

# AML/CFT COMPLIANCE OBLIGATIONS

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## GUIDE TO DEALERS IN PRECIOUS & SEMI PRECIOUS METALS AND STONES

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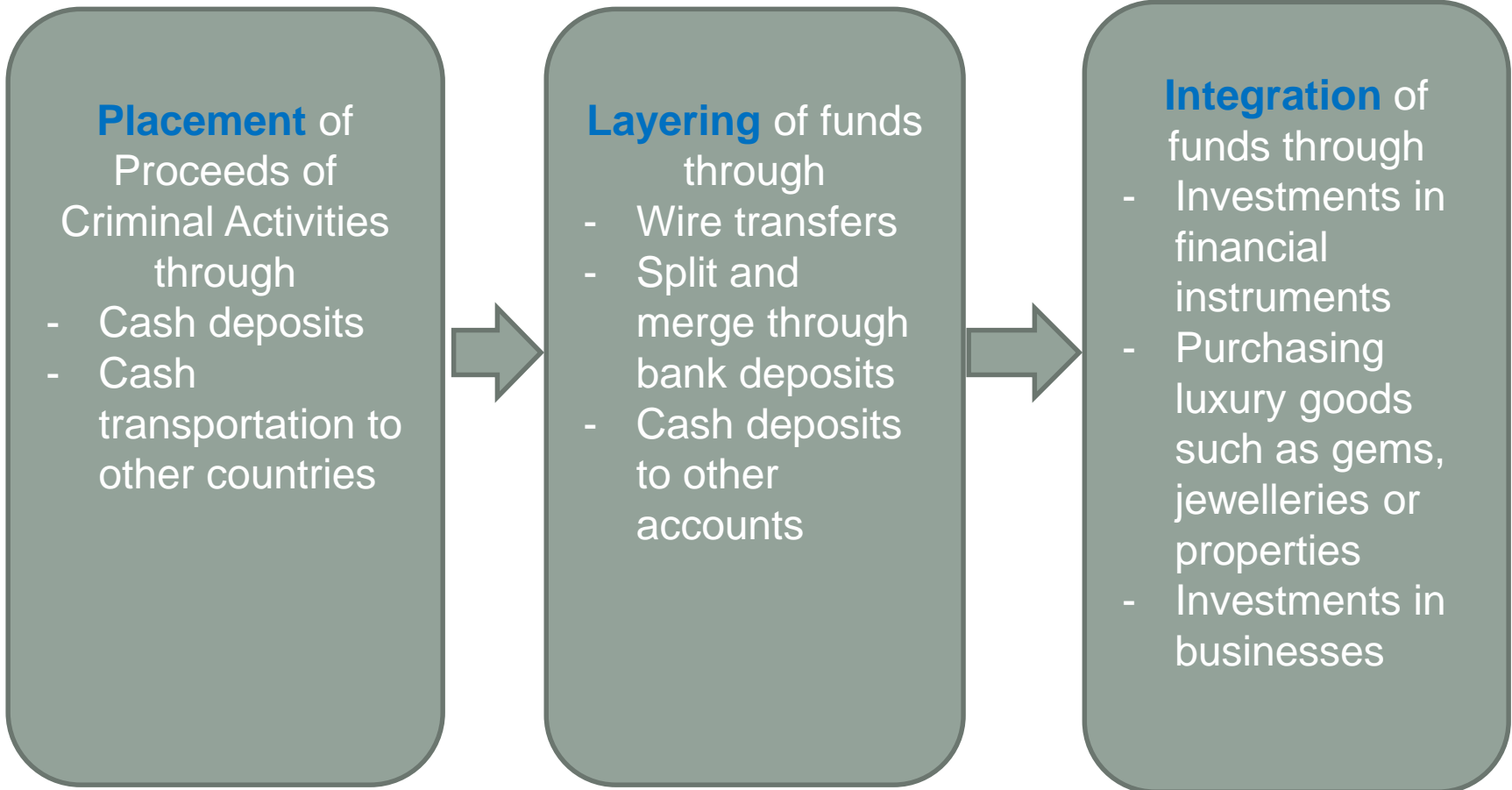
Financial Intelligence Unit  
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நிதியியல் உளவறிதல் பிரிவு

# What Is Money Laundering?

The processing of criminal proceeds (profits or other benefits) in order to disguise their illegal origin (The Financial Action Task Force - FATF).



# Three Stages of Money Laundering



## Case Study: ML Using Dealers in Precious Metals and Stone

The examiners of “country A” investigated whether the illicit proceeds gained through drug dealing have been used to purchase gold from “M Jewellers” by a drug dealer.

These gold purchases were being done by a criminal organization and they have been buying gold from various gem and jewellery dealers using the illicit proceeds earned from the sales of drugs.

Thereafter the purchased gold has been sold to many other jewellery shops.



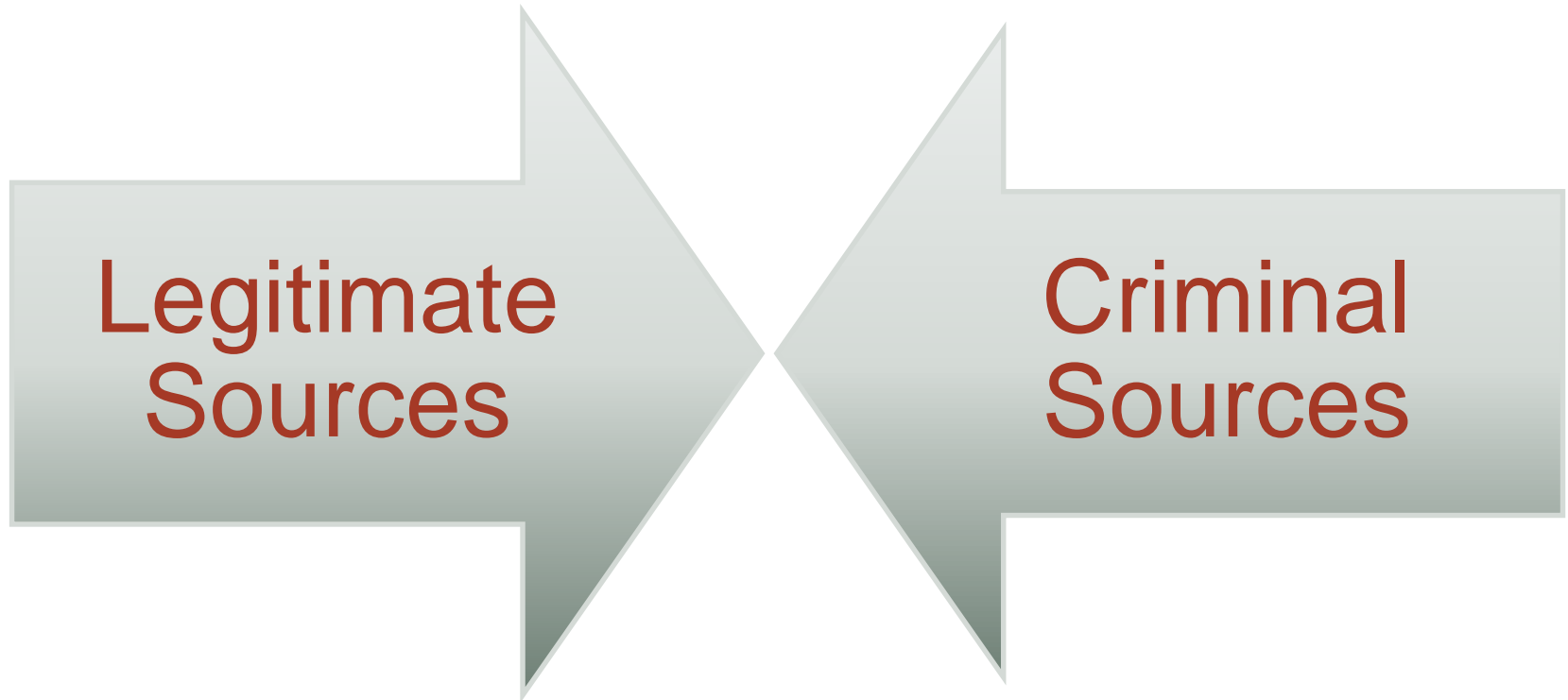
The proceeds of the sales of this gold have been transferred to a third party of “country D” that had links to drug trading.

By transferring these funds the drug dealer laundered his illicit proceeds. This case study involves all three stages of money laundering which are placement, layering and integration.



# What Is Terrorist Financing?

- Providing funds for terrorism activities
- Funds can be earned through;



# WHY ARE YOU UNDER AML/CFT COMPLIANCE OBLIGATIONS?

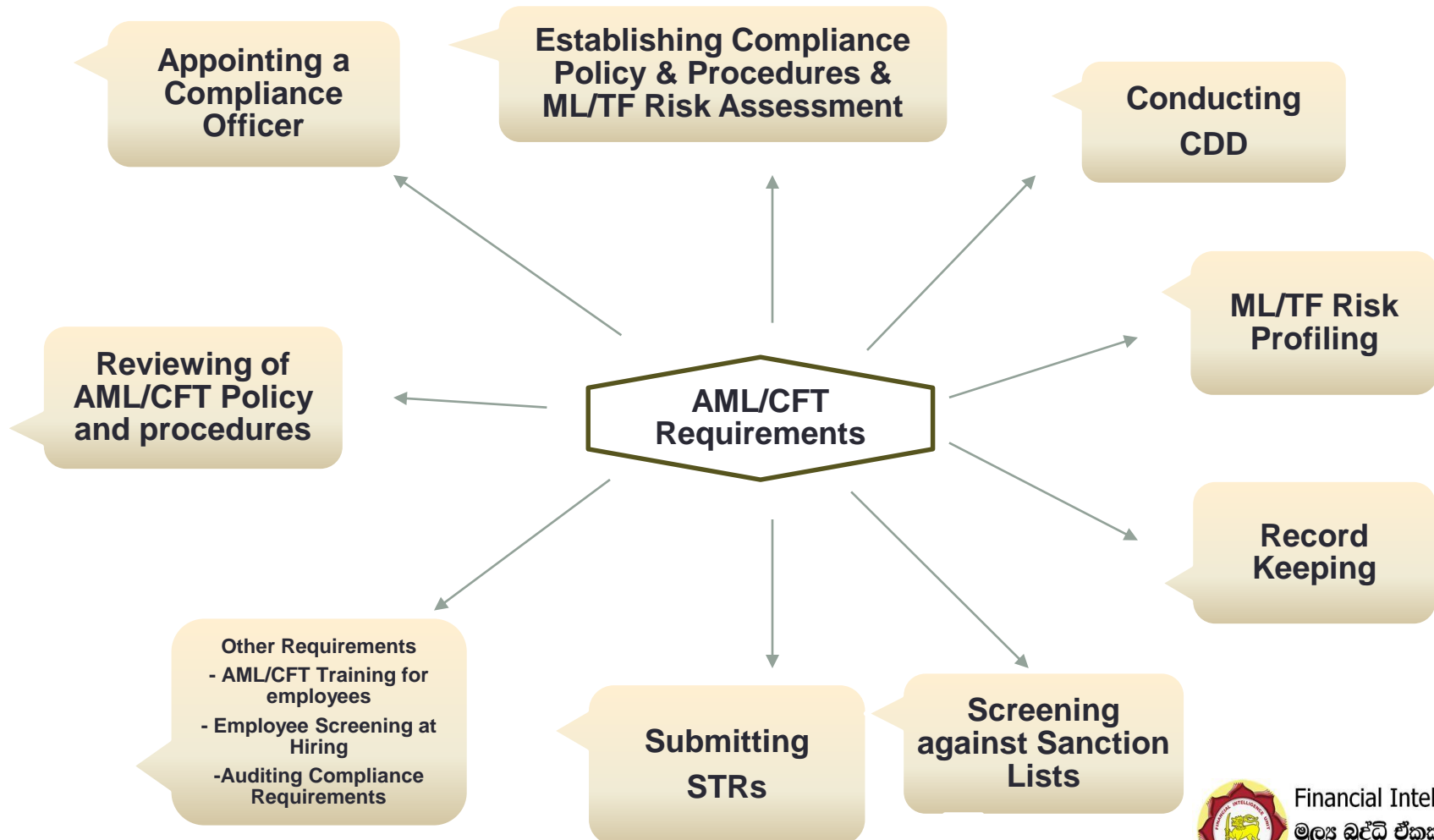
“**Institution**” defined under Sec. 33 of the Financial Transactions Reporting Act No. 6 of 2006 (FTRA)



# AML/CFT REQUIREMENTS FOR DEALERS IN PRECIOUS METALS AND STONES



# How To Protect the Institution From ML/TF Risk?





# Appointing a “Compliance Officer (CO)”

## How to Appoint a CO?

Fill the “Compliance Officer Registration Form”

It can be downloaded from  
[www.fiusrilanka.gov.lk](http://www.fiusrilanka.gov.lk)

Submit to the FIU following instructions on the FIU website

- Co must be at the Senior Management Level
- CO must have direct access to Board of Directors / Top Management



# Duties of the Compliance Officer

COs are responsible to make sure the Institution's compliance with the AML/CFT Obligation by attending on the following tasks;

- Assessing the overall ML/TF Risk of the Institution
- Periodically updating the Institutional ML/TF Risk
- Preparing the AML/CFT Compliance Policy Document
- Obtaining the approval of the Board/Top Management for the policy
- Making aware all levels of the Institution of the Risk assessment and the Policy
- Implementing measures to conduct Customer Due Diligence for customers
- Implementing measures to screen the customers against the designated sanctions lists
- Conducting ML/TF Risk Profiling of the customers
- Implementing procedures for record keeping, submission of STRs, employee screening
- Maintaining an independent audit function to audit AML/CFT functions



### 3. AML/CFT Compliance Policy and Procedures Should Be

- Written



- Management approved



- Well communicated among all the employees and staff

- Reviewed periodically



# AML/CFT Compliance Policies/Procedures

If the Institution doesn't have an AML/CFT Policy & Procedures



Refer following documents to prepare an AML/CFT policy and procedures

- 1. Financial Transactions Reporting Act No. 6 of 2006**
- 2. Designated Non-Finance Business (Customer Due Diligence Rules) No. 1 of 2018**
- 3. Guidelines on AML/CFT Compliance Obligations for Dealers in Real Estate, Precious and Semi-Precious Stones**



# Conducting ML/TF Risk Assessment for Institution



# Risk Assessment for the **Institution**

ON WHAT?



Customers



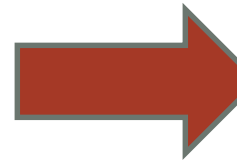
Products/Services



Delivery Channels



Geographic Locations



- I. Identify the Risk (High/Low)
- II. Establish Mitigating Measures for High Situations

See the given Example Checklist on conducting this risk assessment



## An Example of a Checklist for Institutions' ML/TF Risk Assessment:

	YES	NO	MITIGATION MEASURES
<b>Customer Risk</b>			
Do you have clients that:			
operate in a cash intensive business?			
reside outside Sri Lanka?			
are intermediaries or "gatekeepers" such as professionals that hold accounts for clients where the identity of the underlying client is not disclosed to you?			
are located in a known high crime rate area?			
the nature of their business makes it difficult to identify the true owners or controllers?			
are politically exposed persons?			
do not have an address or who have several addresses without justified reason?			
have a criminal record?			
have links to organized crime?			



## An Example of a Checklist for Institutions' ML/TF Risk Assessment:

	YES	NO	N/A
<b>Product/Service Risk</b>			
Do you offer products or services that:			
make it difficult to fully identify clients?			
assist in the establishment of a company?			
Do you:			
perform tasks for the purpose of concealing the client's beneficial owner?			
perform tasks of real estate transfer between clients in an unusually short time period without visible legal, economic or other justified reason?			
provide services linked with establishing, operating or managing of a shell company, company in nominal ownership?			





## An Example of a Checklist for Institutions' ML/TF Risk Assessment:

<b>Delivery Channels/Business Relationships Risk</b>	<b>YES</b>	<b>NO</b>	<b>N/A</b>
Do you:			
conduct non-face-to-face transactions?			
Do you have business relationships that:			
involve complicated financial transactions?			
involve payments towards/from third persons and cross-border payments?			
involve high risk real estate transactions?			
involve cash payments?			



## An Example of a Checklist for Institutions' ML/TF Risk Assessment:

<b>Geographical Risk</b>	<b>YES</b>	<b>NO</b>	<b>N/A</b>
Do you or your clients operate or undertake activities in the following countries:			
Any country subject to sanctions, embargoes or similar measures issued by the United Nations (UNSCR)?			
Any country identified as a financial secrecy haven or jurisdiction?			
Any country identified by the Financial Action Task Force (FATF) as non-cooperative in the fight against money laundering or terrorist financing or subject to a FATF statement?			
Any country identified by credible sources as lacking appropriate money laundering or terrorist financing laws and regulations or as providing funding or support for terrorist activities?			
Any country that is known to have significant levels of corruption, or other criminal activity?			



# Conducting Customer Due Diligence



# Conducting Customer Due Diligence (CDD) ?

WHEN ?

If any CASH Transaction of Gem and Jewellery Dealers equal to or above USD 15,000 or in any currency equal to that value

How ?

Identification

Verification

WHO ?

- Customer
- Beneficial Owner

HOW ?

- Make a copy of ID/Passport/Driving License



## Customer/Beneficial Owner Identification

### WHAT TO COLLECT ?

As per the Rule 11 of the CDD Rules for DNFBPs

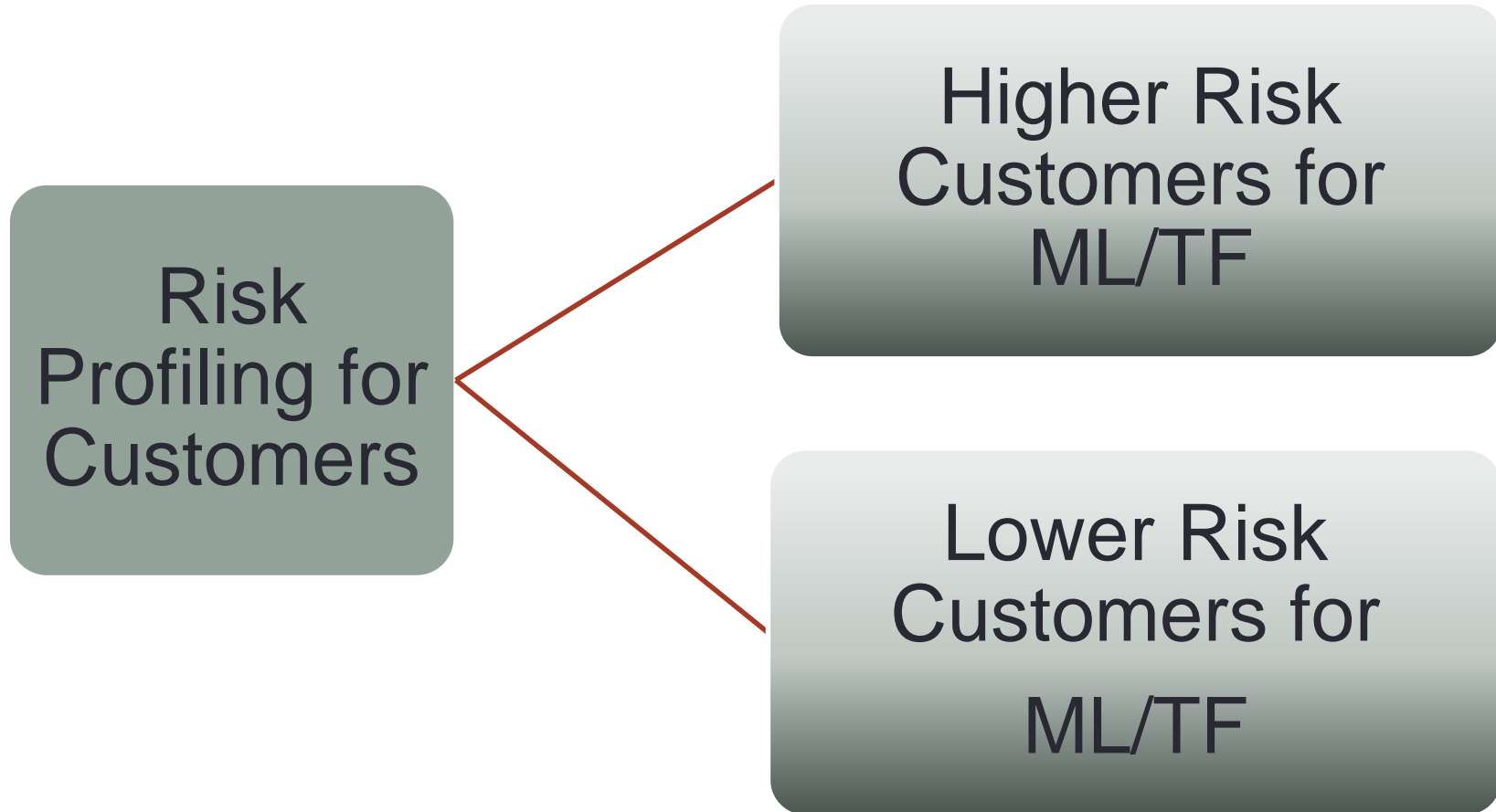
- (a) the full name;
- (b) permanent residential or mailing address;
- (c) occupation, name of employer, business or principal activity;
- (d) an official personal identification number or any other Identification document that bears a photograph of the customer or beneficial owner such as the National Identity Card, passport or driving license;
- (e) date of birth;
- (f) nationality;
- (g) source of funds;
- (h) purpose of transaction;
- (i) telephone numbers (residence, office or mobile).



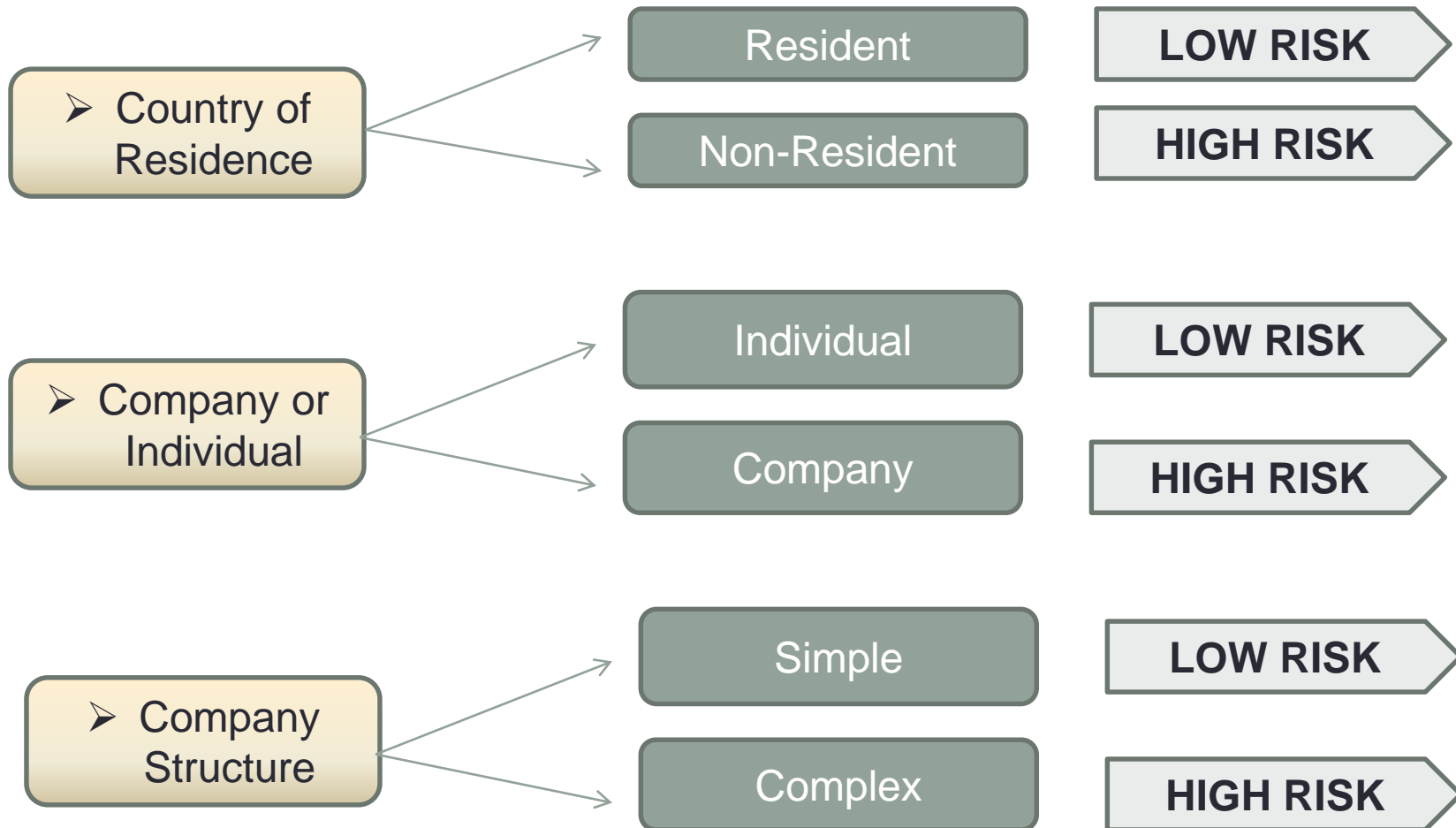
# Customers' ML/TF Risk Profiling



# Risk Profiling for Customers on Collected Data

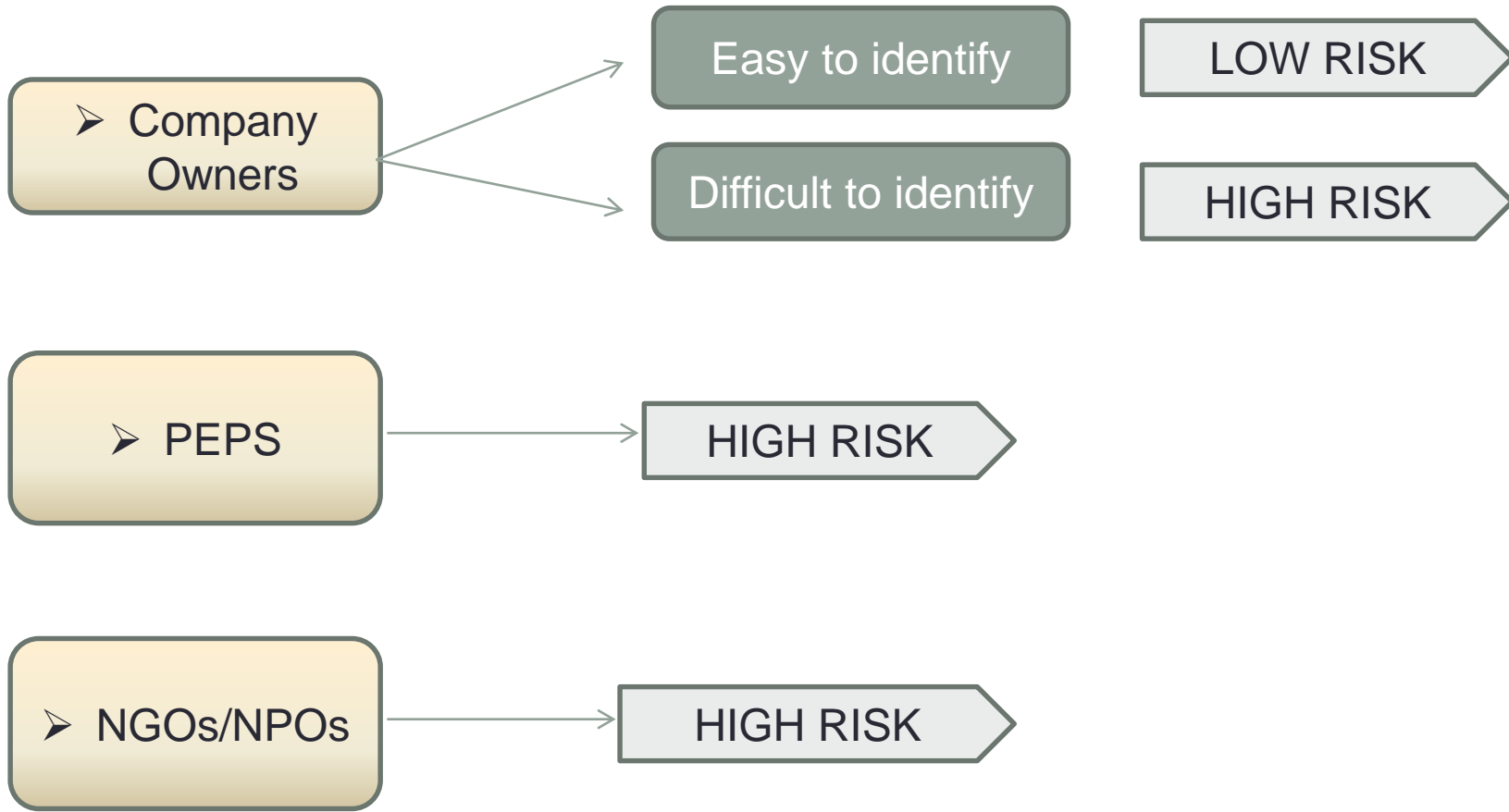


# Ex. How to Profile Customers on ML/TF Risks?

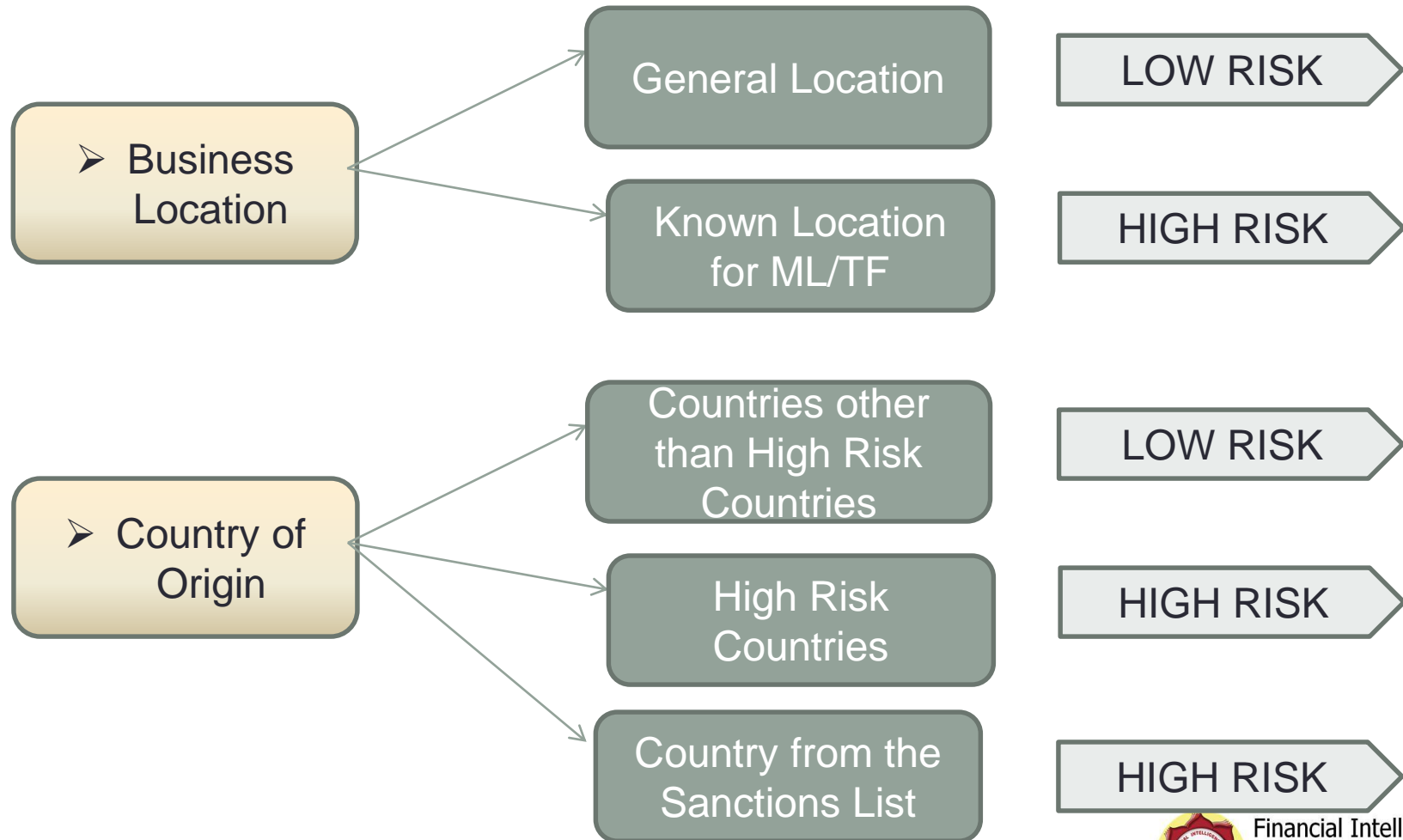




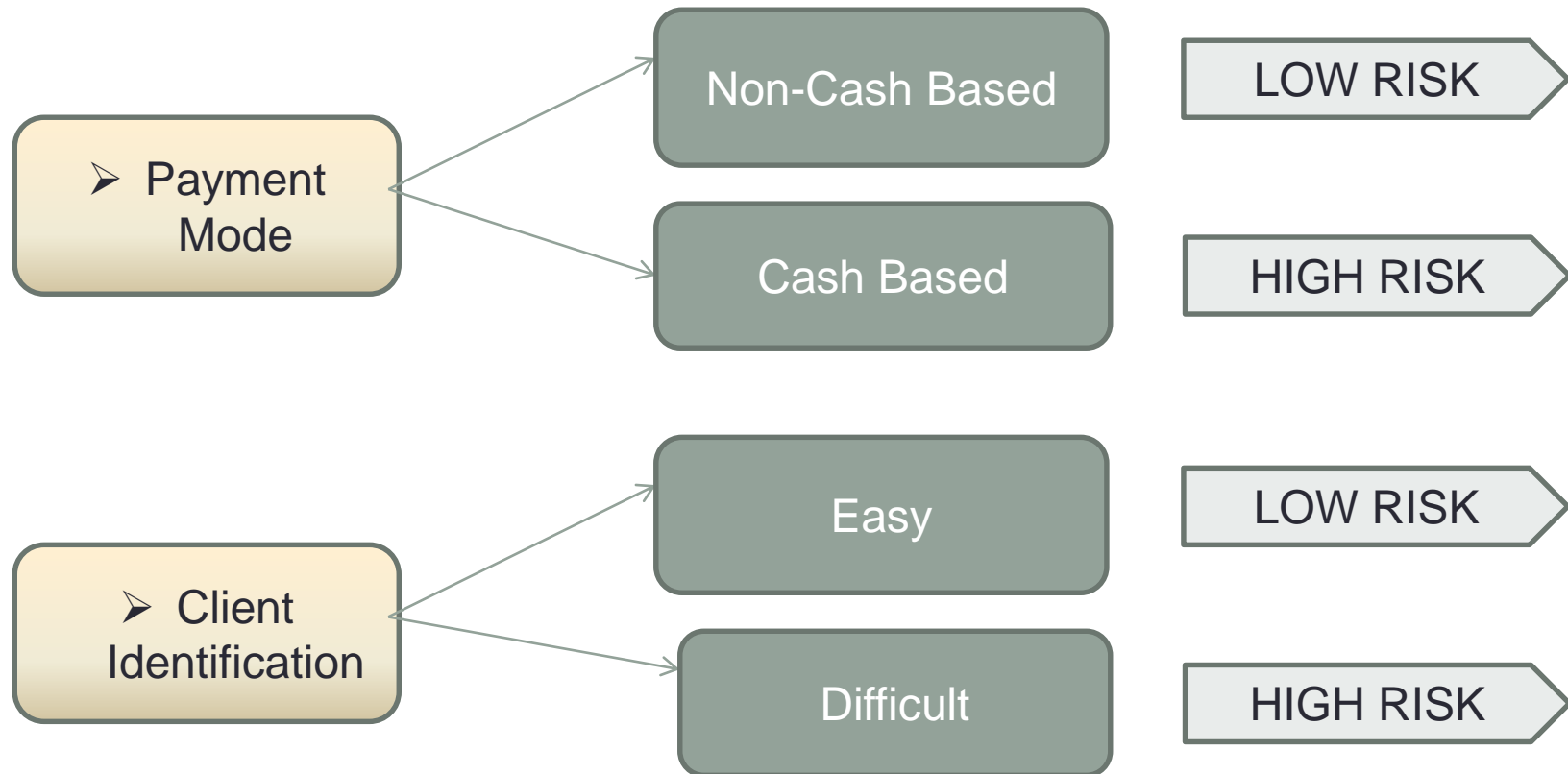
# Customer Risk Profiling Cntd...



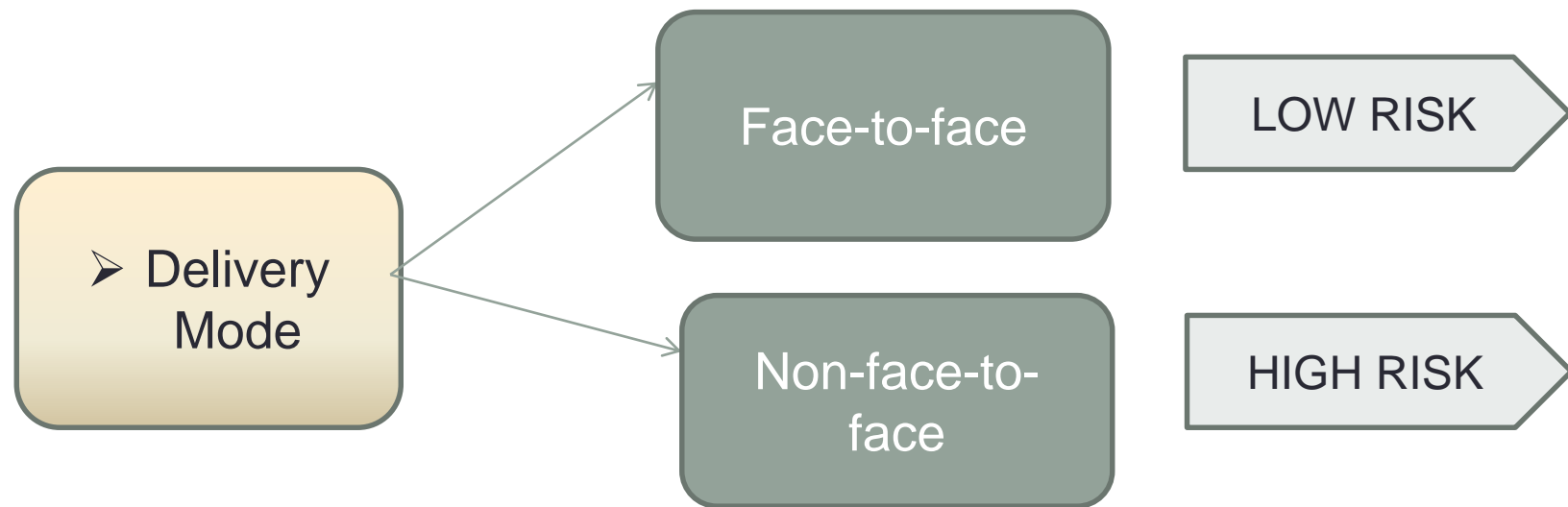
# Ex. Geographical Risk



# Ex. Products/Services Risk



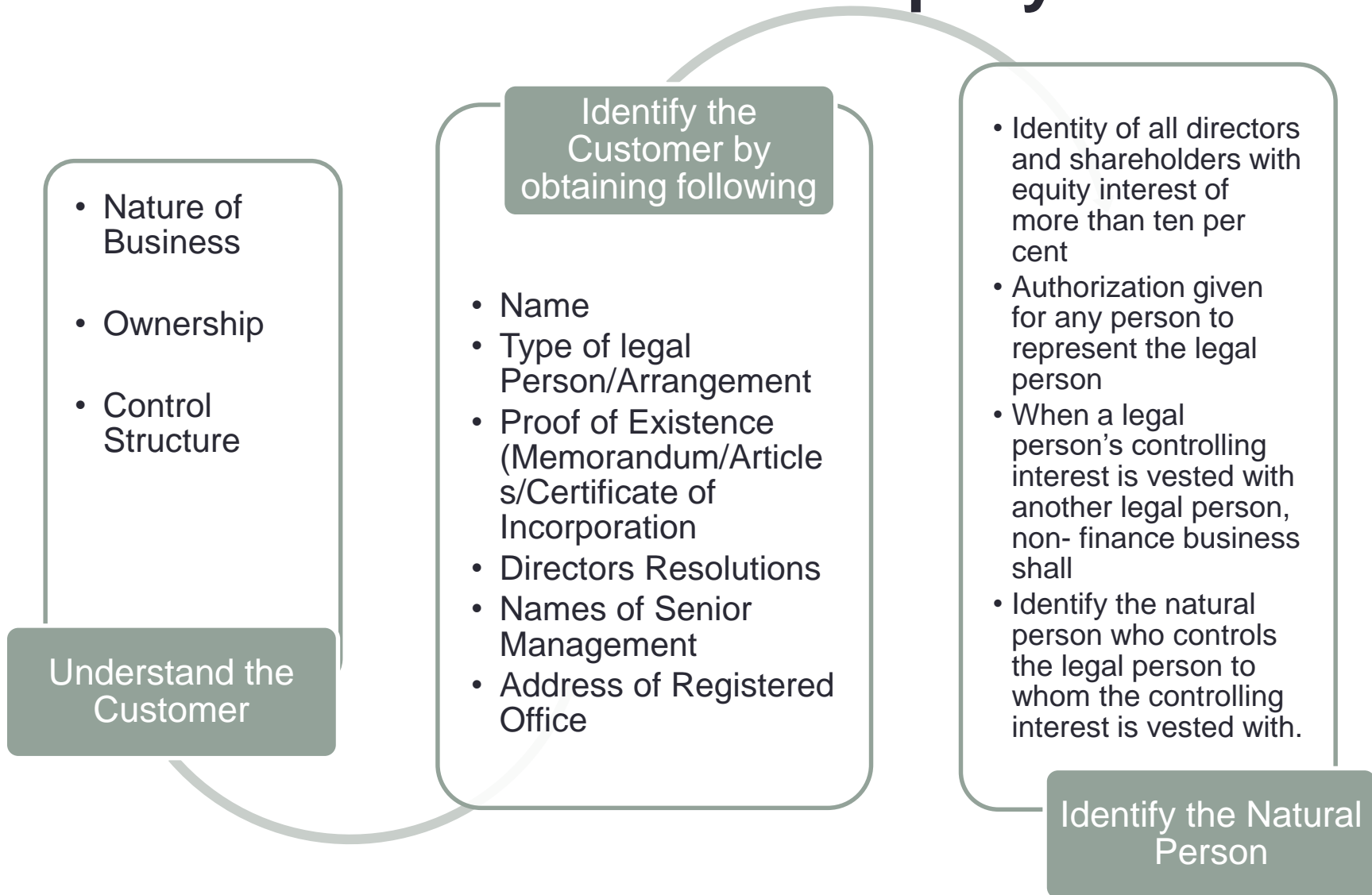
# Ex. Delivery Channel Risk



# CDD For Legal Persons and Legal Arrangements



# When the Customer is a Company ?



# Customer Risk Profiling

## Identify the ML Risk

- The ML/TF risk to be assessed for each and every customer

## Rate the Customer

- Rate the risk level
- Institution can determine the matrix for the grading of risk level
- Ex : High/Low or High/Medium/Low

## Document the Risk Rating

- Risk Rating of each customer must be documented

## ECDD for High Risk Customers

- Enhanced CDD must be carried out for customers identified as high risk



## An Example for Customer Risk Assessment and Profiling:

	Risk Assessment Criterion	Lower Risk	Higher Risk
1.	Type of Customer:	An individual	A legal person or a legal arrangement
		A resident	A non-Resident
		Customers from non-Higher Risk Countries	Customers from higher Risk Countries
		Non-PEP customers	Higher Risk Domestic PEP or Foreign PEPs
2.	Type of Transaction Relative to Customer	Normal frequency and normal value	High frequency & high value or suspicious patterns in conducting transactions such as splitting
3.	Mode of Delivery	Over the counter or face-to-face	Internet based or phone based
4.	Destination country (for remittance)	Non-high-risk countries	Higher risk countries
		Own country	Other country that appear unrelated
5.	Jurisdiction or Country of Origin	Same jurisdiction or country	Different jurisdictions or countries
			High number of inward transactions, followed by immediate withdrawals





# Enhanced Customer Due Diligence (ECDD)



To Whom ?

Customers rated as High Risk

Politically Exposed Persons

Non-face to face customers

NGOs and NPOs

Customers from High Risk Countries

Legal Persons and Arrangements



## Enhanced Customer Due Diligence

WHAT TO DO ?

Obtain Additional  
Information on  
Customer/Beneficial  
Owner

Obtain Approval from  
Senior Management

Obtain Additional  
Information on intended  
nature of relationship

Regularly update  
identification data



# Record Keeping



# Keeping Records

## WHAT are the records?

- CDD Information
- Copies of ID/Passport/Driving License
- Transaction Records
- Correspondance relating to transactions
- Any other Report Furnished to the FIU

## For How Long?

6 years from the date of closure of business relationship

6 years from the date of transaction

6 years from the date of correspondance

6 years from the date of furnishing the report

## HOWEVER;

Must retain for more than 6 years if,

FIU directs to keep any information/record of transaction/report for such longer period



# Screening Customers Against Sanction Lists



# Screening Customers against Sanction Lists Published under “**United Nations Security Council Resolutions (UNSCR)**”

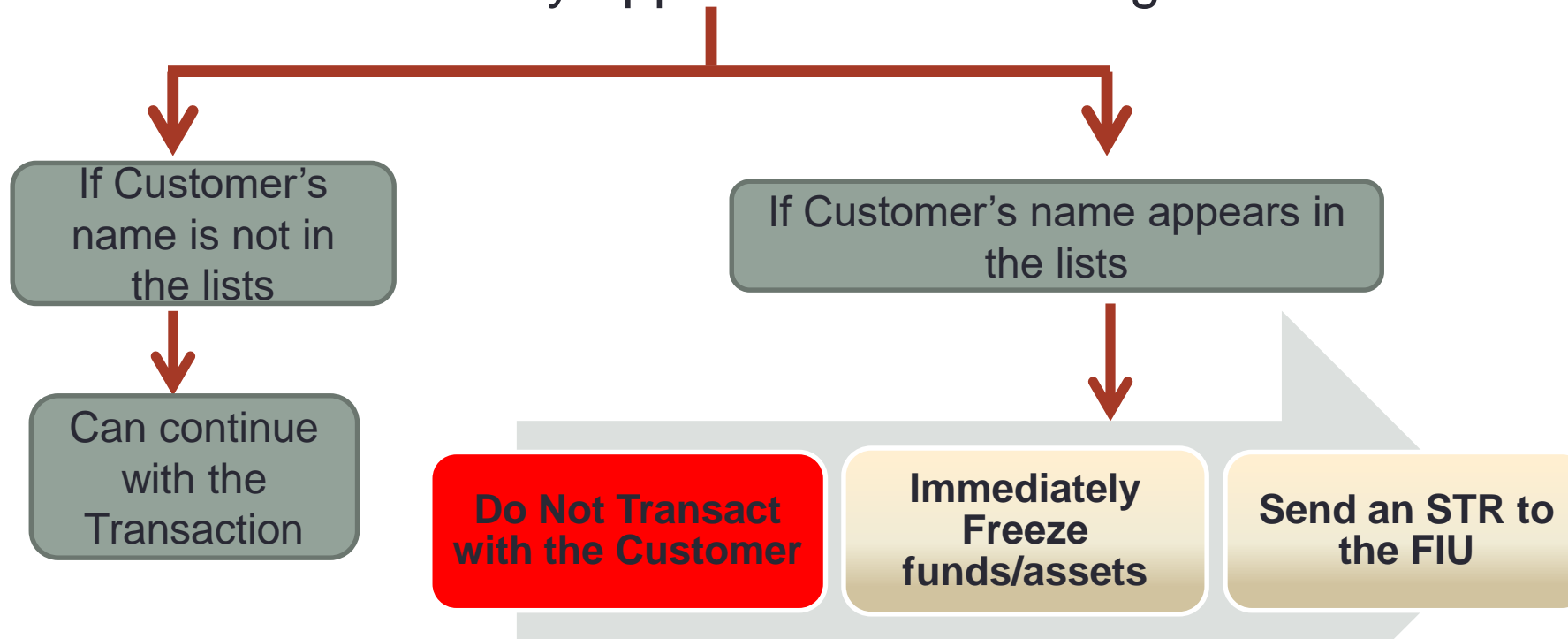
What is UNSCR ?

Please Refer [www.fiusrilanka.gov.lk/UNSanctions](http://www.fiusrilanka.gov.lk/UNSanctions)



# What Does the Institution Required To do ?

Institutions should cross-check whether any customer/beneficiary appears on such designated lists



# Reporting of Suspicious Transactions

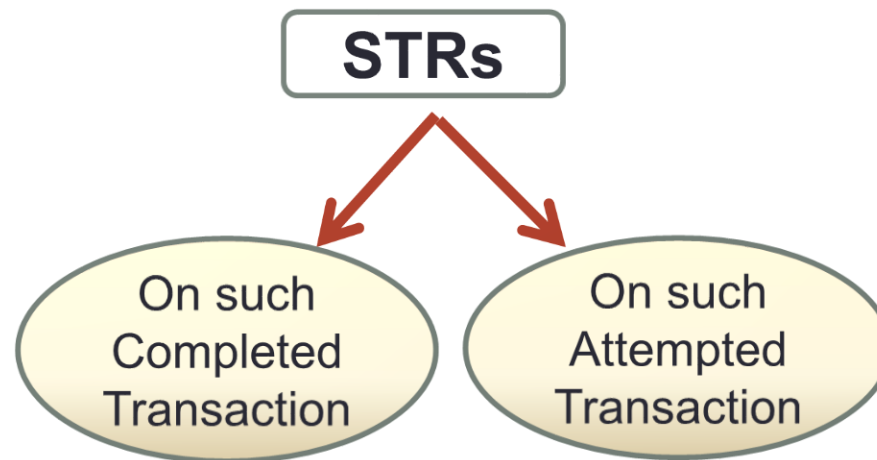




# Reporting Suspicious Transactions (STRs)

If the Institution has

- any suspicion that any transaction is related to commission of any unlawful activity or any other criminal offence
- information that Suspect may be relevant to an act preparatory to an offense under provisions of Convention on the Suppression of Terrorist Financing Act No. 25 of 2005 (CSFTA)
- information that suspect may be relevant to an investigation/prosecution for an act of any unlawful activity or offense under CSFTA or PMLA



# How Soon Shall Report?

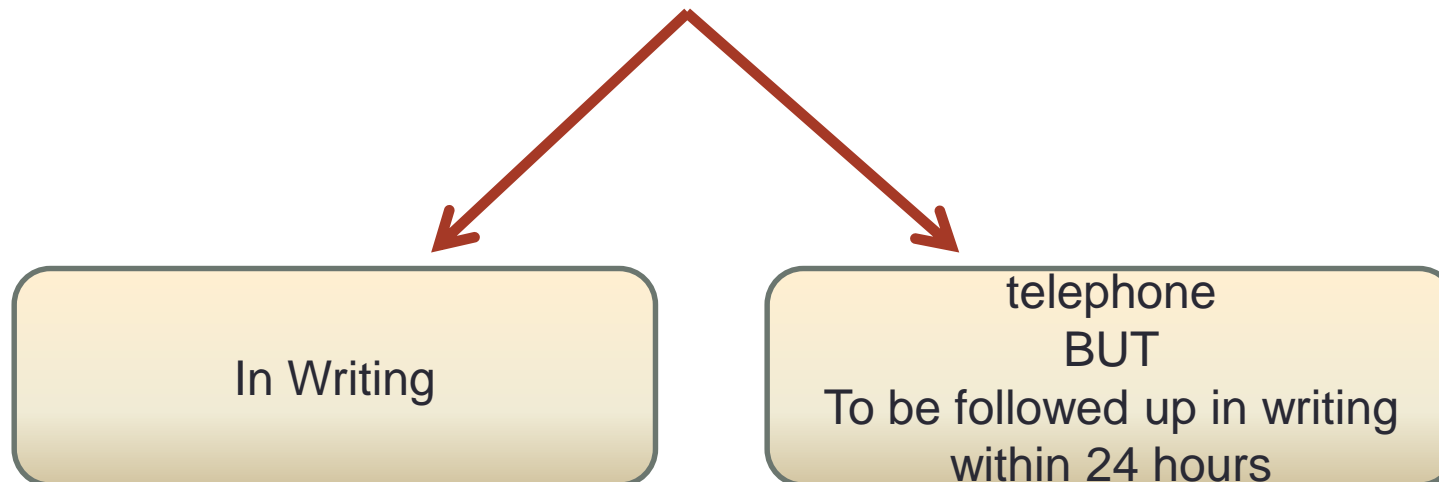
- As soon as practicable after forming such suspicion

**BUT!!!**

**Not later than  
two working  
days  
therefrom...**



# On What Form?



## How To Send STRs ?

- Use Schedule V of the Suspicious Transactions (Format) Regulations of 2017
- [http://www.fiusrilanka.gov.lk/docs/Regulations/2015-56/2015-56\(E\).pdf](http://www.fiusrilanka.gov.lk/docs/Regulations/2015-56/2015-56(E).pdf)



Schedule V

CONFIDENTIAL

Province :

District :

SUSPICIOUS TRANSACTION REPORT					
a. This report is made pursuant to the requirement to report suspicious transactions under the Financial Transaction Reporting Act, No. 6 of 2006					
b. Under Section 12 of the Act, no civil, criminal or disciplinary proceedings shall be brought against a person who makes such report in good faith.					
PART A - DETAILS OF REPORT					
1	Date of Sending Report				
2	Is this replacement to an earlier report ?	Yes	<input type="checkbox"/>	No	<input type="checkbox"/>
PART B - INFORMATION ON SUSPICION					
3	Name in Full (if organization, provide registered business/organization name)				
4	Residential/ Registered Address				
5	NIC No. / Passport No. / Business Registration No.				
6	Gender	Male	<input type="checkbox"/>	Female	<input type="checkbox"/>



7	Country of Residence and Nationality (if an individual)	
8	Business/ Employment Type	
9	Occupation (where appropriate, principal activity of the person conducting the transaction)	
10	Name of Employer (where applicable)	
11	Contact Details	
<b>PART C - DESCRIPTION OF SUSPICION</b>		
12	Details of Transaction / Activity	
13	Ground / Reasons for Suspicion	



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PART I: SEC. (I) - GAZETTE EXTRAORDINARY OF THE DEMOCRATIC SOCIALIST REPUBLIC OF SRI LANKA - 21.04.2017

PART D - DETAILS OF REPORTING PERSON		
14	Date of Reporting	
15	Signature	
16	Name of Reporting Person/Agency	
17	NIC Number	
18	Designation / Occupation	
19	Address	
20	Contact Details	

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# Red Flags for Suspicious



# Some Red Flags for STRs

- Customer executes transaction/transactions which is/are not consistent with his usual profile.
- A frequent customer, who buy/sell precious stone/metal or jewellery products makes a transaction/transaction inconsistent with his usual financial status/profile.
- Customer does not appear properly concerned about the value, size, quality and/or colour of the precious stone/metal or jewellery product.
- Customer pays the value of the precious stone/metal or jewellery producing an unusual payment method.





# Red Flags Cntd...

- Customer conducts large or frequent transactions using foreign currency without any economic rationale.
- Frequent transactions by a customer especially over a short period of time below the regulatory threshold for customer due diligence, however the total of such transactions is substantial.
- Payments received for a purchase of a precious stone/metal or jewellery product from a third party who is not the owner of the funds, without any legitimate business purpose.
- Customer is suspected to be using forged, fraudulent or false identity documents for due diligence and record keeping documents.



# Red Flags Cntd...

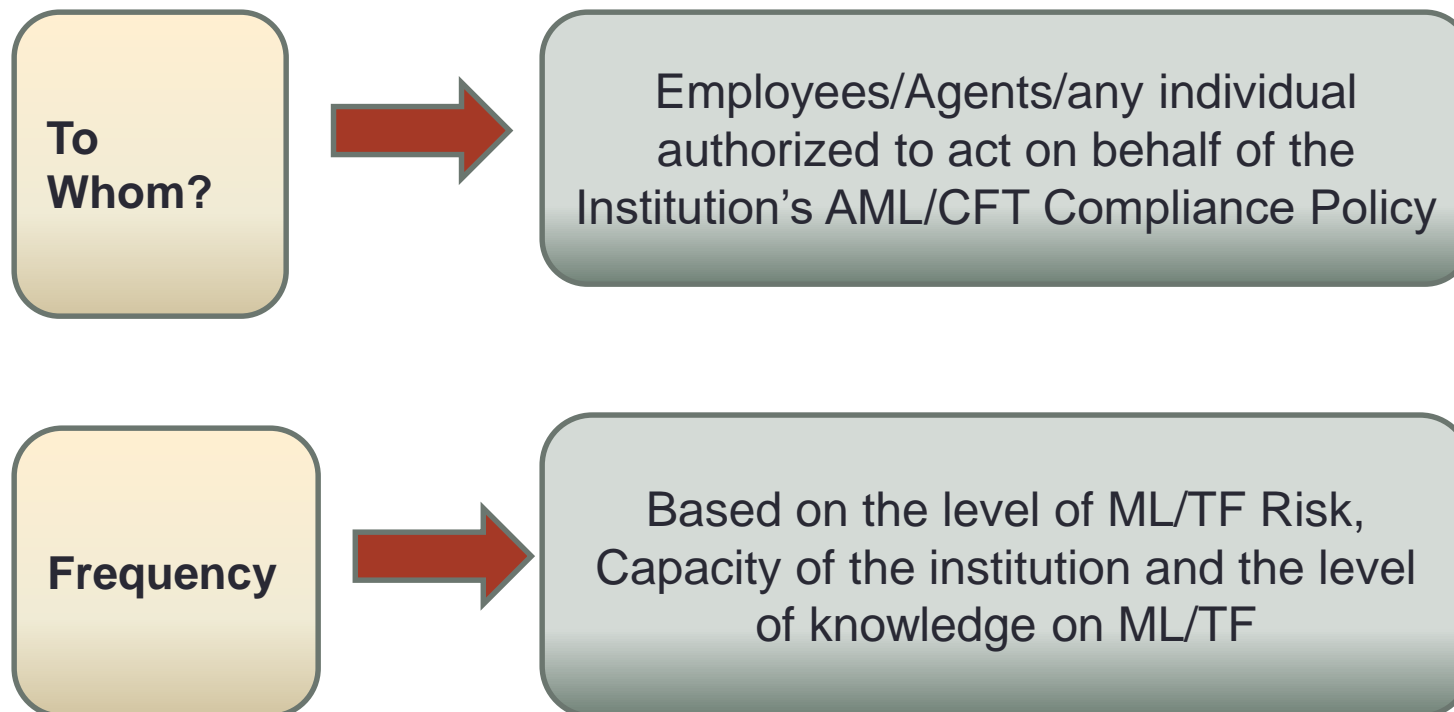
- Customer avoids answering questions related to the source of money to buy the precious stone/metal or jewellery product.
- Customer is known to have a criminal/terrorism background.
- Customer appears to be related to a country or entity that is associated with ML/TF activities.
- Customer is unusually concerned and/or makes inquiries about the AML/CFT requirements and internal compliance policies, procedures or controls.
- Customer attempts to maintain a high degree of secrecy with respect to transactions, for example by requesting not to keep normal business records.



# Trainings on AML/CFT Obligations



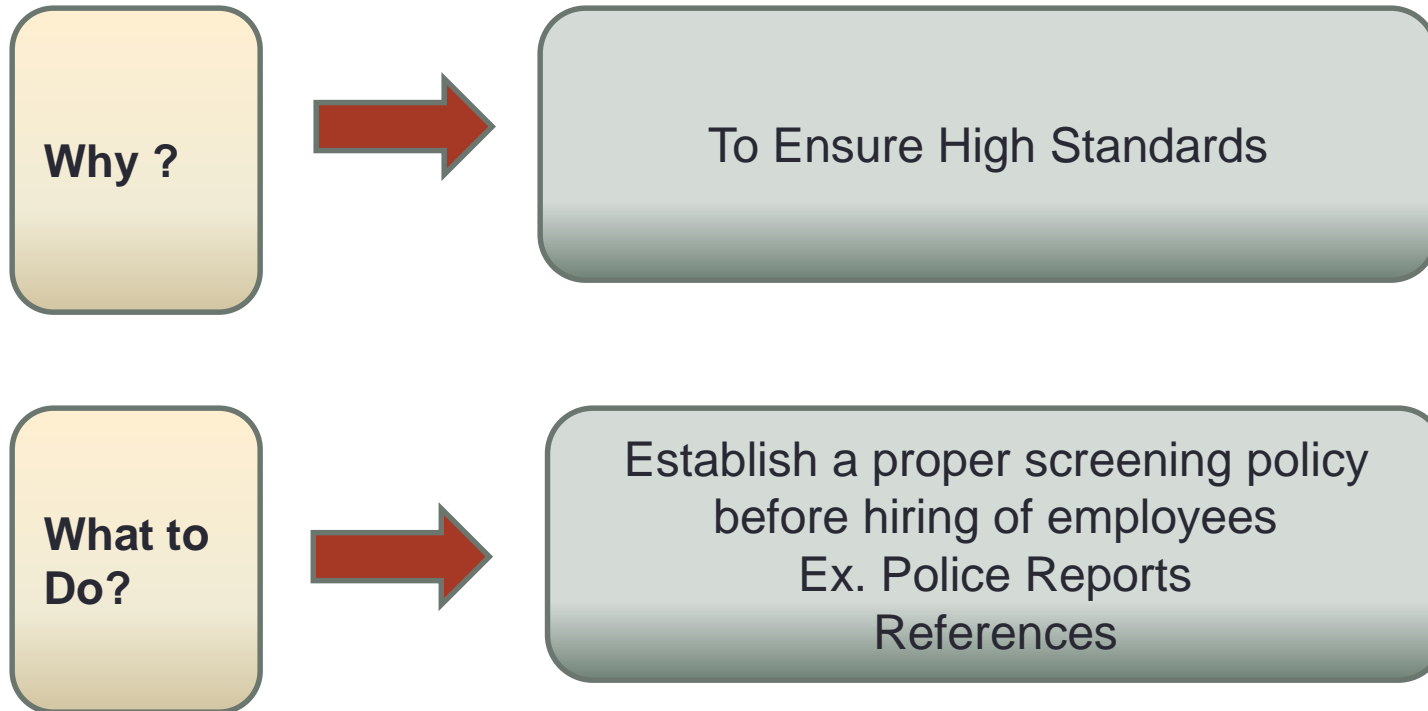
# AML/CFT Training



# Screening Persons before Hiring



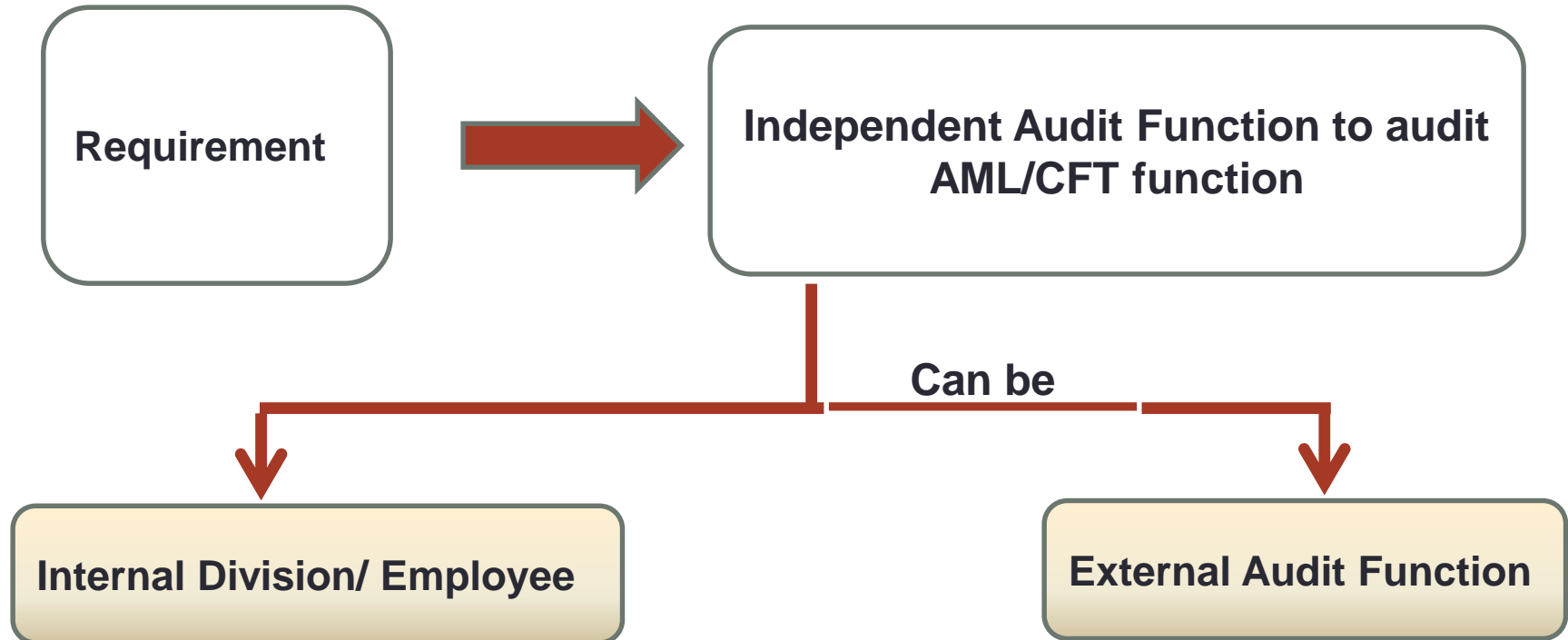
# Screening Employees before Hiring



# Auditing AML/CFT Measures



# Establishing an Independent Audit Function

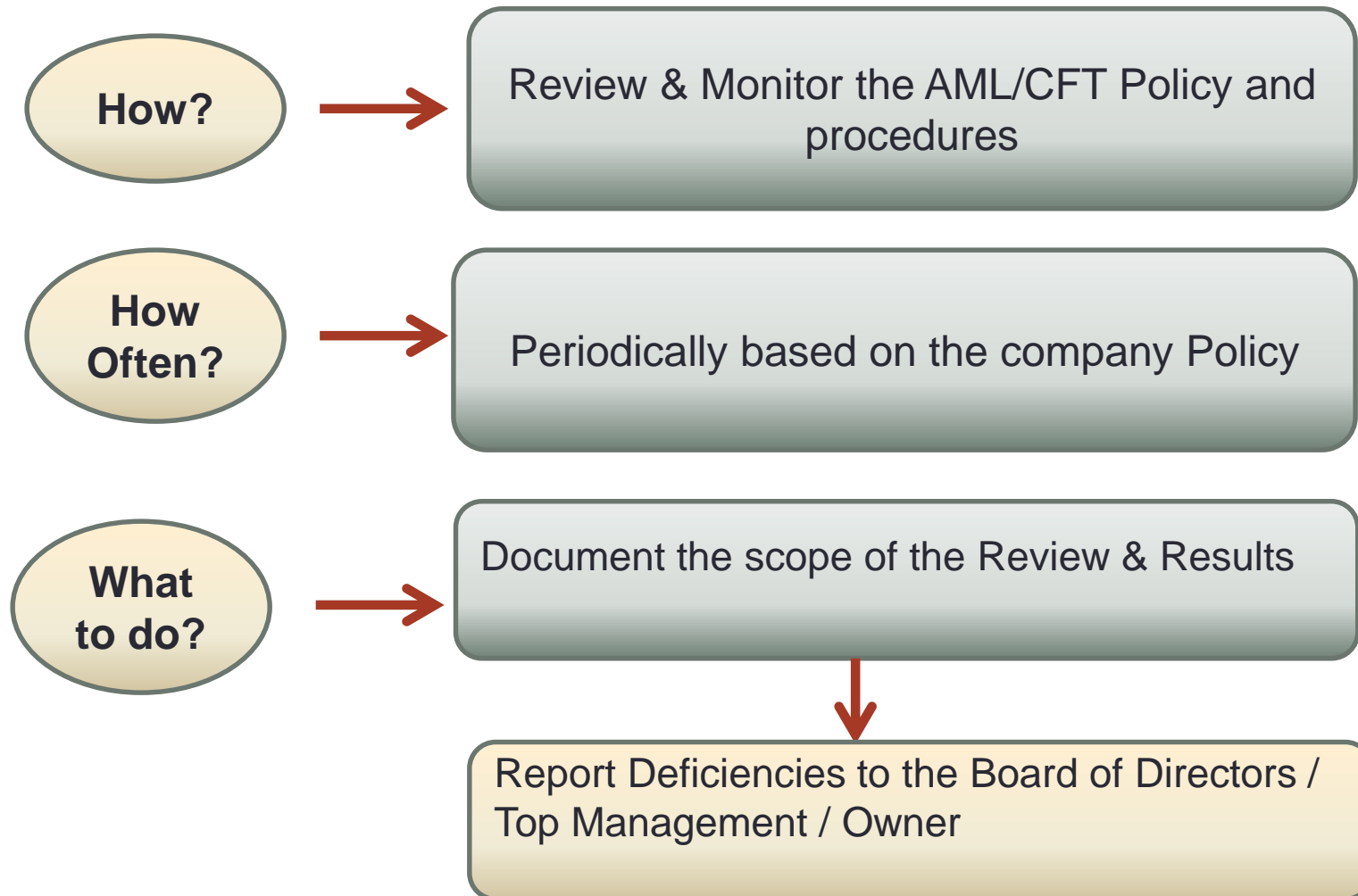




# Effective Maintenance of the AML/CFT Compliance Programme



## How to fulfill the AML/CFT Compliance Obligations effectively



## Non-Compliance with AML/CFT Obligations?

**Will lead to financial penalties  
and other actions including  
regulatory and disciplinary  
measures against the  
“Institution”**



## Contact the Financial Intelligence Unit of Sri Lanka (FIU Sri Lanka) for More Details:

**Mail:** Director,  
Financial Intelligence Unit of Sri Lanka,  
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No. 30, Janadhipathi Mawatha,  
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**Telephone:** +94112477125/509

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**E-mail:** [fiu@cbsl.lk](mailto:fiu@cbsl.lk)

**Web:** [www.fiusrilanka.gov.lk](http://www.fiusrilanka.gov.lk)

