be interesting to see the development of a national-level UBO register to facilitate CDD and a sharper and more efficient manner of using technology to authenticate customer identity against the national identity records. In addition, there is a need for greater transparency around trusts, their availability of UBO information, and registration in Singapore. This is likely to lead to additional CDD and periodic monitoring requirements for various types of legal persons and legal arrangements. 	Regulators, industry watchdogs and registries/ACRA FIs DNFBPs
Supervision	<ul style="list-style-type: none"> The existing measures are not sufficient to ensure that accurate and up-to-date information on BOs is available in a timely manner, especially in DNFBP sector. Sanctions for failure to comply with beneficial ownership requirements are rarely used. 	<ul style="list-style-type: none"> Please see the previous point. 	FIs DNFBPs
Supervision	<ul style="list-style-type: none"> Singapore has recently developed and extended AML/CFT supervision to most types of DNFBPs, but there are significant differences in effective supervision of AML/CFT requirements between relevant supervisory bodies. 	<ul style="list-style-type: none"> Increased guidance/oversight/audits/supervision from regulators for AML/CFT across all categories of DNFBPs through risk-based, targeted outreach. For e.g. AML/CFT supervision to all PSMDs (only those with a pawnbroker's license are regulated for AML/CFT purposes), money lenders. 	DNFBPs
Supervision	<ul style="list-style-type: none"> The financial penalty structure across DNFBP sector is quite diverse and concerns exist about the differences in approach in terms of dissuasiveness and proportionality. 	<ul style="list-style-type: none"> Regulators may impose increased financial penalties and fines in case of non-compliance with AML/CFT measures. 	DNFBPs
Supervision	<ul style="list-style-type: none"> There have been very limited AML/CFT inspections of SVF holders (despite the risks identified in the NRA for internet-based SVFs) and non-bank card issuers. 	<ul style="list-style-type: none"> The regulators are visibly stepping up supervisory activity for areas not previously within scope or under light touch regulatory oversight (e.g. non-bank credit card issuers and SVFs). 	FIs

Themes	Description of gaps/findings	Deloitte's point of view	Impacted parties
Financial Intelligence, Money Laundering & Confiscation	<ul style="list-style-type: none"> No direct action has been taken against senior management and legal persons. 	<ul style="list-style-type: none"> To ensure alignment with FATF recommendations, Singapore authorities may be seen to further increase sanctions against senior management and legal persons. The authorities have already set a similar precedent in the case of a private bank. This will, in our view, result in senior management being held accountable for decisions made or otherwise their "failure to supervise". 	FIs DNFBPs
Risk Policy & Coordination	<ul style="list-style-type: none"> Despite the NRA's finding that insurance is low risk, MAS categorises 13 out of 20 direct life and composite insurers in the higher risk categories. 	<ul style="list-style-type: none"> We expect to see increased guidance/oversight/supervision and even greater intrusion from the MAS for AML/CFT across the insurance sector which may target the overall internal governance, CDD and reliance on third parties, UBO identification and verification, name screening as well as transactions monitoring (including greater oversight on client behaviour), payments/payments to and from third parties and (early) redemptions, as an example. 	FIs/NBFI
Terrorist Financing & Financing Proliferation	<ul style="list-style-type: none"> High vulnerability of NPOs to TF abuse is not shown in NRA report. Low risk rating is hindered by reliance on domestic cases as an indicator of risk. Oversight of NPOs is restricted to good governance reviews. There are no targeted reviews based on assessment of TF abuse risks. 	<ul style="list-style-type: none"> We hope that regulators will conduct a study of the risks associated with the sector and issue guidance to the industry especially FIs that onboard NPOs as customers and in some cases NPOs or religious entities or charities under the guise of societies and foundations. Other than just stepping up on need for FIs to exercise greater vigilance when establishing business relationships with NPOs (which we think may be a consequence though the finding itself does not relate to FIs), we hope to see that NPOs themselves are required to implement additional/extensive AML/CFT requirements especially in assessing the ML/TF risks in the manner in which they are funded or raise funds for furthering their stated objectives. Increased guidance/oversight/audits/supervision from regulators for AML/CFT requirements for NPO's. 	Commissioner of Charities FIs DNFBPs

Themes	Description of gaps/findings	Deloitte's point of view	Impacted parties
Financial Intelligence, Money Laundering & Confiscation	<ul style="list-style-type: none"> FIU does not obtain additional strategic information sources, such as international electronic fund transfer reports and trade data, to complement existing reports that provide insight into international ML/TF threats. 	<ul style="list-style-type: none"> This is a tall order as it calls for the STRO to increase its cooperation with international agencies, seek local or international cross agency information (e.g. customs data on import/export and establish Trade Transparency Units) and potentially increase regulatory burden on requiring data/reports from the industry. In addition, there may be a need to beef up their own analytics and link analysis capabilities to make sense of the mammoth data they may receive. Needless to say that this is an international issue and not just relevant to Singapore which may require the likes of the Egmont Group to push the agenda especially on cross border cooperation, sharing trade date and establishing TTUs. We do agree that the availability of such information as mentioned above should be made public to facilitate the industry in their compliance efforts especially trade finance business oversight. 	STRO FIs DNFBPs
Supervision	<ul style="list-style-type: none"> Singapore law does not impose enforceable obligations on trustees to collect beneficial ownership information relating to a trust beyond the immediate beneficiary. 	<ul style="list-style-type: none"> Regulators are likely to impose clearer requirements on trustees to collect information on UBOs, establish the necessary regulatory architecture to empower authorities to take enforcement actions and impose penalties and fines for any failure in this respect. The spillover effect may be on FIs that onboard trustees in terms of understanding the underlying parties and UBOs within trust structures and assessing the risk of the trustees themselves. Often trustees within regulated groups may have been deemed low risk and some reliance is placed on the trustee for the soundness of its CDD measures – which may change moving forward. 	Trustees FIs

Conclusion

The report highlights that Singapore has a strong anti-money laundering and counter financing of terrorism (AML/CFT) framework. However, there are weaknesses in ensuring effective implementation especially in the DNFBP sector. The diversity in size, scale and complexities of DNFBPs in their businesses is a key consideration as some of them may not have the infrastructure and financial means to implement costly monitoring and reporting mechanisms/systems.

As a result, Singapore regulators are likely to demonstrate greater levels of enforcement by instituting actions or imposing financial penalties for ML and TF to ensure alignment with FATF recommendations. FIs and DNFBPs would also be expected to develop additional controls to address the broader risks associated with AML/CFT. In addition, senior management are more likely to be held accountable for decisions made or otherwise their "failure to supervise".

There will be greater guidance and regulatory expectation setting from regulators for DNFBPs to encourage them to enhance their overall compliance framework and controls. This report brings to center stage the weaknesses and the need for the non-financial services sector regulators and industry players to do much more. This arguably harmonises the regulatory burden to a certain extent, which otherwise was predominantly and largely placed on FIs.

Both FIs and DNFBPs need to be conscious of the impacts from FATF recommendations and should focus proactively on addressing deficiencies in their AML/CFT framework and ensuring that they are prepared to respond to regulatory changes when they happen. One can viably conclude that whilst much has been done all these years, it is never enough in the case of AML/CFT and the bar will continue to rise.

Appendix: Acronyms and abbreviations

ACRA	Accounting and Corporate Regulatory Authority
AML	Anti-Money Laundering
BO	Beneficial Owner
CDD	Client Due Diligence
CDSA	Corruption, Drug, Trafficking and other serious crimes (Confiscation of Benefits) Act
CFT	Countering the financing of terrorism
DNFBP	Designated Non-Financial Businesses and Professions
FATF	Financial Action Task Force
FI	Financial Institution
FIU	Financial Intelligence Unit
LEA	Law Enforcement Authority
MAS	Monetary Authority of Singapore
ML	Money Laundering
NBFI	Non-Bank Financial Institution
NPO	Non-Profit Organisation
NRA	National Risk Assessment
PEP	Politically Exposed Person
PSMD	Precious Stones and Metals Dealer
STR	Suspicious Transaction Report
STRO	Suspicious Transaction Reporting Office
SVF	Stored Value Facility
TF	Terrorist Financing
TSOFA	Terrorism (Suppression of Financing) Act
TTU	Trade Transparency Unit
UBO	Ultimate Beneficial Owner

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