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Assessing Risk Across Borders: KYC Feedback

Cross-border Financial Activity – AML Risk Overview

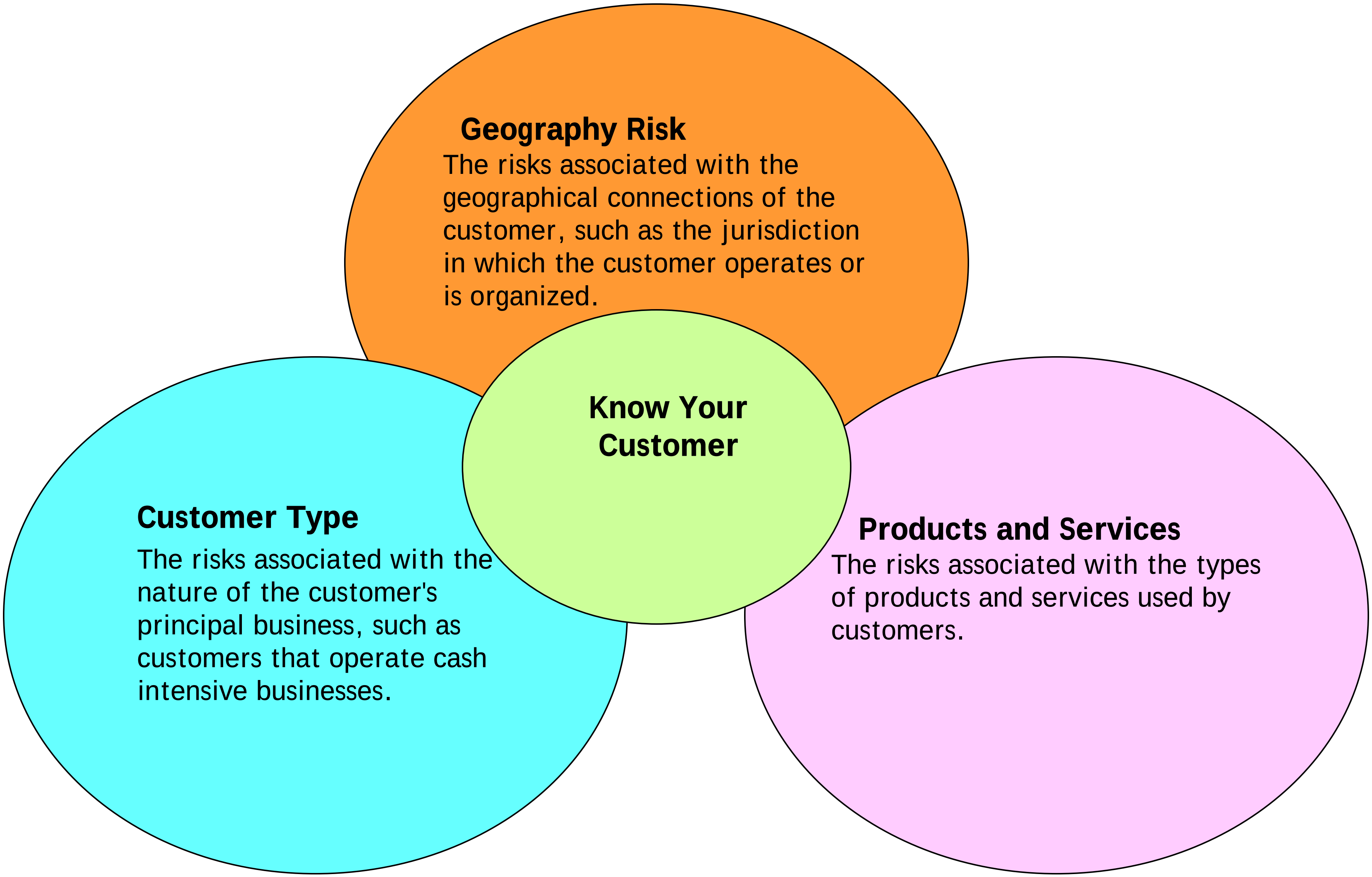
From an anti-money laundering (AML) perspective, customer activity is viewed both **generically** (as posing an inherent risk of money laundering) and **specifically** (representing a possible instance of money laundering or other suspicious activity, based on the customer's expected activity).

Generically, cross-border financial activity, whether related to wire transfers or the movement of securities, poses a heightened risk of money laundering due to the difficulty of following an audit trail across jurisdictional lines.

Specifically, one client's cross-border financial activity may make sense given what is known about the client and their expected business activity, while for another client it may potentially be suspicious

Assessing the AML risks associated with cross-border activity therefore requires both knowledge of the client (KYC) and the ability to review appropriate financial activity (monitoring)

Customer Risk - KYC



KYC - Geographical Component

Understanding the AML risks associated with the jurisdiction where a client is domiciled, resides or transacts business is an important element of understanding the client and the expected nature of their activity

- Clients domiciled in, or resident of, a high-risk jurisdiction might be rated as higher-risk, and therefore subjected to additional due diligence or lower monitoring thresholds than clients from a low-risk jurisdiction
- Clients domiciled in, or resident of, a bank secrecy (or other offshore) jurisdiction – especially nominee or intermediary relationships - might be rated as higher-risk, and therefore subjected to additional due diligence or lower monitoring thresholds than clients from a low-risk jurisdiction
- Clients transacting significant amounts of business with counterparties in a high-risk jurisdiction might also be rated as higher-risk, and therefore subjected to additional due diligence or lower monitoring thresholds than clients engaged mostly in activity involving domestic counterparties or those located in low-risk jurisdictions

Cross-border Financial Activity

Cross-border client financial activity generally relates to the cross-border movement of assets (funds, securities), so monitoring the means of moving such assets across borders (generally SWIFT messages) may provide a valuable understanding of whether activity falls in the range of a client's expected activity.

- Due to the higher-risk nature of cross-border transactions, monitoring thresholds are generally lower for cross-border financial activity than would be applicable to domestic transactions.

Cross-border financial activity may also involve activities not directly linked to the cross-border movement of assets, such as web-based account access from a foreign jurisdiction or trade orders placed by telephone call from a foreign jurisdiction

Cross-border Financial Activity Monitoring

AML monitoring of cross-border financial activity generally involves reviewing cross-border wire transfers or securities transfers against pre-established thresholds or parameters in order to detect activity that may be inherently suspicious, or at least unexpected for that client

Monitoring of cross-border financial activity may be designed to capture general AML typologies / activity patterns, or those specific to cross-border activity.

AML activity monitoring may include general patterns such as:

- **Third-party Wire Transfers** – Client has a large number of wire transfers to unrelated cross-border counterparties inconsistent with client's legitimate business purposes
- **Wire transfers involving high-risk jurisdictions** - Client has significant value and/or volume of wire transfers involving high-risk jurisdictions
- **Free receives / delivers of low-priced or thinly-traded securities** - Client receives or delivers significant value / volume of low-priced or low-trading-volume securities, especially when delivered from offshore
- **Wire transfers or securities movements involving multiple offshore-financial centers (OFCs)** – Client sends and receives assets involving multiple known banking secrecy jurisdictions or tax havens, including multiple such jurisdictions involved in the same transaction

Feedback

- Investigative output must become KYC input.
  - Prompt questions
  - Learn more about the customer
  - Make Customer Relationship Decisions
  - Determine residual risk
  - Update records
  - Build intelligence