

Examination Procedure: Terrorist financing (TF), Targeted financial sanctions related to proliferation (PF) and, counter-measures for higher-risk countries

Introduction: Bank are required to have in place policies, procedures and controls to:

- Identify the assets and funds of designated persons related to terrorism and terrorist financing and to freeze these funds and report to the relevant Government agencies;
- Identify the assets and funds of designated persons related to proliferation and to freeze these funds and report to the relevant Government agencies; and
- To implement countermeasures when required to do so by the BOM or other Government agency in respect of high risk jurisdictions.

The BOM through its supervisory activities is required to ensure that banks have developed procedures to ensure the effective implementation of these requirements.

Examination Objectives

1. Assess the bank's policies and procedures to identify customers, monitor transactions and systems to freeze funds (assets) of designated persons.
2. Assess the bank's policies and procedures relating to the implementation of enhanced CDD on customer relationships/transactions in response to requests to do so from the BOM or other Government agencies.
3. Assess compliance with legal and regulatory requirements relating to terrorist financing, financing of proliferation and applying countermeasures to high-risk countries.

Examination Procedures

Internal Control Inquiries

TF and PF

1. Has the board of directors adopted AML/CFT policies and procedures in relation to:
 - Terrorist financing;
 - Proliferation financing; and
 - Implementing countermeasures in relation to high risk countries?
2. Are there procedures relating to the identification of designated persons documented and do they permit the bank to identify such customers at the commencement of the relationship or during the course of the relationship?
3. Are there procedures to freeze without delay funds, property and assets held by the bank, including in safe custody, in response to directions received from competent authorities?
4. Are there procedures to monitor attempted access by customers or other parties to the funds, property or assets?
5. Are there procedures to allow access to the funds, property or assets held in response to directions from competent authorities?
6. Are there procedures to unfreeze funds, property or assets in response to directions from competent authorities?
7. Are there procedures which clearly specify the types of reports that are to be submitted to relevant Government departments within the specified timeframe in relation to any relationships with designated persons including attempts to access funds/assets?

Countermeasures for high risk countries

8. Are there procedures relating to the identification of customer transactions and relationships with countries identified as high-risk by competent authorities?
9. Do policies and procedures identify the person within the bank responsible for ensuring that directions received from competent authorities are effectively implemented. Such policies and procedures should address directions such as:

- a) applying specific elements of enhanced due diligence such as obtaining additional information on the customer, purpose of transactions, nature of the business relationship and the source of funds or wealth of the customer;
 - b) obtaining senior management approval to continue the relationship; and,
 - c) increased monitoring of transactions; or
 - d) reviewing, amending or if necessary terminating correspondent banking relationships.
10. Are there procedures which clearly specify the types of reports that are to be submitted to relevant Government departments within the specified timeframe in relation to any relationships with high risk countries?

Transaction Testing

- Determine that whether the bank maintains a current listing of prohibited countries, entities and individuals.
- Determine whether established accounts/relationships are regularly compared with listings by reviewing a sample of transactions/accounts opened since the last examination (or issuance of directives from competent authorities) and test the files for compliance with KYC policies, practices, procedures and internal controls in place.
- Determine if staff are aware of obligations to report to the Compliance Officer if a customer is identified as a designated person.
- Determine and assess the processes relating to immediate freezing of the account/funds and monitoring of frozen accounts/funds and internal reporting arrangements.
- Determine the role of the Compliance Officer in ensuring that reports are submitted to relevant Government agencies.
- Determine that the Compliance Officer ensures that countermeasures in relation to high-risk countries are implemented and that reports are submitted to relevant Government departments.