



AML/CFT NEWSLETTER

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Regulation in the midst of a Natural Disaster

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In the Caribbean region disaster usually resonates with our people in the form of hurricanes. However, we as a region were wholly unprepared, like most of the world, for the emergence of the Covid-19 pandemic. The impact of Covid-19 has reached far and wide throughout all sectors of society as we know it. The supervisory sector was no exception, as was swiftly realised by the Saint Vincent and the Grenadines Financial Intelligence Unit (SVGFIU). The SVGFIU was already a hybrid unit consisting of analytical, investigative and legal departments, however, its repertoire was enhanced, with the creation of the Supervisory Department which was tasked with the supervision of the Non-Regulated Service Providers (NRSPs) otherwise known as Designated Non-Financial Businesses and Professions (DNFBPs) and Non-Profit Organisations (NPOs) in 2018 and 2019 respectively.

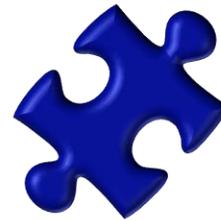
While Saint Vincent and the Grenadines (SVG) watched in awe as Covid-19 blazed its path through our international and regional counterparts, national authorities promptly had to rethink what constituted “*normal business*” and how the duties expected of us would be achieved in this new terrain. The Supervisory Department, while still in its infancy, was made to adapt swiftly as the very functioning of the department had to be rethought and objectives had to be reprioritised.

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Source: United Nations News

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Typology

In a pre Covid-19 world the preferred tools of trade and intended approach for the supervisory department and the SVGFIU as a whole would have entailed physical correspondences, in-person meetings and trainings, physical submission of documents and suspicious activity reports, on-site examinations and investigations etcetera.

However, with the rapidly growing impact of Covid-19 a heavy reliance was placed on electronic methods and envisioned timelines for legislative amendments were placed further down the roster with the growing need for Covid-19 based legislation taking priority. New electronic meeting and document submission platforms such as Zoom, WebEx, Google Teams and AMLive were explored and copious amounts of experimentation was conducted to test the capabilities and limits of these tools and to ultimately decide their suitability for use to replace the previously relied upon physical means.

Following the electronic methods exploration, the entire functioning of the Supervisory Department and the SVGFIU took on an e-based format. All outreach, training, guidance documents or alternate correspondence submissions were facilitated online or via telephone, reviews of entities were transitioned to a desk-based format only and were facilitated through the e-administration of Risk Based Questionnaires and the Annual Compliance Programme Tool. Additionally, all timelines for previously established objectives were suitably amended to account for these changes.

Upon this new application it was realised that these new approaches created notable time-saving and efficiency regarding how the relevant tasks were delivered and encouraged wider participation. The perfect example of this was seen with the NPO sector where the use of telephone and Zoom outreach proved immensely useful in facilitating one-on-one discussions with stakeholders as the Supervisory Department embarked on the initial exploration and understanding of the sector. Notwithstanding, the initial growing pains faced in adapting to a new format and facilitating stakeholders'

familiarisation with these electronic changes the methods were seen as a beacon of hope in the fight to achieve stability in our day to day routine as a Department and the country as a whole.

Further, these new electronic tools brought immense benefits through training sessions and workshops provided to the SVGFIU and other national counterparts, that would have otherwise not been made available due to Covid-19 and the halt it created on international and regional travel.

It also facilitated an effective mobile work station that became necessary when a shift system and work from home duty was implemented firstly due to the increase in Covid-19 cases throughout SVG and secondly due to the eruption of the La Soufrière Volcano on April 9th 2021 that made physical attendance at physical offices impossible.

It was once said by Maria Konnikova that *“If you are lucky enough to never experience any sort of adversity, we won't know how resilient you are. It's only when you're faced with obstacles, stress, and other environmental threats that resilience, or the lack of it, emerges: Do you succumb or do you surmount?”*. It is in this same vein that the SVGFIU, our national, international and regional counterparts were made to surmount the various health and environmental hardships thrown our way. Each obstacle was used as a stepping stone to continue the good works of our institutions. It is on this premise, that in a post Covid-19 world, we plan to blend the methods of delivery based on the vast benefits brought to light in these challenging times, to enhance our fight against money laundering and terrorist financing.





Regulatory Updates



FinCEN Issues - The “Priority”

In June 2021, The Financial Crimes Enforcement Network (FinCEN) following consultation with regulatory stakeholders issued the first government wide priorities for anti-money laundering and countering the financing of terrorism (AML/CFT) policies (the “Priority”).

The Priorities were issued pursuant to the Anti Money Laundering Act of 2020, the “AML Act” and describes the most significant AML/CFT threats currently facing the United States. It also aims to assist covered institutions (CIs) with their AML/CFT efforts by enabling them to prioritise the use of their compliance resources. While these CIs are not required to make immediate changes to their AML programs, they will be required to do so after the promulgation of implementing regulations. It is anticipated that this will have implications for Caribbean correspondent banking relationships.

<https://www.fincen.gov/news/news-releases/fincen-issues-first-national-amlcft-priorities-and-accompanying-statements>

St. Kitts and Nevis Strengthens its Regulatory Framework

In March 2021, the Virtual Assets Act No.1 of 2020 was amended to enhance the regulatory framework by the addition of new provisions. The Act made provisions for both the regulation and registration of Virtual Asset Service Providers (VASPs) and virtual assets businesses operating in St. Kitts and Nevis.

<https://www.fsrc.kn/law-library/virtual-assets>

USA Courts Authorized to Subpoena ECCU Banks with U.S Correspondent Relationships

On Jan. 1, 2021, the U.S. Senate overwhelmingly passed into law, the Anti-Money Laundering Act of 2020 (AMLA 2020).

The AMLA 2020 has several purposes, some of these include:

- i. Establishing a uniform beneficial ownership information reporting regime.
- ii. Codifying the risk-based approach to AML/CFT compliance.
- iii. Modernizing AML/CFT systems.
- iv. Alignment of supervision and examination priorities among U.S and foreign regulator and financial institutions.

<https://www.fincen.gov/anti-money-laundering-act-2020>

Haiti Joins the FATF the Grey List

Following the February 2021 review by FATF, Haiti now joins two other CARICOM territories which are on the grey list, they are Jamaica and Barbados. When a country is placed under increased monitoring by FATF, which is also commonly known as the “grey list”, this means that the country intends to address the strategic deficiencies which were identified within a previously agreed timeframe.

<http://www.fatf-gafi.org/publications/high-risk-and-other-monitored-jurisdictions/documents/increased-monitoring-june-2021.html>

FATF Issues Guidance on Proliferation Financing Risk Assessment and Mitigation

Based on the recently revised FATF standards (R.1 and INR.1), designated non-financial businesses and professions (DNFBPs), VASPs, financial institutions and countries are required to identify, assess, understand and mitigate their proliferation financing risks.

The guidance places emphasis on the importance of stakeholders to apply the new obligations in a manner that is consistent and proportionate to the identified risk. This is critical to addressing the threats of financial exclusion and de-risking.

<https://www.fatf-gafi.org/publications/financingofproliferation/documents/proliferation-financing-risk-assessment-mitigation.html>

The ECCB launches its ML/TF/PF Prudential Return



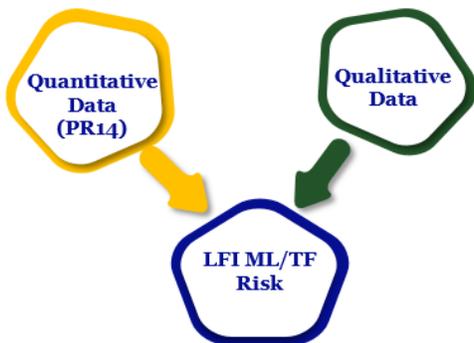
On 4 May 2021, the Eastern Caribbean Central Bank (ECCB) AML Supervisory Unit hosted a virtual workshop with ECCU commercial banks. The objective of the workshop was to provide banks with an overview of the quarterly ML/TF/PF Prudential Return (PR 14) and provide guidance for completing the form. Entities were also given an opportunity to engage in discussion with the ECCB as it relates to the form.

The training covered the following:

- ✓ Purpose of the PR14.
- ✓ General Instructions for completing the PR14.
- ✓ Detailed walkthrough all six (6) PR14 schedules.
- ✓ How to upload the PR14 to ECCB's SAS Portal.
- ✓ Question from participants.

The PR14 is a tool designed to:

Capture pertinent quantitative data to assist with conducting ML/TF/PF Risk Assessments for LFIs.



 **A ML/TF/PF Risk assessment is an analysis of quantitative and qualitative data to determine the LFI's ML/TF risk profile.**



Why does ECCB need to assess ML/TF/PF Risk of its LFI's?

- ✓ To gain an understanding of the ML/TF/PF risks associated with each of its licensed financial institutions (LFIs);
- ✓ To be able to tailor its supervision efforts based on the level of ML/TF/PF risk identified for each LFI;
- ✓ To ensure soundness of its LFIs and preserve the integrity of the ECCU Financial Systems;
- ✓ To comply with international AML/CFT standards, which requires the identification and assessment of risks and the application of a risk-based approach.

What is DCash?

In this section we take a closer look at DCash, and address frequently asked questions on the nature of DCash.



What is DCash?

DCash is a digital version of the Eastern Caribbean Dollar (EC Dollar) issued by the ECCB to provide a cheaper, faster and safer payment option to advance financial services within the Eastern Caribbean Currency Union (ECCU). The ECCB has partnered with several financial institutions and businesses within Antigua and Barbuda, Grenada, Saint Christopher (St Kitts) and Nevis, Saint Lucia and Saint Vincent and the Grenadines to conduct a pilot roll out of the DCash. It is the intention to launch DCash in the other three member countries (Commonwealth of Dominica, Montserrat and Anguilla) by September 2021.



Why was DCash created?

DCash aims to:

- Promote greater payment system efficiency;
- Facilitate financial inclusion through digital enablement; and
- Promote innovation and competitiveness across the currency union.



Is DCash a cryptocurrency?

DCash is not a cryptocurrency, but rather, it is a Central Bank Digital Currency (CBDC) which is securely minted and issued, by the ECCB.

A **CBDC** is a digital form of central bank money that is different from balances in traditional reserve or settlement accounts¹. It is a centralized digital version of fiat currency.

Cryptocurrencies are decentralized virtual assets stored and distributed on public block chain networks. Having this decentralized structure allows cryptocurrencies to exist and operate outside of government controls. Cryptocurrencies do not have legal tender status and operate on a permissionless (public) blockchain structure that provides for anonymity of users.

Unlike cryptocurrency, DCash does not offer anonymity as it utilizes a centralized permissioned based (private) block chain structure. Therefore, all users are required to provide customer due diligence information during onboarding and prior to receiving approval for a DCash wallet.



Is DCash a virtual asset?

The Financial Action Task Force (FATF) defines a virtual asset as ‘a digital representation of value that can be digitally traded, or transferred, and

can be used for payment or investment purposes. **Virtual assets do not include digital representations of fiat currencies.**

Based on the FATF’s definition², DCash as a digital representation of fiat EC currency is not classified within the context of a virtual asset.



What controls are built in within the DCash technology to specifically address ML/TF Risks?

DCash offers two types of wallets to customers, a registered-based wallet and a value-based wallet.

The registered-based wallet which is facilitated through financial institutions (commercial banks and credit unions), utilizes the existing AML/CFT governance structures, policies and procedures, monitoring and reporting frameworks within these entities. There are also embedded transaction monitoring capabilities within the DCash platform that generate alerts where a customer is operating outside of the established thresholds. Wallet limits and transaction monitoring triggers are based on the money laundering and terrorist risk profile of the customer.

The value-based wallet is intended to promote financial inclusion and is administered via regulated agencies. The wallet limit is low (EC\$1,000.00 per month) to circumvent the potential use and exposure of the wallet for illicit activities. At this limit, the customer provides basic customer due diligence information and is screened through various sanction screening databases upon onboarding via the DCash app. Should a customer wish to transact at the higher wallet limit (EC\$2700.00 per month), they would then need to physically visit the agency and provide additional due diligence information. Customers are only allowed one value-based wallet.

Given that all customers are known to the DCash platform and transactions are immutable, this provides ease for monitoring investigation. The robust traceability and controls built in within the technology allows for real time monitoring by financial institutions. It is envisaged that the advent of DCash will reduce the use of cash, improve transparency, enhance competition, promote financial inclusion and ultimately improve oversight and efficiency in the financial system.

Notwithstanding, as with the introduction of any new product or service, financial institutions and agencies are required to conduct their own ML/TF risk assessment and implement controls based on their risk assessment and appetite.



For more information on DCash check out the DCash website at <https://www.dcashec.com/>

Sanction Screening

In order to comply with the United Nations Security Council(UNSC) resolutions, FATF recommendations 6/7/35 requires ECCU countries to implement targeted financial sanctions against entities or persons that engage in the proliferation and financing of weapons of mass destruction and those which pose terrorism financing risks.

The UNSC requires countries to immediately freeze the assets and funds of those entities and persons and that no further assets or funds be made available to them.

Sanction screening must be included in the LFI's overall risk appetite, implemented and maintained as part of its compliance control because it plays a critical role in addressing and mitigating AML/CFT compliance risks (ML, TF and PF) it may be exposed to.

While sanctions screening is a primary control, it has its limitations and should be deployed alongside a broader set of non-screening controls to be truly effective.

Therefore, due care and consideration must be given to the accuracy and completeness of the LFI's own data as it is central to an effective and efficient sanctions screening process.

LFI's are required to screen the names and addresses of customers against the consolidated list of designated persons and entities published by the UN. The list can be accessed via the following link:
<https://www.un.org/securitycouncil/content/un-sc-consolidated-list>

ECCB wins 2021 Fintech & Regtech Global Awards

The ECCB has captured the Central Banking Publications FinTech and RegTech Global Award for its pioneering DCash Project.

The FinTech and RegTech Global Awards celebrate the innovations and achievements of central banks and technology partners around the world, in the areas of financial and regulatory technology. For more information, check out the ECCB website at:

<https://www.eccb-centralbank.org/news/view/eccb-wins-global-award-for-dcash-project>



Pivoting effectively in the Changing Financial Environment

A Regulator's Perspective

Over the period 1-2 June 2021, the members of the ECCB AML Supervisory Unit participated in the virtual XXXVIII Annual Conference of the Caribbean Group of Banking Supervisors (CGBS) held under the theme '*Pivoting Effectively in the Changing Financial Environment: A regulators perspective*'. The conference hosted by the Central Bank of the Bahamas welcomed regulators from across the Caribbean region.

The conference which focused on strengthening the Anti Money Laundering Regime and Cybersecurity risks, sought to raise awareness on issues impacting the region and provided a forum for stakeholders to discuss measures to address the risks identified. Some of the key takeaways from the conference are highlighted below:

-  Emerging ML/TF risks as a result of the COVID-19 pandemic included; misuse of online financial services and virtual assets to move and conceal illicit funds.
-  The exploitation by criminals of economic stimulus measures, insolvency schemes, misuse and misappropriation of domestic and international aid and emergency funding had been on the rise.
-  There was an increased use of the unregulated financial sector as a result of the COVID-19 pandemic.

 The adoption of a risk based approach was identified as key to the maintenance of an effective supervisory programme.

 In light of the environment, supervisors and regulators must ensure that their policies and practices are in keeping with international best standards.

 Strong collaboration among stakeholders is critical to ensure that areas of ML/TF/PF risks are identified, prioritized and monitored.

 There is need to strengthen communication with the private sector and encouraging full use of the risk based approach to AML/CFT.

 The conference noted that it was imperative that supervisors and regulators understand new risks and adapt supervisory responses accordingly.

 The digital transformation of our economies required forward thinking and development of the appropriate infrastructure to fight cybercrime.

 Technological advancement was identified as one of the opportunities brought on by the changing global financial services landscape. Regulators were encouraged to embrace the use of technology in order to maintain effective oversight.

 Financial institutions were encouraged to conduct cybersecurity risk assessments, as this would form the basis of a cybersecurity strategy.

 A sustainable cyber security culture required the development of appropriate policies and strategy, culture, education, training, skills, organizational standards, legal and regulatory frameworks.

CGBS was established in 1983 under the aegis of the CARICOM Central Bank Governors, with the specific mandate to enhance and coordinate the harmonization of the bank supervisory practices in the English speaking Caribbean. Visit the website: <http://cgbnet.org/>



Money Laundering Typology

Senior Banker Convicted on Fraud Charges

Former Manager at the National Commercial Bank (NCB) in Jamaica - Andrea Gordon was sentenced to seven (7) years and six (6) months in jail for stealing thirty-four (34) million dollars. Gordon's criminal behaviour was discovered in June 2020 after the bank received intelligence that she had been conducting fraudulent transactions.

Ms. Gordon admitted to carrying out two hundred and eighty-two (282) fraudulent activities amounting to \$111.0m JMD from 2017 to 2020. It was stated in court that Ms. Gordon was given a password which allowed her to carry out several sensitive transactions on her own. She admitted to using the bank's system to transfer millions of dollars to her personal account to purchase a house, refurbish another, buy clothing and handbags. Prosecutors said Ms. Gordon had transferred \$24.0m JMD to a construction company for the refurbishing of her house. She also admitted to transferring millions to her son's NCB account and also to accounts of relatives, customers and also to that of her spouse. Ms. Gordon also admitted to stealing money to purchase event tickets.

When confronted about the embezzlement, Gordon told investigators that she took the money to assist a relative who had cancer and also because she was going through financial difficulties after she started building her home in 2017.

The court previously heard that NCB linked \$111.0m JMD in suspicious transactions to Gordon. However, the indictment on which she was sentenced only accounted for \$34.0m JMD over the period 2017 to 2020.

Ms. Gordon was 53 years old at the time and was employed at the bank for 30 years, earning \$11.0m JMD a year at the time of her arrest.

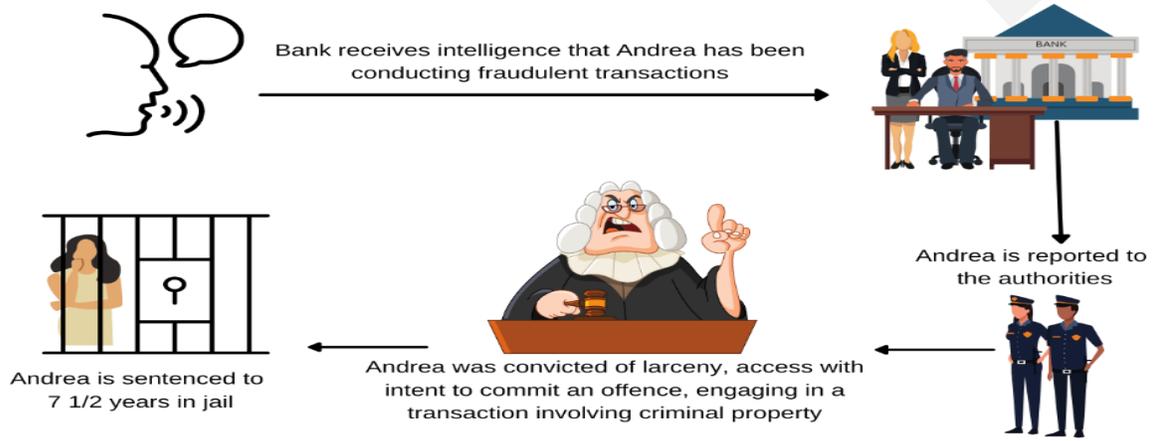
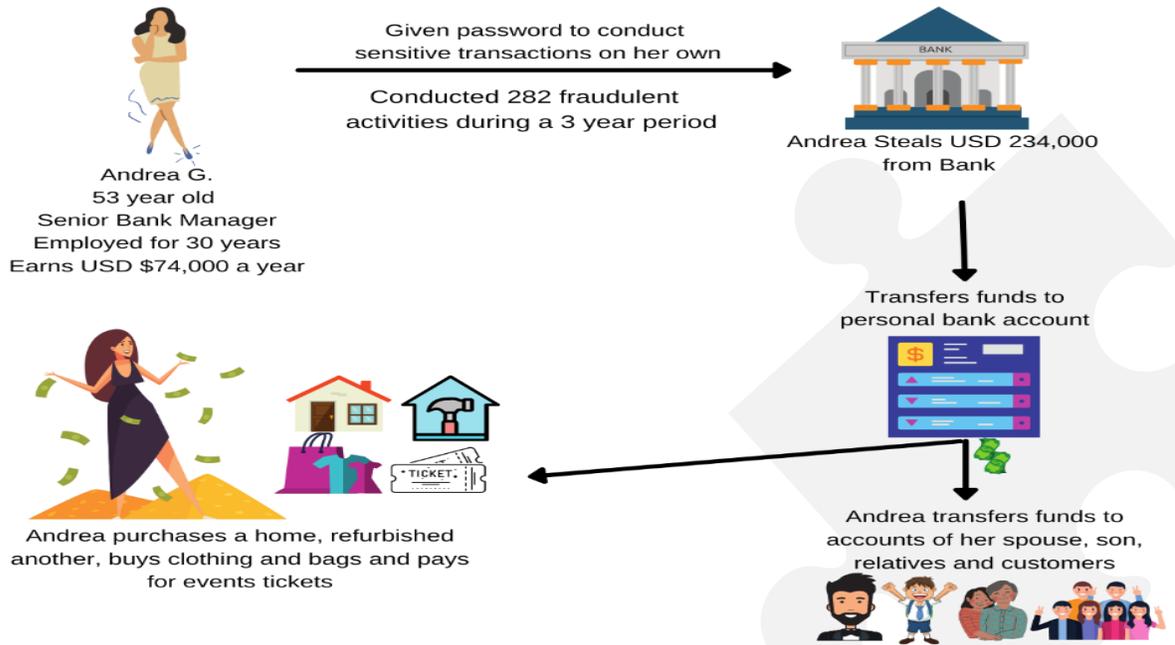
<https://supremecourt.gov.jm/sites/default/files/judgments/Regina%20v%20Gordon%2C%20Andrea.pdf>



Discussion Points

1. How did Ms. Gordon manage to conceal the conduct of her fraudulent activities over the 3-year period?
2. What does this case reveal about the bank's compliance programme? What are the implications for the executive management?
3. Should the beneficiaries of the laundered funds be liable?

Share your views, email the AML Supervisory Unit



Thank you!

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Email: AMLSupervisoryUnit@eccb-centralbank.org