

Workshop on Anti-Money Laundering and Countering the Financing of Terrorism Compliance Obligations for Licensed Stockbrokers

13 June 2023

Financial Intelligence Unit
Central Bank of Sri Lanka



Outline of the Presentation

1. Common Regulatory Lapses the FIU has Identified
2. Current Technical Compliance and Effectiveness Level of Sri Lanka
3. Results of the National Risk Assessment



Common Regulatory Lapses the FIU has Identified



Institutions Supervised by the FIU

Financial Institutions (FIs) - 129

- Licensed Commercial Banks (24)
- Licensed Specialized Banks (6)
- Licensed Finance Companies (35)
- Insurance Companies (28)
- Stockbrokers (28)
- Money or Value Transfer Services (3)
- Primary Dealers (5)

Designated Non-Finance Businesses and Professions (DNFBPs) - 397

- Gem and Jewellery Dealers (195)
- Real Estate Agents (169)
- Casinos (3)
- Lawyers (16)
- Accountants (8)
- Trust and Company Service Providers (6)



Joint Examinations on Stockbrokers

<i>Year</i>	<i>No. of Examinations</i>
2018	01
2019	04
2020	02
2021	-
2022	01
2023 (up to June)	02



Not obtaining required supporting documents and information at the time of customer onboarding as specified in the CDD Rule.

Not identifying the Beneficial Ownership.

Not having proper policies or procedures on PEPs, identifying PEPs as per the CDD Rule and obtaining approval for PEPs.

Non availability of risk assessments for the company and not conducting risk profiling, on-going monitoring & enhanced CDD on high-risk customers.

Not submitting reports relevant to AML/CFT or compliance reports to the Board Risk Management Committee or the BOD.

The scope of the AML policy is not comprehensive, and it does not address detailed procedures as required by the CDD Rule.

Common Regulatory Lapses FIU has Identified



Common Regulatory Lapses FIU has Identified

Failure to conduct AML/CFT related training to the relevant employees including Board of Directors.

Unavailability of comprehensive policies and procedures on screening and not maintaining the complete set of UNSCR lists.

Failure to screen existing database when UNSCR lists get updated.

Failure to screen all the prospective customers against UNSCR lists at the time of onboarding.

Failure to report cash transactions exceeding Rs. 1 Mn.

Failure to identify transaction patterns and verify the source of income which deviated from the customer profile and to consider raising STR.

Conduct of debit transactions through suspended accounts.



Penalties Imposed on FIs from 2019 to 31st March 2023

Year	Date	FI	Type of Violation	Amount (Rs.)	Total (Rs.)
2019	28.06.2019	BOC	Targeted Financial Sanctions, Third party deposits related requirements, PEPs related requirements	3,000,000.00	5,000,000.00
	30.08.2019	NTB	Non-reporting over Rs. 1 Mn transactions	1,000,000.00	
	27.09.2019	Commercial Credit & Finance	Targeted Financial Sanctions	1,000,000.00	
2020	20.01.2020	Sarvodaya Development	Targeted Financial Sanctions	500,000.00	3,300,000.00
	12.03.2020	UB Finance	Targeted Financial Sanctions	500,000.00	
	15.10.2020	Richard Peiris	Targeted Financial Sanctions	300,000.00	
	04.11.2020	Softlogic Finance	Targeted Financial Sanctions	1,000,000.00	
	25.11.2020	Siyapatha Finance	Targeted Financial Sanctions	1,000,000.00	
2021	20.01.2021	Kanrich Finance	Targeted Financial Sanctions	1,000,000.00	10,500,000.00
	18.02.2021	Commercial Bank	CDD, Non reporting STRs, Internal controls	3,000,000.00	
	28.05.2021	Union Bank	Targeted Financial Sanctions	2,000,000.00	
	31.05.2021	DFCC	Suspension orders	1,000,000.00	
	11.08.2021	People's Merchant	Targeted Financial Sanctions	1,000,000.00	
	12.08.2021	Seylan	Suspension orders	500,000.00	
	19.08.2021	Ideal Finance	Targeted Financial Sanctions	500,000.00	
	14.09.2021	Orient Finance	Targeted Financial Sanctions	1,000,000.00	
	14.09.2021	LCB Finance	Targeted Financial Sanctions	500,000.00	

Penalties Imposed on FIs from 2019 to 31st March 2023 contd.

Year	Date	FI	Violation	Amount (Rs.)	Total (Rs.)
2022	02.06.2022	Sampath Bank	Disclosure of filing of STRs	1,000,000.00	11,750,000.00
	08.09.2022	People's Bank	Targeted Financial Sanctions	2,000,000.00	
	08.09.2022	DFCC	Suspension orders	4,000,000.00	
	13.10.2022	NSB	Targeted Financial Sanctions	750,000.00	
	13.10.2022	BOC	Targeted Financial Sanctions	3,000,000.00	
	13.10.2022	NDB	Suspension orders	1,000,000.00	
2023	21.02.2023	PSB	Targeted Financial Sanctions, CDD related requirements	500,000.00	5,500,000.00
	21.02.2023	HDFC	Targeted Financial Sanctions, Non-reporting over Rs. 1 Mn transactions	1,000,000.00	
	21.02.2023	Seylan Bank	Targeted Financial Sanctions	1,000,000.00	
	23.02.2023	Sampath	Non-reporting STRs	1,000,000.00	
	23.02.2023	People's Bank	Non-reporting STRs	1,000,000.00	
	23.02.2023	HNB	Non-reporting STRs	1,000,000.00	

Current Technical Compliance and Effectiveness Level of Sri Lanka

International Monitors Overseeing Sri Lanka's AML/CFT Framework

FATF

The global policy setting body on AML/CFT

Monitors country's AML/CFT policies



APG

Regional Body where FIU is monitored & reports progress

Communicates with Minister of Finance as the **Minister in-charge of AML/CFT implementation**

Recognizes FIU as the AML/CFT **Focal Point in Sri Lanka**

Egmont Group

167 FIUs are connected to share information

Monitors independence of the FIUs

Conducts annual assessment on FIU operations

3rd Mutual Evaluation on Sri Lanka



Sri Lanka's 3rd ME will **start from March 2025**.



Sri Lanka needs to:

- a) Address remaining technical deficiencies (Recommendation rated as PC and NC)
- b) Make required changes without delay for any Recommendation updates to be done by the FATF
- c) Improve effectiveness of all 11 Immediate Outcomes

Failure to do so will result in future FATF listing of Sri Lanka

It is important that the country has the experience & technical knowledge of areas covered during an on-site.



FATF **40**
Recommendations

Technical Compliance

International Standards
on Combatting
Money Laundering
and the
Financing of Terrorism &
Proliferation

- 1** **FATF AML/CFT Policies and Coordination**
(02 Recommendations)
- 2** **Money Laundering and Confiscation**
(02 Recommendations)
- 3** **Terrorist Financing and Financing of Proliferation**
(04 Recommendations)
- 4** **Preventive Measures**
(15 Recommendations)
- 5** **Transparency and Beneficial Ownership of Legal
Persons and Arrangements**
(02 Recommendations)
- 6** **Power and Responsibilities of Competent
Authorities and Other Institutional Measures**
(10 Recommendations)
- 7** **International Cooperation**
(05 Recommendations)

Effectiveness

The extent to which the defined outcomes are achieved:

Effectiveness is that the AML/CFT system of the country is producing the expected results.

FATF 11 Immediate Outcomes

IO1 ➤ Risk, Policy and Coordination

IO2 ➤ International Cooperation

IO3 ➤ Supervision

IO4 ➤ Preventive Measures

IO5 ➤ Transparency and BO (LPs and LAs)

IO6 ➤ Financial Intelligence

IO7 ➤ ML Investigation / Prosecution

IO8 ➤ Confiscation

IO9 ➤ TF Investigation / Prosecution

IO10 ➤ TF Prevention and TFS

IO11 ➤ Proliferation Financing TFS

Current Technical Compliance Level of Sri Lanka

Level of Compliance	At the MER Adoption July 2015	After Re-rating 2016	After Re-rating 2018	After Re-rating 2019	After Re-rating 2020	After Re-rating 2021
Compliant (C)	5	5	6	7	7	7
Largely Compliant (LC)	7	16	21	24	24	25
Partially Compliant (PC)	16	13	8	7	8	7
Non-Compliant (NC)	12	6	5	2	1	1
	40	40	40	40	40	40

Status of Sri Lanka's AML/CFT Effectiveness

Immediate Outcome	Level of Effectiveness - 2015
1. Risk, Policy & Coordination	Moderate
2. International Cooperation	Low
3. Supervision	Low
4. Preventive Measures	Low
5. Legal Persons & Arrangements	Low
6. Financial Intelligence	Low
7. ML Investigation & Prosecution	Low
8. Confiscation	Low
9. TF Investigation & Prosecution	Substantial
10. TF Preventive Measures & Financial Sanctions	Low
11. PF Financial Sanctions	Low



Results of the National Risk Assessment of Sri Lanka



National Risk Assessment

- Every country needs to combat ML/TF/PF.
- An AML/CFT framework is needed.
- Framework includes laws, regulations, enforcement and other measures, powers / procedures for competent authorities.
- Country should identify, assess and understand the ML/TF risks, usually through an NRA (FATF Rec. 1 and IO 1).
- NRA should be accurate and up-to-date to **prioritize areas that need attention / efficient allocation of resources.**

ML/TF National Risk Assessment

FATF Recommendation 1

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.

FATF Immediate Outcome 1

Money laundering and terrorist financing risks are understood and, where appropriate, actions coordinated domestically to combat money laundering and the financing of terrorism and proliferation.

National Risk Assessment - Sri Lankan Context



The first ML/TF NRA of Sri Lanka was conducted in 2014.



A Sanitized version of NRA 2014 was published and available on the FIU website.



Results were used to prepare the AML/CFT Policy of Sri Lanka 2015-2020.



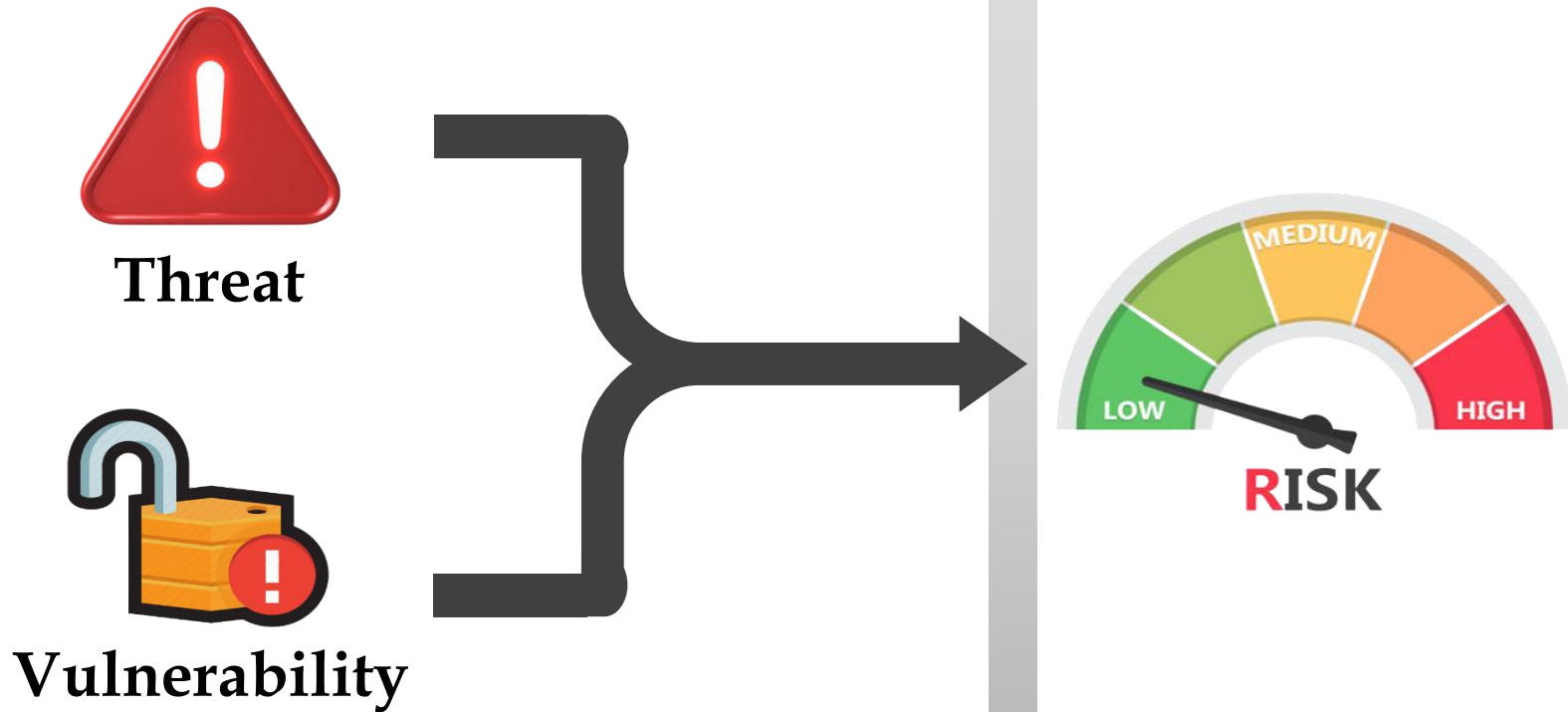
Sri Lanka has just completed 2021/22 NRA and results will be published.



Based on the Updated NRA, the AML/CFT Policy of Sri Lanka 2023-2028 has been drafted.



How the ML/TF Risk is Determined



Current National Risk Assessment



World Bank NRA Tool



13 NRA
Modules

66 Public and Private
Stakeholders



(including 8 CBSL Departments)



31 FIU Officers +
123 Non-FIU
Participants

Sector Regulators and
Experts as Reviewers



Money Laundering Threat



Drug Trafficking



Bribery & Corruption



Customs related offences including TBML



Fraud



Illegal Fishing



Environmental Crimes



Robbery



Human Smuggling/
Trafficking



Tax Offences



Counterfeiting Currency

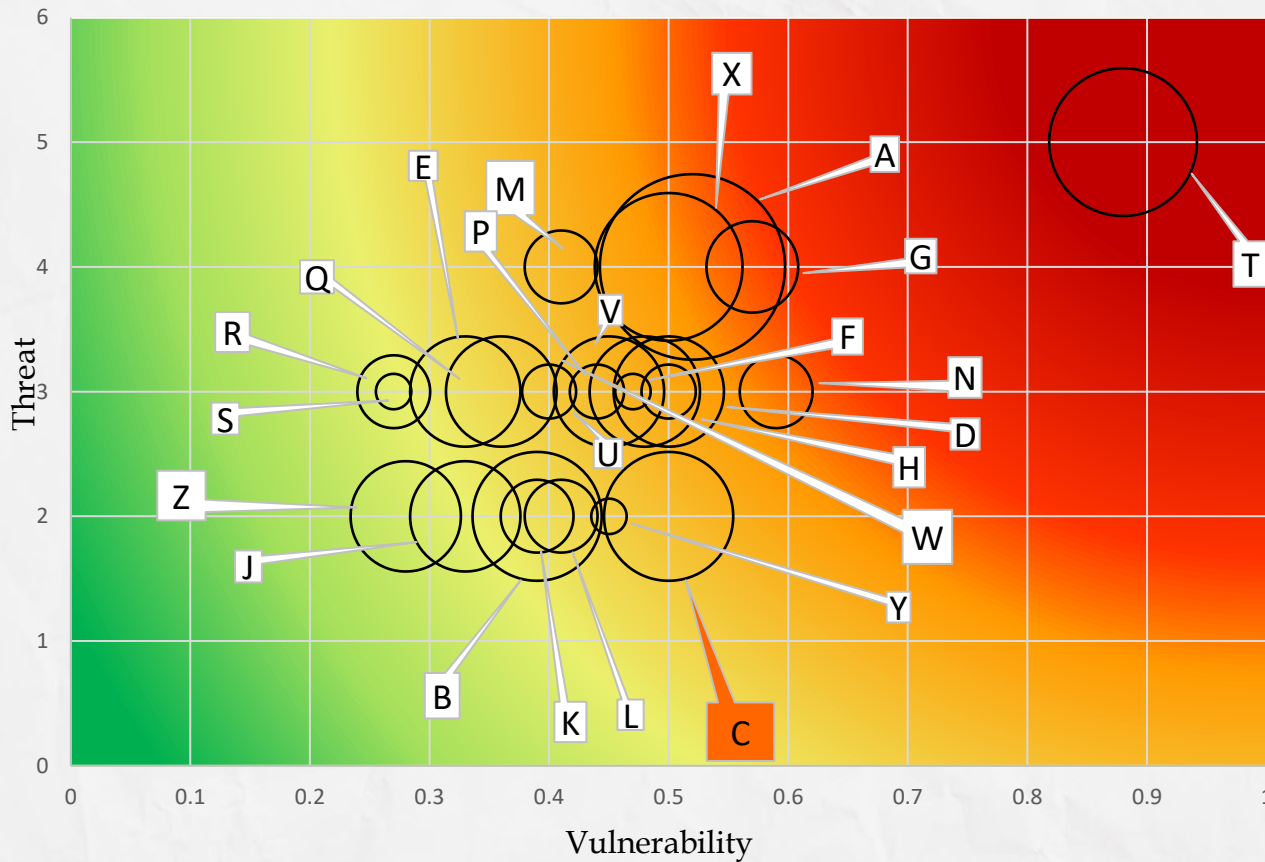
Sectoral Vulnerability to ML



Least Vulnerable

Most Vulnerable

Sectoral Risk - Heat Map









- A - Banking
- B - Insurance
- C - Stockbrokers**
- D - Primary Dealers
- E - UTs and IMs
- F - Casino
- G - Real Estate
- H - Gem and Jewellery
- J - Accountants & Auditors
- K - TCSPs
- L - Lawyers
- M - NPs
- N - MVTS Providers
- P - RDs
- Q - SLCs
- R - CSs
- S - SBs
- T - Hawala
- U - IPBs
- V - IML
- W - EMS
- X - LFCs
- Y - UMIs
- Z - MFIs

Overall ML/TF Risk in Sri Lanka

Overall Threat	H	M	M	MH	H	H
	MH	M	M	MH	MH	H
	M	ML	M	M	MH	MH
	ML	ML	ML	M	M	M
	L	L	ML	ML	M	M
		L	ML	M	MH	H
		Overall Vulnerability				

Strategic Deficiencies Identified in the NRA

-  Gaps in the legal and institutional framework (BO, asset recovery and management, NPOs, informal money remittance, VA and VASPs, real estate).
-  Low level of ML/TF investigations, prosecutions, convictions and asset recovery.
-  Lack of statistics/databases on ML/TF.
-  Poor inter-agency/domestic coordination and international cooperation.
-  Inadequate resources, capacity, skills and expertise to effectively combat ML/TF.
-  Inadequate coverage/supervision of DNFBP sector and non-existence of a regulatory authority for the real estate and casino sectors.



*Thank
you*

