Review of the 2019 Risk Evaluation Questionnaire

Accountants, Tax Advisors and Advocates

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Financial Intelligence Analysis Unit
Ruth Azzopardi and Daniella Mizzi
Agenda

- Review of 2019 REQ results
- General Observations
- Common Mistakes
- The Administrative Penalties and the Enforcement Process
Statistics: Results of the 2019 REQ

Results of the 2019 Submissions – total number of subject persons who submitted the 2019 REQ.

**Advocates**
- 88% REQ Submitters
- 12% REQ Non Submitters

**Accountants & Tax Advisors 2019 REQ Submission**
- 94% REQ Submitters
- 6% REQ Non Submitters
Have a Business Risk Assessment in place - 62.5%
Have no Business Risk Assessment in place - 37.5%

- The BRA is the foundation of the risk-based approach. As you know, the PMLFTR imposes an obligation on the subject person to "take appropriate steps, proportionate to the nature and size of its business, to identify and assess the risks of money laundering and funding of terrorism that arise out of its activities or business".
Statistics: Results of the 2019 REQ

- Do you/your institution’s internal procedures provide for a regular update of the Business Risk Assessment, or for a periodic assessment verifying that the risk assessment is still complete and up to date?

Regulation 5(4) of the PMLFTR lays down that a BRA is regularly reviewed and kept up to date. This requirement stems from the very nature of risk, which is not static but evolves continuously in view of external changes as well as changes in the activities or services of the subject person.

(a) Whenever new threats and vulnerabilities are identified
(b) Whenever there are changes to its business model/structures/activities.
(c) Whenever there are changes to the external environment within which the subject person is operating.
Statistics: 2019 REQ – Internal Audit and Independent Testing

- What is the scheduled frequency for performing audits with regard to proper compliance with the Maltese AML/CFT obligations?

![Bar chart showing the distribution of audit frequencies.](chart.png)

- 18.75% - As needed
- 0% - Monthly
- 0% - Quarterly
- 25% - Annually
- 6.25% - Between 1-3 Years
- 6.25% - Every 3 or more years
- 43.75% - No Audit performed/not applicable
• If the FIAU requests specific customer or alert investigation records, are you / is your institution in a position to retrieve such records immediately? *If you / your institution have received reminders or else requested extensions for deadlines imposed by the FIAU.

**Note:** Subject persons should bear in mind that, in the case of a request for information from the FIAU, the information is to be furnished by the subject person within five (5) working days from the request, or such other shorter period of time that may be indicated in the request for information, regardless of whether the CDD measures were carried out by an entity being relied on. This has to be factored into any reliance agreement to ensure that the subject person remains in a position to fulfil its obligations at all times. (For more information refer to Cap 4. of the IPs).
The key risk factors to be considered when formulating a risk-based approach include:

- Risk mitigation

Once these risk factors have been assessed, controls should be designed and implemented to mitigate these risks. Although it is not possible to totally remove any risk, the aim is to mitigate the risks as far as possible.
Figure 1  Risk is the probability that something bad or unpleasant will happen. Intuitively, it seems like a very simple concept. However, there is strong evidence that both doctors’ and patients’ comprehension of RISK is poor.
Statistics: 2019 REQ Customers

- Breakdown of total customers identified: please list % of “high risk” customers.

- Example: Politically Exposed Persons (PEPS) pose a high risk of ML/FT due to the position they occupy and the influence they exercise.

- PEPs may abuse of their prominent public functions for private gain, such as by being involved in corrupt practices, accepting of bribes or abusing or misappropriating public funds.

- These crimes generate proceeds that would need to be laundered. Certain PEPs in certain position may also be exposed to the possibility of being involved in FT. The application of EDD measures is therefore necessary to mitigate the potential risks of ML/FT that arise when a subject deals with PEPS.

- For more information refer to Cap 4 of the Ips.
Statistics: 2019 REQ Customers

• Of the total number of customers, how many PEPs and/or close associates and family members (collectively referred to as PEPs) are in your/your institution’s customer base (including Bos)?

- Not Available.
- 0 PEPs
- 2 PEPs
- 3 PEPs

- 62.5, 63%
- 6.25, 6%
- 6.25, 6%
- 25, 25%

- Similarly, family members or persons known to be close associates of PEPs may, as a result of this connection, also benefit from, or be used to facilitate, abuse by the PEP of his/her position and influence.

- Therefore, EDD measures are required also with regard to family members or persons known to be close associates of PEPs.

- Regulation 11(5) of the PMLFTR requires that subject persons have appropriate AML/CFT risk management procedures in place that enable them to determine whether a customer or a beneficial owner (current or prospective) is a PEP and, subsequently, to carry out EDD measures both when establishing or continuing business relationships with or undertaking occasional transactions for a PEP.
REQ Statistics: Politically Exposed Persons (PEPs)

• Of the total number of PEPs (if applicable), what is the % of foreign (non-EU or non-EEA) PEPs in your / your institution's customer base as at 31/12/2018 (including BOs)?

![Graph showing the percentage of foreign PEPs]

- [0%]
- [100%]
- [not available]

[Graph indicating the percentage of foreign (Non-EU or non-EEA) PEPs]
2019 REQs – General Observations

Case study: Accountancy/Audit Firm

Business Risk Assessment (1)

**Question:** Have you / your institution performed a Business Risk Assessment?

**Answer:** Yes

Business Risk Assessment (2)

**Question:** Did the Business Risk Assessment conducted take into account: the risks and controls related to your / your institution’s customers?

**Answer:** Yes

Business Risk Assessment (3)

**Question:** Did the Business Risk Assessment conducted take into account: the risks and controls related to the products and services offered by you / your institution?

**Answer:** Not Applicable
1. **Question:** Breakdown of total customers identified: Please list % of "high risk" customers.
   
   **Answer:** 4

2. **Question:** Breakdown of total customers identified: Please list % of "medium risk" customers.
   
   **Answer:** 6

3. **Question:** Breakdown of total customers identified: Please list % of "low risk" customers.
   
   **Answer:** 83

4. **Question:** Does a percentage of your customer base have a risk rating outside of the "high", "medium" and "low" categories?
   
   **Answer:** No
2019 REQs – General Observations & common mistakes

**Question:** Of the total number of customers, what percentage were on-boarded on a non-face-to-face basis.

**Answer:** 35563

*Answer had to be in percentage.*
General observations

- The importance of STRs is essential. **It is important to keep in mind that subject persons must file STRs only with the FIAU and with no other supervisory authority.**
The imposition of Administrative Penalties & the Enforcement Process
2019 REQ: The Imposition of Administrative penalties and the Enforcement process.

- **Periodical Reporting**

In terms of Reg 19 of the PMLFTR:

“In fulfilment of its supervisory functions under the Act, the Financial Intelligence Analysis Unit may require subject persons to submit periodical reports on the measures and procedures they maintain and apply pursuant to regulation 5 and any other information or documents as the Financial Intelligence Analysis Unit may consider necessary.”
The imposition of administrative penalties and the enforcement process.

Failure to submit the REQ 2019 or not submit the REQ in a timely manner has led to the issuance of a potential breaches letter on a total of 207 subject persons.

Currently:
Ongoing process of receiving representations, presentation to the CMC and issuance of letters reflecting the administrative measure to be taken.

Imposition of administrative measures

Potential breaches letters issued: 207
Thank you.
Sli.do event code: J782

Wifi
User: IC Meeting
Password: meeting247