

RELIANCE ON THIRD PARTIES



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RELIANCE ON THIRD PARTIES



- 1. Recommendation 17**
- 2. Regulated, Supervised and Monitored**
- 3. Reliance vs Outsourcing**

BASIS FOR RELIANCE



- Financial institutions allowed to rely on third parties to perform part of the CDD measures, on certain conditions:
 - a) **Information** on customer's identity, beneficial owner and nature of business **immediately** available
 - b) Relevant documents available **on request with no delay**
 - c) **Regulated**, **supervised** or **monitored** third party, complying with CDD requirements
 - d) Level of risk of country where the third party is based

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Immediately?

When taken in context of FATF CDD triggers, immediately means

Before conducting any transaction pursuant to the establishment of the business relationship

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What **INFORMATION** should be obtained?

- a) **Information** on customer's identity, beneficial owner and nature of business immediately available

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Who can be relied on?

Financial Institutions & DNFBPs

that are *regulated, supervised or monitored*

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Documentation required to support 3rd party reliance

Rec. 18 & Rec. 23

Financial institutions should be required to implement programmes against ML & TF

The requirements of Rec. 18 apply to DNFBPs...

a) ...

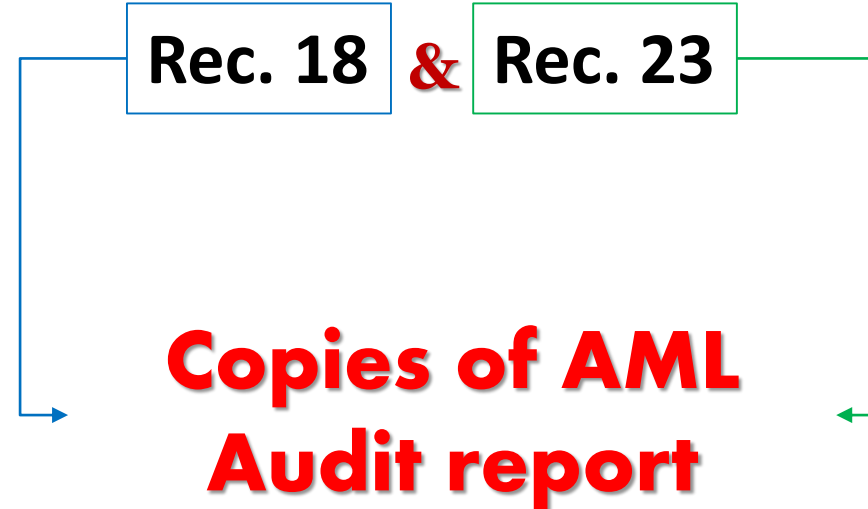
b) ...

c) An independent audit function

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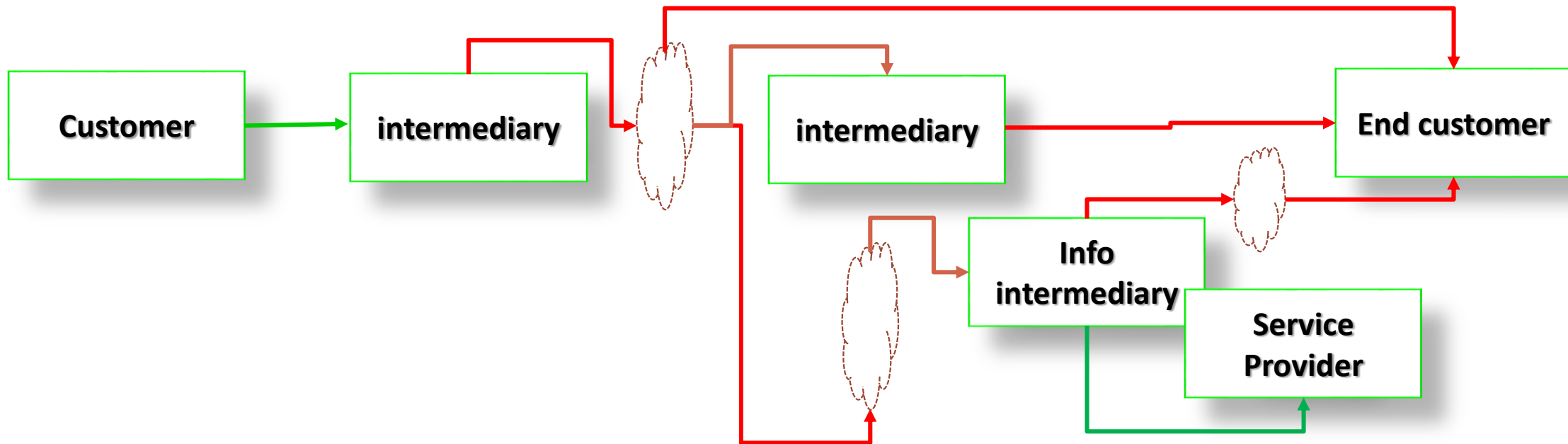
Documentation required to support 3rd party reliance



RELIANCE ON THIRD PARTIES



Layering of intermediaries



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Disadvantages

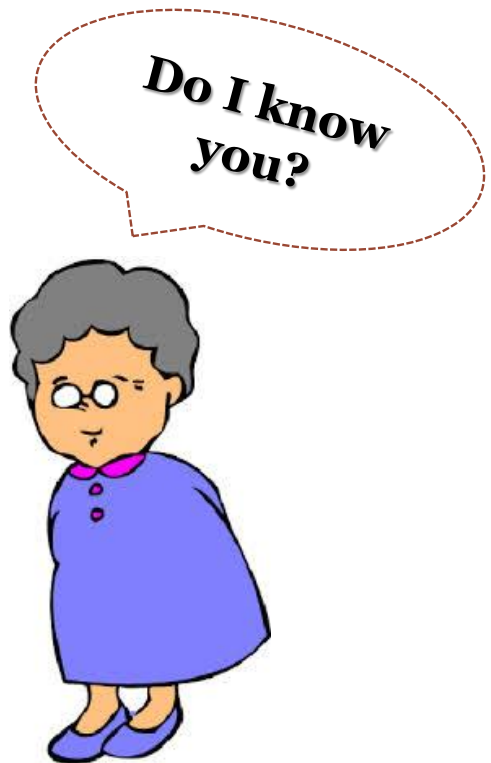
Layering of intermediaries

- May not adequately execute their AML functions
- May not identify risk or monitor activity adequately for suspicious activity
- Inability to obtain CDD documents 'without delay'
- **May expose service provider to reputational risks**

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Ensuring the veracity of intermediaries

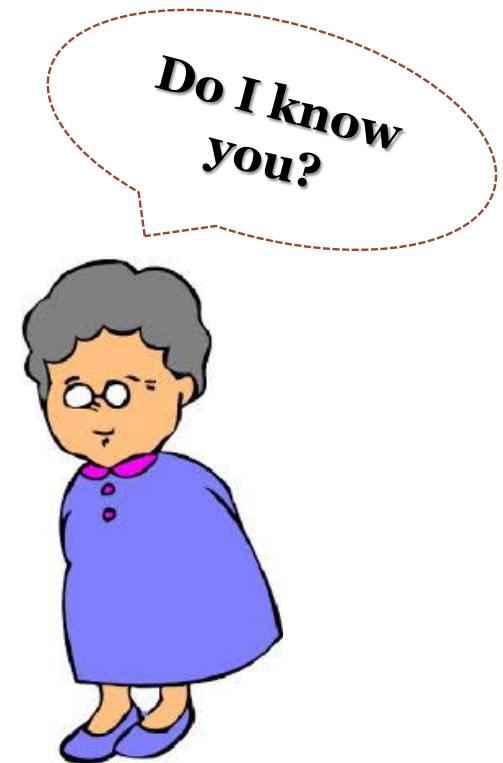


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Ensuring the veracity of intermediaries

Limit relationship to intermediary that have established relationship to service provider, other trusted entities or are referred by highly respected sources



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Ensuring the veracity of intermediaries

Conducting background checks on the intermediary, including a review on all the products/services offered, method of soliciting new clients, licensing, regulatory obligations and reputation



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Ensuring the veracity of intermediaries

Performing sanction screening on intermediary, their owners and principal officers



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Ensuring the veracity of intermediaries

Review AML/CFT Compliance programme for adequacy and consistency with internal policies (e.g. monitoring conducted on acquired customers)



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Ensuring the veracity of intermediaries

Monitor activity originating from intermediary for common red flags or potential suspicious activity which may suggest weaknesses in their own CP



RELIANCE ON THIRD PARTIES



How are accountants and lawyers deemed regulated or foreign regulated persons?

- **Buying and selling real estate**
- **Managing of clients money, securities or other assets**
- **Management of bank, savings or securities account**
- **Organisation of contributions for creating, operating or managing companies**
- **Creating, operating or managing legal persons or arrangements**
- **Buying and selling business entities**

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How are accountants and lawyers deemed regulated or foreign regulated persons?

Self-regulatory body (SRB)

- 1. Made up of members of the profession**
- 2. Regulates persons qualified to enter and who practice in the profession**
- 3. Perform certain supervisory or monitoring functions**
- 4. Enforce rules to ensure high ethical and moral standards of members**

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Can a service provider rely on a third party to perform **ALL** of its CDD?

YES

Consider whether...

Such reliance is reasonable

The third party shares the customer with financial institution

The two institutions enter a reliance agreement

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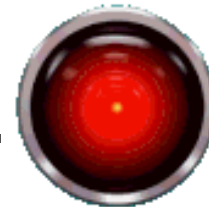
Can a service provider outsource its core CDD functions?



THIRD PARTY RELIANCE

Outsourcing

I'M SORRY DAVE
I'M AFRAID I CAN'T DO THAT



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Can a service provider rely on third parties for other elements of a compliance programme beyond customer identification ?

Yes

- Collection and verification of information
- Sanctions monitoring
- PEP screening etc

Conditions should apply

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